CHAPTER 1

Introduction

1.1 Introduction

The heavy involvement of state in Oman's economic process has led to the evolution of alternative processes which restricted state intervention while promoting the individualization of markets. Current uncertainties in the global business environment continue to stimulate activities in Oman's Small and Medium Enterprise sector to the extent that both the government and SME owners in the sector have evolved policies to help them weather the storm. Over the longer term, and with increasing experience from different periods of economic crisis, economic managers have continued on the path of changes and adjustments in line with the dynamic nature of market forces. The result, according to Hodgson (1988), is a capitalist economy that evolves with the attributes of unrestrained free markets and institutional intervention that combine competition with cooperation and flexibility, entrenching institutional intervention in a capitalist arrangement (Ken worthy, 1995). According to Mateev and Anastasov (2010), SMEs remains important in all economies because they form the basis of economic recovery and development. In the OECD economies, new strategies led to increased shares, increased employment generation with their strength raised to about 95% of enterprises (OECD, 2009).

According to Storey (2008), government intervention can be negative or positive and applied through strategic framework that had been referred to as Entrepreneurship and/or SME Policy.

Precarious global business environments and market failures had justify the intervention in the processes of SMEs so that the stated economic benefits of its establishment can be reaped. Other major reasons for intervention by government include the varying effect of policies like security, immigration, taxation, welfare policy, education and macroeconomic policies. Furthermore, a justification of a cost effective implementation of policies will enable an objective view by the managerowner of SME to apply prudence in order to ensure the larger societal benefit.

Government policies have often affected credit availability to SME and as Iloh et al (2013) stated, the relationship between the deposits and the commercial bank lending profile to SMEs, show a lopsided lending between major investors and SMEs. Hence, the low capital and deposits of community/micro finance banks have been insufficient to sustain the financial needs of small and medium entrepreneurs and managers. It was therefore, recommended that while government policies should boost micro finance bank's capital, there is also need to ensure financial prudent in activities of small and medium scale investments.

The importance of small and medium enterprises (SMEs) in the strategic development of economies have been felt in all leading and developing economies due to the ability of SMEs to adapt to local needs, available resources and technology. Thus, the development of SMEs became a cardinal process in developing economies with ordered and structured policies that had facilitated the proper development and efficiency of SMEs. In doing this, governments have taken advantage of policies related to export incentives, provision of marketing information, training of entrepreneurs, facilitating inter-firm cooperation, providing access to credit and technological upgrades.

The social-economic advantages of the SME sector had ensured the growth of the economy and enhancement of the quality and standard of living of the citizenry, increasing the per capita income and caused a rapid growth in the Gross Domestic Product (GDP) (Amoafo, 2012). According to Longenecker *et al.*, (2006), through special niche markets, the SME could offer specialized service or product to a particular geographical area. This might enable a small business to avoid competition from big businesses and exercise the entrepreneurial opportunities.

Small firms had been described with respect to four key roles they play in the economies that were evidence of their transition over years (ACS, 1995) namely as agents of technological change making important entrepreneurial role, generation of much of the market uncertainties that adds to competition, niche propagators for international competition and building of dynamic relationships. Thus, the SMEs have been observed to be a significant aspect of a country's match towards the creation of employment opportunities and business developments; increasing the competition within the economy and ensuring that the overall output of the economy continued to rise.

All these actions engenders innovation a major characteristics of an entrepreneur that ensures adequate stability in an organization even in crisis. The importance of the entrepreneurship concept of SME had provided the rationale for the several reviews of the dimensions and policy highlights, so that the best practice and economic benefits can be facilitated (Praag & Versloot, 2007). Therefore, through entrepreneurial activities there is job creation, increase in the individual utility for satisfaction, income, innovation, and growth and productivity (Praag & Versloot, 2007).

Oman is a country within the Gulf cooperation state that is mostly dependent on oil. The tendency is there for a neglect of other sectors of the economy. However, it had continued to learn through the experience of other Arab states especially, on the part of developing and expanding its small industrial base. Oman had the advantage of a small population and a large geographical area and had used its huge oil revenue to improve its infrastructure to an enviable international standard with expanded road networks, improved education and health facilities, and communication and digital infrastructure that had reached more than 80% of the population Ashrafi and babas, (2008).

3

Through policy trusts, the Sultanate had encouraged the private sector through open competition; security and trust in the system including an easy access to financial support (UNCTAD 2004). In the areas of ICT, the Oman business environments are aware of its importance especially in the large organizations. However, like in most developing economies, the acceptance, affordability and expertise in the numerous businesses of the SME sectors had not be fully realized (Parker and Castelman 2007; Shiels *et al*, 2003; Fink and Disterer 2006).

1.2 Market failure and Government intervention

Market failure has been defined as the situation in which the overall activities of the market within an economy cannot give rise to the set goals of the economy (Cited Datta- Chaudhuturi, 1990). However, in the continuous argument by economists that are disposed to the superiority of the free market economy, the various dimensions of government activities that have failed to achieve the desired outcome was a vantage standpoint for criticisms of government intervention. The discordant analyses within the economic groups was evidence of the precarious nature of economic activities that made it difficult for many nations to coordinate their affairs economically especially during any economic crisis. These difficulties could be responsible for the lack of understanding of what particularly makes a market to grow and what makes it to fail. Therefore, it had been difficult for most supporters of market failure to underpin, with proper justification, the apparent reasons why there was a meltdown even in the face of lack of government interventions. These are also explaining the surprises expressed at the growth of some Asian countries relative to the advanced economies of the West or vice versa.

The near equal growth between the socialist governments and their capitalist counterparts were also evidence of the ubiquitous nature of economic analysis that kept motivating the pro-government protagonist against the unilateral use of markets in deciding the nature of the economy.

The heavy human input in governance justifies the fact that activities during the development of an economy must be influenced by the policies and strategies adopted by the leadership. Hence, there must be an inevitable role by government in the processes of economic growth or recovery. This has been demonstrated in the economic recovery efforts of some countries in Europe and Africa (Kuznets, 1955). However, the isolation of the forces of demand and supply is detrimental to the economic recovery in nations given the fact that economic incentive are good ingredients of attraction of investment which could in turn drive economic activities of demand and supply (Chaudhturi, 1990). This gives greater impetus for the leadership to plan and direct the investment atmosphere so that the economy can be transformed to achieve the outcomes that will help to raise the standards of living of the citizens in terms of increased employment, diversification and enhanced business environment (Iloh *et al*, 2010). The coordinating efforts of the leadership must include an expanded effort that well incorporates the activities of the private sector in such a way that the influences of market forces are captured in the overall efforts of improving the SMEs.

Meanwhile, the intermingled relationship of economic growth with the use of technology presents the economic analysis of countries in a more competitive and complicated parameters since industrialization policies have succeeded marginally without market forces (Greenwald & Stiglitz, 1986).This also draws implication on the importance of private sector in SMEs development.

The role of the human resource strategies Vis a Vis the socio-cultural considerations during the implementation of various economic measures within the countries had continued to present disparity inherent in these applications. It also depicts the differences that are evident in specific country's business climate which has

been poorly evaluated on economic principles and parameters. Hence, the regulatory protocol adapted by a country has far reaching effect on the outcome measures of their economic indicators. For instance, it had been noted that the special attention paid to technology and market orientation had made countries like Taiwan and South Korea move from poor status to industrial countries (Solow, 1957, Cited in Chaudhturi, 1990). Even though this had worked for some countries, there is the implication on the level of implementation that could translate to the measurable outcomes and the overall policy thrust of the State. Such link between market orientations in business strategies showed that the private sector should be encouraged to contribute in SMEs development. However, this robust application of a private sector framework had not been fully realised in the sultanate of Oman.

Therefore, there should be a conscious drive to gain experience and acquire the required skills and the coordination of these activities with the regulatory frameworks is cardinal in the development of the economy. However, Janos Kornai (1992) argued that the state control of investment can be marred by factors such as bureaucratic bottlenecks and shortages in planning. These can lead to several barriers in the legal and regulatory areas, for participants in open market activities, who make up the bulk of the private sector. The domination of government will also entrench the propagation of different negative bureaucratic issues like the introduction of licenses, rents and other wasteful expenditure that would tend to discourage full unbiased participation of the private sector. Ironically, these wasteful activities can culminate into a crisis which the government will readily embrace with a view to limiting the effects through another round of interventions. In so doing, government failures have has been an aftermath of several years of discordant and uncoordinated implementations of economic policies by the workforce. The need for coordinated effort through good leadership strategy is therefore important.

Meanwhile, a market oriented atmosphere comes in as a more proactive application of fiscal measures to increase prices, reduce overhead cost and achieve profitability.

Often time, a direct control of the economy by government as seen in some countries was not applied in isolation of the market; rather they were tapered towards the revitalization of the market forces. Even though such state parameters as credit policies, import restrictions and licensing were applied, the effectiveness of the market and the interrelationships in both modes of intervention were evident in the overall delivery that led to a positive impact on the national economy (Datta - Chaudhuri, 1981a).

A market driven economy responds to global and local demands. However, this belief must be nurtured by the State so that adequate regulatory framework can be designed for the improvement of the internal capabilities for export. These capabilities can be in form of technical transfer or provision of superior market information. Besides, the advantage of market orientation can be felt in the areas of improved economies of scale, information processing, and the promotional activities of the trading organizations. It can also engender vertical and horizontal integrations within the stakeholders. The response to market forces through a coordinated government activity can produce major positive changes that can be felt by the economy in a dramatic way. For instance, even though the private firms were sceptical about the demand for wage increase by workers, the response of the Japanese government through a legislation to increase wages saw a 400% rise in production (Datta-Chaudhuri, 1981b).

The government actions are almost always dictated by political biases which can lead to repressive measures in the control of trade unions. This had been argued to be a good prescription for the attraction of foreign direct investment (Datta-Chaudhuri, 1990). The government and the economy are related in several ways. For instance, the need for skill acquisition can be powered by government based on the economic priorities monitored through the market forces. Also through government intervention market institutions are built for capacity building and implementation and monitoring purposes. Meanwhile, market forces are important in the establishment of market systems that will help reduce wasteful expenses through the establishment and strict application of rewards and penalties. The influences of technology had increased the complexities of the market. However, the appreciation of this is important in the success of the economy. Hence, the interrelationship of a political economy within the forces of the market and private sector are expected to work together to achieve a desired outcome within a mutual environment where both government and market forces remain relevant in the development of the economy.

1.3 Problem Statement

Following the economic crisis of 1980, there had been a conscious effort by the government of Oman to invest with a view to encouraging economic growth through diversification. Despite the efforts on the oil sector which, according to reports of the economic update by Oxford Business group (OBG), had recorded high levels of growth, it was reported that unemployment remains a concern for the authorities (OBG, 2013).

The report of the National Centre for Statistics and Information (NCSI) Oman of 2012 which corroborated the OBG report, showed that the GDP soared by 16.2% yearon–year (y-o-y) and the first half of 2012 saw GDP total \$39.6bn, compared to the \$33.8bn for the same period in the previous year. This strong showing of the oil sector saw a record budget surplus of \$7.5bn in 2012.During the period of 2012, inflation remained low with a relative 3,2% consumer price index figure (4% of 2011). This enabled the Central Bank of Oman to keep interest rates quite low in line with its policy of supporting private sector lending and investment. However, it was reported that personal loans went up because of these incentives in relation to investment funds (OBG, 2013). This showed that the spending capacity of the citizenry was in jeopardy and majority might face higher interest on default. There is therefore a need to look into the role of government in encouraging the growth of SMEs in the Sultanate with a view to increasing the spending power of the citizens.

Meanwhile, while capital was more freely available and GDP was rising, this did not translate into a rapid increase in job creation (OBG, 2013). This was because, at the beginning of 2012, Omanis made up 14% of the workforce in the private sector while expatriates constitute the rest of the workforce. Such situation can lead to complacency as the report of the Public Authority for Manpower Register; Oman indicated that as at end of 2012, the number of registered unemployed Omanis reached 153,326 people, or 5.4% of the population. Even though reports indicated that the government had stepped up efforts to develop the private sector through incentives to firms to hire more local staff and also providing assistance to Omanis to establish their own businesses, these efforts have not been able to keep pace with the rising population. As a result, the government has been active in creating new public service positions, putting some 44,000 Omanis on the state payroll in 2011 with the readiness to create more opportunities in other sectors. Overall, despite the huge revenue from oil, the sultanate had applied the funds toward alleviating unemployment by directly employing its citizens instead of long term application through encouragement of the citizens.

It could be observed that these measures adapted by the government cannot provide a sustainable solution to the unemployment problem. The role of SMEs in the generation of employment has been well studied (Beres 2012).

Furthermore, it had been observed that the slower expansion of major retail outlets and chains in the regions may change in coming years, as most cities across the country are growing rapidly, in line with the state's development efforts. This broadening of the economic base will see a greater spread of disposable income and a rising demand for retail access (OBG, 2013). This sector of the economy is essentially made up of SMEs. Therefore, studies geared towards the evolution of ways in which government interventions can be improved would be a worthy venture.

The various efforts of government in diversifying the economy for sustainable development had not taken full cognizance of the role of SMEs in the overall blue print for national development. (UNCTAD 2003).

There is a dearth of data and research about the role of government intervention and contribution to SMEs in the Oman's economy as previous empirical studies had cantered on the effects and usages of ICT on SMEs in Oman and their current and future perceptions towards ICT Ashrafi and Murtaza, (2008).

1.4 Research Question

Based on the above problem statements, four research questions were developed.

RQ 1: What are the main constraints faced by SMEs in the Sultanate of Oman?

RQ 2: To what extent has the constraints influenced the performance of the SMEs in the Sultanate of Oman in terms of productivity and sales growth?

RQ 3: In what ways can government programmes reduce constraints in order to enhance the performance of SMEs?

RQ 4: To what extent does government assistance help to improve the performance of SMEs in terms of sales growth and productivity?

1.5 Aims of the Study

Therefore this study will tend to examine the extent to which government assistance influences the development of small and medium size enterprises (SMEs) in the Sultanate of Oman.

1.5.1 The specific objectives

1. To identify the main possible constraints facing the SMEs in the Sultanate of Oman.

2. To examine the extent to which these constraints have influenced the performance of SMEs in terms of sales growth and productivity.

3. To examine the role of Oman government assistance in reducing the constraints faced by SMEs.

1.6 Research Hypothesis

The central theme of this research is to examine the role of government economic programmes in addressing the constraints faced by SMEs in the Sultanate of Oman and their impact on the economic expansion and general performance. This is in line with the increasingly important role being played in the development and support of the growth of SMEs within the international competitive environment. Hence, the following hypotheses will guide the inferential analysis of the study.

H1: Constraints faced by SMEs in Oman reduce the sales growth of SMEs.

H2: There is a positive relationship between government assistance and SME performance.

H3: Government assistance reduces the constraints faced by SMEs (utility & services, regulations and operational requirements) thereby improving the performance of SMEs.H4: Constraints faced by SMEs lower the productivity (labor, capital and overall productivity) of SMEs.

1.7 Significance of the Study

Previous studies on ICT use in SMEs in Oman, notably Ashrafi and Murtaza (2009), recognized the dearth of literature and had suggested that further investigation was required in issues like legal and regulatory interventions by government, examining

the role of government's economic programmes in developing small and medium enterprises in the Sultanate of Oman.

Moreover, much of the literature focuses considerable attention on quantitative analyses in the study of SMEs in Oman without addressing country-context issues and options. This study also attempts to fill the gap in the assessment of government intervention by addressing the specific constraints faced by SMEs in Oman.

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The present study also focuses on productivity growth and improved market performance in SMEs from a global perspective. The constructs for the measurement of productivity and market performance were also developed in the context of the Omani SME sector.

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This study also analysed specific constraints related to SME development in Oman, with respect to the specific programmes and policy interventions needed to boost the growth of SMEs in Oman.

The findings of the research study may serve as evidence-based policy advocacy and a guiding force in planning and implementing government economic programmes for empowering and improving SMEs in Oman. The findings of this study will guide the managers and entrepreneurs in the proper understanding of the benefit of new government policy initiatives and intervention geared towards addressing critical issues.

The study used a large sample size of 500, covering five sectors across five major cities in the sultanate of Oman. Therefore, its generalization is feasible and the findings can be used to benchmark the impact of government intervention on SMEs in relation to other GCC countries.

1.8 Organisation of the Thesis

The rest of the research will continue across six chapters. The first chapter presents the introduction, problem statement, research questions, research objectives, hypothesis and significance of the study and limitation of the study. Chapter two analyses the contribution of SMEs to the Omani economy, and the role of government interventions and economic programmes in the development of SMEs in the Sultanate of Oman. Chapter three covers the literature survey, focusing in some inadequacy of existing literature and the way the present study fills the gap. In chapter four, the methodology will include discussions about the research design, the population, sample and sampling procedures/techniques, data collection tools/procedures and data analysis/presentation procedures. It also encompasses the procedure for the validation of the instrument and interviews. Chapter five presents the findings and discussions of the study based on the research problems and formulated hypothesis and analytical explanation of key findings and the results of the inferential analysis. Chapter six highlights the conclusions, implications and recommendations.

1.9 Limitations of the Study

Given the multidimensional nature of performance, one of our major limitations was on the choice of variables that measure performance. We did an extensive literature review before choosing our variables; however, it is possible that some important ones are not included.

A potential source of limitation can be from the design of the questionnaire of this study. We tried to reduce this problem by using close-ended questions and by being in the field to guide the respondents on the interpretation. Furthermore, since the data was based on the self- evaluation of the enterprises (Ahire & Golhar 1996), it is possible that the owners have hidden some information or perhaps answered in a biased manner.

The sample size as calculated and used here is considered adequate for the study of this nature, however, if the sample size is compared in relation to the total number of SMEs in Oman, attempts at generalization should be made with due caution.

Even though, there was a wide survey involving SMEs across the Sultanate, the fact that the source of our data was from the SMEs registered with the Ministry of Commerce and Industry and operating in the districts/cities of Muscat, Al Buraimi, Nizwa, Sohar, Sur, might have missed out those that were unable to register within the period of study.

Meanwhile, the definition and classification of SMEs by the Sultanate of Oman which have continuously undergone changes in response to changing business environments, must have affected the number of registered SMEs and the sector distribution. This is because, based on the 2009 Statistics of small and medium enterprises in Oman, published in the Directory of Services provided to Small and Medium Enterprises, (DSP 2010), there are approximately 117,914 registered SMEs in Oman engaged in different economic activities. Given the limited number sectors covered by the ministry, this number is much lower than the actual activities in the SME sector in Oman

In this study, five general classifications of SMEs has been chosen, namely, Food/Beverages, Electronic/GSM apparatus, Ready-made garments, Home appliances/Cosmetics, and hand craft, because it is observed that these groups of businesses are most patronized and constitute more than 70 % of SMEs in the Sultanate. Another limitation is the fact that in the chosen SMEs, the respondents were limited to Omani nationals who were managing the respective SMEs during the administration of the questionnaires. To the extent possible, an attempt is made to ensure that respondents duly represent different scales and products.

Even though we applied rigorous approaches in the translation and validation of the questionnaires, it is possible that the respondents may have misread or misunderstood the statements and as a result selected answers inaccurately. The lack of explicit difference between manager and entrepreneur in the definition of SME in the Sultanate of Oman is another drawback, in terms of the generalization and comparison of the results of this study with those of other countries with different definitions.

CHAPTER 2

OVERVIEW OF THE OMAN ECONOMY AND CONTRIBUTION OF SMALL AND MEDIUM ENTERPRISES

2.1 Introduction

The Sultanate of Oman has continued to implement various programs aimed at improving the business environment of the SMEs in Oman. The government had therefore incorporated the initiatives towards the SME sector into the broader socio-economic strategy of the Sultanate. Hence, specific agencies were created to oversee SME development through various projects and programs. The government has continued in a proactive manner to monitor the outcome of the various initiatives with a view to ensuring that the flexible and dynamic c

Characteristics of SMEs were maintained. Besides, the government has encouraged the SME development consciously through policy and regulatory applications so that, within the framework of the national strategies of development, the SMEs would still be able to exist and compete. As a result, the SMEs have contributed reasonably to the Gross Domestic Product (GDP), exports, employment, and investment in Oman and have achieved an enviable status that had continued to attract new entrants.

Despite the efforts made by the Sultanate towards the development of SMEs, there is need for a measuring outcome devoid of bias. There is always the possibility that within the political economy of any nation, the overall government interventions may still be skewed towards certain political inclination. The effects of poor implementation of initiatives, unequal resource allocation, infrastructural developments, market forces and globalization can weigh down on a sincere drive towards economic emancipation. Even though there are diverse opinions among practitioners, management experts and economists about the extent to which government intervention in the development of SMEs can be applied, the various reports across countries have given credence to the fact that government's responsibility within the fiscal and macro-economic policies of a nation justifies the application of support incentives as part of the whole paradigm of economic administration (Al-Azri, *et al.* (2010); EIU, 2007; Hussein, 2010; Mushtaque. & Choudri, 2012).

Thus, this chapter presents the overview of Omani Government Economic Programs and their effects on the effectiveness of SMEs in a form of critical evaluation so that areas of improvement can be suggested.

2.2 The Sultanate of Oman

The Sultanate of Oman is located on the South-Eastern corner of the Arabian Peninsula, at the junction of the world's two largest continents, Asia and Africa. It is on the trade route between Europe, Asia and the Far East Rulers of the Indian Ocean (Ballard, 1998; Mushtaque. & Choudri, 2012). The Sultanate of Oman is bounded on the East by the Gulf of Oman and the Arabian Sea, on the west by the United Arab Emirates and Kingdom of Saudi Arabia, on the south by the Republic of Yemen to the South and on the north by the Islamic Republic of Iran (Oman Investment Climate Assessment, 2004).

The Sultanate has a landscape area of about 309,500 Sq. km with an estimated population of over 2.7 million in 2010. Its coastline is overlooking the Arabian Gulf and the Gulf of Oman and covers approximately 1,700km (Ministry of National Economy, 2008). The Sultanate is composed of four Governorates, namely, Musandam, Al Buraimi, Muscat and Dhofar and five regions that consist of Al-Batinah, Adh-Dhahira, Ad-Dakhliyah, Ash-Sharquiah, and Al-Wusta. Muscat is the capital city of Oman. The Sultanate of Oman plays an important role in boosting economic support and regional politics as well as the entire

social, cultural, and economic system of the region (Oman investment climate assessment, 2004).

The Sultanate began the commercial export of oil in 1967, just three years after the discovery of oil in 1964. Since then, oil production has been the major source of growth of Oman's GDP (Table 2.1) (Shachmurov, 2009; Mushtaque. & Choudri, 2012). The revenue from oil and other petroleum products has been the bedrock of Oman's economy and for over 35 years, it has provided the anchor for notable sustainable economic developments in the Sultanate (Al-Zakwani, 2009; MRMEWR, 2012). The oil revenue had provided opportunities for the diversification of the economy through various investments which generated more revenue that helped provide aids to the citizens and improve their standard of living (One-stop-shop handbook, 2003). In line with the economic development strategies, the government is expanding investments into copper smelting, dates (fruit) processing, banana packaging, fishing, and electric appliances. Agriculture and fishing has also attracted the attention of government (Kwarteng, *et al.*, 2009). In all, the oil industry is publicly owned and provides employment to a majority of the labour force. It accounts for over 90% of government revenue (Abdel Rahman, & Abdel-Majid, 2012).

OMAN MACROECONOMIC INDICATORS					
	2012	2013	2014	2015	
	Growth in % Terms				
GDP	8.3	5	4.8	5.3	
Private Consumption	4.5	5.3	6.1	6.5	
Government consumption	4.5	9	7	6.2	
Gross fixed investment	3.8	7.2	7.9	7.9	
Exports	7	6.5	5.3	7.5	
Imports	15.8	10	9.8	10.1	
Domestic demand	4.3	6.8	6.9	6.9	
Agriculture	1.6	1.7	2	2.2	
Industry	3.6	5.2	4.9	5.6	
Services	11.5	7.5	9.5	8.5	
8th FIVE-YEAR PLAN (In OMR million)					
Oil and gas revenue	5.8	5.74	5.93	6.32	
Non-oil gas revenue	1.45	1.54	1.66	1.78	
Total revenues	7.25	1.54	1.66	1.78	
Current expenditures	5.04	5.28	5.49	5.79	
Investment exp.	2.61	2.49	2.5	2.5	
Participation and subsidy	0.85	0.79	0.64	0.61	
Total expenditure	8.49	8.56	8.63	8.9	
Surplus/deficit	-1.24	-1.28	-1.05	-0.8	

Table 2.1: Oman Macroeconomic indicators

Source: (EIU, 2007)

2.3 Oman's Economic Performance

Oman is a middle-income economy that is heavily dependent on oil resources for its revenue. However, the declining reserves have forced the government at Muscat to pursuea development plan that focuses on economic diversification, industrialization, and privatization. This was in line with the objectives of the vision 2020 policy aimed at increasing the contributions of other sectors of the economy to GDP. Even though it continued to improve on the oil sector through enhanced exploration techniques for increased production, it had also diversified into areas like tourism and agriculture. This therefore increased the non-oil revenue significantly (Victor, 2008; Kirby & Ibrahim, 2011). For instance, Berger, Hassan, & Klapper, (2004) stated that Oman has recorded significant growth in tourism and natural gas exports. In supporting these views, Al-Azri, *et al* (2010) noted that through systematically engineered strategies of the vision 2020, progress had been recorded in areas of economic and financial stability, human resources development and job creation.

Oman's economy is the fifth largest in the Gulf Cooperating Countries (GCC) region with an increasing real GDP of 3.6% in 2009 to RO11.4bn in 2011 as compared to RO11.0bn in 2008 (RO 3.6 = USD1.00). On an annual basis, real GDP increased 7.1% during the period 2005-11. This increase mainly resulted from higher oil prices. However, on a nominal basis, GDP decreased 23.5% in 2011 to reach RO17.7bn, as compared to RO23.2bn in 2008. On an annual basis nominal GDP improved 10.5% during the period 2005-09. (EIU, 2007).

After consecutive double-digit growth in the GDP of Oman, the global recession of 2009 saw a decrease in GDP. This was expected as the whole world also experienced the downturn. There was a decrease in the oil output in Oman with a cyclical downturn that reduced the oil and gas share of total GDP from 50.5%, as of 2008, to 46% in 2009. By

2011, employment was slowed and investment activities were held back and there was weak external demand. However, Oman produced a strong fiscal policy to come out of the crisis, with sustained domestic demand in addition to the monetary policy. This helped to maintain the liquidity of the country, thereby enabling banks to meet credit demand (EIU, 2007).

Nominal GDP witnessed a decrease in 2009 due to the 38% decrease in petroleum activities, which made up 43.0% of the total Omani GDP in 2011. The extraction of crude petroleum in value terms decreased 39.5% to RO6.5bn, while natural gas extraction recorded a 17.7% decrease in GDP in 2011 to RO698.2mn and the overall petroleum activities reached RO7.3bn in 2011. The decrease in petroleum activities was due to the tremendous fall in oil prices on the international markets during the credit crisis. Omani oil prices were averaging around USD101.1/bbl. in 2008 and fell to USD56.7/bbl. in 2009 up to 2011. However, Omani oil production substantially increased in 2011, as opposed to a decrease in production in the neighbouring OPEC countries, which contributed to the significant decrease in oil prices. From 2005 to 2011, oil production increased 7.1% to 812,000bpd (Berger, & Udell, 1998; (Beck, Demirguc-Kunt, & Martinez Peria, 2007; Belwal, & Belwal, 2010). The implication was the accelerated attention to the economic blue print and the diversification strategy began to be revitalized.

Unlike other oil producing countries, the share of GDP from Oman petroleum activities is always lower than that obtained from other sectors, which indicates a betterdiversified economy. For instance, petroleum activities were at a 43% share, as compared to 56% for non-petroleum activities as shown by recent Omani Central Bank breakdown. The policy focus on reducing oil dependency has sustained the share of petroleum activities in relation to non-oil sector, with perhaps a gradual reduction in recent years. (Figure 2.1).

21



Source: Central Bank of Oman

Figure 2.1: Contribution of Petroleum and Non-petroleum Section to GDP 2005-2011

Interestingly, the non-petroleum activities, including industries, agricultural activities, wholesale and retail trade, hotels and restaurants, transport and communication, financial intermediation, real estate, defence and services, grew its share of total GDP from 51.7% in 2005 to 56% (RO10.8bn) in 2011 relative to RO11.7bn in 2008. Social service sector became the biggest industry in the Oman economy in 2011 with a GDP contribution of 41.4% or RO7.3bn. However, there was a decrease of 4% in the later part of 2011 due to the downfall recorded in wholesale and retail trade. Moreover, service activities fell to 13.6% during the period 2005-2009. Wholesale and retail trade is considered the largest sector within the service activities; their share to GDP reached 9.6% and 22.2% of the services sector, respectively. Wholesale and retail trade declined 22.8% in 2011 to reach RO1.6bn. This decrease was followed by lower consumer spending and a low consumer confidence, which occurred after the credit crisis of 2008. On the other hand wholesale

and retail trade increased on a CAGR basis of 17.3% during the period 2005-011 (Beck, Demirguc-Kunt, & Levine, 2005; Hussein, 2010). This trend was interesting because most of the SMEs are found within the purview of the non-oil sector of the economy drawing the implication that as this major sector recovers, SMEs development would have significant impact on the overall economic and social growth.

The next largest segment of the service activities includes, among others, healthcare, education and community/personal services. It reached RO1.4bn in 2011 and grew 8.9% in 2011. When considered based on the compound annual growth rate (CAGR), other service sectors increased 11.4% during the period 2005-2011. However, it is recorded that the rapid growing sectors out of the service activities are hotels and restaurant services, which rose to a CAGR of 20.6% during the period 2005-2011 to reach RO188mn. Industrial activities make up 30.3% of the non-petroleum activities and 18.6% of total GDP. Industrial activities grew and reached RO3.3bn in 2011, a 14.6% decrease compared to the previous year. The manufacturing sector is regarded as the largest within industrial activities, reaching RO1.8bn in 2011, a 55.2% share of the industrial activities and 10.2% of total GDP in 2011. However, the manufacturing sector decreased 26.1% in 2011 from the previously recorded RO2.5bn in 2010. Oman plans to increase the manufacturing output of total GDP to 15% as part of the Vision 2020 (Beck, et al., 2004; Beck et al., 2007). It is worthy to note that, the growth of the restaurants and hotels would have made a significant impact during the period. However, the possibility that the macroeconomic activities geared towards the revamping of the entire economy would have overshadowed the SME progress.

Construction and real estate sectors were considered as the two other main important contributors to GDP in the Sultanate in 2011. They accounted for 5.2% and 6.8% of GDP over the period, respectively. The construction sector share to GDP has grown over the years, from 3.8% in 2005 to 6.8% in 2011. Moreover, within that period, construction

was considered the fastest growing sector; it grew 27.5% during the period 2005-011 to reach RO1.2bn. In addition, the real estate contribution demonstrated a similar trend over the same period from 4.6% in 2005 to 5.2% in 2011. However, both sectors show a consistent report of double digit annual growth rates over the period. Their growth was determined by a considerable expansion of physical infrastructure, which includes the tourism sector, commercial sector, as a well as residential real estate sector projects. By mid-2011, both sectors accounted for 12% of GDP to stand at RO2.1bn, as compared to an 8.5% share of GDP in 2005 to stand at 1.0bn. The agriculture and fishing sectors increased their contributed 1.3% of total GDP over the period 2005-011 and reported a CAGR of 7.5% during the same period. As per Vision 2020, Oman plans to increase the agriculture and fishing share of total GDP to 3.1% by 2020 with an annual growth rate of 5.6%. (Boari, *et al.*, 2001; Burns, 2001).



Figure 2.2 : Sectorial Contribution to GDP, 2005 and 2011 (CBO, 2010)

Figure 2.2 above showed sectoral contribution to GDP by expenditure type indicating that the Oman economy is largely investment driven during the period 2005-

2011. Oman is also undertaking big projects. For instance; as of 31 December 2010, total projects amounted to USD101.9bn, down 2.9% from the same period a year ago. The GFCF accounted for 29.7% of the GDP during 2008, as compared to 23.1% in 2004. Machinery and equipment account for the largest share of the GFCF, at about 49.9% in 2011, reaching RO3.4bn. Building and construction comprise 42.8% of the GFCF and grew at a CAGR basis of 34.1% during the period 2005-09. This constituted 27.5% of the total GDP in 2011, which shows the high level of capital expenditure in the Oman economy (Covin, & Covin, 1990; Carton & Hofer, 2010). Such capital driven economy should be felt as the citizens are moved from dependence on state to self-reliance and independence. As a result, most individuals would be self-employed and the SME sector will be established in various places. However, at the early stage of the drive for economic growth, the attention on the big companies was obvious given the level of employment generation and contributions to export (Mateev, 2010).

2.3.1 External Trade

A substantial surplus in the Omani trade balance continued to be reported over the period 2005-2011. Over the period the trade balance recorded about RO3.7bn in 2005 and remained constant until 2009, rose again in 2010 but fall again to about RO3.0bn in 2011. However, Oman's trade balance share in overall GDP decreased from about 30% to 21.1% over the same period (Karikomi, 1998; Demirguc-Kunt, *et al.*, 2007; Wolff, & Pett,2006).



