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Enhancing SME impact on Economic Development in Sultanate of Oman

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Abstract. Small and medium-sized enterprises (SMEs) are a significant driving force behind Oman's economic growth. The government, academics, and economists agree that promoting entrepreneurship and small business development is an effective strategy for economic development. The purpose of this study is to investigate the role of SME entrepreneurs in economic development and examine the impact of SMEs on capacity building, employment generation, competitive markets, and technological development in Oman. The research design is empirical, and data was collected from 174 SME entrepreneurs in Oman. Structural Equation Modeling analysis revealed a significant and positive indirect effect of SMEs on economic development, with a path coefficient of 0.274 and a t-value of 2.562. From a socio-economic perspective, SMEs provide various benefits, including job creation, human capacity building, promoting competitive markets, and developing new technologies. Therefore, it is essential for governments to recognize the contributions of SMEs to national economy and wealth creation from the outset and incorporate them into the economic development process. The study's findings will provide guidance for developing new SMEs and understanding the expected role of SME entrepreneurs in contributing to economic development in Oman through capacity building, employment generation, promoting competitive markets, and technological development.

Keywords: Capacity Building, Competitive Market, Economic Development, Employment, SME, Technology, Wealth Creation.

1. INTRODUCTION

In Oman, small businesses have gained government recognition due to their significant contributions to job creation, local resource development, and their supportive role alongside larger firms (Oman Daily, 2001; Al Markazi, 2001). By fostering economic growth and development, these small enterprises contribute to a more prosperous society, enhancing the overall well-being of the nation. The emphasis on promoting small businesses in Oman extends beyond these contributions; it is also closely tied to the country's industrial structure.

As industrialization accelerates, Small and Medium Enterprises (SMEs) are expected to complement the activities of Large-Scale Enterprises by integrating into the core of industrial development. SMEs form the largest category of establishments within the economic sector (Al-Kharusi, 2003). Additionally, they provide an invaluable platform for entrepreneurs to increase their investments and refine their management skills. SMEs play a crucial role by enabling local investors to diversify into manufacturing and by offering accessible investment opportunities that align with both domestic investors and current managerial capabilities (Al-Dhahab, 2001).

Since many SMEs are rooted in the local economy, their connections with larger companies in Oman indirectly contribute to shared objectives, thereby promoting the growth and expansion of SMEs. As the Omani economy evolves into a more intricate phase of industrialization and becomes increasingly global in its operations, establishing an efficient network of supply industries is crucial for expanding export activities (Al-Markhazi, 2001).

1.1. Purpose

The main purpose of this research is to identify ways and means, which will establish and sustain the vibrancy for Omani SME entrepreneurs so that they can play the expected vital role as the engine of growth in our economic development efforts. To achieve this, the research attempts to achieve the following objectives:

1. To investigate Small and Medium Enterprises as a veritable tool in Economic Development
2. To develop and analyze the contributions of entrepreneur in the economic development through SME development in Sultanate of Oman
3. To access the SME contribution to the economic development in Sultanate of Oman though capacity building, employment generation, promoting competitive market, technological development

2. RESEARCH DESIGN & METHODOLOGY

This study aims to investigate the significant role of Small and Medium Enterprises (SMEs) in promoting economic growth and development in Oman. To achieve this goal, a post-test survey was conducted using structured questionnaires that were developed in conjunction with a literature review. The survey aimed to understand the contributions of entrepreneurs in driving economic development through SME development. A survey research design was employed, and data was collected from 174 SME entrepreneurs in Oman using convenience sampling. The respondents were informed about the purpose of the research before data collection.

In addition to primary data, secondary data was also collected through analysis of reports, studies, news articles, and other relevant documentation. The study covered major urban and suburban areas of Oman to access the contribution of SMEs to economic development. The study consisted of three phases: research design, planning of activities for data collection and processing, and interpretation of results and conclusions. The study

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focused on four key components: capacity building, employment generation, promoting competitive markets, and technological development. These components are expected to improve the economic development of Oman.

The collected data was manually coded and then entered electronically using Microsoft Excel and Statistical Package for Social Sciences (SPSS) software. To analyze the data, the study will employ descriptive statistics, including tables displaying frequencies and percentages. Additionally, the research will utilize various statistical tools, such as univariate, bivariate, and multivariate methods, to test the hypotheses developed during the study.

