

Challenges and constraints faced by small and medium enterprises (SMEs) in Al Batinah governorate of Oman

Zaroug Osman Bilal

*College of Commerce and Business Administration,
Dhofar University, Salalah, Sultanate of Oman, and*

Nawal Said Al Mqbali

Faculty of Business, Sohar University, Sohar, Sultanate of Oman

Abstract

Purpose – Although many studies have been conducted in this area in many countries, there is still, a few studies on these enterprises have been done in Oman concerning the obstacles and constraints. The paper aims to discuss this issue.

Design/methodology/approach – The main purpose of this paper is to throw light on the challenges and constraints faced by small and medium enterprise (SMEs) in Al Batinah Governorate of Oman and try to give some suggestions to solve problems.

Findings – The data have been gathered through questionnaires from SMEs in Al Batinah Governorate in Oman. The descriptive analysis has been used to analyze the data, nonparametric testing and analysis of variance.

Originality/value – After the data have been analyzed, the results show that obstacles and constraints facing SMEs in Al Batinah Governorate accordance to their importance are as follows: the investment environment come first obstacles, capabilities of business owners come second, followed by the marketing obstacles, finance obstacles, while the legislations and regulations obstacles came last. Some of the recommendations have been presented which call for more attention and concentration on solving the obstacles facing SMEs in Oman.

Keywords SMEs, Challenges, Oman, Constraints, Al Batinah

Paper type Research paper

1. Introduction

Small and medium enterprises (SMEs) play significant role in the growth and development of any economy. The need for SMEs consider as a means of ensuring self-independent, jobs creation, import substitution, effective and efficient utilization of local raw materials and participation to the economic development (Ong *et al.*, 2012). The situation in Oman is not different to their counterparts in other countries; SMEs in Oman is also expected to be a leader for economic and social development, through its vital roles in increasing economic diversification, in creating job opportunities for citizens and equitable distribution of resources. SMEs in Oman are acquiring increased support from government and private sector, with a number of public official's policies for the further development of the sector. Omer (2009) said "The SME sector plays a key role in the country's development especially in term of self-employment opportunities; sound leadership is the foundation of success for any business establishment. Inspiring leadership can identify challenges ahead and draw up plans to face them. According to the Ministry of Commerce and Industry (MOCI, 2012), the number of SMEs operating in Oman is around 117,000, representing for around



90 percent of economics activity and about more than 40 percent of SMEs are in the retail sector, also SMEs are present in construction and contracting. The challenges encountered by smaller local businesses are identified by the Ministry to be addressed. It becomes significant to research the challenges and constraints that are required to assist the SMEs to address these problems so as to be able to participate in economics growth and development.

The importance of this study comes from the important of the role of SMEs in supporting the national Omani economy, not because it represent the most productive economic sectors, but also because it increases and sustains the volume of investments and labor and covering the domestic market needs with different products.

Although many studies have been conducted in this area, a few studied on those enterprises with obstacles and constraints the development of them in Oman. These studies are focus on listing the barriers of SMEs without identifying relative importance of these barriers. This paper tries to fill this gap.

Contextualizing the basic framework of OECD (2009), which identifies four challenges under four categories:

- (1) Shortage of working capital to finance exports. Limitations in finance and related physical resources have continued to be highlighted as a leading barrier to the SMEs.
- (2) Limited information to locate/analyze markets. Inadequate knowledge of overseas market.
- (3) Inability to contact potential overseas customers. Recent surveys also reinforce the importance.
- (4) Lack of managerial time, skills and knowledge.

Adopting the above framework, this paper conducts a detailed survey to shed light on the challenges and constraints faced by SME in Al Batinah Governorate of Oman and try to deliver some suggestions to participate in solving the problems. The research questions are address as follows:

RQ1. What are the challenges and constraints faced by SME) in Al-Batinah Governorate of Oman?