Figure 2.3: Balance of Trade in GDP, 2005-2011 (CBO, 2010)

Both exports and imports continued to increase over the period 2005-011, however, the rate of imports increased at a higher rate of 18.9% as compared to the rate of exports at 10.3%. In contrast, exports increased from RO7.2bn in 2005 to RO10.6 by 2011. Imports also rose from RO3.4bn to RO6.9bn over the same period. Nonetheless, it is important to note that export growth has been associated with increases in hydrocarbon exports, which took the major share of the total exports, approximately 65.3% in 2011 (Zahra, & Nielsen, 2002). However, it was revealed that Omani hydrocarbon exports decreased in 2011 as the international demand for oil was facing a reluctant recovery. Oil exports decreased to 36.3% in 2011 to reach RO5.4bn, as compared to RO8.4bn in 2009. The oil exports share in total exports shrank to 50.4% in 2011 compared to 70.6% in 2005. However, the contribution of the exports of refined oil continued to expand over the years from 1.2% in 2005 reaching 5.8% of total exports by 2011 (Einsenhardt, & Schoonhoven, 1990; Demirguc-Kunt & Levine, 2008).

The refined oil exports crossed the RO1.0bn mark at the beginning of 2009 reaching RO1, 007mn before declining to RO618.9mn in 2011, and 38.5%. Similarly, exports in LNG reported a decline of 39.5% in 2011 recording RO969.5mn down from RO1.6bn for 2009. On a CAGR basis, exports in LNG expanded at a rate of 2.2% over the period 2005-2011. As a result of a weak demand witnessed in 2009 there was a decrease in hydrocarbon exports as the world continues to recover from the global financial crisis (Berger, Hassan, & Klapper, 2004).

2.4 SMEs in the Sultanate of Oman

In 2010, the Directorate General for the Development of SMEs have reported that small and medium-sized enterprises constitute a key part of the Omani's economy, accounting for a large part of the country's employment and total jobs. The statistical information on SMEs in Oman is largely fragmented, hence may be difficult to analyse their trends over time. SMEs accounted for more than 95% of the total enterprises, more than 16% GDP, 70% of total employment, 38% of capital investment, 26.5% of value added, roughly 10% of exports and 5% of bank credit. Despite the importance of SMEs in the economy in terms of employment creation, the lack of adequate capital equipment limits their value added. Hence, they are providing little contribution to the country's exports.

SMEs historically lack the access to bank finances and this limits their role in the economy. In essence, they receive only a marginal share of the banking sector finances. It was noted that the food and beverages, electronic and GSM apparatus, readymade-garments, cosmetics and home appliances and hand craft sectors have generated a large contribution in promoting SME enterprises in Oman (Manufacturing in Table 2.2).

Economic Activity	No. of Establishment		
Agriculture	249		
Fishing	7		
Mining and quarrying	219		
Manufacturing	20,581		
Electricity, gas and water	92		
Construction	15,633		
Wholesale and retail trade and car repair	49,436		
Hotels and restaurants	6,905		
Transport, storage and communications	2,880		
Financial Intermediaries	950		
Real estate and renting services	5,789		
Social insurance	16		
Education	691		
Health and social work	715		
Community and personal services	8,506		
Unknown	93		
Not specified	5,152		
Total approximately	117,914		

Table 2.2: Statistics on Small and Medium Enterprises in the Sultanate of Oman 2010

Source: 2010 DSP to SMEs in Oman, Second Edition

Despite this overall favourable business environment, SMEs have failed to realize their full potential in Oman. It continues to remain as a sector in its infancy. Investment within the private sector remains low (10 per cent of non-oil private GDP) with job creation trailing population growth. The heavy investments in the economy within the paradigm of the economic development program have not reflected in the SME sector. It can be said therefore that the SMEs in Oman are overshadowed by the larger enterprises in the petroleum sector. This might be due to the focus on public firms instead of the private sector; a situation that generates a weak economy. The general public driven expenditure had also affected the small firms in the manufacturing, hotels, restaurants, and fishing, which were otherwise supposed to have made progress.

The general economic outlook had affected quite a number of sectors and according to reports about 20 per cent of registered enterprises in Oman are not active. In addition, corruption had plagued the various strategies of government. For instance, the fact that many entrepreneurs have registered multiple companies by proxy has implication on the integrity of the government officials and the empowerment programs they seem to be offering.

The Ministry of Commerce and Industry stated that SMEs support the Omani economy not only in the volume of investment and by creating job opportunities but also in the growth of the domestic market for different products and services. To influence their performance, the Ministry of Commerce created an institution to strategically address SME issues. The Ministry also modelled certain rules and regulations that stand as the governing principles for the institution, as contained in the Decree issued No.19/2007. It also created a directorate and named it "The Directorate for Developing SMEs" within the Ministry of Commerce and Industry (Ministry of Commerce and Industry, 2007).

The directorate was established to address the following objectives for a better growth of SMEs in Oman.

Recognizing the available investment opportunities across SMEs in the Sultanate of Oman.

- 2. Amplifying the investment awareness for the SMEs important role in developing the local communities.
- Boosting and supporting the role of financial institutions in offering the necessary funds for the SMEs through:
 - a. Assisting the investor to identify the available sources of finance and credit terms.
 - b. Harmonizing with financial institutions to facilitate the financing of SMEs.

4. The individuals and companies should develop skills and characterize them to manage successfully their own projects efficiently and effectively.

5. Introduce the consultant services to stakeholders related to the management and development of SMEs through the following points:

- a. Providing new ideas of producing firms.
- b. Leading the investors to suitable resources of finance.
- c. Providing the managerial, technical, marketing, and financial consultants for the firm.
- d. Pursuing the projects after implementation and providing the necessary services to assure success and a sustainable firm.

6. Contribution consciousness in training the investors about the importance and the procedures to make the SMEs succeed through:

- a. Organizing specialist seminars to identify the available investment opportunities in the community and spread over the investment culture.
- b. Educating and meeting the criteria of the owners of the firms to manage and develop their projects efficiently and effectively.
- c. Educating and modifying the employees in these projects to improve the marginal productivity of labour and capital.

d. Setting up instruction classes concerning the importance of a contemporary accounting system for these projects to enhance the follow up and performance evaluation process.

7. Recommend that the Omani women play an entrepreneurial role in establishing SMEs in certain areas like nurseries and kindergartens and dressmaking and sewing.

2.5 Government Intervention in SMEs: A Global Perspective

The government plays an important mediating role toward creating the enabling environment through several intervention strategies to support SMEs in job-creation, diversification, poverty reduction, greater efficiency and growth (Rafi, & Murtaza, 2012). Governments have therefore, recognized the need to increase SMEs productivity and growth through business support services, policy response and institutional directions (Leonora, 2002; Ibrahim, 2003; Qimiao, 2003; World Bank Report, 2006; Johansson, 2008). For instance, in post-1990 Russia, Wanhill (1997) observed the lack of institutions to make use of market transactions led to the unregulated acquisition of knowledge and resources that resulted to widespread abuse and corruption, and the unethical concealment of information. The consequence was a counterproductive market development that caused dissatisfaction in the society. However, the intervention of government reinvigorated the market and promoted SMEs as small firms with a community structure and business related activities. There was therefore the fulfilment of the objectives of SME in job creation and the provision of customized products while adapting to best practices in production techniques and networking (Ketchen & Bergh, 2006; Liu, & Zongsheng 2010; Rafi, & Murtaza, 2012).

In a global view of economic situations after the times of economic crisis, researchers in economics noticed that attention had often been shifted to small firms which

emerged with unique capabilities in the areas of innovation and job creation relative to larger firms. This, therefore, represented a sharp shift from a long time notion that economic activities will continuously be determined by large firms, which attracted major investments of most economies in the twentieth century. For instance, between 1947 and 1980, there was a steady rise in the average real GNP- per-firm, from \$150,000 to \$250,000 across countries (ACS, 1992). However, the subsequent prolonged economic stagnation, leading to a general unemployment in the 1980s caused a rethink on possible importance and profitability of small firms. The effects of the economic crises of the 1980s on manufacturing firms, and the evidence of increased performance of smaller firms and the reduction in unemployment, gave accelerated impetus to the recognition of small business in the economy especially in developing countries. Despite the contribution of SMEs to the economy in the areas of exports, employment generation, income distribution, poverty reduction and economic growth (Wang and Zang,2003; Abdullah, 2000; Hall 2002; Saleh and Ndubisi 2009), they still face operational difficulties due to the lack of finance, managerial capability, information and technology and regulatory burden (Ayyagari, 2005; Beck et al., 2006).

However, the criticism about the increasing level of support to SMEs by governments, private or international agencies was based on the advantages posed by large organizations. For instance, according to Beck *et al.* (2006), large firms make significant contributions to productivity growth because they may exploit economies of scale and more easily undertake the fixed costs associated with research and development (R&D). In addition, they have lower mortality rate and provide more stable and higher quality jobs than small firms, and therefore, remained more effective for poverty alleviation (IDB, 2013).Meanwhile, the obvious limitations occasioned by the peculiarities have limited the volume of business in SME group and an increasing quest for support instruments (Birch, 1987). These support instruments had emanated from commercial industries; (Matejun 2013) and non-commercial sectors (Harvie & Lee 2002; Albassam 2012; Acevedo & Tan 2011; Qarri, Dumi & Demo 2012; Dyson 2012; Wang & Huang 2012).

Government assistance is therefore a major part of the efforts geared towards a stable and productive SME sector. A broad range of instruments are used to support SMEs and the commonly used instruments are access to finance, innovation, development of skills and human capital, clusters and value chain and fiscal incentives OECD, (2013).

The accessibility of these instruments and the possible absorption and application depends on the organizational life cycle (Mategun, 2013). In the studies of Davidsson et al (2010) a company's life cycle is associated with specific needs, challenges and barriers to growth. These formed the basis for the development of the phases of absorption of support instruments by SMEs (Matejun, 2013). The dynamic phases are characterized by an active approach to business, investment and development processes; eliciting demand for the support instrument. The second is the static phases and these are focused on current operations to ensure business continuity with a limited demand for development-support instruments. Besides these phases, the accessibility to non-commercial instruments will be enhanced by creating jobs and maintaining social and economic relationship. Meanwhile, when the instrument had been gotten, the capacity to use them efficiently depends primarily on possessing particular resources and developing key abilities. According to Mategun (2013) they include the use of Knowledge. This has been seen as a major intangible asset with which organizations can maintain competitive advantage especially in SMEs (Okoroji et al, 2013; Dumi & Maliqi 2011; Rrustemi 2011). The second capacity requirement is the possession of operational flexibility to meet the requirements set by support institutions (Volberda 1996). Thirdly, relations that foster various kinds of inter-organizational relationships are imperative in the ability to absorb the instruments for the ultimate promotion of innovations (Zeng, Xie & Tam 2010). Another requirement for a proper implementation of the instruments is the possession of skills in implementing the developmental changes through the use of development-support instruments. Matejun (2013b) noted that the various supporting instruments through which government interventions can be propagated are classified into five major groups namely financial instruments, in form of credits and loans; capital-based instruments, involving venture capital; consulting/training/information-related instruments aimed at the development of the knowledge, skills and competences; innovation-supporting instruments related to technology transfer and general business-support instruments or access to office space.

In the study of Matejun and Szczepanczyk (2013) it was recognized that most companies had poor instrument absorption and such situation showed that there was an almost no use of development-support instruments. Even though, the absorption of finance, training, consulting and information-related instruments were recognized in their study, the level of absorption of development support instruments by SMEs was fair and the scope of use was influenced by knowledge of the intricacies of the instrument. If this could be the situation in Europe, the situation in the Middle East would definitely be more difficult.

Therefore, the role of government intervention in SME development include the encouragement of the private sector businesses by the introduction of new regulatory mechanisms such as price control, incentives, marketing needs and the improvement of standards of production. This is necessary to maintain a level playing field, enhance competition and ensure greater access to business infrastructure (Andersen *et al.*, 2003).

Even though Matejun's (2013b) list was a representation of most of the initiatives, we are of the opinion that it is not yet exhaustive. Therefore, we delved into more literature search to ensure that the different facets of government intervention strategies were fully discussed to provide justification on how constraints can be ameliorated in order to ensure the full realization of SME goals. Subsequently, this section is discussed under the following headings: financial assistance, technical assistance, advisory assistance, management assistance, infrastructural assistance and market assistance.

2.5.1 Technical Assistance

In the views of Hillenbrand and Money (2007) the application of technical assistance can be varied and aimed at improving the efficiency of the processes of the SMEs. It can also provide a holistic support for promotion of SMEs, reduction of administrative complexities and the approximation of the entrepreneurial environment. The proper development of relevant technical assistance is capable of streamlining the payment of contributions to individual insurance funds for entrepreneurs through the creation of a single collection point (Hillenbrand and Money, 2007). This support mechanism has been noted to provide the necessary platform for expertise which can be used for adaptation and design of suitable technologies and skill that are needed for development and transfer and acquisition of technology (Babel, 2001).

This was corroborated by Keesing *et al* (1991) who identified that the provision of technical assistance to SMEs in the form of capacity building, access to technology and product development, reduced the difficulties in the use of new technologies. McAdam *et al* (2010) also argued that SMEs have an opportunity to leverage existing quality and process improvement activities to move beyond continuous improvement outcomes, towards effective innovation implementation.

Governments have therefore provided relevant trainings and consultancies with respect to specific strategic projects for the workers and management to be acquainted with marketing information, technological development and diffusion (Culkin, & Smith, 2000; Yu, & Chong, 2006). It would also help SME owners and employees to understand the intricacies of business linkages through franchising, subcontracting, and business clusters (Demirguc-kunt, *et al.*,2006; Abdel-Rahman & Abdel-Magid, 1993). As a result, better decisions concerning the day to day running of the business can be made. Besides, the SME owners can be able to coordinate the activities of the enterprise and understand the relative standing of the business in cases of partnerships and business expansions.

2.5.2 Financial Assistance

Financial needs and modes of financing of SME businesses have changed and have developed over a period of time. The start-up for businesses has been sourced from personal savings and contributions from friends, relatives, business associates and the use of trade credit from suppliers (Myers 1984, Stieglitz and Weiss 1981).

As a business begins to establish its track record, it usually attracts investors who are willing to invest in the company and obtains bank loans (Beck *et al.*, 2006). Through these loans, the small and medium firms would have access to financial obligations to fund development and training programs, improve infrastructure and arrange online financing in line with interests towards internationalization (Humphrey, 2003). Other areas of need might include the improvement of strategies, structures and managerial skills of the various SME associations, unions and guilds. The resultant increase in competition would act as an incentive for finance providers to introduce e-finance services and thus, the cost of financing for SMEs can be reduced. However, financial availability must be sufficient enough for a reasonable progress in the SME sector. The main effect of the financial assistance from government is therefore to help to improve the accessibility of the SMEs to credit in order to overcome the challenges of running the enterprise. This is because if the capacity of SME managers to invest is reduced, savings and productivity will be affected nationally (Abu & Ezike, 2012).
Even though, one of the major growth constraints in SMEs is limited access to finance, it is obvious that funds alone will not solve all the problems they face. Hence, there is the need to evolve strategies that would enhance their economic performance. Commercial banks and investors are usually reluctant in partnering with SMEs because of high risk and transaction costs. In addition, government intervention is necessary to support SME development in cases of institutional failures to ensure the flow of relevant information for efficient allocation of market resources (Hall, 2002). However, in reality, this seldom happens and the small firms are more vulnerable as the banks could not easily obtain information concerning the creditworthiness of potential SME clients. This is because SME credit risks are priced with respect to inherent information asymmetries (Berry *et.al*, 2004) which can occur due to improper record keeping (Robert & Bruce, 2002). However, factors that could help access loans even in the face of the obvious constraints of this factor include size and the phase of the development of SMEs (Berger and Udell, 1998) and relationship perspectives (Beck *et. al*, 2006).

In assessing the implications of SME financing in the form of lending by banks, it was concluded that bank deposit was a significant determinant to the possibility of banks to lend to SMEs (Iloh *et al*, 2013). The government policies, most often, had been hindered by the policy trusts of the commercial and merchant banks as the later tends to focus more on major investors because of their long term strategies. This issue had given rise to the establishment of micro finance banks for the provision of loans to small and medium scale entrepreneurs. Nevertheless, it had been noted that the capacity of the micro finance banks to finance SMEs must be boosted by an ordered government policy so that they can meet their obligations to the SMEs.

Policies on the financial sector must be powered by a vision to increase the banking networks across country geography so that economies of scale can be enhance within a wide range of financial solutions (Ezeaku, 2010). This therefore gives impetus to the expansion of the micro finance sector through the establishment of SME banks Muhammad *et al*, (2011) so that adequate financial flow will be available to SMEs (Adeyemi, 2007). The overall urgency in the accessibility of finance by SMEs was reiterated by 2010 report of the World Bank (Ardic *et al*, 2010), where it was concluded that, in line with the framework of the financial inclusion, there is the need to make the SME to avail the opportunity of financial services in countries. It stated that, consistent with cross-country characteristics, SMEs across the world possess different meanings and understanding. However, they opined that this difference did not affect their credit requirements; drawing implication on the efficiency of the banking system and their readiness to partner with SMEs.

Meanwhile, the usury laws that put limits on interest rates may result in a disincentive and discouraging competition that will make banks to prefer the large firms. For instance, the ability of SMEs to prosper in export markets is actually retarded by some factors including: the high fixed cost of obtaining information about foreign buyers, the distribution channels, quality standards, and newer technologies. The resulting information asymmetry makes the financial institutions to charge high interest rates to cover for potential losses in case of default. However, the government's ability to provide a credit reference platform is capable of addressing most of the information asymmetries (Kropp, *et al.,* 2006; Crew, 2011; Rafi, & Murtaza, 2012). The SMEs therefore need non-financial services to build capacities that are often lacking in order to enhance productivity and growth. (Hillenbrand. & Money, 2007).

A successful strategy for financing SMEs will be one that can ensure tailored financial services that could meet the specific needs of small industries as well as reduce the high risks profile. The scenario in countries that have successfully developed the SME sector shows that there cannot be a single blueprint that can solve the financial problems of SMEs (ESCAP, 2000). This therefore emphasizes the need for government to take up mediating role by bearing some of the transaction costs and providing reliable information about SMEs to the financial providers.

The effects of government policies in the banking industry in terms of regulatory frameworks and the role of banks in meeting the financial needs of the SMEs are established in the literature (Nnanna, 2006). In doing this government has used consolidations and recapitalization as major policy instruments to increase the effectiveness of banks in meeting the needs of the business volumes within the economy (Somoye, 2008). It is important to note that these strategies and their implementations have been strengthened through institutional frameworks provided by the international finance regulatory bodies like the World Bank and International Monetary Fund (IMF). This has made the outcome of the implementation of the strategy, in terms of cost savings and improved managerial decisions on risks, to be consistent and reliable across countries (Soludo, 2004).

Policy makers in many Middle East countries including the Sultanate of Oman, feel the need for more public ownership of banks, even though several researches have shown that government ownership, particularly in developing countries, has not been successful (Beck, *et al.*, 2007). Public ownership have resulted to more concentrated lending and lower economic growth as the banks mainly lend to politically favoured cronies, and, at times, commercially unviable projects (Kwarteng, *et al.*, 2009; Ridenour & Newman, 2008). It is therefore imperative that the private sector should be on the fore front to promote the development of the SMEs across countries (Ridenour & Newman, 2008).

The extent of government involvement to develop SMEs is directly related to the importance attached to a particular industry. For instance, the attention to the SMEs in the

tourism sector is determined by the vision of a country on investments in line with the objectives of its tourism development investment policy (Berger, *et al.*, 2001). An example is the case in the UK where the government supports the tourism industry to obtain maximum economic benefit in terms of higher output and employment creation (Williamson, &Lynch-Wood, 2001). Despite these, the SMEs are vulnerable and consistently face problems that hinder their growth potential.

2.5.3 Infrastructural Assistance

The infrastructural assistance can be in the form of provision of factory space, industrial land, facility improvement and social & institutional infrastructure. The level of difficulty posed by these factors may affect the individual enterprise differently. However, since SMEs do not operate in a vacuum, it is important to avail the opportunities of the presence of the social and institutional infrastructures within the larger society while operational decisions about the location of the business is made (Esser, Hillebrand, Messner, & Meyer-Stamer, 1996). Usually, several government sponsored agencies are involved in the provision of infrastructural support like electricity, transportation, water and telecommunications. This will enable the SME sector to play its role as a repository of innovation and entrepreneurship.

In addition, government intervention in supporting innovation through high levels of investment in public infrastructure, utility services, R&D, transportation and telecommunication caused revolutionary economic changes that were primarily responsible for England's emergence as the pioneer of the industrial revolution. Similar changes transformed an agrarian economic into an industrial power in the United States (Culkin, & Smith, 2000). This was also the situation in developing nations like Mexico, Jamaica and Morocco, among others, where universities, entrepreneurs and governments engaged in

40

networking and commercialized R&D programs to improve on the developments of the small firms. These processes enhance indigenous capabilities and skills and strengthen the link between industry and research institutions in order to improve the skills through training and the use oftechnology for the transfer of knowledge (Chaston, 1995).

The role of governments in the economic programs in the development of SMEs can therefore be extensive and can include the establishment of R & D and business development services to build the human resource capacity of SMEs, so that the relevant market information can be assessed and applied effectively (Demirguc-kunt, *et al.*,2006; Abdel Rahman, & Abdel-Majid, 2012).

2.5.4 Advisory Assistance

The counselling and advisory roles of government have helped in the creation of a more favourable business climate for the improvement of the growth of SMEs. However, it has been observed that entrepreneurs and employees must be capable of performing their respective duties and responsibilities to make advisory assistance to SMEs effective (APEC, 2001). The emphasis on capacity building as a way of developing SMEs must be approached through the establishment of multi organizational networks comprising of financial service providers, consulting firms, e-business outlets, among others. This will broaden the capability of the SMEs to gain access to new investment opportunities, technical assistance and other needs. Be that as it may, it has been noted that building the capacity as a traditional financial intermediaries to serve SMEs is not enough. Esser *et al.* (1991) emphasized the need for broader financial products and initiatives as the key to SME financing. In reiterating this posture, the International Finance Corporation (IFC) further advised that the capacity building for the SMEs should be directed towards enabling them to participate in equity investment.

This will offer them the added advantage of developing transparent accounting and financial systems and also provide technical assistance to enhance management capacity and competitiveness (Mead & Liedholm, 1998). Government interventions through capacity building can also be used for the establishment of a level playing field in the business environment and the application of prudence in the use scarce public resources. It will also offer the expertise needed for the coordination of strategies for SME development that carefully separates equity and efficiency objectives (Havie, 2004).

Other roles include regulation and provision of private financial and non-financial services in order to have easy access to institutional instruments which will compensate a direct government assisted programs like finance access, infrastructure provision, training programs, streamlining bureaucracy, seminars, trade fairs and the establishment of a probusiness environment. Through structured and well guided policy, barriers to trade for small businesses like tariffs, standardization of products, warehousing, and expertise in financial transactions can be addressed.

2.5.5 Market Assistance

Generally, the lack of financial resources by the SMEs and the lack of viable marketing networks have been a major hindrance to their activities in the market place. This is because; most of the market activities of the firms have been aided by the use of technology. The provision of information and communication technologies (ICTs) and broadband Internet facilities have reduced the cost of generating, processing and transmitting information. Even though ICTs have widened and enhanced the marketing activities of enterprises, it has made it more complex because of the various applications of technologies. The SMEs therefore need to learn about these technologies for the purpose of building knowledge, gaining access to new markets and selling directly to buyers online. In fact, small industries can fulfil orders through the limitless interactions that occur during online marketing activities. Information communication technologies (ICTs) also enable online surveys to obtain related input from consumers regarding products and services. While the adoption of ICT will be of immense help to the SMEs, its application in the areas of services, markets, products, and customers (Finn *et al.*, 2006) and e-business can be valuable in increasing the networks and collaborations (Parker & Castleman, 2007; Peacock *et al*, 2009).

In the study which explored the relationship between IT competency and firm size, Pett *et al*, (2012) found large and significant differences between the size classes of firms. This showed a low level of IT literacy in the SMEs and it further implied that they would find it difficult organizing data and information relating to their day to day activities. It was therefore posited that the lack of ICT expertise might affect the firm's future growth and profitability.

Various developing countries have launched programs that are aimed at training SMEs on the use of the Internet as a tool for building new overseas markets. However, despite an increased awareness about the contribution of ICTs and the Internet to the development of SMEs in particular, the level of e-readiness in the GCC countries are still quite low relative to the awareness in Europe and America. It has been noted that utility services, regulations, operational requirements, high tariffs and low computer literacy are still the major obstacles to the use of appropriate ICT tools for the development of SMEs in many countries (Asharfi and Murtaza, 2008).

2.5.6 Management Assistance

Government interventions through regulatory protocol had progressed over the years to include the intervention to encourage entrepreneurial activity for effective

43

industrial development process (Culkin, & Smith, 2000; Rasiah *et al.*, 2011; Chandler, 1977, Cited in Gilbert et al, 2004). Earlier interventions were directed towards the large organization. However, through privatization, government's grip of companies was loosened to accommodate a more liberal and market free stance. Therefore, the extension of the policies to entrepreneurial activities had been seen as a shift from the federal position of intervention to a much practical approach involving the lower levels of government. In the popularized view of Chang (2002) two key roles for the country in facilitating structural change were identified as the "entrepreneurship" state in which actions are taken to safeguard the future and the "management of conflicts" stage which is the aftermath of the structural change (Cited in Karlsson and Karlsson, 2002).

Generally, concerted efforts on making the SMEs viable for the development of the micro-economic sector of the economy depends on precarious business environment and as such require a well-defined and articulated institutional framework and a smooth flow of information to effectively improve the services. Managerial competency is therefore of paramount importance in the administration of affairs of the SME so that vital decisions related to the progress and growth of the enterprise can be made in line with set objectives. However, it is obvious that some external factors may influence the SME owner from achieving the right decision. Therefore, it becomes imperative that the SME owner and employees would need a regular update of their managerial understanding through relevant seminars and workshops in order to maintain sound managerial judgment (Ahmed, 2011). Interestingly, governments have continually recognized this gap and have provided these opportunities to SME owners and employees through the conduction of seminars and workshops and also through the application of development plans so that the state of profitability of the SMEs can be improved.

In another perspective, Welsch *et al* (2013) was of the opinion that factors like personal behaviour and the driving force for innovation should be of utmost consideration. Given that a vision of the firm's mission in relation to the immediate environment is a desirable attribute, an adaptive capability to foresee changes in the environment will determine the success of any firm. As such, managers will make decisions based on the content and knowledge they possess on a particular situation. In addition, it is the decisions taken by management, which, in turn, depend on managerial capabilities, that will make the difference in precarious situations.

In the views of Temtime and Pansiri (2004) several governments of developing countries and private organizations have played major roles in the establishment, support and regulations of SME activity in such a way as to facilitate economic growth and development. However, it was noted that the adverse effects of economic forces such as inflation, interest and exchange rates which cannot be easily controlled, had continued to retard the efforts to cultivate SMEs.

Another important factor in government managerial intervention is the organizational framework (Tornatzky and Fleischer, 1990). This includes internal matters of an organization that foster top-management behaviour within the organization's internal and external environment. Andersen *et al.*, (2003) further propose a model for analysing such environmental factors, which mainly focuses on the demand drivers like the industry structure, information infrastructure, financial and human resources, social and cultural factors. These practices help the government and the private sector institutions to promote SMEs activities through economic inducement, knowledge dispersion and legislation of trade regulation. Effective Management plays an important role at all stages of a firm. In the establishment process in SME, entrepreneurs or managers examine the relative importance of each resource with a view to making strategic decisions on which of the

45

choices best fits their organization. This expertise of the SME owner depends on what he sees in the environment and the amount of productive services that he uses to operate.

According to Matejun (2010) as the SME owner manager or entrepreneur attempts to fit the combinations of resources to the growth of the venture in relation to the environment, the manager's experience and education is important in determining the growth of a firm. Therefore, the owner manager or entrepreneurs of SMEs in Oman should therefore, take into account the possession of good traits and skills in appointing managers. It is believed that Contextual and environmental considerations play a role in the shaping of any decision, especially those that directly affect the operation of SMEs.

2.6 Research Hypothesis

After reviewing various related literature and studies, written and conducted by various authors, forth main hypotheses were formulated for this research.

The central theme of this research is to assess the level of government economic programmes to mitigate the constraints faced by SMEs in the Sultanate of Oman and their impact on the growth and performance of the sector.

In an internationally competitive environment, SMEs may not thrive very well without government support in addressing critical issues, enhancement of productivity, growth and competitiveness which enable them to keep pace with the rapidly changing facets of processing, design and marketing, particularly in developing countries.

The hypotheses formulated here are not only contained within the conceptual model designed for this thesis, but also, these are delineated to explain the model and to answer the questions posited for this research. The following hypotheses will guide the analytical part of the thesis.

2.6.1 Constraints Facing SMEs

The literature has exposited the various constraints faced by SMEs in varied forms. The study of Storey (2008) summarized three types of constraints, namely, nature of transition, policy mistakes, and poverty and low income. The obvious inevitably effect of factors like smallness in size, limited resource, lack of economies of scale, insufficient information technology, inadequate entrepreneurial managerial on the development of SMEs has been interwoven by some more macroeconomic factors.

Sherazi *et al* (2013) presented a framework for constraints faced by SMEs in their bid to access financial assistance. They recognized six major obstacles within the framework, namely financial constraints, corruption, social and technological obstacles, Training obstacles, and Management and Infrastructure obstacles. The result of the study showed that financial constraints and corruption ranked highest. Even though the study did not delve into the causal nature of the variables, so that the extent to which one constraint affects the SMEs can be determined, it still provided implication on the fact that reduced corruption will be able to enhance the efficiency in the provision of infrastructures like electricity, water and transportation..

In the study by Quader & Abdullah, (2009), a three-arm model was used to emphasize that constraints facing SMEs can be due to Financial, regulatory and physical factors. They argued that the SME firms were affected differently by the 18 constructs that made up the entire framework. Hence, they do remain susceptible to unequal treatment due to dissimilarity in economic capacities, transition phases, resource potential, location reasons and lack of well-disposed connections. The study concluded that lending rate had the highest effect followed by regulatory constraints related to utility and labor, bureaucratic discretions and Collateral need. There is a general agreement that the effects of constraints on SMEs are tangible. Therefore, it is our view that the relationships between the constraints facing SMEs and SME performance has been catalysed by limited access to finance, which limits the operational requirements. Meanwhile, the insufficient supply of skilled workers will still lead to poor performance of SMEs because it limits the specialization opportunities to enable understanding of regulatory requirements in terms of tax, customs and other trade agreements. Besides these, the effects of lack of utility services in the areas of transportation, electricity telecommunications and water will surely be a militating factor in SME performance. Thus, like the views in many literatures, the SMEs are having difficulties in overcoming these hurdles and they are affecting their performance.

Therefore, based on the review of the various literatures, the framework for constraints faced by SMEs in this study will be grounded on the understanding that as business entities, SMEs face challenges in the areas of utility & services, regulatory and operational requirements. This leads us to the first hypothesis which is stated as:

H1: Constraints faced by SMEs in Oman reduce the sale growth of SMEs.

2.6.2 Government Assistance and SME Performance

There are many ways in which government intervention can boost SME performance (Matejun, 2013b). Even though, this list was a representation of most of the initiatives, we are of the opinion that it is not yet exhaustive. These factors therefore showed that the government can play a mediating role in the business of SMEs. In justifying the mediating role of governments, Rafi, & Murtaza (2012) noted that the creation of enabling environment and intervention strategies in the areas of business support services, policy response and institutional directions will lead to increased productivity and growth. This is imperative given the fact that Russia and Wanhill (1997)

argued that the lack of institutions to make use of market transactions led to the unregulated acquisition of knowledge and resources that resulted to reduced performance.

The implication for the unregulated acquisition of knowledge will be on the expertise of the SMEs. Hence, Keesing *et al* (2001) noted that through the institutional platform, government provides the necessary expertise and support that will engender collaboration, and capacity building for new technologies and new product development. The intervention is made more imperative given the observation by Abu & Ezike (2012) that the capacity of SME managers to invest is reduced due to financial limitations. Hence, it has been suggested that through government policy, the ability of SMEs to access loans will be more feasible (Iloh *et al*, 2013).

Government interventions through capacity building can also be used for the establishment of a level playing field in the business environment and the application of prudence in the use scarce public resources. In the light of this, (Havie, 2004) concluded that other roles include regulation and provision of private financial and non-financial services in order to have easy access to institutional instruments which will compensate a direct government assisted programs like finance access, infrastructure provision, training programs and managerial advisory roles.

These services will be necessary to maintain a level playing field, enhance competition and ensure greater access to business infrastructure (Andersen *et al.*, 2003). According to Abdel *et al*, (2012) it will surely enable expertise in handling marketing services which is a major ingredient of performance in SMEs.

The role of government intervention in SME development include the encouragement of the private sector businesses, introduction of new regulatory mechanisms such as price control, the provision of some incentives to ensure continued production and marketing and to maintain standards. Rasiah *et al.* (2011) argued that even though

privatization loosens the government grip of companies, the extension of the policies to entrepreneurial activities had been seen as a boost to SME performance.

Through these studies, we can argue that there is a need for government assistance to improve the performance of SMEs, especially the newly established ones. The limited assistance that is provided to the SME sector may not be favourable to enhance fast enterprise performance. However, young SMEs cannot afford to buy assistance from the private sector. The only option available to them may be to continue to obtain assistance from the government. Thus, with the limited resources, lack of experience and small size of the SMEs, government assistance still plays an important complementary role to SMEs as they strive for excellence and improved performance in the developing nations.

Therefore, the role of governments in the economic programs in the development of SMEs can be extensive and is summed up into six major areas in our framework namely financial assistance, market assistance, technical assistance, advisory assistance, managerial assistance and infrastructural assistance. Given the relationship between government assistance and performance & growth of the SME, the second hypothesis is stated thus: **H2**: There is a positive relationship between government assistance and SME performance.