2.1. Structure of Developed Model

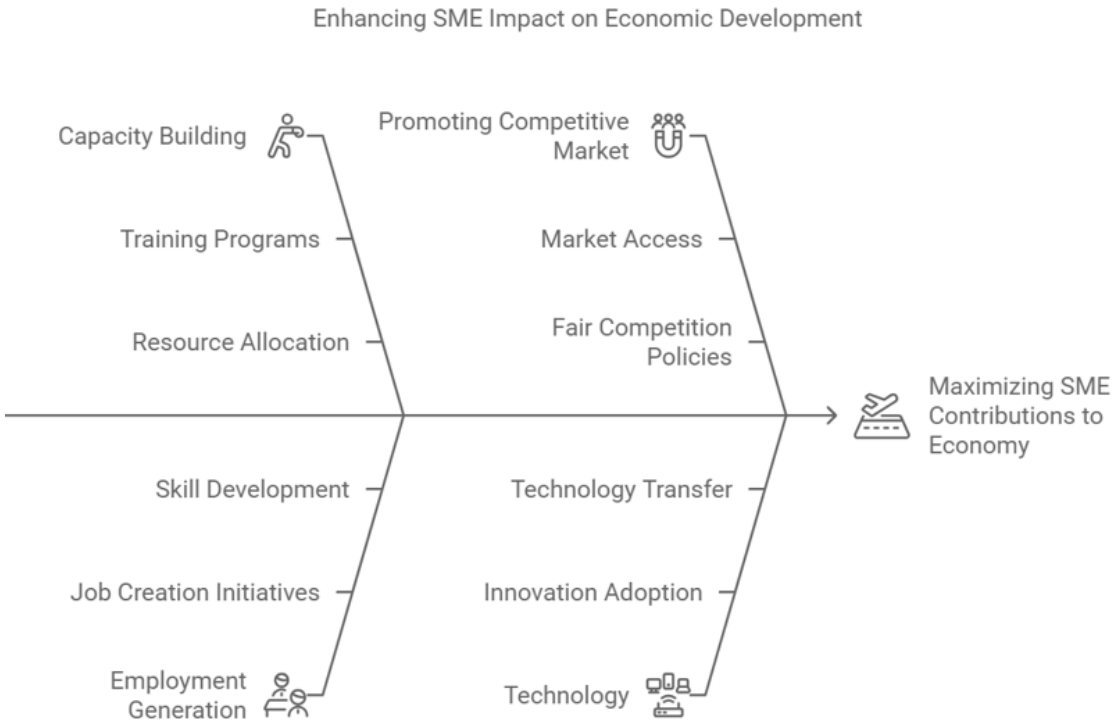

Figure 1:

2.2. SME & Economic Development

Carree and Thurik (1998) examined the impact of small firms on industry output growth and discovered a positive relationship between measures of entrepreneurship and growth. Their findings indicated that the proportion of small firms significantly affects industry output, particularly within specific sectors, leading to improved performance. Lal and Clement (2006) investigated the role of individual enterprises in economic development, revealing that market reforms incentivize individual enterprises, contributing to higher economic growth. Their study concluded that promoting entrepreneurial activities in India could yield additional economic growth. Thurik (2008) provided insights into emerging economies, highlighting that entrepreneurship has become a crucial component in the organization of these economies. Smith (2010) explored the link between entrepreneurship and economic growth, confirming that a higher level of entrepreneurship positively influences economic growth. Shrivastava and Shrivastava (2013) underscored the role of entrepreneurs in job creation, which plays a significant part in economic development. Toma et al. (2014) researched the connection between economic development and entrepreneurship, developing a theoretical model that identified key factors related to the relationship between these two elements.

2.3. Capacity Building

Researchers have made considerable strides in addressing measurement challenges by developing metrics for capacity building. It has been noted that, according to the definition provided by Teece et al. (1997) regarding dynamic capabilities, the focus of research has primarily been on a firm's capacity to integrate, develop, and reconfigure its internal competencies. However, there is a lack of sufficient evidence in the literature concerning the dynamic capabilities utilized to integrate, develop, and reconfigure external competencies. Existing strategic management theory emphasizes that firms leverage alliances to acquire external competencies, foster technological innovation, and enhance core business functions (Mitchell & Canel, 2013).