RQ2. What is the relative importance of challenges faced by SMEs in Al Batinah Governorate?

A sample of SMEs in Al Batinah Governorate has been selected to answer the paper consider.

This paper is organized as follows; Section 2 gives a brief review of the challenges and constraints faced by SME in general perspective; and a brief account about constraints faced by SMEs in Oman. Section 3 shows the methodology and describes the data used, followed by Section 4 that concerns with the empirical findings. Finally, in Section 5 present a summary and some conclusions and policy recommendations are offered.

2. Literature review

Generally there is no consensus on worldwide definition of SMEs (Hooi, 2006; Omar and Ismail, 2009). Different countries use different measures of size depending on their level of development. The main yardsticks have been used in most countries are, capital

total number of employees, total investment and sales turnover. The abbreviation SMEs occurs commonly in different countries, for example, the European Union and in International Organizations such as the World Bank, the United Nations and the World Trade Organization. The term SMEs is predominantly used in the USA.

In the context of Oman the (MOCI) defines the term SME according to the number of employees as below:

Business enterprise	Number of employees
Small	1-9
Medium	10-99

SMEs are faced with many problems including heavy costs of compliance according to their size, insufficient working supports and difficult to acquire finance. Additional, challenges are business development services, namely services related to entrepreneurship, lack of business training, marketing, technology development and information systems are underdeveloped and adequate to proved available information. On the other hand, SME managers have lack information as well as appreciation for such services. And it's hardly for them to pay for the services. According to lack of training, managers of the sector have rather low skills. Furthermore, there is no umbrella association for SMEs. A long the same time, the institutions and associations supporting SMEs are poor, fragmented and uncoordinated partly due to lack of clear guidance and policy for the development of the sector.

Muhammad *et al.* (2010) indicated that many previous studies have been conducted to showing the obstacles faced by the SMES for example Saleh and Ndubisi (2006), Samad (2007), Abu Bakar *et al.* (2006) and Foon and Eu-Gen (2006), identifies various challenges facing SMEs in a globalized environment. The SMEs should mainly focus in overcoming the challenges, which include, among others, recession, barrier from global sourcing, low productivity, lack of managerial skills and difficulty to access to finance, difficulty in accessing management, technology and heavy regulatory burden. Along the same line, there are doubts about the capabilities of management in the sector, SMEs are not innovative as expected to be by policy makers, difficulty to obtain finance, marketing, lack of practical knowledge of entrepreneurship and human resource management.

Kuratko and Hodgetts (1995) argued the most common obstacles faced by SMES, they name many problems such as: technical competence; mental ability; opportunity orientation; initiative and responsibility; integrity and reliability; tolerance of failure; internal locus of control; human relations skills and high achievement drive.

Shakantu *et al.* (2007), claimed that SMEs are faced by many constrains to the development and support of the sector. These constrains are: lack skills of employee; political constrains Business and environment regulations; inadequate technology and equipment's, lack of infrastructure; tax and labor; corruption; shortage of collateral; and limited opportunities to access to international capital markets and difficulty to get raw material.

International Labor Office (ILO) (2006) showed some obstacles facing SMEs

The constraints were classified to some categories: weakness in its information system, lack of planning, the business environment and market, insufficient information and delayed payment; and lack skills of manager who have inadequate knowledge with, financial, technical and managerial issues.

Obed (2000) considered the barriers of the sector to the following: unsuitable location of the business, lack of technical skills; lack knowledge and experience of management; poor construction practice; poor technology and equipment; and poor financial ability.

Concerning the high failure rate of SMEs, internationally and locally, (Kuratko and Welsch, 2004) indicated that the important reasons for failure of SMEs which generally accepted is the lack of management knowledge and skills. The reason should be investigated to reduce the failure rate among these enterprises. A long the same line (Megginson *et al.*, 2003) argued that “The lack of capital is seems to be the primary reason for business failure and it is considered to be the greatest problem facing small business owners. From a business viewpoint without adequate financing, the business will be unable to maintain and acquire facilities, attract and retain capable staff, produce and market a product, or do any of the other things necessary to run a successful operation.”