2.6.3 Government Assistance and Constraints facing SMEs

The main purpose of government intervention is to reduce, if not eliminate, the constraints faced by SMEs. Following the argument by Sherazi *et al* (2013) that the six obstacles presented in the framework of their study affected the various SMEs differently, we further the argument by stating that there are other factors that mediated the difference in their response to the constraints. The various constraints identified include financial constraints, corruption, social and technological obstacles, Training obstacles, and Management and Infrastructure obstacles. All of these are related to the government and

have been termed constraints due to the neglect of government. For instance, it has been stated that infrastructural obstacles may lead to the unregulated acquisition of knowledge. However, Keesing *et al* (2001) was of the view that through government capacity building program, the SME members are trained to improve on their knowledge of processes. Furthermore, while government policy is required to ameliorate the limitations of SME's ability to access finance (Abu & Ezike, 2012), the regulatory role can reduce bottlenecks in the ease of doing business. Meanwhile, through capacity building challenges in lack of market information and managerial limitations can be reduced (Iloh *et al*, 2013). The improvement in utility services can be achieved through the application of prudence in the use scarce resources by government.

Therefore, we argue that since constraints are known to reduce SME performance, it can be concluded that the reduction of constraints by government assistance will lead to improved SME performance. From the above argument, the third hypothesis is stated as follows:

H3: Government assistance reduces the constraints facing the SMEs thereby improving the performance of the SMEs.

2.6.4 Constraints faced by SMEs and SME productivity

The inequality in access to funds affects the decision of managers towards investment options that would invariable affect the firm's growth (Mateev and Anastasov, 2010). In analyzing the growth of SMEs, some researchers have used the framework of growth-size-profitability relationships which encompasses the relationship between the growth and the financial structure of organizations. However, the positive association of capital and labour productivity with the firm growth (both in sales and assets) implied that factors of productivity will generate larger growth in firms. We therefore argue that, based on the negative effect of constraints on SME growth and performance, constraints will also lead to reduced productivity.

While emphasizing that small businesses are important for the economic growth of a country, Graig and Hardec (2004) noted that the constraint of finance can reduce their productivity. In corroborating the relationship between lack of funds and reduced productivity, Iloh *et al* (2013) noted that there are adverse effects of mergers and consolidations on the performance and productivity of small firms. This was also recognized by Graig and Hardec (2004), who stated that the effect on the productivity of the SMEs was due to lack of finance.

Even though good relationship had been argued to be able to help the accessing of external funds (Ozkan and Ozkan, 2004), the presence of major hindrances like corruption, financial and legal underdevelopment, weakens relationships. As a result, the ability to source fund is hampered, thereby affecting the growth processes of SMEs and this will lead to reduced productivity (Beck *et al*, 2005).

The conceptual model of this study therefore, had combined the concept and variables from previous studies in a systematic manner, to reflect the subjective measure of productivity in terms of labour, capital and overall productivity. Therefore, based on the above argument, the forth hypothesis is stated as follows:

H4: Constraints faced by SMEs lower the productivity (labour, capital and overall) of SMEs.

CHAPTER 3

Literature Review

3.1 Introduction

A literature review was conducted in order to provide an overview of previous studies and findings in the field of government interventions in SMEs. These previous literatures formed the basis for the theory for this study. The source of the literature was mainly from academic articles, books and research reports. The references used in relevant articles were in turn also located and this improved the robustness of the literature search. Due to the dearth of studies focusing on government interventions in SMEs in the Sultanate of Oman, the majority of the empirical studies that were taken into account for the review were based in European, African and other Asian countries. In addition to providing an overview of previous studies, the literature review provided more rationale to generate more significant questions.

3.2 Concept and significance of SME

The uniqueness of SMEs in terms of size, flexibility and stimulation of economic growth have given them the competitive advantage and increased their innovativeness in new product development for an inevitable match towards success, increased market share and return on investment (Acs, 1999; Bhide, 2000; Welsch *et al*, 2013). In trying to draw distinctions between the relative sizes of firms within the SME framework, researchers and practitioners have been discouraged due to the presence of several characteristics with the population of SMEs (Pett *et al*, 2012, p. 48). However, through empirical studies, the difference between small and large businesses have been confirmed with respect to resource constraints and the liability (Aldrich and Auster, 1986), dimensions of flexibility

and innovativeness (Salavou *et al*, 2004) and information technology competency (Pett *et al*, 2010). In the SMEs the most applied measure of difference is the number of employees (Beck *et al*, 2006). In studying the potential for within size class differences in SMEs, Pett *et al* (2012) reported that within the limits of their data, there are meaningful and significant differences in subgroups within the classification of SMEs.

Several parameters had been used in evaluating the definition of SME across countries and regions by researchers. These include their economic development phase, social conditions, number of employees; invested capital; total amount of assets; sales volume; and production capability (Harvie, 2004). These criteria were important because, often times, they were required as part of a country's regulatory framework and classifications. For example, while China distinguished between township and village enterprises (TVEs) Singapore distinguished between local and overseas SMEs. However, applying international comparative analysis perspective, the vast majority of SMEs are relatively small and over 95 percent of SMEs in most region employ less than 100 people; giving credence to the comparisons of SMEs across countries irrespective of the country specific definition attached to it. For instance, the definition that businesses with less than ten employees as a Micro Enterprise, between ten and fifty as Small Enterprises, and between fifty to two hundred and fifty employees as Medium sized enterprises had been used in studies (Kapurubandara *et al* 2006; Ashrafi and bbass, 2008).

The views of most researchers on a proper definition of small and medium sized enterprises have been ordered by respective understanding and the specificity of roles accorded the SMEs in different economies. This has led to the recognition of the small firms with the designation of micro, small and medium enterprises (MSMEs) due to their large share of firm establishments and employment repository (Ridenour & Newman, 2008; Culkin, & Smith, 2000; EC 2009). There is therefore the understanding that MSMEs are indeed the emerging private sector in many developing countries and could form the base for private sector-led growth (Chaston, 1995; Karikomi, 1998; Hillenbr. & Money, 2007; Ayoob & Somasundaram, 2012).

The European Union defined small enterprises as firms with "fewer than fifty employees and an annual turnover of less than 10,000,000 Euros" (Mateev and Anastasov, 2010, p. 272). Based on the EU definition of SMEs, more than 99 percent of all companies in Europe can be classified as SMEs. Moreover, SMEs provide two out of three employment opportunities in the private sector and contribute to more than 50 percent of the total added value in the European economy (EC, 2009). For instance, in Sweden, 99,4 percent of all companies have less than 50 employees and only 0.1 percent of all companies employ more than 250 people (Ekonomifakta, 2011).

SME Definition					
Enterprise category	Number of Employee	Turnover	Balance Sheet total		
Micro	Less than 10	Less than € 2 million	Less than € 2 million		
Small	Less than 50	Less than € 10 million	Less than € 10 million		
Medium sized	Less than 250	Above € 50 million	Above € 43 million		

Table 3.1: EU definition of SME

Source: (EC, 2009)

The World Bank definition of SMEs are based on parameters like annual sales, total assets, number of employees and category (table 3.2) (Oman investment climate assessment, 2004).

Annual sales	Total assets	No of employees	Category
Up to US\$100,000	Up to US\$100,000	Up to 10	Micro-enterprise
Up to US\$3 million	Up to US\$3 million	Up to 50	Small enterprise
Up to US\$1 million	Up to US\$15 million	Up to 300	Medium-sized

Table 3.2: SME definition by the World Bank

Source: Oman investment climate assessment (2004)

The definitions of SMEs vary greatly within the Arab countries. In Yemen, a small enterprise is one that employs one and fewer than four workers, a medium-sized enterprise is one that employs between two and nine workers, and a large enterprise is one that has more than 10 employees. In Jordan, a small enterprise is one containing between two and 10 employees and a medium-sized enterprise is one between 10 and 25 employees. In the sultanate of Oman any enterprise that has less than 10 workers and between 10 to 100 workers is referred to as small enterprise and medium enterprise, respectively. In Egypt, a SME is a paid capital of no more than LE1 million and no more than 50 workers. The key guiding principles in SME definitions in these areas are number of employees, Capital investment and turn over (Table 3.3) (Belwal, & Belwal, 2010).

State Criteria	Number of Workers	Capital investment
YEMEN - Small projects - Medium-sized projects - Large projects	Less than 4 workers Less than 10 workers More than 10 workers	-
JORDAN - Small projects - Medium-sized projects - Large projects	Between 2 to 10 workers Between 10 to 25 worker More than 25 workers	-
SULTANATE OF OMAN - Small projects - Medium-sized projects	Less than 10 workers Between 10 to 100	Less than 50 thousand 50-100 thousand riyals
SUDAN - Small projects	Less than 10 workers	-
EGYPT - Small projects	Less than 50 workers	50,000 to 1 million pounds
ALGERIA - Micro projects - Small projects - Medium-sized projects	Less than 10 workers Less than 50 workers 50 to 250 workers	-
SAUDI ARABIA - Small projects - Medium-sized projects	Between 1 to 20 workers Between 21 to 100	No more than 20 million riyals
KUWAIT - Small projects - Medium-sized projects	Less than 10 workers Between 10 to 50	Does not exceed 200 thousand dinars
BAHRAIN - Small projects - Medium-sized projects	Between 5 to 19 workers Between 20 to 100	-
IRAQ - Small projects - Medium-sized projects	Between 1 to 9 workers Between 10 to 29	In range of 100 thousand dinars
GULF COOPERATION COUNCIL - Small projects - Medium-sized projects	Less than 30 workers Fewer than 60 workers	Does not exceed \$2 Million Between \$2 Million to \$6

Table 3.3: SMEs Definitions by Arab Countries

Source: Arab Labour Organization (2008)

The role of SMEs as an important revenue and employment generation sector of countries across the world has been well documented. This recognition had translated to the various initiatives and policies that have evolved across countries like United States of America, UK, Japan, Australia, New Zealand, Canada and other developed nations, aimed at facilitating the growth of and sustainability of SMEs. For instance, SMEs have played important roles in the economy of countries New Zealand, where SMEs account for more than 99% of all businesses and generating about 60% of employment (Lawson *et al*, 2003). According to Baldwin, Jarmin, & Tang, (2002) employment generation are more from organizations with fewer than 500 employees while the situation in UK represented an SMEs generation of about 67 % of the workforce (Lange *et al* 2000). Furthermore, reports from most EU member states affirmed that SMEs make up over 99% of enterprises, 67% of jobs and 59% of GDP.

It is obvious that even though these advantages were noticeable within the economies of the developed nations, there should be substantial differences in developing countries due to lack of necessary infrastructure, social and cultural issues, resource constraints and weak/unstructured National Innovation Systems (NIS) (Kapurubandara, M. and Lawson, 2006) Meanwhile, it makes sense to assume that SMEs therein would focus on incremental innovations and that these would have some positive impact on firm performance and a key source of new jobs as well as a breeding ground for entrepreneurship and new business ideas. This has been recognized by New Zealand as it spends about 10% of GDP on ICT, making it the top ranking country in the world (Clarke 2004). Meanwhile, estimates from the World Bank indicate that SMEs have contributed over 55% percent of GDP in OECD countries and between 60 to 70 percent of GDP in middle-income and low income countries generating 60 to 70 percent employment (OER, 2007).

Many studies have identified major advantages in the establishment of SMEs as an essential ingredient for economic growth. For instance, in the areas of employment, it accounts 50% of the workforce in USA (Hallberg, 2001) 40–60% of the GNP in US (Neubauer and Lank, 1998) and in across 76 other developed and developing economies, SMEs may account for close to 60% of manufacturing employment (Ayyagari *et al.*, 2007).

The performances of the SMEs have a strong influence on the output of the whole economy and its competitiveness. These enterprises are the most sensitive to the changes of business environment and to the increase of the administrative burdens and they give the fastest reactions to the favorable potential opportunities as well. They are an important driving factor of innovation and employment.

The major proxies to its strategic importance can be appreciated by the description of the SME sector as being quite internally diverse (Torrès & Julien, 2005), a dynamic growth driver (Henrekson & Johansson, 2010), "gazelle companies with fast-growing businesses and entrepreneurial or innovative entities" (Mategun, 2013, p. 480), knowledgebased business (Gorman & McCarthy 2006) and a diversified high-tech international markets with extensive R&D cooperation (Hölzl 2009). However, it can be noted that these descriptions cannot apply in the all countries because of the relative developmental stages, technological advancement and the different extent to which countries have developed their SMEs. Therefore, for the developing nations, the impact of SME activities could still be at the experimental stage which is far from the established sector of the advanced economies where the operations of the SMEs are characterized by dynamic growth in revenues, proactive application of strategies that promote the construction of effective competitive advantage and employment generation (Mategun, 2013).

In underpinning the difference between managers and entrepreneurs, Slevin & Covin (2005) presented a concept that tends to measure the general disposition of

59

entrepreneurs at work in order to ascertain their general ability. It was found that proactiveness, risk-taking and innovativeness could be distinctive enough to measure the entrepreneurial ability of SME owner mangers. According to Quaye and Acheampong (2013) SME owner-managers can best be described as businesspersons instead of an erroneous connotation of entrepreneurs since it was found that their innovative and risk taking behaviour were low irrespective of a reasonable level of proactiveness.

3.3 The concept of Market Failure

Market failure is the reason for the propagation of government policy that will help in the promotion of SME concept. According to Storey (2003) there are four types of market failures that can affect the SME policy; three of which are due to imperfect information, and one reflecting a divergence between social and private returns.

- 1. The ignorance of the private benefits of starting a business. This is frequently used to justify entrepreneurship policies such as the raising of enterprise awareness amongst young people.
- 2. Owners of small firms do not fully appreciate the private benefits to their business of taking certain courses of action. This information imperfection is used to justify enforcement of workforce or management training.
- Inability of financial institutions to accurately assess the risk of lending to small firms. The government's response is in the introduction of Loan Guarantee Schemes.
- 4. A range of SME policies reflect the divergence between private and social benefits to promote innovation in small firms. The response is in the promotion of public funding of programs focused on technology-based small firms.

The argument had been that there is no serious justification to attribute market failure as the only reason for intervention. Even though it had been viewed as a necessary reason, it was observed that government interventions through policy instruments seek to rectify the effect of market failure. There is therefore need to address the issues relating to any of the factors of market failure on individual merit so that only compelling ones that needed intervention can be address and an appropriate scale of intervention can be applied.

In addressing the four factors involved in market failure, the "market failure test" had been used (Storey, 2008). For instance, the issue of workforce training can be addressed by explaining the importance and the imperativeness of self-sponsor. Furthermore, the participation of SMEs in government loan schemes might at the long run lead to greater understanding and subsequent information flow that will encourage the justification to seek external funding. Hence an effective market-failure addressing program at one point in time may become less justified when circumstances change.

The concept of "market failure" therefore emerged in response to the understanding of what constitutes an advantage of a free market economy over a regulated one as the market economy is weighed against the resource allocation (Datta-Chaudhuri, 1990). It is therefore increasingly proposed that the possibility that government failure would push countries into market failure was a justification for the need for government intervention (Rodrik, 2004; Al-Zakwani, 2009). Matlosa *et al.*, (2002) argued that state and market interactions may be characterised as a relatively new phenomenon, tasked with creating well-functioning markets by providing legal framework, credit, standards and physical infrastructure. According to Reinert (1999), the state and markets should not be considered as contradictory in the development process, but rather as complementary agents in economic development. Most development economists, such as Levine (1997), Beck, Demirguc-Kunt, & Maksimovic, (2008), Beck *et al.*, (2006), and Mushtaque & Choudri,

61

(2012) argued that markets are not self-correcting, thereby justifying government intervention as a facilitator in providing infrastructure, basic platforms, business development services and building partnerships for the private sector to flourish. Merges & Nelson, (1990), and Al-Azri (2010) argued that without the support of government in the provision of these services, the private sector cannot afford to provide them, thus making the environment non-conducive to operate.

Markets do not flourish spontaneously; they rely on the right kind of government policy to network, learn and build upon acquired knowledge for growth, use innovative ideas-synergies, increasing returns, learning, adopting, adapting and commercialising knowledge for growth (Al-Azri, *et al.*, 2010; Al-Rawahy, *et al.*, 2010; Mushtaque, & Choudri, 2012). While opponents would say government intervention distorts market forces. Agosin, (1999) among others believed that state public planning and investment can stimulate and act as the driving force of economic development (Culkin, & Smith, 2000; Ridenour & Newman, 2008). Despite neoclassical economists healthy respect for the power of private initiative and market forces, it is highly recognized that developing countries need to embed private initiative in a framework of public action that encourages diversification, restructuring, and technological dynamism beyond what market forces on their own could not generate(Ketchen & Bergh, 2006;Al-Rawahy, Ahmed, & Hussain, 2010).

3.4 Constraints Facing SMEs

The recognition of the various obstacles to the development of SMEs would help in the development of appropriate intervention strategies for a successful SME protocol. Some factors militating against the development in the SMEs include the smallness in size, the resource limitation, lack of economies of scale, insufficient information technology, inadequate entrepreneurial, managerial, accounting and marketing skills; lack of information on market opportunities that have increased their transaction costs, poor transport infrastructure, quality accreditation, lack of skills in dealing with customers, language and culture as well as the legal and bureaucratic issues involved in export (Sharma and Gounder, 2011).

In the study by Storey (2008), these factors were summarized into three type of obstacle, namely:

- (a) The nature of transition: This relates to the fact that the initial decision to venture into the SME business might be fraught with poor appreciation of the complexities, economic conditions and institutional settings and lacking in relevant experience and expertise.
- b) Poverty and low income: The demands of the market and the inconsistency, instability and the macroeconomic policies of the economy had negatively affected the SME development and were responsible for the poverty and low income state. Furthermore, regulations and taxation rules had often been highly unfavourable to SMEs, giving room to tax evasion and regulation avoidance. However, it is possible for governments to address this through inconsistent and predatory measures.
- c) Ignorant decision: On starting a SMEs business, the owners keeps to the decision that he would only rely on funds from immediate relations without availing the opportunities of alternative financial sources that are available. Hence, the lack of credit remains a major obstacle that prevents or slows down the growth and modernization of domestic firms (Storey, 2008).

According to Liedholm *et al* (1998), a lack of forecasting, planning skills and the absence of skilled human resources and poor management practices were some of the non-

financial reasons why small enterprises fail. However, Ligthelm & Cant (2002) identified limited access to financial resources as a major cause of failure. The higher transaction costs of the SMEs have been a major disadvantage in terms of obtaining credit unlike the larger enterprises. Other factors that are affecting SMEs in raising adequate finances include poor management; and improper accounting practices.

There are several ways in which SMEs experience constraints. For example, Ayyagari et al., (2005, 2008) argued that the level of business environment and financial development affects SME growth while Hussein and Demetriades (1996) were of the opinion that the favourable laws protecting property rights, rights of creditors, financial development, favourable legal and regulatory framework, enforcement of contracts and physical infrastructural development do not reduce the constraints on SME growth. In the views of Mambula (2002), the inability of SMEs to attract skilled workers, acquire adequate raw materials, obtain heavy machinery and spare parts, access basic infrastructure in terms of electricity and telecommunication systems, further hindered the realization of the objectives of SMEs. These limitations are obvious because of the advantage possessed by large firms in having easy access to financing, raw materials, high skilled personnel and government procurement contracts (Berger and Udell, 1998; Mambula, 2002; Beck, et al., 2007; Ridenour & Newman, 2008). It is therefore obvious that within the ever changing global business environment, most of the internal and external factors affecting SMEs were due to competition, political, economic, social, technological, environmental and legal factors (Morrison, 2006).

3.4.1 Political and Macroeconomic environment

The development of SMEs requires good functioning financial institutions, fiscal discipline, low inflation and stable macroeconomic conditions (NetRegs, 2009). These

factors are key pre-occupation of governments and so must be the character of any government that seeks to significantly elevate the role of the SME in the development of the State. The instability in the political environment affect the macroeconomic stability with the propensity to destroy SME's prospects of growth (Beck, *et al.*, 2005) and create uncertainty in the protection of property rights (Quader & Abdullah, 2009). According to Cheah and Cheah (2005) the vulnerability of SMEs to the economic crisis has constrained the development process in many developing countries, given their limitations in technological skills, knowledge and financial operations.

The empirical evidence from the study of Ayyagari, *et al.*, (2005), indicated that political instability, crime and corruption are important growth obstacles to firms, particularly in Sub-Saharan Africa and emerging economies. However, the assurance of a stable macro-economy cannot fully realise the SME objectives. Therefore, the provision of an open trade and investment regime and an effective property rights protection framework that governs commercial transactions in the financial sector are fundamental conditions for vibrant private sector development.

Furthermore disproportionate obstacles of the business environment may still pose constraint to the growth and competitiveness of small firms in relation to larger enterprises. In addressing these hurdles therefore, governments need to pay special attention to restrictions on market access, regulations and fee charges which all together add to the fixed costs of doing business (Hallberg, 1998; NetRegs 2009).

In studying constraints faced by SMEs in Islamabad and Rawalpindi region of Pakistan, Sherazi *et al* (2013) used questionnaire survey in 107 SMEs firms and applied a principal component analysis. The result showed that among six major obstacles, "financial constraints" was ranked highest followed by "corruption", "social and technological obstacles, training obstacles, and management and infrastructure obstacles". The implication of the prominence of financial constraints in the study is that banks have not been lending money to the SMEs due to poor documentation of activities by the SMEs. In the same vein, the ranking of Pakistan by the transparency international as one of the most corrupt countries in the world (transparency Intel report 2010, Cited in Sherazi *et al*, 2013) justifies the rating of corruption in their study. This was thus, reflected on the deplorable state of infrastructural development, electricity, water and transportation.

The study did not delve into the causal nature of the variables so that the extent to which one constraint affects the SMEs can be determined. Nonetheless, the location of the SMEs, urban or rural, would determine the level of intensity of the effects of these constraints, especially of infrastructure. According to Macpherson and Holt (2007), geographical location determines the availability of industrial sites, infrastructure, distribution and transport logistics, subcontractors, access to raw materials and skilled labour and ensures the benefit of formal or informal contacts within the areas of location.

3.4.2 Legal and informational infrastructure

The business environment requires a well-developed legal and information infrastructure in order to protect property rights for the effective enforcement of contract matters as the SMEs access external finance (La Porta *et al.*, 1997; Demirguc-kunt and Maksimovic (1998). Through empirical evidence, Beck *et al.*, (2005) showed that SMEs access to external finance as well as transparency is greater in countries where legal enforcement is stronger. Hence, a good credit protection law enhances the availability and accessibility to credit for the private sector.

As a coronary, timely availability of quality information is vital as it helps reduce information asymmetries between lenders and borrowers. Computer technology has improved the amount of credible information to evaluate customer creditworthiness including credit scoring techniques. In this regard, governments can play a significant role in establishing public credit registries to reduce the burden of the initial exorbitant costs for the private sector (NetRegs, 2009). Even at that, governments should also be pivotal in developing the legal frameworks for contract enforcements and protect property rights in order to ensure that necessary incentives and protocol that are favourable for SME development and participation are included in the document (Demirguc-kunt, 2008).

Legal and informational infrastructure remains a challenge to most developing countries. With weak legal and contract enforcement problems, achieving a minimum efficient scale will be difficult. Despite the inherent fragility, governments must be poised to address these within the business environment in a more effectively manner without leaving it to the market operators. The increasing emphasis on the use of appropriate ecofriendly technology for a safe environment had been a concept that had been directed mostly to large firms due to the financial challenges faced by SMEs and the lack of expertise to contribute to the legal frameworks. However, despite their good relationship with local communities and partners, SMEs still have a limited impact on the communities.

3.4.3 Regulation and Supervision

The regulatory stance of governmental provided ample opportunities for governments of developing nations to develop policies aimed at supporting and enhancing the activities of the SMEs so that the cost of doing business is reduced to the barest minimum (Harvie and Lee, 2005). The importance and position of commercial banks as major banking service providers within the economy does not override the role of government as a regulatory agency. However, while most economists agree on the government regulation function, the extent of this involvement has been an active debate (Levine, 2006). At one extreme of the invisible hand, it is believed that the government has

no role in the financial system and that the markets are expected to monitor and discipline financial markets. However, this approach is heavily criticised for not recognizing the place of market failures, which leaves small depositors very vulnerable. The other extreme is a complete interventionist approach where government regulation is considered a solution to market failures (Henningsson, *et al.*, 2004; NetRegs 2009). Again, aligning with the proponents of individualization of markets, government intervention has been fraught with bureaucratic bottlenecks, lack of funds and corruption. Considering the intensity of these factors, government failure may as well be more critical than market failure.

The ability of SMEs to gain a competitive advantage depends on the extent of market knowledge, innovation, prudent investment, business operation, and good management. These qualities can be ensured through regulations and institutional frameworks pioneered through government activities. For instance, even though, the regulatory input of the World Trade Organization (WTO) increases the burden on the SMEs due to lack of the required technical know-how and quality specifications (Lind, 2009), the acquisition of market expertise through these regulations increases their competitiveness, growth and market participation.

Another area of government intervention, which affects the operations of SMEs is the enterprise tax revenue arrangement. Many studies have exposited the various scenarios which are based on social and economic considerations that had influenced government decision to cancel or modify an existing tax structure for the SME (Beres 2012). Despite the various processes and personnel that is required for the preparation of tax allowances, there is need to reduce the complexity of any tax system. The effects of taxation which had had a discouraging effect on SMEs, had been a major policy trust of most governments of the developing economy in order to tactically reduce the overall risks of business activities, shortages of raw materials and the excessive price of inputs for a profitable growth in SMEs (Nichter and Goldmark, 2009). According to Beres (2012) the regulatory framework should include tax allowances to start-up innovative companies, a clarified target of firms and a transparent regulatory framework with less administrative encumbrances. All the factors must be weighed with respect to sectorial and regional differences, and the relative involvement of international partners and research and development.

Meanwhile, consumer behaviors, occasioned by the general awareness due to both technology and globalization, exert pressure on SMEs to constantly adapt to changes in demand. Therefore, there is need for more institutional support and governmental encouragement to promote the benefits of SMEs in the society (Hassan and Agus, 2005).

3.4.4 Financial Constraint

In the study by Mambula (2002), on the growth and performance of SMEs in Nigeria, it was found that 72% of SME respondents reported the lack of financing as a major constraint, 44% reported poor infrastructure, and 41% reported lack of machinery and spare parts and 34% reported difficulty in getting raw materials. The implication is that finance is a major constraint to the development of SMEs. However, in the same study, the response from commercial banks did indicate a different view, laying much emphasis on the institutional capabilities of SMEs to manage loan funds (Henningsson, *et al.*, 2004). This reiterates the problem of information asymmetry and the inevitable position of government in bridging this gap through adequate supply of information to financial institutions and the provision of credit lines. Similarly, in the views of Kappel and Ishengoma (2004) information asymmetries; a situation in which one party in a transaction has more or superior information compared to other, has greatly affected the lending attractiveness of small scale enterprises. This potentially dangerous situation had been to the advantage of banks.

The cost of creating new jobs by the SMEs can be reduced through its labour intensive production and the utilization of basic raw materials. However, in a situation in which the current financial problems and lack of management skills persists, such cost reduction advantage might not be feasible. This emphasizes the fact that government intervention must go beyond regulatory to encompass training on basic management skills needed for strategic decision making. According to the World Bank (2009) reports, the use of appropriate technology helped in the coordination and improvement in the value and quality of products, Hence it had been stated that encouraging the use of current technology through funding and other incentives would encourage the maximization of machinery utility to build up existing capacity and to improve the quality and productivity of production.

The ability of SMEs to increase innovative capability is important if they would continue in existence given the competitive input of globalization. The connection between R & D and innovation and the huge capital requirement was recognized by Mazumdar and page (1987) when he stated that the major hindrances to the growth of SMEs include high interest rates, the precarious nature of the capital market, the managerial behaviours like the drive, imagination, managerial ability and the ambition to grow and develop. This was why Morrison (2006) suggested that a conscious investment in R & D is important to improve their product quality. The study by Sharma and Gounder (2011) confirmed that the effect of financial constraints and lack of interested banks cause major socio–economic disadvantage and affect the economic activities and growth of SMEs.

3.4.5 Institutional Development

In his call for institutional development, Ocampo (2004) argued that a weak institutional development has been directly linked to the institutional deficiency affecting

economies. The overall mission of establishing SMEs demonstrate that they must be strong institutions before they could be able to exploit opportunities in the market. However, it was argued that the institutional development of SMEs had not guaranteed them easy access to finance due to their inability to submit quality feasibility studies or attractive business plan (Yahaya, 1989; Philips, 1988; Tariba and Kayode, 1977). They are thus regarded as high-risk ventures and their loan applications are not backed by adequate collateral. These shortcomings from the SMEs were also highlighted by Rowe (1996).

In a major cross-country survey of SMEs response to the severity of certain obstacles on firm growth and operation conducted by Ayyagari, et al., (2003) under the auspices of World Business Environment Survey (WBES) it was concluded that financing, infrastructure, inflation, political instability, street crime, exchange rate, organized crime, corruption, taxes, regulation, judiciary and anti-competitive practices were major obstacles to the development of SMEs. The implication is that, in countries where there are many constraints to business growth, SMEs would tend to operate in the informal sector due to their inability to overcome these obstacles, most of which are macro-economic in nature (Henningsson, et al., 2004). This association also underscores the importance of access to financial services in the development of the SME sector. Another significant variation in the study is the size and economic activity of the SMEs across income groups. Countries with a higher level of GDP per capita have higher SME sectors in terms of their contribution to GDP and total employment (Ridenour & Newman, 2008). It was also found that the overall contribution of small firms in the formal and informal sectors, remains the same across income groups.

Therefore, as income increases, the share of the informal sector decreases while that of the formal SME sector increases. Furthermore, there was a strong positive correlation between the SME variables and the institutional variables, suggesting that the SMEs perform better in economies with better developed institutions.

Djankov *et al.*, (2003) argued that contract enforcement is important for financial access and other commercial transactions. They argued further that countries with higher costs of dispute resolution have larger informal sectors than countries with relatively lower costs. This is because; most contracts must have been initiated ignorantly without adequate knowledge of the terms of agreement. Thus, an ineffective judicial system is an obstacle to the conversion of informal enterprises into formal ones. This idea is also supported by North (1990) and Berger *et al.*, (2004). There is therefore need for a regulatory and institutional framework that will cover the business activities with a view to protecting the SMEs from their knowledge inefficiency.

In another study by Ayyagari *et al.*, (2003) it was shown that the SME sector only generates 15.56% of total GDP in the low-income group countries compared to 39% in the middle-income group and 51.45% in the high-income group countries. Meanwhile, the contribution by the informal sector is the exact opposite (Ridenour & Newman, 2008). The informal sector SME contributes 47.2% to GDP in the low-income group countries while in the high-income group it contributes only 13%. The implication is that as income increases, there is a marked shift from the informal to the SME sector. It showed that the contribution of SMEs to employment generation is much smaller in the portion of median employment in the low-income countries compared to the high-income countries. In the developing countries of the low and middle-income stratum, the informal sector generates a significantly higher portion of median employment than the SME sector (Henningsson, *et al.*, 2004) For instance, in the low-income countries, while the informal sector generates 29.14% of total employment; the SME sector only generates 17.56%. In stark contrast, at the high-income level, while the informal sector only generates 15.16%, the SME sector
generates 57.24% of the total employment of the country (Ayyagari *et al.*, 2003; Henningsson, *et al.*, 2004). Little wonder that the establishment of SMEs continued to be ready prescription by international institutions in all their partnerships in country development plans.

Beck, *et al.*, (2004), surveyed a sample of over 10,000 firms from 80 countries, to assess the distinguishing features between financially constrained and unconstrained firms, and, more generally, the determinants of financing obstacles of firms. The study found that some groupings are more effective than others, with specific reference to age, size and ownership structures (Ridenour & Newman, 2008). The older, larger and foreign-owned firms were found to report lower financing obstacles than younger, smaller sized and local ownerships. The study also found that there were fewer financing obstacles for firms in countries with higher levels of financial intermediary development system, legal system efficiency and higher GDP per capita. However, when compared to firms in counties with weak financial development, the opposite was the situation. According to Beck (2004), institutions driving both economic and financial development are considered to be the most important country characteristic explaining variation in firms' financing obstacles.

The work of Kuratko and Hodgetts (2004), was centred on the stages of operation, challenges and managerial needs of SMEs instead of suggesting ways of alleviating the problems. In addition, the study did not cover the strategic role of government in boosting SME performance. Although the research results from Abdullah, (1999), and Oyeniyi (2010), supported SMEs national development prospect, vibrancy, offering unlimited opportunities and job creation, they did not touch on SMEs performance and competitiveness (Henningsson, *et al.*, 2004).

It is noted that inadequate technological expertise and doubts about the benefits of e-commerce are major challenges confronting many SMEs in developing countries (Berger, *et al.*, 2001). Consequently, government authorities have therefore taken a direct role in encouraging SMEs to embrace e-commerce to create regional electronic market places (REMs) hoping that this will create a spin off in e-business and contribute to regional economic development. Zimmerman (1998, p.125) aptly defined REM "as a regionally focused virtual marketplace that fulfils both commercial (supply, demand and pricing mechanisms) and communication functions, created in an attempt to accelerate diffusion and acceptance of modern measurement services and applications among participants in a region".