2.4. Employment Generation

According to Birch (1979), one of the key benefits of small to medium-sized enterprises (SMEs) is their ability to create jobs, thereby helping to alleviate unemployment within the economy. The employment impact of small

businesses has been a primary concern for policymakers across all economic levels. Ayyagari et al. (2011), through an extensive analysis that included data from 99 countries, found that small firms with fewer than 100 employees, particularly those that are more established (over ten years old), contribute significantly to total employment and job creation, with young small firms notably excelling in job generation. The International Labour Organization (ILO) published a report in 2015 titled "Small and Medium-sized Enterprises and Decent and Productive Employment Creation," which provided empirical evidence supporting the role of small businesses as crucial players in job creation in developing economies. The dynamics of job creation and loss are influenced by factors such as the formation and closure of businesses, their growth and downsizing, as well as the migration of firms in and out of the market.

2.5. Promoting Competitive Market

According to Kirzner (1983), it is not the entrepreneur who creates market disequilibrium; rather, the entrepreneur identifies market opportunities and anticipates where future imperfections may arise. Low et al. (2007, p. 879) describe market orientation as a practice driven by customer insights. This approach demands that organizations keep a close watch on rapidly evolving customer needs and preferences, assess how these changes affect customer satisfaction, and enhance their innovation success and competitive edge. Grasping both current and future customer needs is vital for fostering a culture of innovation within organizations, allowing them to consistently improve and develop products and services that align with customer desires (Pelham and Wilson, 1995). Conversely, competitor orientation entails actively monitoring both existing and potential rivals in the marketplace and gathering competitive intelligence to differentiate their strategies (Narver and Slater, 1990). The primary aim of market-oriented organizations is to stay alert to competitors' actions, using this insight as a resource for new product development. In fact, a deeper understanding of competitor orientation can help mitigate the risks of new product failures (Mahmoud et al., 2016).

2.6. Technology

SMEs possess greater flexibility and can more readily adopt technology to drive progress. They are well-positioned to generate and implement innovative ideas. Key characteristics that enable SMEs to be innovative include their adaptability, streamlined organizational structure, low-risk profiles, and openness to new approaches (Subrahmanian, et al, 2017). Research indicates that the integration of new technology has a significant effect on the structure and operations of these businesses (Ojukwu, 2006). For example, numerous SMEs in the United Kingdom, France, and Germany have embraced "Internet Business Solutions," leading to substantial cost savings. SMEs stand to gain from the implementation of new processes, techniques, or production ideas. By leveraging new technology, SMEs can potentially mitigate diseconomies of scale and compete effectively against larger firms. To thrive in a competitive market, SMEs must actively monitor technological advancements and adopt new technologies to meet or exceed customer expectations (Islam & Nasira, 2017).

2.7. Structural Equation Modeling

Structural Equation Modelling (SEM) techniques are a major component of applied multivariate analysis. Partial least square (PLS) based software Smart PLS 3.2.9 is used for interpreting the results of relationship among multiple independent and dependent constructs. A PLS model is analyzed into two stages i) Measurement model ii) Structural model. The measurement model is used to express the relationship between latent constructs and their related variables. It is assessed by reliability and validity of the model. The structural model represents the causal relationship among the constructs (Chin,1998). The model has four constructs such as SME variables, Growth, Stability and Economic Development The researcher has carried out structural equation modeling (SEM) to verify the hypothesized relationships entrenched in the theoretical model using Smart PLS. The theoretical model is graphically presented in figure

