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FINANCING SMALL BUSINESS IN OMAN

Abulaziz Al-Kharusi

A Doctoral Thesis
Submitted in partial fulfilment of the requirements for the award of
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Supervisor: Prof. John Presley
Department of Economics
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Praise to Allah the cherisher and substainer of the worlds; and my peace and blessings be upon the seal of the prophet Muhammad, and upon his family and all his companions to the Day of judgment. I bow my head and heart in all humility and devotion to Almighty Allah Who has enabled me to complete this task and I ask His forgiveness for all the errors of omission and commission.

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Abstract

Small and medium-sized enterprises (SMEs) are now recognised as being of major importance to the strategic agendas of many countries around the world since they can lower unemployment and increase economic growth. This is particularly significant for a small country like Oman which is seeking to diversify its production base. However, it is well known that lending institutions are often reluctant to offer loans to small firms because of the nature and size of such businesses.

This research study, therefore, is the first to carry out a detailed investigation of the financing of small and medium-sized enterprises in Oman by focusing on the three main sectors in which SMEs function: manufacturing, trade and services.

The study aims first to examine the procedures and problems faced by SMEs in obtaining finance by considering the need for finance, the types of finance available, and the difficulties that may be encountered in this process. Guidelines are then offered to encourage the participation of such firms in Oman’s development. The study also seeks to examine the relationship between certain characteristics of firms and their owner-managers and the need for finance, together with difficulties encountered when seeking such finance. Finally, a comparison is made of the procedures and problems faced by SMEs in the three sectors.

After a literature review, the thesis puts forward, in Chapter 4, the theoretical research framework and a number of hypotheses. Data were gathered via questionnaires and interviews from 397 small and medium enterprises in Oman; 94 from the manufacturing sector, 180 from the trade sector and 123 from service firms. These data were then analysed using the following methods: descriptive analysis, non-parametric testing, and analysis of variance (ANOVA).

The findings showed that some significant differences did exist between firms, their owner-managers’ characteristics and the need to acquire external finance, as well as the success or difficulties they faced in applying for such lending. The need for external finance for such companies to expand their businesses was also clearly demonstrated, especially in the trade and service sectors, the majority of respondents
in all three sectors were aware of government sources of finance. It was found that the main reasons for difficulties in raising finance were high rates of interest, incomplete business plans, a lack of securities, and putting forward proposals considered not to be viable.

A detailed analysis of the results can be seen in Chapter 6, with a summary of the main findings in Chapter 7. The study ends with an examination of the implications of the findings of this research for owner-managers, policy-makers, academics and entrepreneurs. Finally, suggestions are made for future useful research in this area.
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1.1 Introduction:

The contribution made by Small and Medium Enterprises (SMEs) in developing and achieving national goals is recognized in developed and developing countries alike and, as such, they are seen to be of vital importance in many nations’ strategic agendas. Indeed, forward planning in many developed countries emphasise and encourage the creation, promotion and support of SMEs in order to combat unemployment, distribute income and increase the rate of economic growth (Kemashki, 1995).

SMEs, according to the literature, have a role to play in generating income, absorbing labour, alleviating poverty, and in developing and allowing the practice of entrepreneurial skills, as well as linking many sectors which may be geographically and/or economically diverse (Gallagher & Stewart, 1984; Ganguly, 1985; Burns & Dewhurst, 1986; Batchelor, 1988; ASOST, 1990; Dyson, 1990; University of Cambridge, 1992; Keasey & Watson, 1993; Berry and Levy, 1994; Binks et al., 1997; Meyer, 1998; Cook and Nixson, 2000; Audreetsch and Thurik, 2001). Thus, by strengthening growth and development, SMEs help to create a more prosperous society and to improve a nation’s well being. SMEs have, for example, become more important in recent years in many GCC countries as a result of issues such as diversification, privatization, unemployment and the domination of expatriates in many small business ventures.

Small businesses have earned government recognition in Oman because they have been important in generating employment, complementing the work of large firms, and in developing local resources (Al Markazi, 2001). The Omani government has made it clear that small business will play one of the leading roles in Oman’s future industrial growth (Oman, 1998) and, in order to assist such businesses, it has taken responsibility for the establishment of the nation’s infrastructure. The government has also put forward “soft” loan schemes to offer small firms financial assistance and has achieved varying degrees of success, facilitating SME access to markets, investing in public goods that improve
SME competitiveness including (information, communications, power, water, transport and technology development).