Regional initiatives have also evolved in the processes of SME internationalization. For instance, different obstacles for SME internationalization and exporting has been studied and according to the 2007 OECD-APEC study, four major barriers that are considered to be of serious consequence to SME internationalization were identified. They include 1) Shortage of working capital to finance exports; 2) Identifying foreign business opportunities; 3) Limited information to locate and analyze markets; and 4) Inability to contact potential overseas customers. Subsequent studies identified the gap in the OECD-APEC study and noted that gaps in 'access to a suitable distribution channel' (Rundh, 2007) and 'lack of managerial time, skills and knowledge' (OECD 2009) were important barriers left out. The attraction of skilled labour truly depends on the ability to pay higher salaries, assurance of job security and the provision of a conducive environment for work. These had been observed to be lacking in SME (Holden et al., 2007). Hence, the difficulty to attract skilled workers had affected the extent to which the SMEs will avail the opportunities of the institutional programs that would have helped in improving the quality of production and increased market share.

3.5 Overview of Directorate General for the Development of Small and Medium Enterprises (DGSME)

3.5.1 Operational Framework

The Directorate General for the Development of Small and Medium Enterprises (DGSME) was formed under the Ministry of Commerce and Industry in 2007 with a mandate to offer technical assistance and support the growth of SMEs in the Sultanate. Since establishment, the DGSME has made tremendous efforts to address a wide range of problems that hinder SME development. The programs, through the DGSME are designed to support SMEs across diverse sectors to become important contributors to GDP as well as to the general social development in Oman (DSP, 2010, Oman, 2010).

The government and the public institutions are responsible for legislative action, administrative and regulatory reform, improvement of the judicial system, enforcement Mechanisms, support to institution capacity building program, financing and control. The private sector is responsible for the implementation of capacity building programs in private organizations like banks, BDS, Chambers of Commerce and Industry etc. They will also deliver business development services (training, consulting), co-financing of BDS to SMEs and enterprise financing.

A detailed review on SMEs in the Sultanate shows five major goals for the DGSME, as shown in Figure 3.1.



Figure 3.1: Programmes, Services and Key Activities of DGSME under each Goal (DSP, 2010)

3.5.2 Advisory Assistance

Two major challenges confronting the Sultanate today appear to be the diversification of the economy and creation of employment opportunities. The development of SMEs is an important step to resolve these problems and it required concerted efforts from private and public agencies to develop enterprises and promote industrialization and commerce (DSP, 2010).

Oman has been known as a hub for international trade for many centuries but an entrepreneurial culture had been lacking. This is because, the massive investments in the economy, which should have been a motivation on the citizens towards entrepreneurial activities had not been felt. The DGSME was therefore, mandated to facilitate the development of an entrepreneurial culture in the country. The flowchart in figure 2.4 shows the goals of DGSME of Oman including the advisory role. Although 95% of the current enterprises in Oman are SMEs, their contribution to the overall economy is limited. The DGSME has been concentrating on developing SMEs through various committees that bind

together the different stakeholders for the SME sector. The committees normally discuss the various problems, challenges and opportunities within the SMEs and aim to find workable solutions. These advisory roles had led to the successful interactions and conflict resolutions.

In addition, the DGSME channels its consulting and business support initiatives through the Business Diagnostic Centre (BDC). The BDC, is a joint effort with the Public Establishment of Industrial Estates (PEIE), Oman Chamber of Commerce and Industry (OCCI), Oman Development Bank (ODB).

3.5.3 Financial assistance

The chart in figure 3.1 identifies five main goals of the DGSME ranging from financial and non-financial support to SMEs in Oman and developing a database for future policy direction. It also seeks to develop clustering and linkages (backward and forward linkages) for sharing of information and facilitating the diffusion of knowledge and technologies in the sector. Like most government policy trusts, the principles of the formulations would always have a clear explicit development. However, the political will to ensure that practical approaches that would turn the explicit into workable strategies would be farfetched. The establishment of a special unit, the DGSME, was one way of admitting that there were difficulties in the processes of encouraging SMEs by the government. It must be noted that the establishment of such unit alone would not guarantee a level playing ground for the SMEs, rather the ability for the political class to translate the stated policies into action. The lopsided distribution of finance had been to the detriment of the SMEs.

A major challenge of the DGSME is therefore, to provide some credit access to SMEs. Consequently, the DGSME has formed a committee comprising people from major banks in the Sultanate and is working towards developing a strategy of improving the financing of SMEs. The DGSME also cooperates with the United States Small Business Administration (USSBA) to identify suitable areas for implementation in Oman. The USSBA has a good deal of experience in SME development activities, especially in developing innovative programs to enhance the flow of funds for SMEs (Wincent, J., 2006). These initiatives and partnerships encouraged the extension of credit facilities to numerous SMEs. There was also some monitoring of the use of the funds. However, there is the need to sensitize the populace on the efficacy of entrepreneurial projects and actions. A complacent society may ignorantly remain so if nothing is done to change their psyche. The people of Oman have been spoon fed for a long time due to the strategic reserves of oil which was at their disposal. Therefore, any major change must come with social and political orientation.

3.5.4 Technical assistance

The HR capabilities in the SME sector and their ability to hire and train qualified personnel are also limited. The DGSME provides support in terms of training to existing and potential entrepreneurs through various structured training programs. In 2009, the DGSME conducted 21 training programs including a wide range of topics, such as marketing, finance and general management. This activity is taken up in coordination with the Oman Chamber of Commerce and Industry (OCCI) to ensure active participation from the relevant stakeholders and the programs are conducted in different towns in the various regions to ensure that their efforts reach as many SMEs in the entire Sultanate. To date, about 1,000 existing and potential entrepreneurs have been trained accordingly through such program. However, this is a far cry from the number of registered SME let alone the unregistered. There is the need to seek efforts towards ensuring that all SMEs, no matter the sector, are adequately registered to get a data base that can be used for planning. It is our

view that further decentralization of the DGSME would be necessary for greater coverage given the possible difference in the age of the SMEs, the owners experience and education, cultural and gender implications and other social characteristics that would affect effective delivery of trainings and workshops.

3.5.5 Managerial assistance

The investors program conducted by the DGSME is an annual event in which talented and successful entrepreneurs come to discuss and share their views on the opportunities and challenges in the marketing responsibilities of the SMEs. Management experts are also brought in to enhance the management skills of the participants. This program has succeeded in organizing training and bringing entrepreneurs annually to discuss common issues of interest. However, the effect is yet to be translated into the economy of the larger society. Besides, the published reports of the outcome of the trainings are not available. This unavailability of the outcome might have implication on the overall design which may not have taken cognizance of how to measure the outcomes. The overall business management and entrepreneurship efficiency were targeted to engender adequate decision making and knowledge in the areas of marketing, accounting and finance skills. It is hoped that the results of the impartation of the managerial skills to the SMEs will be translated to an enhanced sales, profit and productivity.

3.5.6 Marketing assistance

The DGSME also organizes the SME Conference and Exhibition annually, which comprises an international conference that focuses on a core theme that is relevant to SMEs in Oman. The conference brings in a panel of experts from different countries to share their knowledge and experience in SME development. It also organizes an exhibition that demonstrates some of the success stories of SMEs in Oman. The exhibition also acts as a platform for the creation and promotion of SMEs and provides business networking opportunities. Given the amount of time and resources expended on bringing SMEs together, there should be a way to ensure that these conferences are not just a routine, but can be monitored to ensure the accomplishment of goals by the participants. The importance of being market oriented with a focus on customer satisfaction should be stressed.

The DGSME also focuses on building the capacities of their officers through collaborated programs conducted by the Japan International Cooperation Agency (JICA), SME Corporation of Malaysia and short-term programs in Europe. In addition, the DGSME also provides regular training for its staff through a retained consultant on the various aspects of marketing. Some of the senior officers in the directorate have visited other countries as part of a delegation and have acquired international SME training expertise. The Sultanate should be able to learn from the experiences of other nations in the implementation of the lessons learned. A more decentralized workshop would ensure better coverage and participation and better monitoring. They must be made to understand that competitions within them are healthy and must be accepted. This should be a cardinal part of their orientation to avoid unwanted conflicts among them.

The sustainable growth of SMEs is underpinned by economic efficiency, ecological compliance and social inclusion. It is known that to be successful, a comprehensive SME development strategy must address all the components of an enabling environment and the market possibilities, which facilitate the growth of SMEs. This strategy also needs to be a comprehensive one because the components are highly complementary. Optimal functioning of market institutions (judiciary, administration, and central bank) are necessary condition for the credit market to operate. An efficient and fair administration is

a prerequisite to ensure that markets are open and competitive. Competitive markets are necessary for the functioning of the credit market. In the case of Oman, such strategies include the building blocks described in Figure 3.2. However, when compared to advanced markets in Europe and America, the relative low level of activity will be experienced in the Oman market. There is therefore the need to start the process of building and enhancing the intuitional capabilities so that the structures for future growth can be appreciated. The need for market orientation is therefore inevitable.



Figure 3.2: SME Development Strategy in the Sultanate of Oman (Oman

Investment Climate Assessment, 2006)

3.5.7 Infrastructural assistance

The several strategies by the government exposited the strong role of the State institutions and the private sector in the implementation of various strategies aimed at enhancing the status of the SMEs. Both must be partners in designing the strategy, building awareness and support among the general public, monitoring and evaluating results and adapting the strategy on the basis of the results that are obtained. These activities follow the initial infrastructural assistance which enabled the financing of the physical development of the SMEs (Factory space & Land). The assistance has also been extended to the subsequent improvements of facilities and provision of other social and institutional infrastructure like the creation of regular meetings and workshops where the SMEs will share and gain experience.

3.6 Critical evaluation of achievements of SMEs programmes in Oman

Implementation by the Government and semi-government sector, private sector and commercial banks of SMEs support programmes in Oman are detailed in this section.

3.6.1 SANAD Programme

SANAD is a government programme under the Ministry of Manpower; it started operations on 23 October 2001. The objective of the SANAD programme is to foster capacity building so the SMEs and potential investors (youths) can have the necessary know-how to access external finance.

The programme strategy involves sensitization, conferences, exhibitions and lectures at colleges and universities across the country to provide guidance, awareness and sponsorship of individual initiatives.

Reports from the management at the Oman Ministry of Manpower (2010) showed that SANAD programme created 28,593 employment opportunities with 7,922 (27.7%) for females. There were sixty-six (66) exhibitions, two hundred and eighty-one (281) lectures, eighty-five (85) workshops, and seventy-five (75). About fourteen thousand and four hundred (14,400) entrepreneurs were trained and qualified in various areas relating to project establishment, development initiative, project management and technical support. The programme has established and supported the expansion of 13,045 firms, 11,499 within protective support (implementation of Omanization Plans), financing of 2,925 projects, in addition to conducting field visits, follow-up support and provision of technical consultancy in order to maintain their continuity and job creation opportunities.

These can be seen as quite laudable given the coverage and finances involved, however, the fact that the beneficiaries will compete within the business environment on the larger society makes them prone to some external factors which can affect their growth and performance. The porter's five forces' competitive strategy can affect them adversely (Porter, 1998). Hence, it is not only imperative to train them; there is need for policy action that will aid their existence within the larger society. The place of regulation is therefore important and should have been considered to run parallel with program.

3.6.2 Agricultural and Fishery Development Fund

The Agricultural and Fishery Development Fund is a project under the Ministry of Agriculture and Fisheries, which started financing SMEs in fisheries and agricultural activities in January 2006 pursuant to Royal Decree No. 48/2004.

The objective of the programme is to conduct research, maintain and develop resources, improve technologies, implement extension programmes and conduct feasibility studies for development and investment programmes. In all a total of 89 agricultural, animal resources and fisheries sector projects were financed and about 56 projects were on going.

3.6.3 Loan Guaranty Programme

This is a new programme under the Ministry of Commerce and Industry, established on 3 October 2011 subject to the agreement made between the Ministry of Commerce and Industry, Oman Arab Bank and Bank Muscat. The programme guarantees loans to SMEs in all economic sectors and ensures that reasonable and sustainable interest rates are charged to make more resources available to the Omani private sector. This is envisaged to promote economic diversification in any oil dominant economy. Supporting self-employment mechanisms and Omani youth empowerment are key objectives of the loan guaranty programme to create employment opportunities for the majority of the active population.

This government initiative in partnering with the banks is in the right direction given the difficulty faced by SMEs in assessing loans due to information asymmetry. It is therefore, important that government ensures that the SMEs learn from the partnership with a view to taken up such initiatives to seek external sources of fund without a third party. This should be achieved by a simultaneous training and capacity building while the partnership is on-going.

3.6.4 RizGh Resources Projects

The RizGh Resources Projects established under the Ministry of Social Development commenced operations in January 2004 pursuant to His Majesty's instructions. Their mission was to enhance income generation and promote better living standards through self-reliant activities.

Under the programme, 517 projects in different economic activities were financed of which 346 projects or (67%) were owned and managed by women. A number of sensitization and training programmes were also carried out to enhance greater impact of financial credit. The capacity building programmes covering various areas benefited 1,194 businesses.

The preference given to women is a welcome development since they are vulnerable in the society. It will be advisable to engage their spouses on the importance of women empowerment so that the sustainability of the program will be guaranteed.

3.6.5 Oman Development Bank

The Oman Development Bank was established by Royal Decree No. 18/97 of 1976. It is a public sector bank under the Ministry of Finance (Oman Development Bank 2010). It started granting loans in 1979 and by November 2011, it had granted a total of 36,282 loans to small businesses. The amount of loan is usually less than (RO.) 50,000.

Generally, the initiatives of respective banks are positive and aimed at increasing the capital requirements of the SMEs. However, given the number of people that require such assistance, the amounts and the budgets are quite inadequate. Besides, the interest rates, even though relatively small due to the fact that it is a public bank, it might still be a source of hindrance to some SME owners. There is need to access the categories of SME, their operational requirements, the capital involved and the type of business when formulating any agreement with the banks. This will ensure adequate understanding of the processes by the beneficiaries. This will help them to be committed to any form of repayment plans.

3.7 Key Achievements of the Private Sector financing of SMEs

3.7.1 Fund for development of youth projects "Sharakah"

The fund for development of youth projects (Youth Fund) was established in 1998 by Royal Decree as a private company dedicated to the promotion, development and finance Small and Medium-Sized Enterprises. In launching the Fund, His Majesty highlighted the main objective of the Fund to encourage the Omani youth to establish SME projects that will enable them build career opportunities and contribute to the growth and development of the industry and the economy as a whole. The fund has assisted in the provision of about 98 jobs, 816 total investments, 41,000 average investments in one project and 8,000 average investments for the individual.

This was a laudable venture. However, there had been no information about the level of growth recorded through the applications of these strategies. There is no doubt that finance was a major constraint facing the SMEs in Oman. However, the provision of these funds must be according to the motivation, interest and business of an individual. When a person is forced to avail the opportunity of the loan for the sake of accessing the fund instead of a sincere investment, then the individual views the whole process as one more way of sharing in the national cake.

3.7.2 GroFin Oman

GroFin structures appropriate solutions for small and medium enterprises through a range of finance instruments. These include any combination of term loans, performance based incentive payments, equity and shareholder loans. The financing amount provided ranges from RO 20,000.00 to RO 380,000.00. By analysing the projected cash flow stream of the business, GroFin will structure a facility to reflect the individual needs of the business. Business proposals will be assessed based on the following essential criteria:

1. Credibility capability, commitment of the entrepreneur and management team.

2. Financial and technical viability of the business.

As a viability-based financier, GroFin considers applications with a lack of sufficient collateral. The availability of collateral, however, will have an influence on the structure of the financial transaction.

One sure problem that might arise of these finance instruments is the ability of the owners to really understand the terms of the agreement. The fact that there was no effort made to educate the participants first on the intricacies of the conditionality and the need to ensure prudence in the use of resources. This might lead to high rate of default. Besides, the no-collateral undertone may still encourage default. Therefore, there is need for adequate sensitization, education and monitoring in order to ensure commitment and sincerity.

3.8 Main Achievements of the Commercial Bank (CBs)

The commercial banks established various programs as their contribution to the economic development of Oman. In doing this, the banks have special Business Banking Units, which helps the SMEs to grow. They provide financial assistance in form of loans, business Finance Solutions and direct Financial Services (Table 2.3).

These banking activities will surely present different variations. There is need for coordination in their activities through the mapping of areas of concentration for each bank. This way, the government will check overlaps and unwanted duplication of services.

The Bank	Credit Given to SMEs			Mechanism of classification for the	
The Dunk	2006	2007	2008	Credit given to SMEs	
Bank Muscat	29	62	99	On the basis of credit that does not exceed RO 250,000 for each company.	
Oman National Bank	7	8	9	On the basis of credit that does not exceed RO 250,000 for each company.	
Oman International Bank	17	17	23	On the basis of credit that does not exceed RO 100,000 for each company.	
Bank Dhofar	70	97	128	On the basis of between OR 150,000 and RO 5 million for each company.	
Oman Arab Bank	332	389	539	On the basis of credit that does not exceed RO 500,000 for each company.	
Bank Sohar	-	6	13	On the basis of the number of employees	
HSBC Bank	13	12	15	On the basis of the number of employees	
Oman Development Bank	22	19	26	On the basis of credit that does not exceed RO 250,000 for each company.	

Table: 3.4: Directory of financial Service Provided by Banks to SMEs in Oman

Source: CBO (2008)

3.9 Challenges in Developing SMEs in the Sultanate of Oman

According to the strategy of Oman Investment Climate Assessment (2006), the Omani economy, like many emerging economies, faces challenges to create jobs and improve the wellbeing of its population in the non-hydrocarbon economy in order to absorb an increasing number of new graduates in the job market. Most of the job seekers cannot find such opportunities in the public sector. SME development remains the key policy objective of the Oman Government to diversify the economy and create jobs for its rapidly growing labour force. In this direction, it has initiated trade liberalisation to attract foreign direct investment and structural reforms including privatisation with the hope of achieving a positive impact on SME development. However, the performance of the Omani SME sector is still below its potential. The weakness in private sector growth is largely due to structural problems that can be related to the following areas:

- i. The administrative bureaucracies that impose barriers to entry and growth. The judicial, regulatory role of the State in ensuring a level playing field among businesses and enforcing adequate competition legislation remains ineffective. The inefficiencies in institutions, the State's lack of a clear strategy in the SME sector coupled with weak coordination, remains a misfit in the comprehensive approach. In addition, the overall strategy appears uncoordinated. The policy relies heavily on financial incentives (soft loans) but fails to address the issues of human resource development and business development services. The need for institutional building to adequately educate the SMEs on the initiatives, intricacies and processes cannot be over emphasized.
- ii. Lack of entrepreneurship, skills of labour force and access of enterprises to business services remains a bottleneck in SME growth. Insufficient incentives for Omanis to take the necessary risks in entrepreneurship career, as, undoubtedly, foreign expatriates have taken over most of the private sector jobs. There is also a low quality supply of business services as well as the unwillingness of SMEs to pay for such services (Johanson & Vahlne, 1977; Ahlström-Söderling, 2003; Tim, & Brinkerhoff, 2008). A social orientation is therefore inevitable. This will ensure that the inner motivation of the people is awakened to be able to possess the proactiveness, flexibility and innovativeness of entrepreneurs.
- iii. The finance, capital and credit markets for SMEs are inefficient in Oman. On the demand side, the quality of projects remains weak. Entrepreneurs lack business skills and have no relevant business development services to support investors and existing

firms through training and consulting. The monitoring of projects will go together with rendering advice on possible ways out of difficulties, a change of strategy and the ability to adapt to a new economic reality. For a sustained initiative, the processes of training them must be on-going so that over time, they will be grounded in decisions and risk taking.

- iv. With large margins in consumer lending, the corporate sector and government bonds and commercial banks have no incentive to enter the SME market. Public programmes to address this vital market are ineffective and venture capital is mainly absent.
- v. In the financial markets in which credit information is not reliable or readily available, collateral legislation is not appropriate and the judicial system is too slow to make recoveries of loans. These frustrate the financing of SMEs. This therefore reiterates the need for sensitization so that individuals are self-motivated and made to appreciate his new status. This will lead to reduced rate of default.
- vi. Beyond the contents of the programmes, the institutional arrangements for implementation of government policy are moderate. There are many actors with no institution in charge of coordination. The policy design and implementation are shared among too many public sector agencies, making the entire program susceptible to fraud and duplicity. Another major flaw is the direct involvement of public administration at the implementation level. For example, the SANAD programme is managed directly from the MMP. Also the inter-ministerial committee comprising the representatives of six ministries and ODB evaluates applications for soft loans above RO250,000 (Wattana, 2003; Rasiah, Kong, & Vinanchiarachi, 2011). These initiatives do not belong to the public administration. Private sector participation in designing and implementing SME development policy and strategy has been extremely limited. This is a major constraint. The private sector should be given a major role in the system to

better ensure that the policy, strategy and methods applied are best suited to the needs of the enterprises. Whatever the choice, a significant effort will be required to create an institutional framework that is presently inadequate (Zahra, & Nielsen, 2002). The expanded role for the private sector will make the government monitoring efforts more emphatic to guide against corruption and wasteful expenditure.

3.10 Role of Organizational Culture in SME

It has been noted that the formation of organizational culture encourages the adoption of flexibility in organizational aims. The concept of organizational culture theories affects the functioning of the modern-day organization; influencing the social atmosphere of the organization. The concept sees the firm as social forms which involve employees who must apply their skills to meet strategic organizational goal (Aniszewska, 2007). The idea that small businesses have special distinguishing characteristics has been recognized in literature (Lachiewicz and Załęczny, 2003). These characteristics which include owner freedom, flexibility, strong position, limited resources and independence can influence the organizational culture. According to Griffin (2002, p. 178) "organizational culture is the set of values, beliefs, behaviour's, traditions and attitudes which allows members of an organization to understand the organization's mission, how it works and what it considers important". The fact that culture presented in an organization can be in both homogeneous and heterogeneous forms makes it an important aspect of management as it strives to create the cultural systems within the organization. (Stańczyk 2008). It therefore, involves abilities and attitudes behaviours of the firm members. (Morgan & Wiankowska-Ladyka, 2002) and its complexity is often used in knowing the effectiveness of the organizational achievements (Sikorski 2002).

Many approaches have been recognized in management literature on the explanation of organizational culture. They include the symbolic and interpretive approach (Glińska-Neweś, 2010); the specification that organizational cultures could be positive and negative, introvertic and extrovertic (Stańczyk, 2008) and Hofstede's (2007) cultural dimensions. Other models include Trompenaars and Turner's (2000) classification which distinguishes organizational cultures on the basis of universalism and particularism; analysis and synthesis; and the two-dimensional models by Harrison (1972).

In describing the organizational culture of small companies, the model by Sikorski (2002) identified that the inter-relationships among the organization members and the attitude towards cultural dissonance were the two important factors of consideration. It was therefore based on this premise that four organizational culture types were exposited, namely: "domination, adaptation, cooperation and competitiveness culture (Sikorski, 2002, p. 30-154).

As SMEs develop and grow, they often endeavour to include the strategy of internationalization as a way of expansion. Even though this opens new markets and improves their overall earnings, they have to meet the challenges posed by such a move, especially the cross-cultural considerations.

Cross-cultural competence, therefore, provides the rationale for a conscious consideration of international orientation as an important aspect of international business activities. It is important to understand the various cultural challenges that accompany the internationalization process (Weber, 2005) and the ability of individuals in an SME to understand cultural differences and behave accordingly so that the 'individual's effectiveness' can be drawn from a set of knowledge, skills, and personal attributes as they mix with people from different national cultural backgrounds at home or abroad (Weber, 2004).

93

Furthermore, cross-cultural communication competence is an important aspect of cross-cultural competence that may be difficult for the SMEs due to the financial requirements to achieve it. The intricacies of intercultural communication possess major challenge when conducting international business activities. The effects are obvious in the processes of making use of foreign languages during phone calls, letters or visits from or to (potential) foreign customers and cooperation partners, visiting industry fairs, and participating in international project tenders. The deployment of this expertise is easy for larger firms. However, due to financial constraints most SMEs cannot afford to employ specialists with specific language skills, or send employees to language and/or intercultural communication trainings. Thus, this constraint will prevent the quest for internationalization.

In a study by Klat and Matejun (2012), in which questionnaire instrument was used in a survey of 30 owners and employees of four different small enterprises, four variables of culture was used namely, cooperation, adaptation, competition and domination in line with Sikorski (2002). It was concluded that the owners applied openness, flexibility, entrepreneurship and specific social relations to ensure the integration of staff as issue arose. It has been noted that organizational culture engendered integration, commitment, common language and offers safety of affiliation. However, given the fact that the employees think that they do not always understand the current issue, it was imperative that the owners must focus on actions aimed at ensuring the understanding of the mission and long-term goals of their enterprises. Culture therefore, is an important aspect of SME administration and it continues to be of cardinal consideration as the SME develops through the characteristic innovative and flexible dispositions.

3.11 SME Performance in Developing Countries

SME performance depends largely on how the growth constraints highlighted in 3.4 above are counterbalanced by the government assistance. It is obvious that with the absence of government assistance, these operational constraints will prevent the SMEs from achieving the objectives and contributions to the economy (Beck *et al.*, 2004), Ayyagari *et al.*, 2005; Mambula, 2002). Most SMEs are seen as incidental establishments; born out of circumstances and these credentials have made them unable to exploit the opportunities in the markets (Mead & Liedholm, 1998; Henningsson, *et al.*, 2004).

The performance and development of SMEs across the globe have been attracting great interest among development economists, governments, venture capitalists, financial institutions and non-governmental organizations (Humphrey, 2003). Scholars have been keen to determine the contributions of the SMEs to economic development and in particular, job creation (Ridenour & Newman, 2008). The expectations have been that SMEs in developing nations should be able to replicate the advantages and contributions that have been achieved in developed nations in terms of employment, poverty alleviation and ownership of productive sectors. However, due to the informal nature, most national statistics and other socio-economic indicators in developing nations do not fully include the importance of SMEs. If this trend is addressed, more establishments can easily be pursued through the expanded awareness.

The recognition that SMEs and other entrepreneurial institutions are among the key drivers for most developing economies was corroborated in the works of Wolff and Pett (2006) who argued that high levels of performance can facilitate institutional growth, employment gains and contribute to the general economic health of countries. In the same vein, it is also true that low performance may affect the growth of enterprises with negative economic consequences. This vulnerability to distress and subsequent failure as the SMEs

compete in the volatile business environment lends credence to the prioritization of strategies so that a better understanding of the challenges faced by SMEs can be appreciated with a view to improving their efficiency (Wolff and Pett, 2006; Ridenour & Newman, 2008).

Several strategies have been applied by SMEs in order to improve their performance in line with stated objectives. For instance, SMEs are able to develop new products and make product improvement through imitation, learning, adopting innovations and taking advantage of the network of government sponsored related research, development and innovation initiatives (Romano, 1990). These dispositions and enabling environment helps the SMEs to gain market leadership, increase sales and maintain sustained competitive advantage (Iansiti, 1995). As a consequence, there will be a boost in the market share, customer outreach and creation of new markets for the firm (Zahra and Nielsen, 2002; Fanshawe, 2000).

The basic microeconomic theory suggests that for firms to grow and achieve optimal size or minimum efficient scale, they must have sustainable operational capabilities and the potential to grow (Covin and Covin, 1990). This theory must be applied by SMEs in view of their financial disposition. Thus, within the limits of their resource constraints, they may seek to achieve optimal productivity by ensuring the efficient use of the resources they possess. This will further safeguard them from the disadvantage of small size which has caused "institutional isolation" around them (Ayyagari, 2005; Fanshawe, 2000).

The role of government policy intervention in the provision of a healthy and enabling business environment for the smooth running of SMEs has been stressed (Marczyk, DeMatteo, & Festinger, 2005). However, instituting an enabling environment is a long-term goal that requires close cooperation among private sector, governments, international development agencies and other stakeholders. It is expected that government's strong commitment to this goal should involve the provision of technical assistance and regulatory mechanism to support efforts of the international bodies (Humphrey, 2003; Fanshawe, 2000).

The strategic importance of SMEs in national economic development programs is widely recognised in many countries and it had continued to occupy a prominent position in the scheme of economic development (Abdullah, 1999). In supporting this view, Oyeniyi (2010, p. 211), stated thus:

The growth of most economies depends essentially on the vibrancy of the entrepreneurship, Entrepreneurship has been found to create employment, offering unlimited opportunities to the people, development of pool of skilled and semi-skilled workers and helping them to generate income.

Meanwhile, Chen, (2007) pointed out that most industrial nations were built by entrepreneurial individuals who started their business ventures through sole proprietorship or SMEs. Hence, the SMEs are the engine of growth and continues to play crucial role in the economy (Marczyk, DeMatteo, & Festinger, 2005;Kropp, *et al.*, 2006). The promotion of SMEs by governments is therefore, one of the best strategies in economic development and product and market development strategies remains important in achieving organizational growth. When this is applied, performance is attainable to produce significant economic benefits relative to large firms in terms of job creation, flexibility and supporting large enterprises in subcontracting to small firms (Kazem & van der Heijden, 2006 ; Hallberg, 1998).

According to Shafeek (2006), advances in information, communication and technologies (ICTs) and a reduction in trade barriers have created greater opportunities for global trade to the extent that SMEs stand to gain from participation in the global market place (Alvarez, 1999, Cited in Shafeek, 2006). Government support in the provision of the

enabling environment is essential but SMEs must also thrive to participate fully in global value chains to add value, create wealth and adapt innovations and technologies for development (Nieman *et al.*, 2003, cited in Shafeek (2006).

SME clusters are seedbed of industrialisation in most developing countries, operating to improve the competitiveness within the regional and global economies. Clusters and networks of enterprises offer important advantages to SMEs, allowing them to achieve collective dynamic competitiveness. These supportive institutional settings provide the appropriate framework for government intervention by supporting the institutions and groups (Asian Development Bank, 2002). Traditionally, SME support policies were designed to provide support to small enterprises in order to bridge income inequalities and reduce poverty and unemployment. By extension, they aim to promote a thriving private sector and secure more sustainable growth of SMEs (Fanshawe, 2000; Marczyk, DeMatteo, & Festinger, 2005).

Recent literature on competition is based increasingly on flexibility along the production processes and governed by product-led competition, sustained innovation and innovative technologies. These engender knowledge-intensive activities that are embedded in the design and quality control. It also promotes a management system that is based on teamwork, good working conditions, and a cooperative inter-firm infrastructure (OECD 1999; Karikomi, 1998). In line with the knowledge intensive nature, SMEs can move from marginalization to a more competitive state of greater efficiencies in production, by adapting to the new requirements of the market; acquire the needed skills and knowledge; introduce innovative changes to their products and processes; restructure their operations; upgrade their technology; improve working conditions; and charge affordable competitive prices (Culkin, & Smith, 2000). Several studies agreed with these strategies as ways to

sustain the competitiveness in of SMEs in the current global knowledge economy (Marczyk, DeMatteo, & Festinger, 2005).

Many countries have in the past taken measures to promote SMEs, with the provision of incentives and inducements to encourage large-scale and multinational corporations to foster alignments with small firms through forward and backward linkages (Wattana, 2002). However, there is the need for governments to take cognizance of the significant differences in SMEs capabilities and competitiveness across economies. In line with this, prioritization will enable a keen focus on key sectors and industries, such as business enterprise development and joint support. By so doing, they are encouraged to be innovative, efficient, growth-oriented, outward looking, learning-capable and linkage-ready (Marczyk, DeMatteo, & Festinger, 2005). Furthermore, the implementation of these strategies should be adequately monitored and the whole protocol may include a periodic policy intervention to ensure that the SMEs have focused and sustained managerial capabilities (Wattana, 2002).

3.11.1 Performance measures

Performance measures are quantitative or qualitative ways in which a business can be considered so that it can monitored for its achievement in relation to the objectives of the business. Hence, performance measurement strategy must be in line with goals of the business (Hudson *et al*, 2001). Hence, performance archetype has been an important dependent variable of interest in the strategic management literatures (Eisenhardt and Zbaracki 1992; Wolff and Pett, 2006). Efforts at explaining firm performance has continued based on the earlier theories articulated based on diversification (Porter, 1985) and resource-based view (Barney, 1991). The understanding of the dynamics of the performance of firms is important for the improvement of firms' efficacy for some desirable outcomes related to economic development, growth, and resilience (Wolff and Pett 2006). Carton & Hofer (2010) argued that financial performance is itself multidimensional construct, and evidence is provided to support the notion. Growth and profitability have been empirically shown to be distinct and varying elements of performance

Several studies have recognized that the sensitive nature of performance has been responsible for the preponderance of the various measures applied in literature (Pett *et al*, 2013). Performance has been measured in different ways by different researchers (Minari and Minari, 2010).One of the reasons is that SME firms are often reluctant to provide specific information regarding performance. That was why, Murphy *et al*, (1996) suggested that the measurement of firms' performance should always clearly indicate the dimensions of performance that is being investigated.

In the study of CiszewskMinari and Minari (2010) regarding the relationship between the firm's internationalization and performance, the findings of their study are mixed with respect to different performance dimensions they employed (efficiency, profitability and growth). The constructs for efficiency were return on equity (roe) and value added per employee (va/empl). Growth was measured by change in sales and change in the number of employees. Profitability was captured by return on sales (ros) and return on assets (roa).

Other studies on firm performance applied a categorical approach in order to assess managerial perceptions (Chandler and Hanks 1994; Zahra & George 1999). This involved the use the comparison with similar firms on a 5-point likert scale. In these studies, respondents were asked to compare their firm to the industry for growth in gross profit over the past three years; average gross profit over the past three years; and average after-tax return on sales over the past three years. These values represented the firm's "profitability"

100

and this was a representation of the firm's performance. The study by Wolff and Pett (2006) examined factors contributing to institutional performance by looking at two main factors of entrepreneurial SMEs – innovative position and the propensity to internationalise. These were studied in conjunction with two main contextual variables environmental hostility and size of the institutions.