Hall (1995) argued that market structure is the reason for failure of SMEs and many researchers in this field have often ignored this reasons that is because it is an obvious factor to consider. He also mentioned that the other essential factor that leads to failure of SMEs is a lack of knowledge of the market. He went further to indicate that a major factor on the survival of the SMES is the management of cash flow and surpluses, in particular.

Hall (1995, p. 53) stated that “the motivation of owners for starting or assuming control of their business may play some part in determining their success”.

According to Hall (1995) the information system of SMEs should provide owners and managers with adequate and detailed information to help them to take their economics decisions. This information must be separate from their personal accounts; whether their financial information was obtained from, bank statement, double entry bookkeeping, monthly or quarterly management accounts reports.

Chilipunde (2010) made a survey to determine the barriers faced by SMEs in Malawi. The results are consistent to the obstacles raised in the literature and attributed the challenges difficulty to get finance, lack of training and business skills; poor of information system, and not hiring qualified management.

There are a lot of obstacles faced by SMEs in Tanzania these challenges hindering the growth and development of these enterprises sector these obstacles are: lack of infrastructure; poor site of the business inadequate skills in information technology; poor business development services, difficulty of SMEs to access to finance, ineffective information system, etc. (Shakantu *et al.* 2007). Kyophilavong (2011) made a survey to identified SMEs access to finance in Laos. The results show that access to finance could improve SMEs’ performance. But Lao SMEs face various financial constraints such as collateral, complex application processes as well as a limited economic environment and options for financial sources. Along the same line Nkuah *et al.* (2013) study the challenge of financing SMES in Gana. The major findings for the study indicated that there exist significantly, positive relations between certain attributes of a firm and access to credits. There are also, some financial activities such as business registration, documentation/recording, business planning, asset ownership and others that also impact heavily on SMEs access to bank credits.

From the above mentioned literature we conclude that they are many challenges faced by SMEs which hindering the growth and development of these enterprises such as poor location, lack of ability to get finance, inadequate skills of managers, etc. We try through this paper to determine these challenges and constrain faced by SMEs in Oman various financial constraints such as collateral, complex application processes as well as a limited economic environment and options for financial sources.

In Oman SMES are faced by a lot of problems. As indicated by the Ministry of Commerce and Industry (MoCI, 2008) the main constraints facing SME's are: lack of experience and management capabilities, high default rates and poor profitability of these projects, Their financial structure is heavily dependent on borrowing and the difficulty of obtaining appropriate guarantees. In (2009) Bank Muscat at the Bank's headquarter organized a workshop on entrepreneurship; the workshop discussed the barriers faced by SME and hindering its leadership in the Omani economy and examined the reasons behind why these businesses are not achieving their objectives. The workshop concludes that the main reasons for the failure of the sector in Oman are the poor capabilities of managers to guide these enterprises and they are not able to understand their jobs. The workshop focussed on the need to move from a "people dependent" business to a "strategy and system driven". Riham (2012) indicates that: "The small and medium enterprises (SMEs) sector in Oman continues to be small and undeveloped although the potential for growth is tremendous, While there are more than 100,000 smaller businesses in Oman, most don't have access to bank loans, making it hard for them to grow".