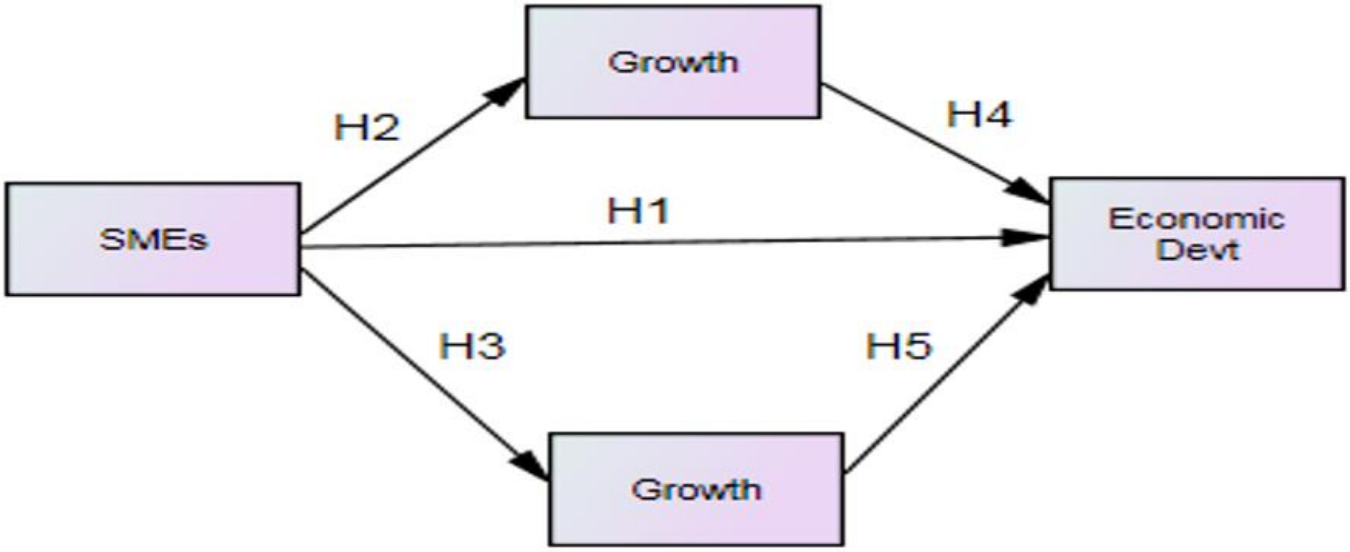

Figure 2:

2.8. Measurement Model

The results of the measurement model are based on PLS algorithm Convergent validity and internal consistency are assessed based on the output obtained from the analysis. Convergent validity is assessed by using Average Variance Extracted (AVE), Fornell and Larcker (1981) recommended the value of Composite Reliability (CR) must be equal or great than 0.7 to achieve internal consistency. Henseler, Ringle and Sinkovics (2009) suggested that a value of AVE less than 0.5 is not acceptable.

The Table below shows the results of measurement model. The internal consistency, reliability and convergent validity are established in the model

2.9. Measurement Model

Table 1:

Constructs	Cronbach's Alpha	rho_A	Composite Reliability	Average variance extracted (AVE)
Eco Devt	0.944	0.947	0.953	0.694
Growth	0.758	0.774	0.845	0.578
SME	0.848	0.876	0.898	0.689
Stability	0.792	0.797	0.866	0.692

Discriminant validity is performed to check the dissimilarity between the different constructs. Fornell and Larcker (1981) suggested that if the inter–construct correlations are less than the square root of AVE, then discriminant validity is achieved.

Table below shows the diagonals represents the square root of AVE, while the off diagonals represent the correlations between the constructs. The square root of AVE is greater than the inter-construct correlations. Hence the measurement model represents enough discriminant validity.

2.10. Discriminant Validity

Table 2:

Constructs	Eco Devt	Growth	SME	Stability
Eco Devt	0.833			
Growth	0.606	0.761		
SME	0.792	0.71	0.830	
Stability	0.725	0.587	0.807	0.832

2.11. Fit Indices

Table 3:

Fit statistic	Recommended	Obtained	
		Saturated Model	Estimated Model
SRMR	≤ 0.08	0.06	0.06
NFI	≥ 0.90	0.901	0.901
x^2	-	752.796	752.796
d_ULS	p > 0.05	1.483	1.483
d_G	p > 0.05	0.875	0.875

It is observed from the above Table Chi-square value is 752.796, Standardized Root MS Residual (SRMR) is 0.06which is lesser than recommended value 0.08 ((Henseler et al., 2014), Normed Fit Index (NFI) is 0.901 which is more than recommended value 0.90 (Bentler and Bonet, 1980), The squared Euclidean distance (d_ULS) and the geodesic distance (d_G) are 1.483 and 0.875 respectively which is more than the recommended value $p > 0.05$ (Dijkstra and Henseler, 2015). Hence the fit statistics indicate that the model is accepted.

2.12. Structural Model

The structural model is given in the diagram. The model represents the relationship between the various constructs. The relationships are tested by running bootstrapping procedure (1000 samples) in Smart PLS 3.2.9 software.