It has been noted that the difficulty in measuring SME performance had also hinged on its private ownership which reduces the willingness to produce information relating to their finances (Brouthersand Nakos, 2005). Therefore in the study of Sousa and Bradley (2009) the measures for export performance were three items: market share, overall satisfaction, and how competitors rate the firm's export performance. The first two items have been used frequently in previous studies (Cadogan *et al.*, 2002; Dhanaraj and Beamish, 2003) and the third item was adopted from Cavusgil and Zou (1994) and Styles (1998). In their study the control variables were size and age of the firm, and the firm's foreign market coverage.

Researchers are of the opinion that the entrepreneurial/managerial resources are lacking in most SMEs across the world and is responsible for the reduced quest for internationalization. (Ruzzier *et al.*, 2007;Borchert and Ibeh, 2008). In proffering solution for this shortage, governments have come up with assisted programs with a view to building capacity of the SME owners in this direction as part of the human resource initiatives. Previous studies in this dimension have been on the impact of export assistance programs on firm export performance (Kotabe and Czinkota, 1992) and effect on export performance (Francisand Collins-Dodd, 2004).

In the study of Lages and Montgomery (2005) export performance was evaluated based on the impact of export assistance on annual export performance improvement. The non-significant result led to the conclusion that there was a negative indirect effect through the export pricing strategy adaptation. Moreover, it revealed the complex nature of the measurement of performance which has been recognized in many studies (Shamsuddoha *et al*, 2009). It is worthy to note that, the gap in their study was the application of a simple model in the explanation of export performance. Drawing from the lessons from the gap, the study by Shamsuddoha *et al* (2009) investigated the direct and indirect impact of SMEs' usage of export assistance on their internationalization success. In their framework, they used market development-related, finance-related and guarantee-related assistance on the firm's export performance. The study confirmed that the use of export market development-related assistance such as export market information through trade missions, trade fairs, export workshops and seminars, overseas training programs on product development and marketing helps overcome SME managers' mental barriers and develop positive attitudes toward international marketing activities. They further observed that this transfer of expertise to employees helped in the formulation and implementation of export strategy to achieve better performance in their internationalization program.

Innovation has been discussed in terms of development of a new product and as "the successful implementation of creative ideas" (Amabile, 1996, p.1,Cited in Welsch, *et al*, 2013).Most often, smaller firms leverage on the stability of larger companies to be creative and innovative. This is because the partnership would make the small firms to be proactive in meeting the demands of best practices from the larger company. For example, P&G's 'open innovation' program made the managers to evolve new approaches to meet the challenges within the company (Council on Competitiveness, 2007).In investigating the relationship between SME innovation, growth intentions and performance of small firms, Welsch *et al*, (2013) used innovation as the dependent variable and examining whether SME growth intention or past performance leads to increased innovation. According to Welsch *et al*, (2013) the recognition that creativity is a measure of the innovative capacity

was responsible for the inclusion of the overall firm creativity (innovativeness) as the dependent variable. Innovation was measure with NPD, knowledge, willingness to take new opportunities and creativity while performance was measured with: profitability, ROI, number of employees, revenues. Even though they recognized that these measures had their strengths and weaknesses (Verhees, and Meulenberg, 2004), subjective performance measures were utilized, indicating the perceptions of performance goals with regard to sales, growth, compared to competitors and an overall evaluation of performance.

Growth intentions and innovation can contribute to SME outcomes suggesting that it is important to understand the relationships between these two factors. Innovation in the SME sector has important implications for policy-makers, business analysts and other users interested in the growth and performance of SMEs. The study by Cho & Pucik (2005) used innovation and growth as they explored the creation of new markets and opportunities and the increase in consumer willingness to pay more for added product benefits and features. Hence, Welsch *et al*, (2013) represented growth intention with three constructs namely; increased production, opening new locations and introducing new products/services.

3.11.2 Productivity

Productivity is a measure of the output in relation to the input. On a broader term, productivity is connected to a country's gross domestic product (GDP) and therefore measures how a country is growing economically. As a measure of productivity, GDP is the output per hour worked or output per employee (OECD, 2010). That is amount of GDP divided by the amount of time spent. It is believed that number of hours worked is a better measure of input. This is because head count alone misses out the self-employed and the variations of working hours (Freeman 2008). It therefore measures the standard of living. In other words, it is an economic indicator for how competing an economy is and its dynamic

growth (Freeman 2008). More specifically, labour productivity measures the goods produced in relation to the amount of time spent in producing it.

Labour productivity = volume measure of output / measure of labour input used.

Volume of output = goods and services produced by employees.

Labour input = number of hours spent producing it by all in the employment or number of employed (head count).

According to Freeman, (2008) capital productivity is measured in terms of the capital stock and it is the ratio between output and capital input. Capital productivity is therefore a passive or estimated measure while rate of return to capital is the capital income of the value of capital stock (OECD, 2004). This involves the calculation of wear and tear, rental. However, it is noted that the price of capital asses can be the rental price. Rental price is calculated as the user cost of capital. That is by using the implied rent that an owner pays himself (Dirk & Paul, 2004).

Labour and capital has been used in the calculation of productivity (OECD, 2010). According to OECD (2010) productivity helps to measure competitiveness, modelling how a country or organization is using its workforce, the position in overall business cycle and assessment of demand and inflation (Ahmad *et al*, 2003).

It is worth noting that the calculation is important to also measure changes in average product produced and this most often showed that the perceived linear relationship between total product and number of workers (or the number of hours put in) may not always be linear (Saari, 2006) It is therefore helpful in view of ensuring that production is maximized instead of having workers that are not doing anything while production process is on.

Productivity in term of labour and capital can be influence by the introduction of more technology to give rise to total factor productivity (TFP) Total factor productivity is

104

the aggregate of knowledge and technical change and it measure multiple constructs instead of using single parameter like labour or capital (Ahmed, 2011). However, multi factor productivity is given by the ratio of output and total labour and capital MFP = Q/f (L.C). In this study, the MFP is used as the overall productivity (table 3.5).

Types of input measures								
Types of output measure	Labour	Capital	Capital & Labour	Capital, labour & intermediate inputs(energy, materials, services				
Gross output	Labour productivity (based on gross output)	Capital productivity (based on gross output)	Capital-labour MFP(based on, gross output)	KLEMS multi- factor productivity				
Value-added	Labour productivity (based on value added)	Capital productivity 9based on value added)	Capital-labour MFP (based on value-added)	-				
-	Single factor meas	productivity sures	Multi-factor productivity (MFP) measures					

Table 3.5: Productivity measures

Source: (Schreyer, 2005)

The importance of small businesses in the economic growth of a country has been emphasized (Graig and Hardec, 2004). However, the precarious nature of the sources of funds for small business and the increasing competition and regulations within the macroeconomic spheres of a developing country negatively affects the ability of most small businesses to access financial aids in cause of business. For instance, policy moves like mergers and consolidations often jeopardize the existence of smaller financial bodies which form the major source of fund of SMEs (Iloh *et al*, 2013). According to Graig and Hardec (2004), these effects not only reduced access to finance, it also had far reaching effects on the productivity and the ability of SMEs to be instrument of employment generation. Furthermore, Strahan and Weston (1996), argued that such strategies at the macro level of the economy might destroy the relationships created by managers of the SMEs with which they had leveraged on to access loans. This therefore calls for government attention and proactive intervention in the form of streamlining the processes of loan acquisition for transparency and easy accessibility. In doing this, the perceived failures and crisis within the banking sector due to some strategic initiatives would be averted (Adegbaju and Olokoyo, 2008).

The SMEs' capital structure and the variations between industries had been found to be strongly correlated with the knowledge intensity of the firm (Sogorb-Mira, 2005). However, according to Thornhill, *et al* (2004) the effect of the growth histories were not quite obvious in the relationship as a determinant of financial structure. In another study, Garcıa-Teruel and Martınez-Solano (2008) noted smaller firms with more investment opportunities and risky activities possess a larger proportion of liquid financial structure that determined their cash levels.

The issue of raising capital that will ensure the effective participation of SMEs in the larger economic environment remains a palpable problem. The limited information on activities within the frameworks of SMEs had been a hindrance to the active participation of banks and other financial institutions in the affairs. However, some strategies have evolved to encourage the build-up of information and financial relationships with banks in order to reduce the gap and information asymmetry about the bank debt maturity and the lending relationship. The study by Hernández-Cánovas and Koëter-Kant (2008) had noted close firm-bank relationships increased the likelihood of obtaining longer-term bank loans. However, in their study, it was noted that this situation was so because such characteristics like the size, age, debt and financial situation of the firm were controlled. Meanwhile, it was also observed that country-specific factors are important in the relationship. Overall, Ozkan and Ozkan (2004) argue that a good relationship helped in accessing of external funds. On the contrary, corruption, financial and legal underdevelopment weakens relationships and the growth processes of SMEs (Beck *et al*, 2005).

In economics, the Cobb-Douglas Production is widely used to represent the relationship of an output to inputs. It was proposed by Knut Wicksell (1851-1926), and tested against statistical evidence by Charles Cobb and Paul Douglas in 1900-1928.

For production, the function is

$$\mathbf{Y} = \mathbf{A}\mathbf{L}^{\alpha}\mathbf{K}^{\beta},$$

where:

- Y = total production (the monetary value of all goods produced in a year)
- L = labour input
- K = capital input
- A = total factor productivity

• α and β are the output elasticities of labour and capital, respectively. These values are constants determined by available technology.

The above equation represents total output (Y) as a function of total-factor productivity (A), capital input (K), labour input (L), and the two inputs' respective shares of output (α is the capital input share of contribution). An increase in either A, K and L will lead to an increase in output. While capital and labour input are tangible, total-factor productivity appears to be more intangible as it can ranch from technology to knowledge of worker (human capital). The reason why Cobb-Douglas equation is used in this function is because it exhibits constant return to scale. That is, if we double input, we get a double output.

$$\mathbf{Y} = \mathbf{A} \mathbf{x} \mathbf{K}^{\alpha} \mathbf{x} \mathbf{L}^{1 - \alpha}$$

Therefore, of the two components of total factor productivity, technology growth has more influence on economic growth than efficiency. Hence, total factor productivity is seen as the real driver of growth within an economy while labour and investment are important contributors.

3.11.3 SMEs Growth

Through the expositions on the earlier works on business growth in economics (Johns *et al*, 1989; Acs and Audretsch, 1990; Reid, 1993; Acs, 1995) to the later works explaining the growth process of SMEs (Hanks *et al*, 1993&Holmes & Zimmer, 1994); there had been significant quest in the explanation of the dynamism in the growth in SMEs as a phenomenon that are diversified through several disciplines with diverse explanations that covers the respective peculiarities (Birley & Westhead, 1990).

In trying to explain SME growth, the conceptual frameworks of O'Farrell & Hitchens (1988) classified business growth theories into four main groups. First, static equilibrium theory are concerned with the attainment of economies of scale and minimisation of long-run unit costs (Perry, 1982; O'Farrell & Hitchens, 1988). Second, stochastic models of firm growth, while not comprised of a dominant theory, posit that many factors affect growth and that business growth rates are independent of enterprise size (O'Farrell & Hitchens, 1988). Third, strategic management perspectives on SME growth have focused attention on the strategic dimension of achieving sustained growth through managerial actions (O'Farrell & Hitchens, 1988; Hay & Kamshad, 1994). The fourth theory involves enterprise life-cycle as an explanatory device enabling researchers and policy-makers to explain the growth in SMEs. From these theories, more critical contemporary theories have emerged through modifications and extension of theories that have taken
cognisance of the realities faced by SMEs (Gibb & Davies, 1991) and some liberal undertones enabling in-depth explanations of the components.

The shortfalls in the explanations of SME growth through industrial economics and stochastic theories has been recognized by policy-makers and researchers. However, the strategic management perspectives on growth recognized that SMEs must be managed in a holistic manner for development (Gibb & Scott, 1985, 1986) given credence to their management style and crisis management on a day-to-day basis for a long-term vision and strategic initiatives towards the SME growth. This also recognizes the fact not all SME managers are entrepreneurs.

Two schools of thought explained the firm's growth in SMEs. They include the place of the size and growth of the enterprises and the place of the firm's organization, strategies and other entrepreneur's characteristics of managers or owners. In the views of Evans (1987), the growth of a small firm decreases with firm size and age. However, it has been observed that there are other factors based on an organization's characteristics that also affect the growth such as the indebtedness (Heshmati, 2001) and external finance (Becchetti and Trovato, 2002) cash flow (Elston, 2002) and turnover growth (Morone and Testa, 2008). Meanwhile marketing innovation was found to have little effect on growth.

Structural dimensions include structural form, formalisation, centralisation, vertical differentiation, and number of organisational levels. Hanks *et al.* (1993) further describe the various development configurations or stages in their taxonomic life-cycle model which include Start-up, Expansion, maturity and diversification. Several factors distinguish large firms from SMEs in terms of the determinants of growth because the specific environment, structure, decision and strategy differ as well as fundamental flexibility, market disposition and orientation and closeness to the market (Raymond *et al*, 2005) and innovation (Markovics, 2005; Lesáková, 2009).

In analysing the growth of SMEs, some researchers have used the framework of growth-size-profitability relationships which encompasses the relationship between the growth and the financial structure of organizations. However, the inequality in access to funds affects the decision of managers towards investment options that would invariable affect the firm's growth (Mateev and Anastasov, 2010). The financial needs of SMEs change as the business grows, gains further experience, and become less informational opaque. During these phases the options for sourcing finance also changes (Kira & He, 2012). According to Kira (2013), the firm's growth cycle model may not be applicable to all small businesses because some of the constructs within it are related to the ways and manner in which a firm attracts funding. Besides this, the firm's size, age, and other information are relevant to its overall interpretation. Hence, it is obvious that such information might be farfetched in the SMEs businesses.

According to Audretsch and Elston (2002) limited access to finance is more pronounced in cases of small sized firms. However, the argument by Fazzari *et al.* (1988) emphasized that the link between financial constraints and investment was responsible for the variation between firms on the effects of a reduced finance from the capital market. Meanwhile, Wagenvoort (2003) used financial data from more than 200,000 European manufacturing and construction firms, and concluded that SMEs in Europe had a reduced growth due to a structural finance problem and further noted that this was more pronounced because they suffered more financial constraints when compared to large enterprises. The effect of financial constraints had been corroborated in previous empirical studies (Becchetti and Trovato, 2002; Robert & Bruce, 2002). The implication was that if a minimum efficiency of scale was to be achieved, the constraints of finance remained palpable. Therefore, in situations of economic crisis, there is a greater need for an inward strategy to raise funds instead of through external sources. In that way, several advantages could accrue to the business. For instance, Sarno (2008) noted that among other advantages, the firm will avoid the complexities and difficulties that go with external borrowing and reap the growth costs with the reduced cost of internal sources.

Even though in the large organizations, funds can still be attracted despite a huge debt profile, the SME's can only access loans through a conscious maintenance of relationships with banks. The growth of a firm is linked to its innovative ability and a general entrepreneurial orientation (Lumpkin and Dess, 2001; Wiklund and Shepherd, 2005). Thus, the flexibility with which an entrepreneur approaches the firm increases the decisions with a positive effect on the product and business life model of the organization and overall strategic response to market forces (Wiklund *et al*, 2009). In a related study, Moreno and Casillas (2008) noted that a more complex positive relationship existed between growth and entrepreneurial orientation (EO) and a skewing towards the accelerated action of innovation. The study by Freel and Robson (2004) observed that even though a positive relationship exists between novel product innovation and growth in employment, there was a negative relationship between product innovation and growth in sales or productivity in manufacturing sector.

The increasing growth of SMEs have continued with the considerable interest to identify distinguishing features between successful and less successful firms as governments and other international bodies evolve more strategies towards small firm development and growth processes(Turok, 1991, Cited in Mateev and Anastasov, 2010).In a recent study by Mateev and Anastasov (2010) it was recognized that the impact of firm-specific characteristics of age, size, internal finance, capital structure, growth opportunities, liquidity and factor productivity on the growth of SMEs is related to the traditional determinant of size, the financial structure and productivity. It was further affirmed that the involvement of SMEs in R & D limited the growth in the short term. However, they also

concluded that while their study corroborated previous research on the fact that the firm's size was a measured of its total assets, the availability of internally generated fund through sales and some external inputs helps accelerated growth in SMEs.

The findings of Mateev and Anastasov (2010) surprisingly found that there was a negative impact of short-term liquidity on growth in both sales revenues and assets. Therefore by implication, firms with better investment opportunities may maintain lower liquidity in order to support their current growth. The positive association of capital and labour productivity with the firm growth (both in sales and assets) implied that factors of productivity will generate larger growth in these firms. Meanwhile, contrary to some previous empirical studies, Mateev and Anastasov (2010) were of the opinion that age of the business and the sector a firm operates in have no significant impact on firm growth.

In a study by Rosli and Robek (2013) it was concluded that in SMEs, product innovation and process innovation influenced firm performance and they recognized that through the theoretical basis for innovation and entrepreneurial activities, a move towards innovation helps in reducing the risk in approaching the turbulent business environment within the global competition.

The study by Karda (2012) concluded that scarcity of capital was a great hindrance to the growth of the SME sector. It was argued that even though there was a majority assertion of a formalized strategy plan, it was not reflected in the future image of the organizations and the ownership structure. However, the misinterpretation of future strategy was an indication that a flexible future strategy must have been the focus. The growth of the SMEs were also limited by the capital allocation received for start-up and operational requirements, The relative age of SMEs was noted as influence on the operational capability and the style of leadership of the managers. In this regard, the study noted that the young life cycle should be augmented by the training so that the significant relationship existing between training, future life and the employee loyalty could be harnessed. Furthermore, in consideration of the leadership, it was noted that while there were enough professionals with relevant knowledge in the expertise of the SMEs, they were mostly equipped with residual knowledge. This situation was viewed as detrimental to proper application of operational and strategic management initiatives.

The role of SMEs in the manufacturing sector covers activities like supplying of parts, components or sub assemblers of large companies and places the burden to maintain the high level of quality at a competitive price in the overall competitiveness of the industry, influenced by the uncertain global market (Singh *et al.*, 2008).

There had been controversy about the criteria and parameters with which to measure competitiveness and the level at which it should be evaluated (enterprise, industry, national or international level) (Guzman *et al*, 2012). In this regard, Gorynia (2005) stated that the measurement should be at the macro-level measure of competitiveness. However, it was observed that such analysis will pose problem if done in a short term unless some form of organizational flexibility was applied (Buckley *et al.*, 1988).

As firms strive to meet up and surmount challenges in internal and external business situations, innovation remained the veritable tool for survival (Lin *et al.*, 2008). In addition, the influence of organizations with successful products affects the performance of the market share of companies. Thus it can be concluded that the financial performance can be an effective measure of market share (Corsten & Felde, 2005) and can be defined as the return of capital, the return of sales and the improved measures for the comparison of the performance of enterprises (Corsten & Felde, 2005).

3.11.4 Market Performance

Marketing involves both selling and promotion with a view to ensuring that the products and services meet the expectations of the customers in terms of demand and satisfaction. Therefore, marketing activities are important for a business in order to gain financial revenue and improve its image (Drysdale, 1999). However, the extent to which organizations engage in marketing is cardinal to their success in business. According to Naver and Slater (1990) the conscious application of various marketing strategies, through all departments of the organization, with a view to understanding the market and targeting the customer very closely is market orientation. The aggregate of all the marketing activities that helps in the evaluation and success of a firm is the market performance. It is a measure of how well the customers value and patronize a business. The customer is therefore the focus of the business as well as strategies that will continually attract the customer in relation to the generic competitors. This aspect of market intelligence is also an important part of marketing.

Previous empirical studies on firm performance had been varied on the relationships they covered. For instance, studies have covered the relationship between the strategic factor and firm performance (Peng *et al.*, 2011; Chong *et al.*,2011), product innovation (Zhang and Duan, 2010; Bakar and Ahmad, 2010), product and process innovation (Baki, 2011), market innovation (Johne, 1999) and innovation on the performance of SMEs (Rosli and Sidek, 2013). Innovation has been described as the enhancement of existing resources (Kuratko and Hodgetts, 2004), the process of idea creation to ensure that a new product, process or service was developed for a market (Thornhill, 2006) and the competitive weapon to maintain relevance in a global business environment (Sandvik, 2003). As an important and effective way to improve firm's productivity (Bakar and Ahmad (2010), innovation drives competition for both the large firm and SMEs (Anderson, 2009).The increasing globalization had affected all measures of trade, foreign direct investment and integration (Porter, 1986) including the entrepreneurial activities as the size of the firm continued to play significant role in trade (Horst, 1972). However, it had been argued that the effects of globalization created tremendous opportunities for large and small firms alike.

As the business environment continues to be volatile due to technology, globalization and market forces, there is competition at the market place which invariably gives the customers more option. Hence, businesses treat the customers in a special way.

Customer loyalty is a dimension in customer behaviour that is due to changes in market dynamics as a business changes the 3 Ps (price, product and placement) to satisfy the buyer.

Even though there is no single concept of satisfaction, it can be defined as a post choice evaluative judgment concerning a specific selection (Geise and Cote (2000). It has to do with response, expectation and time bound. It has to do with both a physical and psychological undertone and therefore can be latent. Being an intangible concept, Customer satisfaction levels are different from person to person. As Churchill and Surprenant (1982) presented, Customer Satisfaction is an output, resulting from the customer's pre purchase comparison of expected performance with perceived actual performance and incurred cost. This output concept has been described in several studies (Rai, 2008). This study will be based on the definition by Churchill and Surprenant (1982) in order to form part of the conceptual framework. It has been described by different researchers as a major aspect of sustained growth and profitability of the organizations. Hence, it provides the firm with advantages in the areas of, Repurchase Intentions, and customer Retention, Business Performance and customer Loyalty. Customer satisfaction has been defined as "the consumer's fulfilment response" which involves a post consumption judgment by the consumer that a service provided a pleasing level of consumption-related fulfilment, including under or over-fulfilment (Oliver 1997).

The increasing competitiveness has made research on customer satisfaction quite popular in relationship to marketing and business expansions. Customer satisfaction involved customer expectation of the service delivery, actual delivery of the customer experience and expectations that were either exceeded or unmet and it can be exceeded or poorer than expected (Shemwell *et al*, 1998). In the study by Levesque and McDougall (1996), it was concluded that competitive interest rate was one of the important determinants of customer satisfaction. In addition, they found that a good "employeecustomer" relationship can increase the satisfaction level. The study by Huang (1998) noted five factors used to evaluate customer satisfaction namely, product, service, staff, overall performance of products and closeness to expectation.

Kolter and Armstrong (1999) defended the customer satisfaction as the customer's perception that compared their pre-purchase expectations with post purchase perception.

In the study by Devlin (2001), it was noted that "customers perceive very little difference in the services offered and any new offering is quickly matched by competitors." Similarly, Jamal and Naser (2003) found that relational and core features of business appeared to be linked to customer satisfaction. Hence, the customer has the inert ability to judge things according to the positive effect arising from his experience (Gilbert, *et. al.*, 2004). Sangeetha and Mahalingam, 2011) studied 14 different service quality models reported in the literature applicable to the service sector and found that the meaning of service quality may have some universal aspects, as demonstrated by the similarities in the underlying dimensions. Furthermore, it was noted that a generic instrument for

116

measurement of service quality may not be applicable in its original form for all cultural contexts.

According to Oliver (1997) loyalty involves the commitment to continue to buy a product without being influence on the contrary in future. Hence, it can be attitudinal and behavioral and the customer cannot switch to other retailers. A good customer loyalty leads to lower costs of serving repeat purchase increased revenue, reduced customer acquisition costs and profitability.

From the review of literature, consumer loyalty and satisfaction are linked in a special way so that loyalty of customers is a function of satisfaction (Fecikova, 2004) and satisfaction leads loyalty (Lovelock *et al.*, 2001).

Business growth has been linked to customer satisfaction and they have been linked to business performance (Zeithmal 2000; Kosaka 1990) and assets (Anderson *et al.* 1994).Even though higher Customer Satisfaction leads to lower transaction costs, high loyalty, higher market share growth, and improved profitability, it has also been said it may not lead to higher profit (Kaplan and Narayan 2001). The questionnaire to capture satisfaction and loyalty is adopted from Dhandabani (2010).

3.12 Conceptual framework

Figure 3.3 shows the SME potential to operate and succeed in the market together with government assistance. However, the constraints they face and the ways they overcome the constraints determine their ability to achieve set goals and profitability of SMEs within the global marketplace. Hence, the discussion will be based on the dependent variable, SMEs performance and three independent variables namely government assistance, constraints faced by SMEs and productivity.

Small firms differ from large one even in the performance measuring scales. For example, of Porter's three strategic choices of cost leadership, differentiation and focus, only the last is appropriate to most small business (Porter, 1998). Despite increasing globalization, small firms compete mainly in the local, domestic markets or market niches. In analysing the growth of SMEs, some researchers have used the framework of growthsize-profitability relationships which encompasses the relationship between the growth and the financial structure of organizations. The framework for this study clearly reflected these characteristics as the measures of performance included growth, productivity and competitiveness. The small firms obviously do no operate in isolation and the several constraints facing them have made interventions by governments inevitable. In the Sultanate of Oman, several strategies have been implemented to enhance the performance of the SMEs as the government continues its strategic economic development programs. It is important to note that the constraints faced by the SMEs have been a major hindrance to the achievement for the SME objectives of creating employment, enhancing the entrepreneurial ability and provision of quality products and services.

The theoretical model of Szerb (2010) focus on two factors of customer satisfaction and customer loyalty and employment as the measure of performance and the other variables like administrative, human resource and networking. The study by Chikán (2006) models used the relative growth of sales, profit and employment to calculate the performance of the business. Clark *et al* (2004) also used sales data to measure the performance of European SMEs. The conceptual model of this study therefore had combined the concept and variables from these studies in a systematic manner to reflect the subjective measure of performance in terms of productivity (labour, capital and overall), growth (sales and profit growth) and competitiveness. The conceptual model also reflects to the availability of the growth and productivity variables. Therefore, we use the relative growth of sales, profit and employment to calculate the performance of the business.

Based on the study of Matejun (2013b) and as outlined above, there are five supporting instruments on which most government interventions can be grouped. They include financial instruments, in form of credits and loans; capital-based instruments, involving venture capital; consulting/training/information-related instruments aimed at the development of the knowledge, skills and competences; innovation-supporting instruments related to technology transfer and general business-support instruments or access to office space. These factors formed the basis on which the constructs of the government assistance was based. The study of Storey (2008), provided the basis for the development of the constructs for the evaluation of the constraint variable. Storey (2008) summarized the factors that militate against the development of SMEs into three type of obstacle, namely, a) The nature of transition, b) Poverty and low income and c) Policy mistakes. The level of constraints affecting each firm varies across their locations, the utility services, regulations and operational requirements that it is exposed to. Furthermore, the expertise it possesses can also exhibit variations. Therefore, it became obvious that we extensively searched for the proxies to these variables to ensure the validity of the instrument given the vast area of coverage in Oman and the fact that these instruments and variables as proposed by Storey (2008) were all theoretical without any empirical validation till date. This study is therefore novel for two reasons: 1) the use of the two combinations of growth and productivity as a measure of SME performance 2) the assessment of the effect of government assistance and constraints faced by SMEs on the performance of SMEs.

Independent Variables



Figure 3.3: Government Support Programmes, SME Performance (Sales & Profit growth, productivity, and Constraints faced by SMEs

This Conceptual Framework developed from Porter, 1998; Szerb, 2010; Chikán 2006; Chikán and Czakó (2009); Matejun, 2013, Storey, 2008.

Author(s)	Dimensions of SME measures	Performance measures	Character of study; method; sample	Method of analysis	Main results and conclusions	Gaps
Rosli and Sidek, 2013	Impact of innovation dimensions on SMEs	Education, Bus experience; firm size; prod inn; process innovation; market innovation; overall firm performance	284 samples/food and Bev, textile & clothing; wood based sub- industries/ Malaysia	Hierarchical regression analysis	Product innovation and process innovation influence performance; Prod innovation more impact than Process. Innovation	Did not cover how to calculate cost benefit of innovation/identify internal and external sources of innovation to guide innovation strategy
Dinh, CN (2011)	Impact of external variables on efficiency of SMEs	Efficiency scores/ enterprise characteristics/study abroad/management experience	Textile and garment SMEs/ Vietnam	Non parametric frontier analysis	Management experience & entrepreneurial characteristics paly sig role in exporting activities/ experience contribute posit to performance	Impact of variables on technical efficiency/
Beres, 2012	Role of regulation system of taxation on innovation in SMEs	Foreign ownership/ Bus activity/ regional location/ form of entrepreneurial and dependent variable: tax allowance	SMEs in Hungary	Cluster analysis/ ANOVA, factor analysis	Weak correlation between tax allow and firm characteristic; no correlation between business activity and tax	Why the diff result for foreign ownership and tax allow
Beck <i>et al</i> , 2005	SME) sector, economic growth, and poverty	data on SME250 Property Rights Efficiency of Bankruptcy/GDP	sample of 45 countries,	Regression analysis	alleviate poverty or decrease income inequality	MFP was not calculated

Table 3.6: Summary of literature review

Author(s)	Dimensions of SME measures	Performance measures	Character of study; method; sample	Method of analysis	Main results and conclusions	Gaps
Matejun and Szczepanczyk (2013)	Influence of strategic factors on use of support instruments	Knowledge and inter org factors/ operational flexibilities and implication of changes/ dependent variable is absorption	Survey/questionnaire/300 SMEs in European countries	Questionnaire/5 point Likert scale/ regression analysis	General low orientation to development/ poor use of development support/ 55% minor level of absorption/	The application of factor analysis/ qualitative to improve
Muhammad <i>et</i> <i>al</i> , 2011	SME Lending	Insufficient. Work cap/liquidity, slow loan processes, complicated procedures, mismatching of government program	124 small medium enterprises survey, questions	Descriptive analysis	Major problems facing by SMEs are insufficient Working capital/liquidity, slow loan processes, complicated procedures, mismatching of government program	Evaluation of the constraint that is felt most
Quader & Abdullah, 2009	constraints faced by the SMEs in Bangladesh	12 variables/ lending rate, government regulatory constraint, small domestic market size, collateral requirement technically skilled workers	230 SMEs in Bangladesh	Rotated Factor Analysis	Regulatory constraints related to utility and labour comes in second position, bureaucratic discretions. Finally, Collateral need and small domestic market size Lack of technically skilled workers Lack of physical skill.	The specific relationship with specific sector.

Table 3.6, Continued

Character of **Dimensions of SME** Method of Main results and Author(s) **Performance measures** study; method; Gaps measures analysis conclusions sample International verification of whether the expansion is Managerial managerial attitude/ international experience of profitable for Mlinari & knowledge/experience/ managers differentiates SMEs/not positive Factors, Mlinari, Efficiency/ Growth/ Profitability questionnaire Correlations internationalized and nonfor ROE & growth in Internationalization 2010 internationalized sales volume). and Performance **SMEs** The study find out Oualitative and that most of the firms The effects of 1933 firms quantitative cross experiencing Determinants of located within 5 tabular analysis and Kira, 2013 Variances in their activities other constraints **Financing Constraints** East African financing obstacles multivariate countries tended to possess were not examines analysis of variance SMEs' features provision of finance export performance were three distributor support on Sousa and items: market share, overall provision of The differences in satisfaction, and how competitors Bradley five-point scale chi-square/SEM information the export different sectors (2009)rate the firm's export marketing program performance of SMEs performance are requirements

Table 3.6, Continued

Author(s)	Dimensions of SME measures	Performance measures	Character of study; method; sample	Method of analysis	Main results and conclusions	Gaps
Duaye and Acheampong (2013)	Examine if SME owners are entrepreneurs	Risk taking/innovation/ proactiveness/ entrepreneurial orientation	Systematic sampling/SME owners in Accra Ghana/	t-test/ ANOVA/factor anal/y	Owners are not entrepreneurial/sig diff in innovation characteristic of mangers/	Gap is the role of culture in their actions
Sherazi <i>et al</i> , 2013	Obstacles to SMEs in Pakistan	Constraints: Financial, corruption, social & tech, Training, Management and Infrastructure	questionnaire survey /107 SMEs firms	principal component analysis	Financial & corruption are highest ranked	did not delve into the causal nature of the variables
Achtenhagen,2011	SME internationalization	Shortage of Working capital, identifying business, limited information, knowledge, lack managerial skills	Questionnaire survey	ANOVA	lack of managerial time, skills and knowledge' barriers	Did not examine the effect of culture
Wolff and Pett, 2006	Modelling Product and Process Improvements performance	sales growth and profitability	Survey/random sampling/ 4614 firms	Multiphase analysis/confirmatory FA	Direct relation b/w growth and int'l/	They did not compare with productivity

Table 3.6, Continued

Author(s)	Dimensions of SME measures	Performance measures	Character of study method; sample	Method of analysis	Main results and conclusions	Gaps
Shamsuddoha, <i>et al</i> , (2009)	Impact of government export assistance on internationalization	entrepreneurial resources	203 SMEs in three export-oriented industries in Bangladesh	structural equations model	provides a guideline for SME managers	Evaluated on export differences in three industries
Welsch, <i>et al,</i> 2013	Growth Intentions in SMEs	innovation, growth intentions and performance of small firms	201 SME in Australia & 229 SMEs in USA	Likert scale/regression	Growth intentions and innovation can contribute to SME outcomes suggesting that it is important to understand the Relationships between these two factors.	They did not include market performance
Sharma and Gounder, (2011)	Obstacles to Financing Micro and Small Enterprises:	Angel Fin/Venture Capital/Medium Term Financial, Institution/Public Equity/Long–term Fin. Institution/initial Insider Finance/age, owner/ethnicity /Education	Survey/77firms in Fuji/Likert questionnaire 1-7/	Descriptive stat/regression	Ownership sig to chance of getting a loan	The role of government was not examined

CHAPTER 4

RESEARCH METHOD

4.1 Introduction

This chapter outlines and discusses the methodology and practical approach of the study. The details include the sample population, sample selection, instrument design and data collection procedures. This chapter presents the operationalization of model constructs and the control variables. The flow chart explaining the standard methodologies employed to obtain the data and analysis is shown. Other important aspects such as the administration of questionnaires as well methods of data analysis were also described. Moreover, the procedure for validation of the developed questionnaire and the initial statistical processes were explained in the chapter. Finally, the summary of the chapter is given.