In the Sultanate of Oman, there are around 117,000 SMEs constituting more than 90 percent of the economy activity and around 20 percent of the growth domestic product as per the latest statistics available in the Directorate General of SME Development. Mainly, the projects of these enterprises are in the sector of wholesale, retail and foodstuffs which represent 41 percent of the total projects, while the industrial projects represent 17 percent and the contracting projects represent 31 percent (SME Exhibition and Conference, 2012). Unavailability of sources of funding is one of many reasons and challenges facing SMEs, also administrative and procedural obstacles, which is the weak administrative expertise. Which can reflect lacking most of small business's the proper organizational structure that leads to a lot of times to create a lot of problems? Such as the inability to separate management and ownership. Weak technical assistance to SMEs, particularly in the areas of gaining experience and constituents work for the owners of the establishments' employees (Imad, 2010). He continues to clarify that: administrative obstacles (external) are in the presence of administrative bureaucracy and centralized decision in the main center in the capital Muscat which concentrated in the imposition of Omanization ratios burdening SMEs as well do some government agencies to apply some decisions contrary to laws, also referring to the lack of coordination between the concerned authorities. The SMES are need more help to meet its expectation. The financing constraints in government support for SMEs through the big companies are just slogans any ink on paper. Where no chairman or chief have executive powers to give direct support to SMEs in the provinces. Some funders require guarantees and put impossible conditions reach the owners of SMEs to the lack of implementation. As well as the lack of confidence of suppliers SMEs (Khalid, 2012) (Table I).

3. The methodology and model

As we mentioned before, the main objective of this paper is to determining and analyzing the ranking of constraints facing SMEs in Al Batinah Governorate The study follows a descriptive analytical approach and historical approach, the data have been collected via the questionnaire that is distributed to SMEs. To know the agreement on the questions, the answers are classified accordance to the means.

The survey includes the SMES from Al Batinah Governorate of Oman, which listed with the Oman Chamber of Commerce and Industry(OCCI). The (OCC) is located in

		Challenges and constrains faced by SMEs
1. Agriculture	249	<div>125</div>
2. Fishing	7	
3. Mining and Quarrying	219	
4. Manufacturing	20,581	
5. Electricity, gas and water	92	
6. Construction	15,633	
7. Whole sale, retail trade and car repair	49,436	
8. Hotels and restaurants	6,905	
9. Transport storage and communication	2,880	
10. Financial intermediaries	950	
11. Real estate and renting services	5,789	
12. Social insurance	16	
13. Education	715	
14. Health and social work	715	
15. Community and personal services	8,506	
16. Un known	93	
17. Not specified	5,152	
Total (approximately)	117,914	
Source: Oman Chamber of Commerce & Industry (2010)		Table I. Below shows the no. of SMES in Oman

Sohar and it is the headquarters of the Al-Batinah Governorate, led to a list registered of 1,140 SMES. To identify the constrains faced by SMES, 100 SMEs are selected in the sample randomly; from different sector, however, we were able to contact only 60 SMES. The questionnaire is used to collect data. The the structure of the questionnaire is open ended and closed questionnaire. The questionnaire consisted of two sections. The first part elicited sample's personal, demographic and economic characteristics information from the respondents that was deemed necessary to achieve the objectives of the study. The second part of the questionnaire asked respondents to rate the relative to the specific question.

The researchers divided challenges faced by SMEs to the following:

- (1) challenges related to community;
- (2) economics and investment environment;
- (3) challenges related to the capabilities of business owners;
- (4) challenges related to the finance; and
- (5) challenges related to the marketing.

4. The findings

In this section we are used the data which has been collected to discuss and report our empirical findings. In these tables bellow we presented our results for each constrains we, the mean and standard deviation (SD), *T*-value have been identified for each challenges (Table II).

From table above, the majority of SMES respondents strongly agree that the factors community in general aspire to reach high in government rank and there are many initiatives program in Oman, but there is a need for more awareness mean (1.9) and SD (0.73), mean (1.90) and SD (0.73), respectively, are the main challenges faced by SMEs. The factor lack to promote the privileged in the private sector specially the sufficient entrepreneurs and most of the community prefer to deal with the foreign entrepreneur