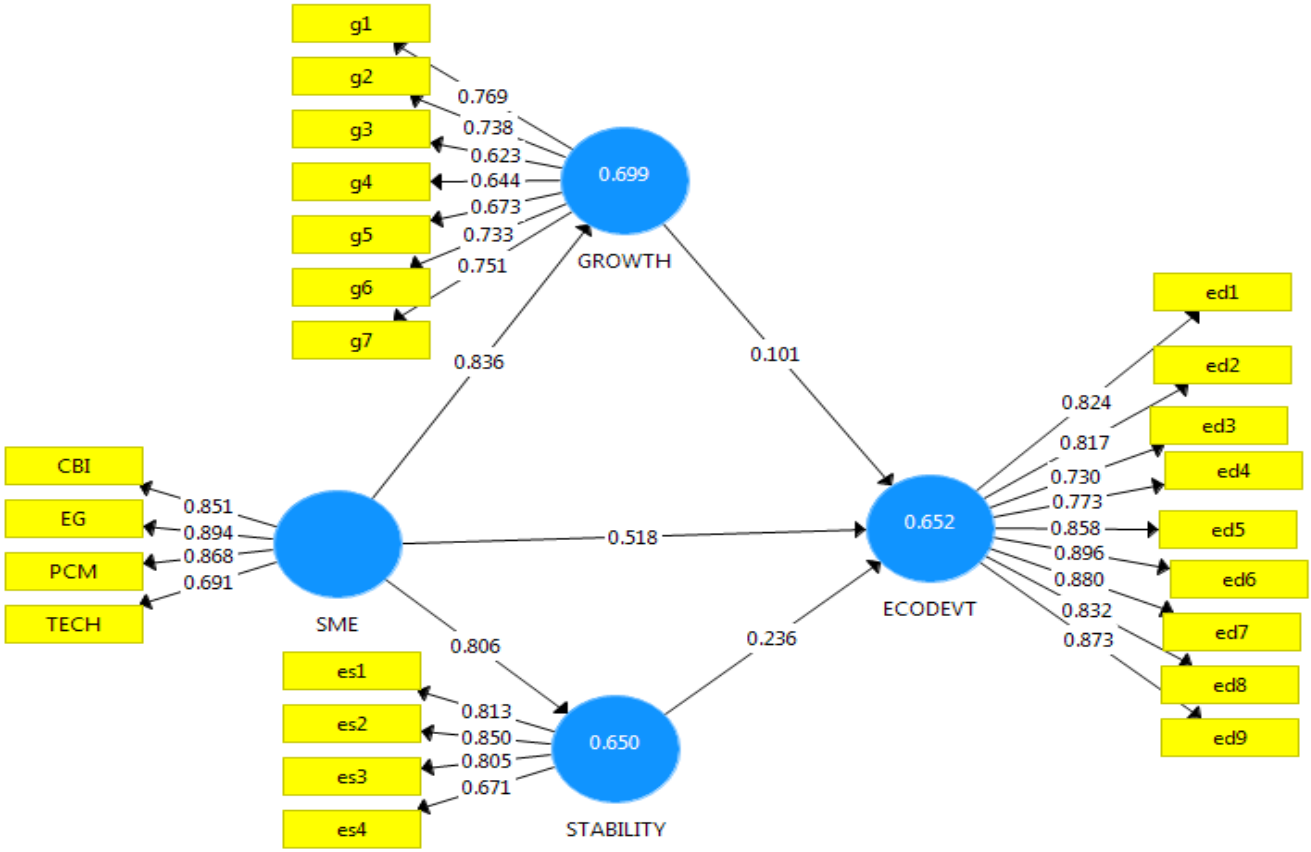

Figure 3:

The path coefficients generated by Smart PLS along with their t values are given in the table. The t-values are provided by the software by using the bootstrapping technique.