4.2 Research design

The study is a mixed method approach involving qualitative and quantitative methods of research. The first phase was exploratory and through it data was generated basically to develop a clear picture of the problem. In this stage, extensive literature surveys as well as a pilot study through interviews of selected businessmen, bankers, government officials, donor organization officials and the SME owners are conducted. After exploratory phase of the research, we developed a questionnaire to distribute to the SME owners. In exploratory phase we ask open ended questions in the interview about the key constraints faced by SMEs sector in Oman including the availability of government assistance, lack of access to bank loan, constraints facing them at work, and their performance in terms of their sales growth and profit over the past three years.

The study used stratified random sampling, a probabilistic sampling option. The population was split into strata (areas of study). This was done in order to ensure that all

the SMEs in each region were represented in the sample. After demarcating the population into strata according to the areas of study, a simple random sample method was used independently in each area (strata) to get the number of SMEs. Stratified random sampling was used instead of simple random sampling since the coverage of the five areas of research is very important to this study. Also, a stratified random sampling technique was employed because this survey was considered quite large and covering five areas. The population in this study is SMEs and this is considered quite heterogonous.

Having established our research problem, through the research design will help to describe, analyse and show how the research problems can be investigated (O'Leary and Panneerselvam 2007). In conducting a conducting a quantitative survey, McNabb (2002) noted that such a study will tend to describe details about the sample population used in the study with a view to providing answers to questions within the research framework. In this study the questionnaire were employed to get the views of the owners of the SMEs on various aspects of the performance of their business, the government assistants available to them and the constraints faced by their business. The choice of the SMEs was based on the definition of SME in the Sultanate of Oman which was formulated by the Higher Power Committee of the Ministry of Commerce and industry, Oman. It was defined as small enterprises if the number is not more than 10 employees and classified as medium enterprise if they employ between 10 - 99employees. Figure 4.1 is the flow chart representing the research processes used to test the conceptual framework formulated in the study.

The process started with the survey which enabled the collection of primary data through interviews from stakeholders in Oman. Subsequently, the data were crosschecked with literature and telephone confirmatory calls. Through the use of the SPSS statistical software, the data a further underwent pilot test in order to a validation the questionnaire. Subsequently the instrument is used to test the hypothesis with a view to making conclusions and recommendations. According to Yin (1994), analytical generalisation provides the rationale to use interviews and observations to contrast or make inferences on similar findings so that the implications for policy actions are reduced.



Figure 4.1: Empirical research process

4.3 Research Approach

According to Ghauri *et al* (1995) there is a need to explain the reasons why a research approach is taken and why it was not taken. In making such clarity, three

approaches can be used namely, induction, deduction or abduction (Arbnor & Bjerke, 2009).

In inductive research, data is collected and used to develop a theory (Saunders, Lewis & Thornhill, 2007). When an existing theory is applied at the start of an idea or another theory, it is the deductive Artsberg (2003). However, in abduction, the two approaches, inductive and deductive, are combined. This combination which involves the development of a theory and hypotheses have been said to be more advantageous than the other two Saunders *et al.* (2007).

Furthermore, abduction is therefore a mixture of induction and deduction and by extension, facts and theory. Hence, it used the facts to develop a theory. According Arbnor and Bjerke (2009) a conclusion can be abducted when a particular observation is appreciated within a pattern of general notions and if that observation is significant, it can be used in the explanation of the entire observation. Hence the study started with the deductive approach and built the general framework which gave rise to the hypothesis in order to examine the role of government economic program in developing SMEs in the Sultanate of Oman.

4.4 Explanatory, Exploratory and Descriptive Research Approach

Three types of research studies have been explained descriptive, exploratory and explanatory (Robson, 2002). Exploratory research is used in early stage of research to define some concepts around a topic. This involves the collection of data for eventual proposal of theories and hypothesis (Yin, 2003). It is therefore quantitative in nature. In descriptive research, the result of the exploratory is described and provides information on the topic. In doing this, some statistical processes can be used (Robson, 2002). In explanatory research the cause of "how" and "why" is sort. This actually is possible

after a construct has been explored and described. Hence, explanatory finds the reasons behind a fact that has been described in a particular form (Yin, 2003).

4.5 Developing and validating the questionnaire

In this section, the questionnaires were designed in a deductive way with each item developed as an exclusive part of the major constructs of the variables. Through the review of literatures and interviews, factors related to the defined constructs of government assistance, SME constraints and SME performance were taken. Pools of factors were developed and subsequently the items were discovered by using exploratory factor analysis (DeVellis, 2003). Then, the content validity was undertaken by interviewing four experts in SME. According to Glaser (1978), when a research is in its initial stage, there is need to interact with those that are really connected with the topic. This is because given the richness of data; there is need for the authentication of the data so that the constructs are viewed in line with the relevance to the variables being measured. In this study, the four experts in the SME were used to certify the items and guide the development of the necessary items in the questionnaire.

This qualitative part is quite important given the fact that Brewerton and Millward (2001, p. 11) stated that "in practice, qualitative methods can be used to generate quantitative data." Prior to the pilot studies, the validation of the questionnaire involved the application of a rigorous psychometric evaluation of the constructs and corresponding items. The result was subjected to Cronbach's Alpha analysis for the reliability measures. Following previous studies that had validated questionnaires, a cut-off point of 0.8 was adapted (Bontis, 2000). Subsequently, a corrected item-to-total correlations for all constructs were measured to further assess inter-item consistency reliability. (Values above 0.5 will be taken). Then, a confirmatory factor analysis was done and all the items had the loadings of above 0.7 and so were all retained. The mean

differences were analysed using a MANOVA test. To ensure that all construct means were different (significant at 0.05 level), a discriminant validity, a matrix of loadings and cross-loadings were constructed.

On observation, all loadings were uniform. Meanwhile, in line with Hatcher (1994) the Convergent validity was assessed by the *t*-tests for the item loadings and the confidence in the discriminants were assured because they were all significant at 0.05 levels. It was established that the items on the questionnaire were all internally consistent and able to measure the constructs they were designed for.

4.6 Pilot Study

Validity of the instrument was obtained through the development of the scales with the help of the experts in the field using the Content Validity Index (CVI) (Babbie and Mouton, 1998; Bless and Higson-Smith, 1995). Opinion from four experts in this area were sought to assess content validity. This confirmed the dimensions of the concepts under study which were operationally defined, to ensure appropriateness of results. The reliability of the questionnaires was improved through pretesting of pilot samples by administering it on the owners of SMEs in Oman. This enabled the rephrasing of some questions. Furthermore, reliability of the scales was done with the application of the Cronbach Alpha Coefficient for the computations so as to check for the internal consistency of the scales.

The questionnaire was pilot tested among the owners of 50 SMEs in Oman. The SMEs were randomly selected from a list of all the SMEs in the 5 sectors namely; Food & Beverages, Electronics & GSM apparatus, Ready-made garments, Home appliances & Cosmetics as well as hand craft. The results from the reliability analyses are presented in Table 4.1. The Cronbach's alphas for the three constructs were above 0.7 and are considered to be satisfactory (Sekaran, 2003).

Constructs		Number of items	Cronbach
Tuon	, itesuit	s nom renuomity u	liarysis

Table 4.1. Results from reliability analysis

Constructs	Number of items	Cronbach's alpha
		_
Constraints faced by SMEs	13	0.78
SME performance	8	0.73
Government economic assistance	6	0.72

4.7 Sample and sampling procedures/techniques

4.7.1 Study Population

The target population was determined based on the definition of SMEs in the Sultanate of Oman adopted by the High Power Committee for the SMEs formed in the Ministry of Commerce and Industry. According to the 2010 Statistics of small and medium enterprises in Oman, there are approximately 117,914 registered SMEs in Oman (DOS, 2nd Edition 2010). Out of this figure, 105,000 SMEs (90%) are located in the study areas namely Muscat, Sohar, Nizwa, Sur, and Al Burami.

The SME sectors used in this study are five types of business - electronic and GSM apparatus, ready-made garments, home appliances and cosmetics, food & beverages and hand craft. These businesses have been operating for the last three years and accounts for nearly 25% of the SMEs sectors in the Sultanate of Oman.

Therefore, the justification for this group is the fact that even though there are more than hundred SME sectors, these five sectors make up 90% of all SMEs in Oman.

4.7.2 Sample Size

In determining the sample size, the sample size calculation formula was used (Sarantos, 2003). This calculation was done within a confidence interval of 95%. The assumptions were that the sample was representative of the population, the sampling error was small, the sample was viable in the context of funds available for the research

study. Systematic bias was controlled in a better way and results from the sample study were general. Several studies have been conducted in SME using calculated sample size (Robert and Morgan, 1970; Leonora, 2002).

$$n = \frac{z^2 * p * q * (1 - r)}{d^2}$$

Where:

n = sample size

z = standard score for 5% level of significance (z=1.96)

p = proportion of the existence of the phenomenon (in the case measured as contribution of the SMEs in the GDP in the sultanate of Oman.)

q= the compliment of the existence of the phenomenon (1-p)

r = none response rate

d = error margin

Following that formula, the sample size for the research is

$$n = \frac{(1.96)^2 * (0.16) * (1 - 0.16) * (1 + 0.07)}{(0.025)^2} \cong 885$$

Therefore, this study will apply a sample size of 885 and this was considered to account for non-response and incompleteness of the returned questionnaires. When compared with other studies, this sample seems to be adequate.

According to Sekaran, (2003) a sample that is drawn from a population is a representation of the members of that population. When a sample's data is analyzed, the conclusions therefrom would reflect the situation about the members of the population (Parasuraman, 1986). Based on the calculated sample size, a cluster random sampling was used to get the sample of the SMEs from each of the five locations.. In doing this, the total SME list from each of areas were gotten and by using the lottery method of

simple random sampling the 885 SMEs were recruited. Purposive sampling technique was used to select the respondents. Hence, in each of the SMEs, only the owner and or the manager provided were selected for the study.

4.8 Data collection tools/procedures

As stated earlier, the measurement instruments were pilot-tested and validated through rigorous processes. Subsequently, the structured and standardised closed ended questionnaire with four sections and a total of 27 questions (section 2 to 4) was produced. A major advantage of closed-ended questionnaires is the ability to limit unwanted answers (Jacobsen (2002) and eliminating the variations in answers (Trost, 2001).

The interview method was used to ensure the high rates of response, as well as allowing for clarification of possible ambiguities related to questions asked (Churchill, 1995). The researcher held discussions with the respondents and the data obtained during discussions was compared with data from the instruments to ascertain correctness.

4.9 Operationalization of model

This research presents three main concepts as it addresses the role of government economic programmes in developing SMEs in the Sultanate of Oman. The measurement constructs and their Likert scales are shown in table 4.2.

Likert's	Variables					
degree of response	Constraints faced by SMEs 13 items	SME Performance 8 items	Government economic assistance 6 items			
1	Strongly disagree	Very low	Very insufficient			
2	Disagree	Low	Insufficient			
3	Quite agree	Quite High	Quite Sufficient			
4	Agree	High	Sufficient			
5	Strongly agree	Very high	Very sufficient			

 Table 4.2: The measurement constructs and their Likert scales

The Demographic profile covers the personal and business profile of the SME owners and businesses respectively. These are captured in section 1. Section 2 contains 13 questions related to constraints faced by SMEs; Section 3: 8 questions relating to SME performance and Section 4: 6 items relating to government assistance to SMEs. For section 2: A five point Likert Scale was used - 5-Strongly Agree; 4- Agree; 3-Quite Agree; 2-Disagree; 1-Strongly Disagree. In section 3: A five point Likert Scale was used - 5-very high; 4- high; 3- quite high; 2-low ; 1-very low. A five point Likert Scale was used - 5-very sufficient; 4- sufficient; 3-quite sufficient; 2-insufficient; 1-very insufficient.

4.9.1 Constraints faced by SMEs

The constraints facing SMEs was measured by 13 items, all of which were derived from Quader & Abdullah (2009), There were a few differences. The names given to each variable were changed in our study. For instance, financial constraints changed to operational requirements; regulatory constraints changed to regulations and constraints on physical technical and marketing input was changed to utilities and services. Furthermore, the study by Quader & Abdullah (2009), used 18 variables in all

while this study used 13. The difference was due to the peculiarity of our population, which provided the reason for the merger and re-labelling of some of their item to provide greater understanding of our population. Hence, Interest on bank loan, High cost of raw materials and High cost of equipment were grouped into Cost of financing in this study. Again, from their study, Unavailability of financing and collateral requirement were grouped into Access to financing in this study. The last item Lengthy procedure was re-named Business licensing and operating permits. More specifically, in both studies, respondents were asked to indicate on a five-point scale how constraints from these items affect their businesses (where 1= strongly disagree and 5 = strongly agree).

The respondents were asked, "In the last three years, to what extent has your firm emphasized each item of constraint". The degree of their emphasis on constraints was then averaged by calculating the mean score across the number of items for each constraint dimension (Segev, 1987).

4.9.2 Government assistance

Government assistance is one of the independent variables in this study was divided into six. Matejun (2013b) had noted that the various supporting instruments through which government interventions can be propagated are classified into five major groups. They include (1) Financial instruments, in form of credits and loans; (2) Capital-based instruments, involving venture capital; (3) Consulting/training/information-related instruments aimed at the development of the knowledge, skills and competences; (4) Innovation-supporting instruments related to technology transfer; (5) General business-support instruments or access to office space. Based on this, and the uniqueness of the SMEs in our study area, six constructs were developed to measure the government assistance to SMEs in Oman. It is worthy to note that in both studies, a 5-point Likert scale was used to ascertain from the respondents how these government assistants contribute to their business efficiency.

The respondents were asked, "In the last three years, to what extent has your firm benefited from any of this government assistance". The degree of their emphasis on government assistance was then averaged by calculating the mean score across the number of items for each government assistance dimension (Segev, 1987; Rosli and Sidek, 2013).

4.9.3 Performance

In this study, the measures of performance are productivity, growth and market performance. According to Love et al., (2002) self-assessment of firm performance can be used in place of objective performance measures. The growth variable was adopted from the study of Ciszewska-Mlinaric & Mlinaric, (2010) whose framework measured performance with efficiency, profitability and growth and which they adopted from (Murphy, Trailer and Hill, 1996). In their studies, growth was measured by change in sales and changes in the number of employees, while Profitability was captured by return on sales (ros) and return on assets (roa). Several other measures of study had been applied in different studies Ciszewska-Mlinaric & Mlinaric, (2010), therefore, in this study we adapted the measure of growth constantly (Rosli and Sidek, 2013), Subsequently the respondents answered the questions based on a 5-point likert scale in order to compare their firm to the industry for growth in gross profit over the past three years; average gross profit over the past three years. . Hence the owners were allowed to assess their enterprises. For each item, the respondents were asked to compare their sale growth and profit growth against their competitors in the same industry for the last three years. Assessment method is regarded reliable benchmarks (Delaney and Huselid, 1996) and taken care of possible influence of the industry factor.

In this study, Productivity was measured with labour, capital and overall inputs. This variable was adopted from the Cobb-Douglas production function which recognized that labour and capital were important indicators of productivity. Diewert (1992) also recognized that labour is the most important measure of productivity.

Labour productivity measures the goods produced in relation to the amount of time spent in producing it.

Labour productivity = volume measure of output / measure of labour input used.

Volume of output = goods and services produced by employees.

Labour input = number of hours spent producing it by all in the employment or number of employed (head count).

According to (Freeman, 2008) capital productivity is measured in terms of the capital stock and it is the ratio between output and capital input. Capital productivity is therefore a passive or estimated measure while rate of return to capital is the capital income of the value of capital stock (OECD, 2004). This involves the calculation of wear and tear, rental. However, it is noted that the price of capital asses can be the rental price. Rental price is calculated as the user cost of capital. That is by using the implied rent that an owner pays himself (Dirk & Paul, 2004).

Productivity in term of labour and capital can be influence by the introduction of more technology to give rise to total factor productivity (TFP) Total factor productivity is the aggregate of knowledge and technical change and it measure multiple constructs instead of using single parameter like labour or capital (Ahmed, 2011). However, multi factor productivity is given by the ratio of output and total labour and capital MFP = Q/f (L.C). In this study, the MFP is used as the overall productivity. The respondents are asked to assess and estimate the cost of their equipment in relation to the current market value.

Competitiveness has been known to be a complex constructs in which index construction is used in its measurement (Szerb, 2010). Even though, according to Porter (1990), firm competitive behaviour should be examined within the framework of local environment, the information relating to competitiveness was difficult to comprehend by the SMEs in Oman due to the dynamic nature of the relationship among the competitive variables (Merges & Nelson, (1990); Buckley *et al* (1988)). Hence, customer satisfaction and loyalty, which was used as the indicator for competitiveness, will now be representing the indicator of market performance/ consumer response.

Consumer loyalty and satisfaction are linked in a special way so that loyalty of customers is a function of satisfaction (Fecikova, 2004) and satisfaction leads loyalty (Lovelock *et al.*, 2001). Business growth has been linked to customer satisfaction and they have been linked to business performance and assets (Anderson *et al.* 1994).Customer Satisfaction therefore leads to lower transaction costs, high loyalty, higher market share growth, and improved profitability. These two indicators for market performance will be captured using a validated questionnaire adopted from Dhandabani (2010). All the items are measured on a 5-point Likert scale.The responses will be made on scale with label "very satisfied" and "very dissatisfied" at both extremes. It has been noted that the problems associated with the use of a single response variable are moderated by the simplicity of the question (Ragavan and Mageh, 2013).

• Customer satisfaction

- 1. My customer is satisfied with their decision to buy from me
- 2. My customer feels they did the right thing
- 3. My customers feels they took the right decision
- 4. My customer feel good with our services

• Customer Loyalty

1. My customer is proud to be my customer

- 2. My customer want to continue with me
- 3. My customer usually recommend others to me

4.9.4 Control Variables

The use of control variables had been seen as a means of increasing the reliability of the results. In this study, the control variables used are education, number of years of SMEs, number of employees and paid up capital. The number of employee and number of years of firm (age) were adopted from Ciszewska-Mlinaric & Mlinaric, (2010). Other studies have also used the same variables like age (Murphy *et al*, 1996; Yli-Renko *et al*, 2002), the level of owner's education (Nichter and Goldmark, 2009) and firm size (Ozgulbas *et al.*, 2006).

4.10 Data collection

The self-administered questionnaires were distributed in the form of survey, together with the approval letter by the Directorate General for the Development of Small and Medium Enterprises - Ministry of Commerce and Industry - Oman and the consent letter (Appendix A). The respondents were clearly assured of the confidentiality and voluntary nature of the research. The questionnaire survey was conducted in the year 2011. The time duration for the administration of the questionnaires was from December 2010 to May 2011. All the respondents willingly returned the questionnaires and the results of the sampling are presented in the chapter

4.11 Data reduction

Exploratory factor analysis (EFA) has been used as an analytical tool in research as a precursor to latent variable modelling or confirmatory factor analyses (CFA) (Schumacker & Lomax, 2004). However, in many research situations, EFA is used as the focal methodology (Distefano, Zhu, & Mindrila, 2009). In such instances, it is used in reducing a large number of items from a questionnaire or survey instrument to a smaller number of components. In this way it will uncover latent dimensions underlying a data set, or examining which items have the strongest association with a given factor.

In this study, the items are reflective indicators of the concept that is being measured. Therefore, in factor analysis, the principal axis factoring extraction procedure was used. In more than single factor extraction, the promax rotation method was used for the respective factors identification. According to Hair *et al.*, (2011), in achieving a better factor analysis, the Kaiser-Meyer-Olkin (KMO) value to be obtained must be at least 0.7. Also it would be expected that the average variance extracted (AVE) should be at least 50% and the minimum factor loading must be at least 0.5. Hair *et al.*, (2011) and his colleagues confirmed that if the aforementioned criteria are met, then an average score (summated scores) can be taken to conceptually represent the perceived individual values.

4.11.1 Constraints facing SMEs

An exploratory factor analysis (EFA) was performed using the principal axis factoring extracting method and the factors were rotated using the Promax rotation method. In EFA, the Kaiser-Meyer-Olkin (KMO) value was 0.458 (Table 3.4), which is not considered to be good. Three factors were extracted, based on the criterion of eigenvalues of more than one. The first factor explained 27.15%, the second factor explained 20.17 % and the third factor explained 14.21 % of the variation (table 4.4). The total explained variation was 61.53%, which is well above 50% (Hair *et al.*, 2011). The factor loadings are shown in Table 4.4, The minimum factor loading in Table 4.5, is only 0.023, which is less than the minimum value of 0.5, as recommended by Hair *et al.*, (2011).

In Table 4.5, items 6 to 10 loaded highly in the second factor. These items are concerned with Regulation. Hence, this factor is named as Regulation Items. Items 1 to 5 mainly concern Utility services, which loaded onto the First factor. Hence, this factor is named as Utility Services. Items 11 to 13 loaded onto the third factor and these items concern constraints with operations. Hence, this factor is named as Operational.

Since the results from factor analysis is considered acceptable, the average of the items in the respective factors were computed and saved as Utility Services, regulations and operational. The values in these variables range from 6 to 10, where high values indicate major constraints, while lower values indicate no constraints. The descriptive statistics for these three variables are provided in Table 4.6.

Based on the mean values presented in Table 4.6, generally, the SMEs in the Sultanate of Oman face constraints in all the three areas – Regulations, Utility Services, and Operational. This result is in appendix B.

Kaiser-Meyer-Olkin Measure of	.458	
Bartlett's Test of Sphericity	Approx. Chi-Square	4646.498
	Df	78
Dations for of Sphericity	Sig.	.000

Table 4.3: KMO and Bartlett's Test

Table 4.4: Total variance extracted

Factor	Initial Eigen values				
	Total	% of Variance	Cumulative %		
1	3.529	27.145	27.145		
2	2.623	20.177	47.322		
3	1.847	14.205	61.527		

Itama	Factor			
nems	Utility & Services	Regulations	Operational	
3. Transportation	.735	-	-	
2. Electricity	.792	-	-	
4. Telecommunication	75	-	-	
5. Access to water	.685	-	-	
1. Access to land	.796	-	-	
7.Customs regulations	-	.841	-	
8. Trade regulations	-	.813	-	
6. Tax rates	-	.859	-	
9. Labour regulations (locals)	-	.898	-	
10. Labour regulations (expatriates)	-	.713	-	
12. Access to Financing	-	-	.788	
13. Cost of Financing	-	_	.023	
11. Business Licensing	-	_	.787	

Table 4.5: The Pattern Matrix

 Table 4.6: Descriptive summary

Variable	Mean	Standard deviation
Utility and Services	4.23	0.726
Operational	4.16	0.821
Regulations	4.33	.727

4.11.2 SME Performance

In EFA, using the principal axis factoring extracting method, the KMO value was 0.770 (Table 4.7) in the (appendix B), which is considered to be good. Two factors were extracted, based on the criterion of an eigenvalue more than one. The first factor explained 49.6% and the second factor explained 18.3% of the variation in the 8 items Table 4.8. The total explained variation was 67.8%, which is well above 50%. The factor loadings are shown in Table 4.9, the minimum factor loading is 0.751, which is more than the minimum value of 0.5.

In Table 4.9, the loadings for items 1 to 5 were highly on the first factor. These items are concerned with productivity & growth. Hence, this factor is named as Productivity & Growth. Items 6 to 8 are mainly concerned with satisfaction and loyalty of employees and customers. Hence, this factor is named as Satisfaction & Loyalty.

Since the results from factor analysis are satisfactory, the average of the items in the respective factors were computed and saved as Productivity & Growth and Satisfaction & Loyalty. From this we propose that satisfaction and loyalty are measures of market performance. The loading of the five items were high values which is an indication of high levels of productivity growth/competency, while lower values indicate low levels of productivity growth/competency.

Based on the mean values in Table 4.10, it can be deduced that the Productivity (2.88) while the Growth (31.3) and market performance of the SMEs (3.77) is high.

Kaiser-Meyer-Olkin Measure of	.770	
Bartlett's Test of Sphericity	Approx. Chi-Square	3239.874
	Df	24
	Sig.	.000

Table 4.7: KMO and Bartlett's Test

Factor	Initial Eigenvalues		Extraction Sums of Squared Loadings			
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	4.273	53.418	53.418	3.964	49.554	49.554
2	1.783	22.288	75.706	1.461	18.257	67.811

Table 4.8: Total variance extracted

Table 4.9: Pattern Matrix

Iterreg	Factor			
nems	Productivity & Growth	Market performance		
3. Overall productivity	.936	-		
2. Capital productivity	.844	-		
1. Labour productivity	.781	-		
4. Sale growth	.778	-		
5. Profit growth	.751	-		
8. Consumer loyalty	-	.867		
7. Consumer satisfaction	-	.820		
6. Employment	-	.771		
Variable	Mean	Standard deviation		
--------------------	------	--------------------		
Productivity	2.88	0.81		
Growth	3.13	0.97		
Market performance	3.77	0.75		

Table 4.10: Descriptive summary

4.11.3 Government assistance

In EFA, using the principal axis factoring extracting method, the KMO value was 0.491 Table 4.11, which is not considered to be good. A single factor was extracted, based on the criterion of an eigenvalue more than one. The total explained variation was 58.678% Table 4.12, which is well above 50%. The factor loadings are shown in Table 4.12, the minimum factor loading is 0.645, which is more than the minimum value of 0.5.

In Table 4.13, all the items loaded highly in a single factor. The implication is that they all explained Government Assistance. Since the results from factor analysis are very good, the average of the items in the factor was computed and saved as Government Assistance. The values in this variable ranges from 1 to 5, where high values indicate very sufficient high level of assistance, while lower values indicate very insufficient low level of assistance by the government.

Based on the mean values in Table 4.14, generally, the perceived government assistance to SMEs in the Sultanate of Oman is only moderate (2.85).

Kaiser-Meyer-Olkin Measure of	.491	
Bartlett's Test of Sphericity	Approx. Chi-Square	868.116
1 5	Df	15
	.000	

Table 4.11: KMO and Bartlett's Test

Factor		Initial Eigenv	values	Extrac	ction Sums of Squ	uared Loadings
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	3.908	65.135	65.135	3.521	58.678	3.908

Table 4.12: Total variance extracted

Table 4.13: Pattern Matrix

Items	Factor Government Assistance				
items					
5. Management Assistance	.909				
6. Infrastructural Assistance	.797				
3. Technical Assistance	.785				
4. Advisory Assistance	.765				
2. Market Assistance	.664				
1. Financial Assistance	.645				

Variable	Mean	Standard deviation			
Government assistance	2.85	0.97			

4.12 Data analysis/presentation process

The data from the respondents were sorted out and edited in line with the research questions for which the instruments were designed. Variable numbers were allocated to each question and its components in the questionnaire so that responses could be grouped into a limited number of categories for efficient analysis of the questions. Descriptive statistics in the form of frequencies and percentages together with pictorial representation in the form of graphs and pie charts were then used in presenting the data. Statistical analysis was carried out using SPSS version 18 for descriptive purpose. Subsequently, all the data of the variables were tested for normality to know if parametric or nonparametric tests can be employed later Other statistical analysis

employed, using the SPSS, in this study is the inferential analysis and those applied include reliability measurement, independent sample test (Mann-Whittney),Spearman correlation and regression analysis. Factor analysis was also conducted to test the underlying structures in the respective concepts of constraints faced by SMEs, government assistance and SMEs performance.These measures had been used elsewhere in researches relating to SMEs (McAdam *et al*, 2010; Quader & Abdullah, 2009).

4.13 Sampling Result (Response Rate)

Eighty hundred and eighty five questionnaires were distributed among the owners of SMEs in all the selected SMEs. 573 were returned. This therefore gives a response rate of 64.7%. With 73 of the returned questionnaires declared invalid due to incomplete responses, the overall usable questionnaires were 88% (500) of the returned questionnaires. The details of the response rate analysis are shown in table 4.3

Questionnaires	Number of questionnaires	Percentage
Questionnaire distributed	885	100%
Questionnaires returned	573	64.7%
Unusable questionnaires	73	12%
Usable questionnaires	500	88.%

 Table 4.15: Rate of Return in Terms of Number and Percentage

4.14 Regression analysis

4.14.1 Constraints Facing SMEs

There is a general agreement that the effects of constraints on SMEs are tangible. Therefore, it is our view that the relationships between the constraints facing SMEs and SME performance has been catalysed by limited access to finance, which limits the operational requirements. Meanwhile, the insufficient supply of skilled workers hamper the understanding of regulatory requirements of tax, customs and other trade agreements. Besides these, the effects of heavy expenditure on transportation, electricity telecommunications and water will surely be a militating factor in SME performance. Thus, since SMEs face challenges in the areas of utility and services, regulatory and operational requirements, this study will investigate the first hypothesis **H1**: Constraints faced by SMEs in Oman reduce the sale growth of SMEs.

4.14.2 Government Assistance and SME Performance

The role of government intervention in SME development include the encouragement of the private sector businesses, introduction of new regulatory mechanisms such as price control, the provision of some incentives to ensure continued production and marketing and to maintain standards. The limited assistance that is provided to the SME sector may not be favourable to enhance fast enterprise performance. Therefore, the role of governments in the economic programs in the development of SMEs can be extensive and is summed up into six major areas in our framework namely financial assistance, market assistance, technical assistance, advisory assistance, managerial assistance and infrastructural assistance. Based on the importance of government assistance, the second hypothesis will be investigated.

H2: There is a positive relationship between the Government assistance and SME performance.

4.14.3 Government Assistance and Constraints facing SMEs

The SME can face various constraints identified that include financial constraints, corruption, social and technological obstacles, Training obstacles, and Management and Infrastructure obstacles. All of these are related to the government and have been termed constraints due to the neglect of government. For instance, it has been stated that infrastructural obstacles may lead to the unregulated acquisition of knowledge. The improvement in utility services can be achieved through the application of prudence in the use scarce resources by government. Therefore, we argue that since constraints are known to reduce SME performance, it can be concluded that the reduction of constraints by government assistance will lead to improved SME performance. From the above argument, the third hypothesis will be investigated:

H3: Government assistance reduces the constraints facing the SMEs thereby improving the performance of the SMEs.

4.14.4 Constraints faced by SMEs and SME productivity

The positive association of capital and labour productivity with the firm growth (both in sales and assets) implied that factors of productivity will generate larger growth in firms. We therefore argue that, based on the negative effect of constraints on SME growth and performance, constraints will also lead to reduced productivity. The conceptual model of this study therefore, had combined the concept and variables from previous studies in a systematic manner, to reflect the subjective measure of productivity in terms of labour, capital and overall productivity. Therefore, based on the above argument, the forth hypothesis will be investigated as follows:

H4: Constraints faced by SMEs lower the productivity (labour, capital and overall productivity) of SMEs.

4.15 Conclusion

This chapter summarizes the methodological and statistical applications used in the research study. The operationalization of the theoretical model, variables and measurement employed were discussed. The main source of data was through the structural questionnaire developed for the attainment of the research questions mentioned in the study. The sources of data generated are highlighted while the questionnaires processes of distribution and collection were stated.

CHAPTER 5

RESULTS AND DISCUSSION

5.1 Introduction

This chapter presents in part, the analysis and discussion of the data collected from respondents on role of government in the supporting SMEs in Oman. The analysis and discussion of the results cantered on the research objectives.

"Data analysis is the process of bringing order, structure and meaning to the mass of collected data" – Marshall and Rossmann (1995, p. 111). It therefore helps researcher to use patterns, common themes and correlations to give meaning to a set of data. The qualitative part of this research has aided the design and outcome of the quantitative data which will be analysed in this chapter. The use of a statistical package has always aided the analysis of quantitative data through systematic processes and computer programs. However, it is believed that the type of analysis influences the assumptions, interpretations and process (Johns & Lee-Ross, 1998).

5.2 Instruments of Analysis

According to Saunders *et al*, (2007) data exist in descriptive and dichotomous form in its raw form when no meaning can be ascribed to it. Hence, two stages of statistical analysis can help give meaning to a data. The first is descriptive statistical methods which express the data as frequencies and ratios to get a basic overview of the data collected. The second stage involves the application of different statistical tests that will help the researcher to see whether the tendencies seen from the visual analysis of the descriptive statistics are significant or not. The statistical package of SPSS version 18 was used in both stages of analysis and the results are presented in this section. Indoing this, we applied descriptive tests of frequencies on the demographic data, normality test, correlations, Cronbach Alpha for reliability and regression estimate.

5.3 Demographic

5.3.1 Personal Profiles of the Respondents

The results of the responses of respondents based on the valid questionnaires, relating to their gender, age, marital status and education are shown in table 5.1.