Table II.
Challenges related to
community

Factor	n	Mean	SD	T- value
The majority of the community in general aspire to reach high in government rank	60	1.9	0.73	0.53
There are many initiatives program in Oman, but there is a need for more awareness?	60	1.9	0.73	0.57
The lack to promote the privileged in the private sector specially the sufficient entrepreneurs?	60	1.65	0.82	0.62
More people from the community prefer to deal with foreign entrepreneur compared to local entrepreneur?	60	1.65	0.75	0.72
His project in the case of failure, even if in one time considered as a failed man for whole his life?	60	1.4	0.78	0.72
Average		1.7		

Source: Research's calculation

came second mean (1.65) and SD (0.75) and (1.65) SD (0.85), respectively. The factor project in the case of failure, even if in one time considered as a failed man for whole his life is last challenges according to respondents mean (1.42) SD (0.78).

From the above, the community in general aspire to reach high in government rank, is the main challenge faced by SMES (Table III).

From Table II above the majority of respondents are strongly agree that the registration procedures of new enterprises are complex mean (3.78) SD (1.3). The requirement to provide financial guarantees burden for funding is came second mean (3.72) SD (1.2). Followed by a financial product fit the business owners need mean (3.07) SD (1.2). the procedures for obtaining financing long and complex mean (2.35) SD (1.1). The factor monopoly of large companies on the market has an impact on SMEs but, with lower intensities mean (1.5) SD (0.75) (Table IV).

The respondents agree that everyone must have special skills and knowledge to start a business, mean (3.5) SD (1.3), you have the ability to formulate the action plan (study of the project mean (2.47) SD (1.2) .the factor committed to manage the project or committed to another job also affect but, with lower intensities mean (2.47) SD (1.8) (Table V).

The respondents are agree that to get finance for your business and have the necessary guarantees are the main challenges faced by SMEs mean (2.5) SD (1.3), (2.47) SD (1.1), respectively. The factor arises in the cost of financing the project. Came last as challenge face by SMEs (mean (2.03) SD (0.85) (Table VI).

Table III.
Challenges related to
investment
environment

Factor	n	Mean	SD	T- value
Do you think that the registration procedures of new enterprises are complex?	60	3.78	1.3	1.8
Is the requirement to provide financial guarantees burden for funding?	60	3.72	1.2	1.5
Does a financial product fit the business owners need?	60	3.07	1.2	1.4
Are the procedures for obtaining financing long and complex?	60	2.35	1.1	1.8
The monopoly of large companies on the market has an impact on small and medium-sized enterprises?	60	1.5	0.75	0.56
Average		2.88		

Source: Research's calculation

The respondent agree that there is a decrease in the quality of products mean (2.73) SD (1,2), followed by a lack of information necessary for marketing and that your product marketing externally succeed mean (2,48) SD (1,2) (2,48) SD(1,1), respectively and the last challenge faced by SMEs is the product marketing externally not succeed.

Challenges
and constrains
faced by
SMEs

Relative importance of the challenges of SMEs

The relative importance of the challenges SMEs in Batinah Governorate indicated the results of the previous analysis the challenges related to community, challenges related to investment environment, challenges related to the capabilities of business owners, challenges related to the finance, challenges related to the marketing. (Table VII).

The results of the above table, shows that the challenges related to challenges related to the capabilities of business owner challenges related to Investment environment mean (2.88) statistically significant 1 percent, followed by the challenges related to investment environment the mean (2.70) statistically significant at 5 percent mean (2.8) statistically significant at 5 percent, challenges related to the marketing the mean (2.47), the challenges related to the finance the mean (2.32), The end of the arrangement was challenges related to community the mean (1.70).