2.13. Structural Model Analysis of Path Co-Efficient.

Table 4:

Hypothesis	Path	Std error	Path coefficient	Model value (t)	p value	R^2	Result
H1: There is a significant direct effect of SMEs on Economic Development	SME -> ECODEVT	0.114	0.518	4.548	0.001	0.652	Supported
H2: There is a significant direct effect of SMEs on Growth	SME -> GROWTH	0.023	0.836	36.12	0.001	0.699	Supported
H3: There is a significant direct effect of SMEs on Stability	SME -> STABILITY	0.028	0.806	29.24	0.001	0.650	Supported
H4: There is a significant direct effect of Growth and Economic Development	GROWTH -> ECODEVT	0.108	0.101	0.937	0.349	0.652	Not supported
H5: There is a significant direct effect of stability and Economic Development	STABILITY -> ECODEVT	0.082	0.236	2.877	0.001	0.652	Supported

The path coefficients generated by Smart PLS along with their t values are given in the Table The t-values

are provided by the software by using the consistent bootstrapping technique. The standardized path coefficient should be at 0.2 (Chin, 1998). In this model the path co-efficient between the constructs for the Hypothesis 1, Hypothesis 2, Hypothesis 3and Hypothesis 5 accepted since the t values are more than 0.2.

Table 5: Structural model analysis of indirect effect.

Path	Std error	Path coefficient	Model value (t)	p value	Result
SME -> ECODEVT	0.107	0.274	2.562	0.011	Indirect effect

From the above Table no., and the result of structural equational modeling found that SMEs has significant and positive indirect effect on Economic Development with the path co-efficient of 0.274 and the t -value is 2.562.

3. RESULTS & DISCUSSION

Governments and development experts widely acknowledge that SMEs are pivotal to economic growth and essential for fostering private sector development and partnerships (Nwachukwu, 2012). Thus, developing the SME sector is a critical component of growth strategies in many economies, particularly in the Sultanate of Oman. SMEs play a vital role not only in enhancing living standards, generating employment, and alleviating poverty but also in facilitating significant domestic capital formation and achieving high productivity and capabilities. From a planning perspective, SMEs are increasingly seen as the primary means to attain equitable and sustainable industrial diversification, growth, and distribution. In numerous countries, including developed nations such as Japan, the USA, and the UK, SMEs comprise over half of total employment, sales, value added, and significantly contribute to GDP (Nwachukwu, 2012).

Small and medium enterprises (SMEs) contribute to economic development in a variety of ways, including capacity building, creating employment opportunities, fostering competitive markets, and advancing technology. However, in Oman, SMEs have not made the significant impact expected in terms of economic growth, development, and industrialization. It is puzzling why SMEs, which have successfully driven industrial growth and improved living standards in other countries, have not been able to do the same in Oman. The primary challenges facing the growth of small and medium-sized businesses in Oman include inadequate financial support, poor management practices, a lack of training and experience, insufficient profit margins, and low demand for their products and services.

The mortality rate for small and medium-sized enterprises (SMEs) in Oman is notably high within their initial five years of operation. Several factors contribute to this elevated mortality rate, including the lack of a clear vision and mission among many aspiring entrepreneurs. Additionally, numerous SMEs are not well-defined in their business focus, making them vulnerable to external pressures. Furthermore, with the removal of trade barriers due to globalization, SMEs in developing nations are encountering fierce competition from foreign industries that benefit from a more conducive environment for production, distribution, and marketing (Nwachukwu, 2012). The Omani government could play a role in assisting Omani graduates to fulfill their entrepreneurial aspirations, thereby contributing to the national economy and promoting inclusivity (Subrahmanian et al., 2017).

4. CONCLUSION

In recent decades, there has been increasing interest in the relationship between economic development and entrepreneurship. Researchers have noted that while "economic development theory may still be said to lack a 'general theory' of entrepreneurship that encompasses a range of development outcomes, progress has been made in broadening the understanding of entrepreneurship within the context of economic development" (Naudé, 2008, p. 1). In Oman, small businesses have gained recognition from the government due to their significant contributions to job creation, their ability to complement larger firms, and their role in developing local resources (Al-Markazi, 2001). It is anticipated that small and medium enterprises (SMEs), which currently make up the largest segment of the economy, will further support the operations of large-scale businesses as industrialization accelerates in Oman. This integration into the broader industrial development is crucial as Oman aims to diversify its production base and foster a robust private sector that can sustain and enhance economic growth (Al-Kharusi, 2003). There is a pressing need to highlight the importance of SME entrepreneurs in driving economic development and to understand the contributions of SMEs to capacity building, job creation, fostering a competitive market, and advancing technological progress for the economic growth of the Sultanate of Oman.

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