Variable	Frequency	Percentage
Sex		
Male	299	59.8
Female	201	40.2
Age		
20-29	120	24
30-39	250	50
40-49	100	20
50 or more	30	6
Marital status		
Single	410	82
Married	90	18
Highest educational attainment		
Degree	250	50
Diploma	169	33.8
Primary school	81	16.2
Others	0	0
Total	500	100

Table 5.1: Personal Profiles of the Respondents

An examination of the bio-data indicates that, of the total number of respondents, male were 59.8% as against 40.2% of female. Gender distribution is an important parameter of this study. In the views of Delmar *et al.* (2003), information on the area of gender, helps management to prepare towards recruitment. Even though, the percentage of male owners was higher, the 40.2% recorded for females is considered impressive, given the low number of women captured in developmental initiatives (OGB, 2013). This might also be in line with the views of the MOE (2008)report which stated that the contribution of women in the economic activity in Oman in 2008 amounted to about 40%. Another implication is on the design and overall organizations of trainings, so that the cultural considerations can be addressed.

Respondents were asked to indicate their ages as at their last birthday. The ages obtained ranged from 20 years to 50 years and above.

The age distribution shows that 120 of the respondents, representing 24% are between the ages of 20 - 29 years, 250 of the respondents, representing 50% are between the ages of 30 - 39 years, 100 of the respondents, representing 20% are between the ages of 40 - 49 years and 30 respondents, representing 6% are 50 years and above. This is an indication that the owners of SMEs are young and very youthful. This agrees with the propositions by the government initiatives that the major targets of the various programs are youths (Oman, 2010).

Again, a look at their marital status corroborates the age result as majority of the respondents were single and represent 82% (410) of the respondents. Among the respondents, 90 are married, or 18% of the respondents. This result is important for the future planning of their married life in relation to their business.

Information on the educational background of the respondents was also asked. The responses obtained showed that out of the 500 respondents, 250 representing 50% had a university degree; 169 of the respondents, representing 33.8% had diplomas; 81 of the respondents, representing 16.2% had completed primary school and no one had any lower certificate than primary school. Therefore, the study showed that majority (83.8%) had diploma and degree. The implication is that their level of training will affect their level of understanding. Since most of them are had diploma or degree, the rate of assimilations in conferences, trainings and different capacity building programs will be high. Besides, their ability to take decisions and risks and apply the lessons learned from the trainings in their business will be great. It also have implication on the decentralization of training contents, so that the levels of education will be used to design specific courses or in the delivery, so that all will be carried along.

5.3.2 Business profile of SMEs

The business profile for the 500 SMEs is presented in Table 5.2

Variable	Frequency	Percentage							
Number of years of SME from Establishment									
1-5 years	201	40.2							
6.10 years	218	43.6							
11 or more	81	16.2							
Form or ownership of SME									
Limited liability companies	189	37.8							
General partnership	240	48							
Limited partnership	71	14.2							
Joint ventures	0	0							
Nature of business									
Electronic & GSM apparatus	59	11.8							
Ready-made garments	101	20.2							
Home appliances & cosmetics	79	15.8							
Food & beverages	152	30.4							
Hand craft	109	21.8							
Estimated annual sales revenue									
R.O 30,000.00 or less	144	28.8							
R.O 30,001.00 - R.O 50,000.00	130	26							
R.O 50,001.00 - R.O 70,000.00	98	19.6							
R.O 70,001.00 or above	128	25.6							
Number of employees									
1-9 employees	330	66							
10-99 employees	170	34							
Business location									
Muscat	200	40							
Sohar	126	25.2							
Nizwa	49	9.8							
Sur	50	10							
Al Buraimi	75	15							
Use of licensed software from a foreign -owned co	mpany								
Yes	110	22							
No	390	78							
Financial or paid-up capital									
R.O 10,000.00 - R.O 50,000.00	269	53.8							
R.O 50,001.00 - R.O 100,000.00	152	30.4							
R.O 101,001.00 - R.O 150,000.00	19	3.8							
R.O 150,001.00 - or more	60	12							
Total	500	100							

From the table, there are 330 (66%) small enterprises, employing up to nine people recruited for the study while 170 (34%) were medium enterprises which employed between 10 - 99 individuals. The study had sought to ascertain the number of years that the respondents established the business of SME. As shown in the table, 201 of the respondents, representing 40.2% established their SME within 1-6 years while 218 respondents representing 43.6% established their business between 6-10 years. Those that established their SME within the period 11 years and above were 81, representing 16.2%. This indicates that majority of the respondents have established within the past ten years. However, the fact that the number reduced so much during the period 11 years and above might be due to drop outs. There is need to investigate the actual cause of the reduced figure with time.

Again based on Table 5.2, majority or 48% of the SMEs are under the General Partnership (Sole Proprietorship), followed by a Limited Liability companies (LCC) with 37.8% and only 14.2% fall under the Limited Partnership. None or 0% of the respondents is under the category of Joint Ventures. The implication is that the entire government plans for the SMEs have left out the need for partnerships. The importance of partnerships in fostering good relationships and extending the lifetime of the enterprise can be leveraged. Therefore, this calls for more work on the need for education on the importance of cooperatives.

The statistics of the nature of business are shown in table 5.2. It is worthy to note that the random selection of the number from each of the five sectors used in this study was driven by their respective relative numbers. Hence, of all the 500 SMEs used for this study, 152 (30.4%) were from the food and beverages sector, 109 (21.8%) belong to the hand craft category; 101 (20.2%) SMEs belonged to the ready-made garments group; 79 (15.8%) of the SMEs belong to the home appliances and cosmetics category, and 59 or 11.8% SMEs are from the electronics and GSM apparatus sector.

The estimated annual revenues for the SMEs are shown in Table 5.2. It is observed that while 28.8% (144) of the SMEs have RO 30,000.00 or less estimated annual sales revenue, 26% (130) of the SMEs have RO 30,001.00 to RO 50,000.00 annual sales revenue. On the category of RO 50,001.00 to RO 70,000.00 annual sales revenues, 19.6% (98) of the SMEs were in that category while 25.6% (128) fell into the RO 70,000.00 or above category. This is an indication that just slightly above half of the SMEs (55.6%) had annual revenue of RO 50, 000.00 or less over the past three years. This showed that their growth is slow and so, there may be need for more incentives by government through policy regulations so that certain levies and taxes can be waved.

This situation was also noticed in their response to the paid-up capital where majority (269) representing 53.8% of the SMEs' financial or paid-up capital is within RO10, 000.00 to RO50, 000.00. Further observation showed that 152 (30.4%) of the SMEs have RO 50, 001.00 to RO100, 000.00 and 12% (60) have financial or paid-up capital of RO150, 001.00 or more. Meanwhile, only 3.8% (19) have paid-up capitals of RO100, 001.00 to RO150, 000.00.

The table also showed that most of the SMEs are located in Muscat and Sohar, 200 (40%) and 126 (25.2%), respectively. Others locations are at Al Buraimi, 75SMEs (15%), Sur, 50 SMEs (10%) and in Nizwa, 49 SMEs (9.8%). It is worthy to note that these numbers are reflective of the preponderance of SMEs in these locations and it influenced our sampling processes. Muscat is the capital of the Sultanate and this showed that it is host to a large number of SME. This is evidence that it had attracted many youths due to its position as the seat of power and the good infrastructures. It therefore, may have been the reason for the low income status of majority of the SMEs. The pressure of living in the city and the expenses on housing and office accommodation, feeding and transportation must have eaten deep into their revenues. This may have implication on the increasing investment towards a sustainable future for

the SMEs. The provision of affordable accommodation through low cost housing projects, alternative means of transport and special discounts for water, electricity and sanitation bills would be of benefit to the SMEs. These relative numbers in different cities should guide future planning and policies.

Communication is an important aspect of present day business and the use of internet has been the bedrock of most businesses Ashrafi and Murtaza, (2008). From table 5.2, it was observed that 390 (78%) of the SMEs surveyed in Oman do not use licensed software to aid their business in terms of communication while only 110 (22%) indicated that they use licensed software in their computer transactions. This corroborated the earlier assertion that the cost of doing business in the cities had been quite challenging to the SMEs. It is obvious that they are concentrating on the payment of bills for the basics of life (transportation, water, food, clothing etc) and considered the use of internet a luxury. Of course, this had kept their business stagnant. Little wonder then, that majority are making annual revenue of RO 50, 000.00 or less.

5.4 Descriptive analysis5.4.1 Constraints Faced by SMEs

	Strongly	y disagree	Disa	Disagree Quite agree		te agree	Agree		Strongly agree			Verbal interpretation
	f	%	f	%	f	%	f	%	f	%	WM	verbar met pretation
Utility & services	0	0	0	0	76	15.2	236	17.2	188	37.6	4.22	201200
Access to land	0	0	0	0	/0	13.2	230	47.2	100	57.0	4.22	agree
Electricity	0	0	0	0	0	0	234	46.8	266	53.2	4.53	agree
Transportation	0	0	0	0	0	0	216	43.2	284	56.8	4.57	agree
Telecommunication	98	19.6	43	8.6	93	18.6	134	26.8	132	26.4	3.32	agree
Access to water	0	0	0	0	0	0	250	50.0	250	50.0	4.50	agree
Average											4.23	Agree
Regulations	0	0	0	0	61	12.2	214	42.8	225	45.0	4 33	Strongly agree
Tax rates	0	0	Ŭ		0 01	12.2	211	12.0	223	1210	1.55	Subligity ugree
Customs regulations	0	0	0	0	0	0	188	37.6	312	62.4	4.62	Strongly agree
Trade regulations	0	0	0	0	24	4.8	174	34.8	302	60.4	4.56	Strongly agree
Labour regulations (national workers)	77	15.4	34	6.8	98	19.6	135	27.0	156	31.2	3.52	Strongly agree
Labour regulations (expatriate workers)	0	0	0	0	0	0	201	40.2	299	59.8	4.60	Strongly agree
Average											4.33	Agree
Operational requirements	0	0	0	0	0	0	250	50.0	250	50.0	4 50	agree
Business licensing & operating permits	Ŭ	0	Ŭ	0	Ŭ	Ŭ	200	20.0	200	2010	1.5 0	ugree
Access to financing	0	0	0	0	0	0	125	25.0	375	75.0	4.75	agree
Cost of financing	138	27.9	25	5.1	17	3.4	219	44.3	95	19.2	3.22	agree
Average											4.16	Agree

Table 5.3: Constraints faced by SMES in utility & services, regulations, operational requirements

It was observed that among the five items under the variable of utility services, all the respondents (100%) were of the opinion that electricity, transportation and water were major constraints facing the SMEs. There was a strong indication that access to land was a constraint despite the fact that 15,2% were not sure if it was a problem. However, almost half of the respondents did not believe that telecommunication was a major constraint as 28.2% totally disagreed and 18.6% reported quite agree. This supported the earlier conclusions that the inability of the SME owners to own licensed computer software was due to expenditure on the basic necessities of life like water, transportation and electricity. The fact that almost half of the respondents believed that telecommunication was not a major challenge was indication that the ICT infrastructure was available within their areas of operation. However, it must have been out of reach of many, given the fact that 78% of respondents could not afford the licensed software. According to Ashrafi and Murtaza (2008) the high cost of ICT and unavailability of information regarding ICT solutions was a major barrier to the adoption of ICT by SMEs in Oman. The studies by Harindrananth et al (2008) corroborated this assertion. Generally, the mean values also indicated that the all items were approximately within the Likert scale of agree (Likert scale 4.0) except the mean of telecommunication item which was on the scale of quite agree (Likert scale= 3.0). Overall, the respondents agreed that utility services were a constraint to SME business. (Mean = 4.23,Likert Agree = 4.0).

The results of the items on regulation induced constraints showed that all the respondents (100%) agreed that custom regulations, trade regulations and labour regulations (expatriate workers) were constraint faced by SMEs. Even though majority agreed that taxes and labour regulations (National workers) were constraints, a few of the respondents, 12.2% and 4.8% respectively, were undecided. These results showed that the SME owners were not happy with the government regulatory mechanisms with.

Respect to taxes, customs and workers. It appears that the increase in workers demand is also weighing on them due to lack of regulation to that effect. When the items are were examined in relation to their means, custom regulations was ranked the highest constraints followed by labour regulations (expatriate workers). Surprisingly, labour regulations (National workers) were rated least despite their increasing demand for wages. This showed some form of bias towards the expatriates whose services had been more affordable to the SMEs. This result is contrary from the results of Quader & Abdullah, (2009) where all the items on regulations had a mean of below 3, showing an overall disagreement by respondents. However, their response on tax was approximately neutral.

The descriptive statistics for the operational requirement showed that all the respondents (100%) agreed that business licensing and operating permits and access to finance were constraints while a few of the respondents (31%) disagreed that cost of financing was a constraint. It was interesting to note that 75% strongly agreed that access to finance was a constraint. When the means were examined, access to finance was ranked highest with its mean (4.75) approximately in the strongly agree scale (Likert scale strongly agree = 5.0).

When the three major variables of constraints are considered with respect to their means, it is concluded that regulations constraints was ranked highest mean = 4.33 and standard deviation = .727 (chapter 4) followed by utility services = 4.23 and standard deviation = 0.726 (chapter 4) and then operational requirements = 4.16 and standard deviation = 0.821 (chapter 4). This is an indication that even though they are spending on the utilities, the respondents felt strongly on their expenses to government and agencies. The study by Quader & Abdullah, 2009 reported that the respondents agreed that unavailability of finance, bank interest, high cost of raw materials and high

cost of equipment as the means of these items were approximately 4. However, collateral and lengthy procedure was rated quite low.

5.4.2 Performance of the SMEs

Table 5.4: Performance of SMEs in terms of productivity, growth, market performance

	Very low		Very low Low		Quite high		High		Very high		WM	Verbal
	f	%	f	%	f	%	f	%	f	%		interpretation
Productivity												
Labour productivity	41	8.2	142	28.4	185	37.0	132	26.4	0	0.0	2.8160	quite high
Capital productivity	20	4.0	144	28.8	213	42.6	123	24.6	0	0.0	2.8780	quite high
Overall productivity	20	4.0	120	24.0	243	48.6	97	19.4	20	4.0	2.9540	quite high
Average											2.88	Quite high
growth												
Sales growth	30	6.0	150	30.0	133	26.6	147	29.4	40	8.0	3.0340	quite high
Profit growth	30	6.0	151	30.2	154	30.8	125	25.0	40	8.0	2.9880	quite high
employment	72	14.4	198	39.6	201	40.2	29	5.8	0	0.0	3.3740	quite high
Average											3.13	Quite high
Market performance												
Consumer satisfaction	62	12.4	139	27.8	209	41.8	90	18.0	0	0.0	3.6540	high
Consumer loyalty	10	2.0	41	8.2	110	22.0	178	35.6	161	32.2	3.8780	high
Average											3.77	High

The results of productivity showed that 73% of respondents either scored their labour productivity low or quite high. Labour productivity is the measure of their total output to the total number of hours of work that was put in by the workers for the total production. Also, a slightly higher number of respondents (75.4%) reported low to quite high capital productivity. Meanwhile the overall productivity, which is a measure of the labour and capital combined, was also scored low by majority of respondents (76.6%).

This has been recognized in previous studies (Welsch 2013; Lages and Montgomery 2005). This indicates that the number of labour deployed by the SMEs is either to many or the equipment is not working to full capacity. Given the relationship between labour and capital, it can also be concluded that the low productivity reported may be evidence of adequate but redundant employee. This therefore has implication on the criteria for the loans in relation to the employment generation and the maintenance of the equipment. The mean value = 2.88 and standard deviation = 0.81 chapter 4).

The growth variable is measured by sales, profit and employment growth over the past three years. The results of the respondent's views on these items are shown in table 5.4. It can be observed that only 37.4% and 33% of respondent respectively agreed that there were high sales and profit growth. It is interesting that about an equal number of respondents 26.6% and 36% respectively reported quite high and low for sales growth. The same scenario was evident in their responses for profit growth where 30.8% reported quite high and 36.2% reported low profit growth. On the item of employment, majority (94.2%) were of the view that the employment rate was either low or quite high. However, the fact that almost half (40.2%) of the respondents viewed the employment rate as quite high was an indication of a perception of adequate level of employment. Again, of the respondents who did not agree to having a high sales and profit growth (63.6% and 67% respectively), almost half of them (26.6% and 30.8% respectively) reported quite high. This was indication that there was neither loss nor profit, a situation that can be term a break even condition. In consideration of the means of the three items that measured growth, they all were viewed as quite high with respect to the likert scale. This showed the complex nature of the growth measure. According to Morene and Casillas (2008) a more complex positive relationship existed between growth and entrepreneurial orientation (EO). This has been therefore depicted in their

assessment of their enterprises. The mean value = 313 and standard deviation = 0.71 chapter 4).

As stated earlier, the productivity was low due to either employment or lack of adequate maintenance of equipment. However, since the majority of respondents reported that the employment rate was either low or quite high, besides the break even state of the majority of the SMEs, it can be concluded, from the analysis of the respondents' view of the productivity and growth items, that lack of adequate maintenance of the machinery was the cause of low productivity and low growth.

Two items were used to measure market performance, namely, consumer satisfaction and loyalty. The results of the respondent's views on them are shown in table 5.4. It showed that even though only 18% agreed that their customers are satisfied, an equal number of respondents reported quite high (41.8%) and low 40.2%. On customer loyalty, more than half (67%) agreed that their customers were loyal while 22% reported quite high and 10% reported low to very low. When the mean of these items were considered, their mean were 3.65 and 3.87.and standard deviation = 0.75chapter 4). for customer satisfaction and loyalty respectively. It can be said that their mean approximated to the likert scale of high (likert High = 4). It is interesting that they agree that their customers were both satisfied and loyal. However, the fact that up to 41.8% of respondents reported quite high despite a general agreement that their customers are loyal is an indication that, while the respondents believed in their products, they are of the opinion that the lack of maintenance of the equipment has hindered them from meeting the needs of their customers. Hence, they knew that even when their products are of commendable quality, their customers are unhappy because of reduced production due to possible equipment breakdown. The effect of globalization and the technology might also have been responsible for the customer behaviour.

5.4.3 Government assistance to SMEs

	Very in	sufficient	insuf	ficient	Quite s	sufficient	suffi	icient	Very s	ufficient	WM	Verbal interpretation
	f	%	f	%	F	%	f	%	f	%		
Financial assistance	248	49.6	113	22.6	41	8.2	70	14.0	28	5.6	2.0340	very insufficient
Market assistance	103	20.6	124	24.8	164	32.8	98	19.6	11	2.2	2.5800	quite sufficient
Technical assistance	81	16.2	113	22.6	173	34.6	85	17.0	48	9.6	2.8120	quite sufficient
Advisory assistance	70	14.0	115	23.0	104	20.8	200	40.0	11	2.2	2.9340	sufficient
Management assistance	60	12.0	106	21.2	102	20.4	172	34.4	60	12.0	3.1320	sufficient
Infrastructural assistance	39	7.8	86	17.2	71	14.2	145	29.0	159	31.8	3.5980	very sufficient
Average											2.85	Quite Sufficient

Table 5.5: Government assistance to SMEs

Government assistance was measured by six items and the results are shown in table 5.5. From the result, a majority of respondents (72.2%) were of the view that the financial assistance was insufficient. In the meantime, the few number (8.2%) that reported just quite sufficient and the 19.6% that agreed were evidence that government truly gave loans but they were insufficient. On market assistance, even though majority (44.8%) were of the view that the market assistance was very insufficient, 21.8% agreed that it was sufficient. Meanwhile, 32.8% reported that the market assistance was quite sufficient, indicating that they were not sure of what market assistance was. The response to the technical assistance presented interesting scenario. For instance, while 38.8% responded that it was insufficient, almost an equal number (34.6%) was of the view that it was quite sufficient. However, 26.6% considered the technical assistance sufficient. The advisory assistance was considered by the majority (42.2%) as sufficient, while an almost equal number (37%) reported insufficient. Those that reported quite sufficient were about 20.8 %. For Management assistance, majority of respondents (46.4%) reported that they considered it sufficient, while 33.2% and 20.4% respectively responded insufficient or quite sufficient. The majority of respondents endorsed the state of infrastructure of the Sultanate as 60.8% were of the view that the infrastructural assistance was sufficient. However, while 25% reported insufficient, 14.2% reported quite sufficient.

The overview of the means of the six government assistances to SMEs showed that infrastructural assistance had the highest rating (3.59) and approximated to sufficient, followed by management assistance (3.13). Expectedly, financial assistance was ranked lowest (2.03), indicating that it was the least perceived of all the government assistants. It is also worthy to note that with the exception of financial assistance, the mean of all other forms of assistances, as shown in table 5.5, were perceived to be quite sufficient as their means approximated to the Likert scale of 3 respectively. The value

mean = 2.8 and standard deviation = 0.97 (chapter 4) the implication is the recognition that the state of infrastructure were sufficient for the business of SMEs however, the lack of finance had hindered the full utilization of the infrastructural services like electricity, transportation, communication and water. It also showed that the perception of the respondents about other forms of assistance is hazy indicated a more proactive approach by government through awareness campaigns. Sousa and Brandley (2009) were of the view that government assistance is very important in the growth of SMEs. According to Czinkota, (1994) the creation of new jobs should be the reasons for government assistance.

5.5 Correlation Analysis

In determining the relationship between the dependent and independent variables, Correlation analysis was employed. Bivariate correlation was applied since there are many variables. The existence of significance prepares the analysis for a further evaluation with regression analysis. The results of the Pearson correlations are shown in table 5.6

5.5.1 Relationship between performance of SMEs and constraints

Type of Constraint	Correlation coefficient	Utilities and services	Regulations	Operational
Sales growth	Pearson	.055**	049*	576**
	P-value	.008	.032	.000
Profit growth	Pearson P-value	087	.066	.114
Productivity	Pearson	115	083	194
	P-value	.068	.163	.332

Table 5.6: Correlation result of constraints facing SMEs and performance

*Correlation is significant at the 0.05 level (2-tailed).

** Correlation is significant at the 0.01 level (2-tailed)

The results of the correlation between the constraints and performance showed that utilities/services, regulations and operational are significantly correlated with sales growth while other measures of performance did not correlate with the constraints. This is quite surprising. Meanwhile, it is surprising still that utility is positively correlated with sales growth meaning that as the constraint from it is reduced, the sales growth is reduced too. However, the negative correlation recorded with regulations and operations is a welcome development as it indicates that as these constraints are reduced, the sales growth is increased. The effects of operational constraints cover business financing, operating permits and interest rate. These constraints have been recognized in literature as being able to affect the performance of an SME adversely (Sharma and Gounder, 2011; Quader & Abdullah, 2009). According to the study by Quader & Abdullah, (2009) regulations and operational constraints were perceived in Bangladesh as major constraints facing SMEs.

5.5.2 Relationship between growth of SMEs and government assistance

Covomment accistones	Growth of SMEs indicators					
Government assistance	Sales		Profi	t		
Financial assistance	Pearson Corr. .364**	P-value 0.000	Pearson Corr. .317**	P-value 0.000		
Market assistance	.168**	0.000	0.013	0.771		
Technical assistance	.185**	0.000	0.051	0.253		
Advisory assistance	-0.069	0.123	182**	0.000		
Management assistance	-0.073	0.101	157**	0.000		
Infrastructure assistance	0.084	0.059	0.067	0.137		
Total	.139**	0.002	0.029	0.514		

Table 5.7: Correlation results of growth of SMEs and government assistance

*Correlation is significant at the 0.05 level (2-tailed).

** Correlation is significant at the 0.01 level (2-tailed)

From the result of the correlation showed that there is a significant relationship between financial assistance and sales growth and profit growth (p = 0.00). Technical assistance has a significant positive relationship with sales growth while its relationship with profit was not significant (p = 0.25). There is also a significant relationship between market assistance and sales growth (p = 0.00) while the relationship with profit was not significant (p = 0.771). The relationship between advisory assistance and sales growth was negatively correlated but not significant (p = 0.12). However, its relationship with profit was significant and negatively correlated (0.00). Management assistance had a non-significant negative relationship with sales growth (0.10) but had a significant positive relationship with profit (p = 0.00). The relationship between infrastructural assistance and sales growth was not significant (0.06), and its relationship with profit growth is also not significant (p = 0.13). Overall, government assistance had a positive relationship with sales growth (0.00) however its relationship with profit growth is not significant (0.51). The results implied that the application of financial, market and technical assistance will positively affect the sales growth. Hence, as these assistants increase, the sales growth increases. On the other hand, the application of financial assistance will increase profit growth. However, since growth has a negative significant correlation between management and advisory assistance, it posits that as the two assistances are increased, profit is reduced. This relative effects on sales and profit growth is in line with some previous studies which have recognized that financial assistance leads to increased growth and performance (Mlinari and Mlinari, 2010; Ling-yee, 2004). Surprisingly, this result showed that infrastructural assistance cannot increase performance in terms of either sales growth or profit growth. This may be true given that the infrastructural assistances are mostly shared by the society at large. The roads, water, electricity and basic amenities have been seen from this analysis not to affect profit and sales.

5.5.3 Impact of government assistance on SME constraints

The results of the correlation of the impact of government assistance on reducing

the SMEs constraints are shown in the table 5.8

Type of Constraint	Correlation coefficient	Financial	Market	Technical	Advisory	Management	Infrastructure	Total
Utilities & services	Pearson	.067	051	.079	.026	.016	.038	.038
	P-value	.135	.257	.078	.569	.728	.394	.395
Regulation	Pearson	057	.035	.051	.066	.090 [*]	.070	.052
	P-value	.203	.433	.251	.139	.045	.119	.246
Operational	Pearson P-value	215 ^{**} .000	083 .063	174 ^{**} .000	051 .259	065	071	138 ^{**} .002

Table 5.8: Correlation result of government assistance on reducing the SMEs constraints

*Correlation is significant at the 0.05 level (2-tailed).

** Correlation is significant at the 0.01 level (2-tailed)

From the result of the correlation showed that there is a non-significant relationship between utilities and services and all the government assistance. This implied that the constraints posed by the items of the utilities and services are quite resistant to government assistance. This might be expected since most of these services are provided by government. Hence, the government cannot cancel its own processes and structures.

The relationship between regulation and government assistants showed no significant relationship except with management assistance where there is a positive significant relationship. This was supported by the study of Ciszewska-Mlinaric & Mlinaric, (2010) where they noticed a positive relationship between management team and the performance of the SMEs. This however, indicates that the application of management assistance cannot be beneficial to helping the SMEs overcome the regulations constraints. That means that only the application of special managerial skills can help reduce these constraints. It then calls for more emphasis on the training and

capacity building for the SME owners and employees for instance in the areas of tax, customs and trade requirements. Financial and technical assistants showed a significant negative correlation with operational requirements of constraints. Hence, as they are increased, operational constraints will be reduced. However, operational requirement is not significantly related to other government assistants. The implication is that financial and technical assistants are the most important assistants that can reduce constraints faced by SMEs. These two variables have been recognized in several literatures as being a major source of growth of SMEs (Kira, 2013). The study of Bari *et al* (2005) concluded that the key constraints faced by the SME sector in Pakistan are lack of access to credit, excessive government regulation, an arbitrary and exploitative tax administration system, a weak technological base, and the lack of business support services. These constraints essentially covered the key results of this study which ranked financial and technical highest. It is noticed that most of the operational constraints are monetary and so can be alleviated by the financial assistance from government.

5.6 Regressions results: Effect of firm characteristics

The regression analysis of the controlled variables showed that the relationship between constraints and number of employees is significant (p < 0.05) (Table 5.9). The other variables which include education, number of years of SMEs and paid-up capital are not statistically significant (p > 0.05). This therefore showed that the level of education, the age of the SME and the paid up capital cannot prevent constraints from affecting the enterprise. However, the size may prevent constraints. This is because the size of the firm makes it increasingly possible for the engagement of competent hands that will make them more productive people. Also, the size will aid the acquisition of better machinery for production efficient (Sandesara, 1966; Rosli and Sidek, 2013). The control variables for performance in terms of productivity showed that education and number of years of SMEs are not significant in increasing the performance of SMEs (p > 0.05). However, the number of employees is significant (p < 0.05), while paid up capital and government assistance variables are not significant (p > 0.05). The implication is that the level of education cannot guarantee innovative ability (Dyke and Fisher, 1992). Business and technical skills relating to any business can be acquired by learning and experience and therefore may not depend of level of education. The size, however can guarantee performance. The increasing employee gives advantage of more involvement of staff towards innovation, good recruitment and healthy competition for increased performance (Rosli and Sidek, 2013).

From table 5.9, the regression analysis revealed that market performance, in terms of customer loyalty and satisfaction has significant relationship with constraint variables while, the relationship with paid up capital is significant (p < 0.05). However, number of years of SMEs and number of employees has no significant effect the market performance (p > 0.05). but education is significant (p < 0.05). This implication is that there is increased customer satisfaction and loyalty when the organization was able to attract the right staff because of its size. The engagement of the customer friendly staff, efficiency in production and employment of technically superior staff all combine to make the customer both loyal and satisfied (Lin *et al*,2008). However, the level of education and the age of the enterprise cannot make a customer to appreciate services.

	Constraints SM	faced by IEs	Product	ivity	Market per	formance
Variables	Coefficient value	P-Value	Coefficient value	P-Value	Coefficient value	P-Value
Constant	28.982	.00	9.631	0.00	20.462	0.00
Education	.04	.87	-0.08	0.00	-0.14	0.00
No of years of SMEs	-0.83	.14	0.22	0.95	-0.06	0.78
Number of employees	1.42	.00	-0.45	0.20	0.22	0.24
Paid up capital	-0.80	.06	0.34	0.00	-0.67	0.00
Government Assistant	0.00	.09	0.08	0.01	-0.12	0.00
R-square	0.04	.04	0.16	0.00	0.13	.012
F	12.80	.00	11.98	.00	13.13	0.00

Table 5.9: Control variables for constraints, productivity and market performance

5.7 Regression Analysis

The individual and simultaneous relationships within variables are tested using multiple regressions. In the model of regression output, several parameters are evaluated. The beta coefficient determines the strength of the association between the dependent and independent variables. The value of R can be positive or negative and it indicates the direction of the relationship. It represents the correlation between the predicted values and the observed values of the dependent variable. Furthermore, the absolute value of R points to the strength, with larger absolute values pointing towards stronger relationships. The values of R squared range from 0 to 1 and it represents the proportion of variation in the dependent variable explained by the regression model. If the value is small, it shows that the model does not fit the data of the population well. If the significance value of F is larger than say 0.05 then the independent variables do not

explain the variation in the dependent variables and the null hypothesis of no difference is rejected.

5.8 Test of hypotheses

Regression analysis using the General Linear Model procedures was used to analyse and test the hypotheses. There are forth main hypotheses which were formulated to guide the conduct of this research as follows:

H1: Constraints faced by SMEs in Oman reduce the sale growth of SMEs.

H2: There is a positive relationship between the Government assistance and SME performance.

H3: Government assistance reduces the constraints faced by SMEs (utility & services, regulations, operational requirements) thereby improving the performance of SMEs.

H4: Constraints faced by SMEs lower the productivity (labour, capital and overall productivity) of SMEs.

5.8.1 Testing hypothesis H1

Dependant variables	Independent variables	В	Std. Error	Т	Sig.	R ²
Sales growth	Intercept Utility services	3.206 0.24	.127 .023	13.348 .701	.000 .447	0.113
Sales growth	Intercept Regulations	2.481 -0.026	.096 .047	11.875 .559	.000 .576	0.037
Sales growth	Intercept Operational	1.666 -0.311	.137 .028	12.564 .571	.000 .000	0.178

Table 5.10: Parameter estimate of constraints and performance

Table 5.10 shows that there is a significant negative relationship between sales growth and operational constraints. This has been reported in several literatures

(Bannock *et al.* 2002; Batra and Tan 2003; Beck *et al.* 2004). The model for sales growth and operational constraints can be given by the following equation:

Sales Growth = 1.666- 0.311 (operational constraints).

Thus, **H1**: Constraints faced by SMEs in Oman reduce the sale growth of SMEs is accepted.

The beta value shows that the relationship is negative so that any decrease in operational constraints will lead to an increase in sales growth. However, the R^2 value is 0.178 which can be considered weak, implying that operational constraints can only explain 17.8% of the sale growth. This is an indication that the increase in sales growth can still be caused by other factors, which draws implication on the source of alternative ways other than the reduction of in the operational constraints. For instance, the fact that the increase number of employees can reduce the constraints through the engagement of the required level of staff in terms of expertise will be a good consideration for the SMEs.

5.8.2 Testing hypothesis H2

Dependent variable	Independent variable	В	Std. Error	Т	Sig.	\mathbf{R}^2
Sales growth	Intercept	2.593	0.148	17.49	0.000	0.139
	Gov. assistance	0.155	0.049	3.14	0.002	
	Intercept	2.897	0.147	19.72	0.000	
Profit						0.029
	Gov. assistance	0.032	0.049	0.65	0.514	

Table 5.11: Parameter estimates of sales & profit growth up	pon government assistance
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Based on the results in Table 5.11, there is a significant relationship between Government assistance and sales growth while for the profit growth, the result is not significant. This showed that the greater the government assistance, the higher is the sales growth of the SMEs. The R^2 is 0.139 which showed that the sale growth can only explain 13.9% of the model. The model for sales growth can be given by the following equation

Sales Growth = 2.593 + 0.155 (Government assistance)

Thus, **H2** is accepted: There is a positive relationship between the Government assistance and SME performance in terms of sale growth.

This has reiterated the evidence from the earlier analysis that showed the correlation between most of the items of the government assistance and performance measures. However, there is need to examine closely since it has been concluded that government assistance can increase only sales growth. Even though some previous studies have linked government assistance to performance (Kira *et al*, 2012; Sharma and Gounder, 2011; Sousa and Bradley, 2009), there are some interesting implications from this study. From the result of the correlation analysis, there was no relationship between infrastructural assistance and sales growth. Again, luckily, the two items, advisory and managerial assistance that had negative correlation with sales growth were not significant. Hence, three items, financial, market and technical assistants will explain the effect of government assistance on performance in terms of sales growth. Fortunately, these three items were positively and significantly correlated. Consequently, these three items will work together to ensure increased sales growth.