Although the government of Oman struggles to preparing appropriate environment for SMES to support economics growth and development, but still there are many obstacles facing these enterprises and the suitable environment is not well set for these enterprises, furthermore the entrepreneurs are need suitable training program to

Factor	<i>n</i>	Mean	SD	<i>T</i> -value
Do you have the basic capacity to manage the project?	60	3.5	1.3	1.5
Do you have the ability to formulate the action plan (study of the project)?	60	2.47	1.2	1.6
Are you committed to manage the project or committed to another job?	60	2.47	1.3	1.8
Average		2.8		

Source: Research's calculation

Table IV.
Challenges related to
the capabilities of
business owners

Factor	<i>n</i>	Mean	SD	<i>T</i> -value
Do you think it will be easy to get finance for your business?	60	2.55	1.3	1.7
Do you have the necessary guarantees for funding?	60	2.47	1.1	1.1
Is there a rise in the cost of financing the project?	60	2.03	0.92	0.85
Average		2.35		

Source: Research's calculation

Table V.
Challenges related to
the finance

Factor	<i>n</i>	Mean	SD	<i>T</i> -value
Do you think that there is a decrease in the quality of products?	60	2.73	1.2	1.3
Do you think that there is a lack of information necessary for marketing?	60	2.48	1.1	1.2
Do you think that there is a rise in marketing costs	60	2.48	1.2	1.3
Average		2.64		

Source: Research's calculation

Table VI.
Challenges related to
the marketing

enhance their capabilities to be able to manage their SMES properly, beside the challenges related to the marketing especially during seasons productions.

5. Summary and conclusions

From the above discussing concerning the obstacle faced by SMES in Al Batinah Governorate, this section discusses the obstacles facing SMEs in Oman, especially in Al-Batinah Governorate. The study concludes that the obstacles have been identified by the researchers affect the SMES. The challenges related to investment environment came first the, followed by the challenges related to the capabilities of business owners; challenges related to the marketing the challenges related to the finance, the end of the arrangement was challenges related to community. Shakantu *et al.* (2007) shows that there are many obstacles and constrains to the development and growth of SME. These include: Business and environment regulations; inadequate technology and infrastructure; tax and labor; lack of management skills, political interference; poor site of business; and limited opportunities to access to international markets and difficulty to access to finance. This findings is consistant to some extent with the study done by Ministry of Commerce and Industry (MoCI, 2008) which indicated that main constrains facing SME's are: lack of experience and management capabilities.

This indicates that SMES need support in preparing suitable environment, addressing marketing challenges, raising finance and in securing training opportunities.

Based on the findings and the discussion, to provide sustainability of SMEs and their contribution in Oman economy we are suggested the following policy implications:

- (1) the government should prepare suitable environment to help themes;
- (2) provide suitable training program to entrepreneurs to assist them to doing their jobs properly;
- (3) the government policies should assist MES with providing these enterprises by making the environment attractive to working properly SMES need better understanding from the community, and their support;
- (4) banks and finance companies need to develop mechanisms and clear and accessible and transparent to finance to SMEs and provide clear reasons in case of reject;
- (5) the government should support the SMEs by encouraging SMES with, adequate technology, legal protection, education, and training, finance;
- (6) review of commercial banks with the procedures for opening the account for the SMEs; and

Table VII.
Relative importance
of the challenges of
small and medium
enterprises

N	Challenge	Mean	
1	Challenges related to Investment environment	2.88	0.01
2	Challenges related to the capabilities of business owners	2.70	0.05
3	Challenges related to the marketing	2.64	0.008
4	Challenges related to the finance	2.35	0.10
5	Challenges related to community	1.70	0.20
	Average factors combined	2.44	

Source: Research's calculation

- (7) subject to government institutions and large companies need to the presence of continuity SMEs in the cash flows and the development of mechanisms to reduce the duration of the payment.

Limitations of the research

This paper focusses on identifying the obstacles faced by SMES in Al Batinah Governorate of Oman. The study report some result and give some recommendation for improvement of this sector. This paper, adds to the literature on entrepreneurship in Middle East Region where the literature is still limited. The study is conducted in Al Batinah State for registered SMES with (OCC). So, we cannot able to generalize our findings to other who are not registered.

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Corresponding author

Dr Zaroug Osman Bilal can be contacted at: zosman@du.edu.om