The financial assistance will be important in the acquisition of the necessary operational materials, machinery and maintenance and motivation of employees to work hard (Sousa and Bradley, 2009). The provision of technical assistance will ensure that the employees are well trained to maintain the equipment to ensure optimal production and efficiency (Rosli and Sidek, 2013) and the marketing assistance will enable the use of ICT to track markets and know where and when the market is available (Kellermanns, Eddleston, Sarathy, & Murphy, 2012). Therefore, the combination of financial, market and technical assistants can ensure the increase in sales of the SMEs business. However, it can be posited that since the effect of the government assistance could only explain 13.9% of the sales growth, the overall increase in performance must have been affected by factors which include the internal and external business environment, as the enterprise struggles to compete and survive (Porter, 1992). It is therefore, important for government to provide a level playing environment and help the SMEs within the ambits of its fiscal and structural policies.

5.8.3 Testing hypothesis H3

The three constraints faced by SME variables of Utility & Services, Regulations and Operational were regressed upon Government Assistance. The parameter estimates from the regression analysis are presented in Table 5.12.

Dependent variable	Independent variable	В	Std. Error	Т	Sig.	\mathbf{R}^2	
Operation constraint	Intercept	2.806	.162	17.348	.000	0.138	
•	Gov. assistance	-0.167	.054	-3.101	.002		
Regulations constraint	Intercept	2.481	.096	25.875	.000	0.052	
	Gov. assistance	0.037	.032	1.161	.246		
Utilities & Services	Intercept	1.841	.137	13.414	.000	0.038	
	Gov. assistance	0.039	.046	.851	.395		

Table 5.12: Parameter estimate of constraints to SMEs and government assistance

Based on the results, there is a negative relationship between Government assistance and Operational constraints but no significant relationship with Utility Services or Regulations. Thus, as the government assistance is increased, the operational constraints faced by the SMEs are reduced. The following equation explains the relationship. Operational = 2.806 - 0.167 (Government assistance).

Hence, **H3**: Government assistance reduces the constraints faced by SMEs (utility & services, regulations, Operational) thereby improving the performance of SMEs, is supported.

In comparing the results of this analysis with the results of the correlations, interesting observations can be deduced. For instance, even though a significant relationship existed between government assistance and operational constraints, only two items of the government assistance was correlated with operational constraint. It is interesting that the Beta is negative, so also is the negative correlation results. These are indications that increasing these government assistants will reduce the operational difficulties (Sousa and Bradley, 2009). It can be concluded that government assistance can only affect operational requirements of SMEs. Following this, it is inferred that among the six government assistances, only financial and technical can affect the operational constraints. It is worthy to note that, from the \mathbb{R}^2 value, the effect of the government assistance can only explain 13, 8% of the reduction in constraints.

This is considered impressive and it is expected that the proper application of these two assistants can affect other processes that will add to the reduction of constraints (Sherazi *et al*, 2013). It is therefore believed that there are other constructs that can contribute to the reduction of constraints. Thus, the SMEs should not only rely of the financial and technical assistance. Hence, as noted earlier, other factors like the employment of reliable, experienced staff can reduce constraints. However, it has been noted that factors that could help access loans even in the face of the obvious constraints include size and the phase of the development of SMEs (Berger and Udell, 1998), relationship perspectives (Beck *et al*, 2006).

Another major inference is that the little explanation by the two government assistances of the reduction in constraints is an indication of the importance of the application of all the government assistances in order to reduce constraints.

5.8.4 Testing hypothesis H4

The performance measures of SMEs as reflected by productivity were regressed upon the three constraints faced by SME. The variables examined are utility services, regulations and operational constraints. The parameter estimates of the regression analysis are presented in Table 5.13.

Dependent variable	Independent variable	В	Std. Error	Т	Sig.	\mathbf{R}^2
productivity	Intercept	3.657	.139	26.332	.000	0.06
	Regulation	lependent variableBStd. ErrorTSig. \mathbb{R}^2 Intercept3.657.13926.332.000 0.06 Regulation301.052-5.803.000 0.06 Intercept3.552.07547.393.000 0.14 Operational289.029-10.067.000 0.14 Intercept2.806.08234.285.000 0.02 Itilities & services.007.007.982.327				
productivity	Intercept	3.552	.075	47.393	.000	0.14
	Operational	289	Std. Error T Sig. ' .139 26.332 .000 .052 -5.803 .000 2 .075 47.393 .000 0 .029 -10.067 .000 5 .082 34.285 .000 .007 .982 .327			
	Intercept	2.806	.082	34.285	.000	0.05
ρεοαυτινιιγ	Utilities & services	.007	.007	.982	.327	0.03

Table 5.13: Parameter of constraints faced by SMEs upon productivity

Based on the results in Table 5.13, there is a significant negative relationship between productivity and the presence of regulation and operational constraints.. The lower the operational and regulation constraints faced by SMEs, the higher is the productivity. However, for Utilities & services, the relationship is not significant. The reason is that most of them services are subsidized. Therefore, they are not binding constraints in Oman. Thus, **H4**: Constraints faced by SMEs (for at least Operational and Regulations) affect the productivity which in turn leads to low performance among SMEs is supported by the data.

The following equations for the results are shown below:

Productivity = 3.657 - 0.301 (Regulation)

Productivity = 3.552 - 0.289 (Operational)

Productivity = 2.806 - 0.007 (Utilities and services)

The results of the Beta value showed that as there are negative relationship between the regulation and operational constraints and productivity. That means that as the constraints are reduced, the productivity is increased. However, the reduction of both constraints could only explain 20% of the increase in productivity. Meanwhile, the contributions of operational regulations are higher. This showed that it is not only the reduction of these constraints that can increase productivity. Hence, there is need to examine other organizational factors within the external and internal environments of the business (Morris *et al*, 2008; Ciszewska-Mlinaric & Mlinaric, 2010). The study by Murphy *et al*, (1996) also suggested that the measurement of firms' productivity had positive relationship with constraints. In addition, the small R^2 may be an indication of the imperativeness of the reduction of all types of constraints in order to increase productivity.

The effect of the control variables was felt only with number of employees which was significant (table 5.9). It will therefore be concluded that this effect will increase the effects of the constraints on the enterprise. This is contrary to the findings of Rosli and Sidek (2013). In other words, as the number of employees increase, the effect of the constraints increases. Thus, this will have serious implication on the level of assistance offered to older SMEs. This is important because since most of the government programs are directed to the new SMEs, the possibility that older

enterprises will attract less attention is obvious. Previous studies have implicated the effect of the control variable of firm size in the overall performance of SMEs (Sousa and Bradley, 2009). Previous researches have also argued that firm size can lead to some advantages in terms of export performance (Aaby and Slater, 1989). According to Brouthers and Nakos (2005) the age of an enterprise influences its operations in the domestic market by increasing the growth through increased sales.

5.8.5 Summary of the research model developed

Figure 5.1 summarizes the direct and indirect effects of Government Assistance to the SMEs performance relationships. The values are obtained from Tables 5.10, 5.11, 5.12 and 5.13.



Figure 5.1: Direct and Indirect effects of Government assistance on SMEs performance

SME performance is a function of government assistance and productivity. Government assistance affects the performance of SMEs directly and indirectly. Even though this model emphasizes the fact that the lack of government assistance affects the SME performance directly; the effect on the operational requirements is surprisingly stronger and goes to affect the productivity and ultimately the performance.

The direct effect is on the SME sales growth. This is explained by the fact that any increase in the government assistances will increase financial availability and lead
to increased market share. However, it is obvious that financial availability has impact on almost all facets of the SME activity and development. For instance, through the assistances technical and managerial expertise is enhanced. The added effect of financial and technical assistants will lead to increased performance through the rise in sales growth. The relative greater impact of government assistance on sales has implication on the overall growth of the SME. Therefore, this explains that the presence of only two assistances will not be enough for the growth of the SMEs. The presence of all the assistances is important in the realization of the goals and objectives of the SME which culminates into the firm's growth by affecting the sales and profit growth of the SME. This is justified further by the weakness of the R^2 . It is only when this situation is realised that it will be said to reflect a truly growth disposition. This leads to the development of the first theory: The application of all the six assistance is necessary in order to effectively increase the growth of an SME in terms of sales and profit.

Similarly, these government assistances will lead to the reduction of operational constraints in cost of finance. It is worthy to note that these constraints can affect the SME significantly in their daily schedules. The far reaching effect of lack of finance definitely affects the whole enterprise. Lack of access to finance and business licence and operating permits would entrench redundancy and in combination with the effect of finance, these constraints will affect the total output, which is the productivity. When the productivity, in terms of total output, is affected, then the sales growth is inevitably affected. However, the one directional effect of the assistance on constraints through the sales growth is surprising and draws implication on the ways in which government assistances affect constraints. Hence, unless these assistances are applied in such a way as to reduce the constraints, there will not be effects on profit. This leads to a second theory: Only the proper application of the six government assistance will lead to growth of the SMEs in terms of sales and profit.

More so, the fact that the relationships of some government assistance with certain constraints are positive is an indication that proper application is necessary if the constraints will be reduced. Otherwise, it will lead to increase in constraints. This study therefore infers that for this to occur, the application of government assistance must have been improper or haphazard. Thus, the implication is on the long term effect on the overall SME performance with uncoordinated, haphazard application of assistances. A prolonged effect on performance will lead to business closure, lack of re-payment, loss of government revenue and mass unemployment. Therefore, there is a need to design the assistances so that specific constraints are targeted in relation to the business environment. This will be achieved through the engagement of experts and researchers who must work together with the SMEs in order to effectively reduce constraints. A third theory is thus: If the government assistance is not properly designed to target specific constraints, there will be no growth of the SME in terms of sales and profit.

CHAPTER 6

FINDINGS, IMPLICATIONS, RECOMMENDATIONS AND CONCLUSIONS

6.1 Introduction

This chapter presents the key findings, inferences and recommendations based on empirical evidence and analytical interpretations contained in the preceding chapters. The purpose of this chapter is to spell out the implications for policy response and institutional direction towards fostering a healthy pace of SME expansion in Oman as a potential and sustainable source of wealth creation and employment generation.

It has been the expectation of the Sultanate of Oman that the Vision 2020 economic program will be propelled with greater emphasis on the role of SMEs in the overall development of the economy. This recognition has been a major motivation for this study. It is therefore our expectation that the results of this study will provide insight on new strategies that will help in the realization of the goals of the Vision 2020.

6.2 Key findings and implications

1. The increasing participation of women was revealed by the study. This has implication on the design and delivery of the training programs so that the peculiarities of the women gender in terms of culture can be emphasized in the overall initiative. Furthermore, this justifies the fact that a significant part of the study is the use of the data in an evidence – based paradigm. In so doing, the managers and entrepreneurs (which including the women) will be adequately informed about government a strategies in developing SMEs. the majority of the SME owners are single and below 40 years in line with government propositions. This has implication on the planning of the SME

business in relation to their married life to ensure the sustainability of the business.

- The study revealed that there are major disparities in the education level of owners of SMEs in Oman. This has implication on the levels of understanding during training and capacity building programs.
- 3. In addressing the global perspective it was recognized that global across the world emphasized the role of government in improving SMEs performance. This has also been applied in the Sultanate of Oman. The result revealed that there was a lack of cooperatives within the SMEs in Oman with majority of the SMEs being run as sole proprietorship. This has implication on the survival of the business in future. The formations of cooperatives foster unity and partnership and ensure the survival of the business.
- 4. One of the significant of the study is the real gain of specific constraints like utility & services, regulations and operational requirement in relation to the effect of government programs like financial, technical, advisory, market, management and infrastructure. The effects of these constraints were manifested by the slow growth in the SMEs as revealed by the paid-up capital, estimated annual revenue and the use of licensed computer. This has implication on the expenditure profile of the SMEs.
- 5. It is recalled that one of the significance of the study is the fact that specific constraints were addressing like electricity, transportation and water. The study revealed that among the utility services, the bills on electricity, transportation and water posed the greatest burden for the SME owners. The implication is that the ability of the SME owners to meet the needs of other expenditure that are relevant to their business will be hampered.

- 6. From the study, the SME owners felt strongly about the government regulations with regards to taxes, customs and trade unions. This justifies the fact that this study brought out specific constraints in term of regulations which had made the respondents to emphasize taxes, customs and trade unions. The implication is that there is the need to review the policies relating to these regulations with special considerations to the SMEs.
- 7. It was revealed that among the operational constraints, access to finance was ranked the highest constraint. This has implication on the ability of government to meet the needs of the SMEs. Hence, it showed that government alone cannot provide the financial requirements of the SMEs. It also showed that the application of all the assistance is necessary in order to reduce all the constraint.
- 8. Among all the three major constraints, regulation constraint was ranked highest. This showed that the policies relating to regulation needed to be redesigned to ensure that special clauses that will help the existence of SMEs must be incorporated.
- 9. The performance of the SMEs was average with good customer loyalty but the lack of maintenance of equipment decreased the production of goods and led to poor customer satisfaction. This has implication on the design of the SME empowerment programs. The issue of equipment maintenance must have been overlooked. It is worthy to note that the evidence – based paradigm most in this will encourage sharing of expenditure and interaction that will engender positive about government interventions.
- 10. The study revealed that with exception of financial assistance, the main purposes of all other forms of government assistance were not clear to the SME owners. The implication is on the proper design of the various assisted

programs. It showed that the levels of education were not considered during the design of the government programs.

- 11. From the study, there is evidence that as the operational constraints (cost of financing, access to finance, license and permits) are reduced, there will be increase in performance in terms of sales growth. This implied that running of an SMEs is financial intensive and their current financial support is not enough. Another implication is the various constraints must be reduced by government assistance before it will impact on the sales and profit growth.
- 12. The study revealed that the combination of three government assistances (Financial, market and technical assistances) will ensure increase in performance in terms of sales growth. This implied that even though, other assistance are delivered, there will be no increase in profit. Hence, for there to be increase in both sales and profit, the six assistance must be applied in order to lead to better performance.
- 13. From the study, two government assistances (Financial and technical assistances) were found to reduce operational constraints. The implication is that most monetary constraints of the SMEs (operational constraints) can be alleviated by the combination of financial and technical assistances.
- 14. The study showed that as the regulatory and operational constraints are decreased, the SME productivity is reduced. The implication is that the SMEs waste too much time and resources because they cannot afford the expertise that can handle their tax, custom, trade and labour regulatory requirements.

6.3 Recommendation

The key findings and conclusions of the study seem to be in line with current rethinking of the role of a development state. In the wake of market forces failing to set things right, as experienced by many countries during the recent cyclical downturn of the global economy, it is being increasingly realised that government intervention constitutes the key to unlock the development potential of countries. However, our study revealed that government intervention in terms of financial assistance was not enough to meet the needs of the SMEs. This study therefore, lends credence to the rethinking that the role of the government as a facilitator of major activities of the SMEs should be supported by the private sector. Dwelling on the above, an attempt is made in this section to present an agenda for action on the part of the Government of the Sultanate of Oman to pave the way for the dynamic growth of SMEs in Oman.

6.3.1 Cross-Country recommendation

The following recommendations draw on international experience across countries in promoting SMEs;

1. Creating an enabling policy environment

An enabling policy environment for facilitating growth of SMEs is aimed at reducing the cost of production and of doing the business through the creation of a conducive taxation system, utility services and operational requirements. An investorfriendly system of procedures should be in place in order for the SME business aspirants to be at ease in starting a new business and operate on a sustainable basis. An enabling business environment should also ensure that enterprises contribute to economic efficiency, ecological compliances and social inclusion. There will be the need for the periodic review of protocols regarding these issues.

2. Promoting strategic alliance between SMEs and large enterprise

In an increasingly competitive environment, large firms highly diversify strategic alliances with small and medium enterprises (SMEs) in order to take advantage of reduced overhead costs, lower wages and a greater degree of flexibility to respond to changing determinants of competitiveness as well as to take advantage of specialization and economies of scale. This is critical, particularly for SMEs involved in production activities. Industrial policy instruments that encourage SMEs to specialize in areas complementary to large-scale production, offering a wide range of inputs and services, are a prerequisite for enhancing competitiveness. However, government must monitor such strategic alliance in order to prevent outright acquisition or merger.

3. Creating public-private partnership

Public-private partnership interventions are aimed at increasing their sponsorship and assistance especially, SMEs that face global competition, is emerging as a new policy initiative. For instance, the involvement of banks has been a recognized process in SME development. However, their participation must be strengthened through partnership agreements directly with SMEs. This should also be extended to other financial institutions like insurance companies. The role of government reducing the information asymmetry will enhance their understanding for effective partnerships.

4. Creating cooperatives

The SMEs can also be encouraged to form cooperatives as a way of sharing burdens and forming specializations. Cooperative partnership interventions are aimed at increasing their sponsorship and assistance especially, SMEs that face global competition, is emerging as a new policy initiative. A good example comes from New Zealand. As part of an agenda to raise the country's export base, the formation of sector-specific joint action groups (JAGs) improved the ability of local stakeholders to raise their competitiveness through the support of the group. A number of JAGs are currently in operation, accounting for more than half of the country's total exports. It is emphasized that such formation of cooperatives requires adequate sensitization and monitoring so that behaviours of partners will continually be consistent with agreements.

5. Benchmarking of competitive policy environment

Intermediate institutions can play a major role in benchmarking best-practices. Benchmarking has two major features. First, in order to recognize best performance, it compares sectoral behaviour, business practices, market structures and public institutions across countries and sectors. Second, it uses reference to best performance as an instrument to identify directions for change and to maintain continuous pressure on all actors in industrial subsystems to move in that direction. In the European Union, regional development agencies are doing such benchmarking exercises to help stakeholders in their continual search for the best way of sharpening their competitive edge by replicating best business productivity. However, the need for strict monitoring must emphasized the need to avoid market gaming in the overall processes.

6. Implementing Policy interventions to enhance indigenous skills and capabilities

Investment flows to SME activities often fail to contribute to the enhancement of indigenous innovative capabilities and skills development. Strategic policy intervention in terms of incentives and intermediate policy measures like employment flexibility are required to enhance SME innovative behaviour. Further research in this area in needed to address the crucial issue of increasing funding for SMEs expansion. Case studies of country experiences are needed to learn lessons of how their indigenous innovative capabilities and skills through policy interventions were enhanced.

7. Strengthening the link between SMEs and research institutions

A decisive programme to strengthen linkages between SMEs and research institutions entails restructuring their activities in order to progressively become principal sources of skill acquisition and training, improving the use of technological resources and ensuring the transfer of knowledge generated in universities and R&D institutes. A high degree of institutionalized inactivity in industrial R & D could be averted by determined efforts to commercialize R&D through networking between firms and research institutions. This should be systematically pursued given the level of knowledge repository within the SME sector.

8. Facilitating shared vision partnerships

Developing a long-term vision is crucial for sustaining the performance of SMEs in Oman. In Colombia, Peru, Bolivia and Venezuela, for example, proposals to enhance sub-sectorial performance were developed on the basis of a vision of competitiveness shared by the public and private sectors. A similar approach has been attempted in Morocco and Jamaica. In Mexico, universities, entrepreneurs and the Government are engaged in defining a long-term vision of competitiveness as an instrument of social and economic development. To this end, high profile think tanks comprising representatives of universities, government and private sectors were formed in the above-mentioned countries in order to survey emerging trends across subsectors, and monitor changing determinants of competitiveness. However, the sources of funding must be explicitly stated to involve the private sector.

9. Promoting state-societal arrangements for enhancing competitiveness

State societal arrangements influence SME competitiveness through their impact on the speed of diffusion of new knowledge and technologies. Labour must be receptive to the introduction of new technologies in the workplace and businesses must be prepared to adopt new technologies in a timely manner. The State working with both business and labour will help to maximise the probability of creating new technologies and diffused rapidly. The receptivity of labour to the introduction of new technologies in the workplace depends on instilling the confidence that higher wages follow productivity increases. This confidence depends on state-societal arrangements to secure jobs through opportunities for training offered by relevant meso-organisations. In a rapidly growing technological age, the weakness of labour is often the result of a low societal commitment to raising skill levels in the workforce. There is bound to be extensive resistance to the introduction of new technologies in factories as it may lead to lay-offs of excess manual labour. Public institutional arrangements to ensure skill upgrading in collaboration with the private sector are crucial determinants in enhancing SMEs performance.

10. Creating the fundamentals for attracting FDI flows

In the past, providing an array of fiscal incentives was primarily considered as the way to attract foreign investment. Policy initiatives are currently directed to the creation of the required fundamentals that would automatically attract investments. Apart from a credible commitment to liberalization and macroeconomic stability, efforts are under way in a large number of developing countries and economies in transition to create strong infrastructural facilities, market services and utility services in selected locations. Recognizing the fact that FDI does not occur at the lowest level of the skills ladder, policy makers accord top-most priority to skill development for the formation of SMEs.

11. Multi-stakeholder partnerships

Multi-stakeholder partnership entails the involvement of the government, business groups, industry associations, scientists, academics, local communities and non-governmental organizations to forge partnerships to strengthen competitiveness. Such alliances with a wide range of expertise contribute significantly to the efficient flow of the supply chain, where all stakeholders play significant roles. The Genevabased World Business Council for Sustainable Development (WBCSD) has set up a Working Group to look specifically at the potentials of forging such partnerships in "greening" the supply chain. WBCSD is currently engaged in devising innovative strategies for the future. The objective is to provide a benchmark that can help stakeholders compare the actual performance with ideal state to sharpen their competitive tools. In this situation, a country specific process must be encouraged so peculiarities will be recognized.

12. Strengthening support systems and instruments

The role of institutions in fostering economically efficient, ecologically friendly and socially desirable patterns of business development needs to be evaluated in light of new industrial realities that show that knowledge is a resource and innovation is a force. Enhancing capabilities to commercialise new knowledge is crucial in fostering the process of sustainable industrial development, and ideally, the set of support systems and instruments must aim at strengthening linkages and networking, factor markets (capital flows, technology skills) and capabilities to overcome technical barriers to trade. This should be part of the current transformative shift from quantitative increase to qualitative improvement. At the global level, the programme accent is on promoting fast growing sole creating business green business.

6.3.2 Specific recommendations for the growth of SMEs in Oman

In consideration of the findings from this study, we wish to offer the following recommendations for proper SME development, productivity and growth in the Sultanate of Oman;

1. Creating an enabling environment is a key factor to the business development potential in Oman. There is the need to update the appropriate legislative structure through an enactment of a law for small, medium and micro-sized enterprises, which will include the definitions, procedures, conditions, documents and target groups and regulates the relationship between the concerned bodies, as well as granting some incentives to the small and micro-sized enterprises, such as tax and customs exemptions for the means and inputs of production.

2. The activities of the Business Development Centres across governorates of the Sultanate should be redesigned to close the gap of the cultural, educational and social disparities of the SMEs. This should be extended to banks and other major stakeholders working to improve the SMEs.

3. There is need to create more awareness and support the programmes of information technology in order for the Omani investment aspirants to venture into SME related activities.

4. Increase the incentives accorded the SMEs through the laws and regulations relating to selected priority activities and professions and financial and technical assistances.

6. Support training programmes for the owners of the small and medium enterprises throughout the various stages of their projects, especially immediately after embarking on their activity to the processes of maintenance of equipment. Such programmes should cover the different fields pertaining to the administration and the technical specializations.

7. Engage in the train the trainer strategy in order to support the training programmes for those in the government and improve their competency of delivery during the training of SMEs. In this regard, government should encourage international cooperation for exchange of knowledge and best practices.

8. Support partnerships with international and regional bodies and nongovernmental organizations that are experienced in developing and financing the small

193

and micro-sized enterprises so as to enhance the effectiveness and efficiency the enterprises.

9. Establish an authentic, reliable and valid database, statistics and information about the small and medium enterprise sector in the Sultanate of Oman to help in designing policies and strategies and for monitoring the developments in the sector. This will act as the main reference for the Government as it coordinates the SME activities within the framework of Vision 2020.

6.4 Conclusions

The aim of this thesis was to examine the extent to which government assistance influences the development of small and medium size enterprises (SMEs) in the Sultanate of Oman. In doing this, the study identified the constraints facing the SMEs in the Sultanate of Oman, examined the extent to which these constraints have influenced the performance of SMEs and examined the role of the government assistance in reducing the constraints faced by SMEs in Oman. In reviewing the theoretical part of the study, it was obvious that there were dearth of research on SME performance relating to the Sultanate of Oman. That stage therefore saw the use of results of other empirical studies to compare with the situation at Oman. Subsequently, a research model was developed and through the use of qualitative and quantitative techniques, the views of 500 SME owners in Oman were used to examine the research objectives. Based on the results of the study, the demographic characteristics showed that most owners are youths and there was a good representation of the women.

Furthermore, the descriptive results revealed that there was a slow growth of the SMEs due to major constraints like utility services, the bills on electricity, transportation and water bills. The effect of the government regulations with regards to taxes, customs and trade unions were evident. It was also revealed that while regulation constraint was

194

ranked highest, the operational constraints like finance was also felt significantly. The study revealed that with exception of financial assistance, the main purposes of all other forms of government assistance were not clear to the SME owners. From the study, there was evidence that as the operational constraints (cost of financing, access to finance, license and permits) are reduced, there will be increase in performance in terms of sales growth. Also, it was observed that the combination of three government assistances (Financial, market and technical assistances) will ensure increase in performance in terms of sales growth. The descriptive analysis implied that there is the need to review the policies relating to these regulations with special considerations to the SMEs.

The result of regression analysis revealed that there is a significant negative relationship between sales growth and operational constraints. Furthermore, the relationship between Government assistance and sales growth was significant while its relationship for the profit growth was not significant. It was also revealed that there is a negative relationship between Government assistance and Operational constraints but no relationship with Utility Services or Regulations. Thus, as the government assistance is increased, the operational constraints faced by the SMEs are reduced leading to higher sales growth of the SMEs. The model developed emphasized that the facts that while the lack of government assistants affect SME performance directly, the effect on the operational requirements is stronger and goes to affect the productivity and ultimately the performance.

Generally, the conclusion of the study was in line with the current rethinking that the role of government intervention in the development of SMEs should be in conjunction with the private sector. It was therefore further recommended that the overall SME initiative should be driven by constant re-evaluation, monitoring, promotion of strategic alliances and cooperatives and decentralization of interventions in line with the socio-cultural make-up of the SME sector.

6.5 Future studies

Three major studies for the future can be deduced from the three theories developed. First, a study on the ways and manner in which the six forms of assistance can be applied in order to effect the growth in terms of sales and profit.

A second study will be a study on ways in which all the six government assistants can be correctly applied in order to increase growth in terms of sales and profit.

Another study will be on to what extent can each of the six government assistants be applied in order to target specific constraints so that there will be increase in growth in terms of sales and profit.

This study employed subjective measures of performance. It is therefore our suggestion that in future, objective performance determinants and measures can be used.

Another suggestion for future research is in the use of a statistical analysis like the structural equation modeling (SEM) in developing the model.

It will also be of benefit to explore the role of culture in the overall application of government assistants for improved performance in terms of sales growth.

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APPENDIX

Appendix A Cover Letter

December, 20. 2010 Dear Respondent,

I am a student of University of Malaya and I am conducting a study "The Role of Government Economic Programmes in Developing Small and Medium Enterprises in the Sultanate of Oman", in fulfilment of a PhD course with University of Malaya, Malaysia. This research project is not a funded one. The objective of this research project is to examine the extent to which government assistance influences the development of small and medium size enterprises (SMEs) in the Sultanate of Oman.

Enclosed with this letter is a brief questionnaire that asks a variety of questions about your attitudes toward knowledge sharing. I am asking you to look over the questionnaire and, if you choose to do so, complete the questionnaire and send it back to me before the end of April, 2011.

If you choose to participate, don't write your name on the questionnaire. I do not need to know who you are and no one will know whether you participated in this study. Your responses will not be identified with you personally. Nothing you say on the questionnaire will in any way influence your present or future employment with your enterprise.

I hope you will take a few minutes to complete this questionnaire. Without the help of people like you, research on SMEs in Oman could not be conducted. Your participation is voluntary and there is no penalty if you do not participate.

If you have any questions or concerns about completing the questionnaire or about participating in this study, you may contact me at 0096892497760 or at khillo65@hotmail.com

Sincerely,

Mubarak Ibrahim Adam Mohammed

Appendix **B**

Questionnaire's approval letter



P.O. Box : 550, Code No. : 100 Muscat Fax : 24781141, Telephone : 24781138-24781140 E-mail : info@mocioman.gov.om, البريد : الاتقاروني ص ب ١٠٠٠ ، الرمىز اليسريدي ١٠٠٠ مسقط قــاكس ٢٤٧٨١١٤١ ـ ماتف ٢٤٧٨١١٤٠-٢٤٧٨١١٤٠ موقع اليوزارة Website : www.mocioman.gov.om

Appendix C

Questionnaire

I am Mubarak Ibrahim Adam Mohammed with Passport no: B0357700 and Matric no: EHA 070023, a candidate for graduation for Doctor of Philosophy at Department of Economics and Administration, University of Malaya, and conducting study entitled, "The Role of Government Economic Programmes in Developing Small and Medium Enterprises in the Sultanate of Oman".

Please answer all questions below related to you and to your business. I thank you for your gracious cooperation. Please be assured that all information obtained from this survey shall be treated in complete confidentiality and used only a general data for academic purposes.

I. Direction: Please tick ($\sqrt{}$) in the box only once before each corresponding item.

A.	Personal	Profile

1.	Sex	Male	Female			
2.	Age	20-29 30	-39 40	-49	50 or more	
3.	Marital Status	Single		Bachelor		
4.	Highest Educa	ational Attainment	Degree	Dip	oloma	
Prima	ry School	Others				
B.	Business Prof	file				
5.	Number of year	ars of SME from es	stablishment			
1-5 ye	ars	6-10 years] 11 or mo	re		
6.	Form or Owne	ership of SME				
Sole	Proprietorships	Limited L	iability			
Limit	ted Partnerships	s Joint ve	entures]		

7. Nature of Business

Food and beverages Electronic and GSM Apparatus
Ready-made Garment Home Appliances and Cosmetics
Hand crafts
8. Estimated annual sales revenue
RO 30,000.00 or less RO 30,001.00RO 50,000.00
RO 50,001.00- RO 70,000.00 RO70,001.00 or above
9. Number of employees
1-9 10-99
10. Business location
Muscat Sohar
Sur Nizwa Al buraimi
11. Does your establishment use (software) technology licensed from a foreign-owned
company?
Yes No
12. Financial or Paid-up capital
RO 10,000.00 – RO 50,000.00 RO 100,001.0 RO 100,000.00
RO 100,001.00- RO 150,000.00 RO 150,001.00or more

II-A. Direction: You will find below common constraints faced by SMEs operators. These constraints occur starting from the utility services, regulations and during the operational of the enterprise which affect its establishment, operation and growth potential.

If you experienced any of the following constraints, assess the degree of your experience using Likerts' scale of response:

- 1 Strongly disagree
- 2 Disagree
- 3 Quite agree
- 4 Agree
- 5 Strongly agree

Items		Degree of Response						
		1	2	3	4	5		
Utilit	y & Services	1	1	1				
1.	Access to land							
2.	Electricity							
3.	Transportation							
4.	Telecommunication							
5.	Access to water							
Regu	lations	1	1	1	I			
6.	Tax rates							
7.	Customs regulations							
8.	Trade regulations							
9.	Labour regulations (national workers)							
10.	Labour regulations (expatriate workers)							
Operational requirement								
11.Business Licensing and Operating Permits								
12.Access to Financing (e.g. collateral)								
13.Co	13.Cost of Financing (e.g. interest rates)							

II- B. Kindly rate the performance of your enterprise in terms of productivity, growth and competitiveness. Use the scale below to measure your enterprise performance by ticking the space provided at the end of the line.

- 1-Very Low
- 2- Low
- 3- Quite high
- 4- High
- 5- Very High

Items		Degree of Response							
		2	3	4	5				
Productivity									
Labour productivity									
Capital productivity									
Overall productivity									
Growth									
Sale growth (Over the last 3 years)									
Profit growth (Over the last 3 years)									
Market performance									
Employment									
Consumer satisfaction									
Consumer loyalty									

II- C. Below is list of government economic programmes in the Sultanate of Oman in assistance to the SMEs. Kindly tick on the space provided to assess whether you receive enough assistance using the Likert's scale below:

- 1 Very insufficient
- 2 Insufficient
- 3 Quite sufficient
- 4 Sufficient
- 5 Very sufficient

Government Economic Programmes (Assistance)		Degree of				
		Response				
	1	2	3	4	5	
Financial Assistance						
Support by Financial Institutions/Banks by granting Capital Loans (Assistance) on Fast Track (immediate) & providing Bridge Loan (Soft Loans) to meet Entrepreneurs Contribution. Concessional Rate Of Interest, waiver of Processing Fees etc. to reduce the Cost Of Financing.						
Market Assistance						
a) Adequate Training to use ICTs for successful marketing.b) Assistance in the form of Free entry to the sponsored exhibitions, conferences, workshops to increase networking.						
Technical Assistance						
Technology development and transfer, involving the adaptation, design and development of technologies and their seamless assimilation to SMEs.						
Advisory Assistance						
Counselling and advice Enterprise, on reasonable basis for Accounting Systems and enhanced managerial capabilities & competitiveness, effective training.						
Management Assistance						
Business management, entrepreneurship, and particular business skills as marketing, accounting and finance by organizing Training Programmes to enhance Sales Growth & Increased overall productivity.						
Infrastructural Assistance						
Financing physical development (Factory space & Land) and improvements of facilities and providing, social & institutional infrastructure.						