This high profile exists, not just because of the contributions made by SMEs that have been detailed above, but also because of the industrial structure of Oman itself. It is expected that small and medium enterprises, now representing the largest category in the economic sector, will complement the activities of large-scale businesses as industrialisation gains pace in Oman. This will come about through their integration into the mainstream of industrial development since Oman is seeking to diversify its production base and also to develop a viable private sector capable of sustaining and increasing economic growth.

Small businesses provide a useful environment in which entrepreneurs can practice management skills and upgrade their investments. As such, they can provide affordable opportunities for local domestic investors to diversify into manufacturing outputs at levels which accord with their present managerial capabilities. With this in mind, the role of small business should surely be increased as the mainstay of Oman’s economic transition, particularly since Oman hopes to achieve the goals of its economic plan by the year 2020.

In order to achieve these goals, the government is attempting to establish a basic infrastructure for the development of the targeted sectors. It is also in the process of setting up industries that will exploit the nation’s crude oil and natural gas as these give Oman a comparative cost advantage. Thus, the private sector has been offered the opportunity of participating in the development of manufacturing, agriculture, trade and service industries. The greater involvement of the private sector and the subsequent lessening of dependence on public sector activities has been brought about because of a decline in government spending; this has been due to a sharp reduction in oil revenues.

In order to achieve their growth potential, SMEs need appropriate financing. However, it is generally acknowledged that banks and other lending institutions are reluctant to lend
money to small firms. This is because of the nature and size of their businesses (Binks, 1979; Bannock, 1981; Coleman, 1999; Land and Wright, 1999). It has also been noted that difficulty in obtaining finance is linked to the age and size of firms (Hustedde & Pulver, 1992; Hankinson, 1991; Moore, 1994; Wiklund, 1999). Furthermore, since many owner-managers are disinclined to surrender equity to outsiders, because they feel this lessens their independence and control, this widens the gap in the provision of equity finance for such firms (Bolton Committee, 1971; Wilson Committee, 1979; Vickery, 1989; Boocock & Presley, 1993; Tannous & Sarkar, 1993; Mason & Harrison. 1998; Warren and Hutchinson, 2000).

While certain researchers (for example, Binks et al., 1986; Hundsdiek; 1988) believe that SMEs do not actually face difficulties in raising finance, they feel that they may be at a disadvantage, compared to large companies, in the credit terms imposed on them. Other researchers (Economists’ Advisory Group, 1971; Aston Business School, 1991; Cousins Stephens Associates, 1991, Cook and Nixson, 2000) assert that, while no real ‘finance gap’ exists for small firms, other difficulties, such as poor management on the part of owner-managers and ‘information and technology’ gaps, do make a considerable contribution to the financial problems which small firms face (Bates and Hally, 1982; Othman, 1984. Finally, some (Burns, 1987; Othman, 1984; Dyson, 1990) believe that small firms have a number of finance options but there are actually few economically viable small businesses in existence.

This study seeks first to discuss the arguments in the above debate. It then attempts to assess the theories which underpin these views and to examine the extent to which such views are supported empirically. The types and sources of finance, together with the problems which small business in Oman face in obtaining external finance will then be examined, thus facilitating an analysis of the data.

1.2 Objectives of the study

Firstly, this study aims to consider the activities, procedures and problems that face small businesses in Oman in obtaining finance. It covers three sectors: manufacturing, trade and
services. The need for external finance, the types and sources of finance available and the incidence of difficulties will also be examined.

Secondly, the study attempts to provide guidelines to assist planners and decision-makers in Oman to design a programme which will encourage the participation of small firms in the Sultanate’s process of development.

Thirdly, it intends to show the importance of providing suitable finance for small businesses, together with means of assisting small business via special lending schemes which will suit their requirements.

More specifically, this study attempts to examine the association between certain characteristics, such as the age and size of the company; its ownership type; the existence of a business plan etc. and the firm’s need for finance and the difficulties they face in raising such finance.

It further considers the association between certain characteristics of owner-managers {for example, age, education, training and business experience} and external finance.

The Islamic finance methods of Musharaka and Mudaraba, both forms of equity finance, are discussed since equity finance is one of the main methods used in the financing of small businesses.

Finally, the similarities and differences in the procedures and financing problems of small firms in the manufacturing, trade and service sectors in Oman will be discussed.

1.3 Definition

As discussed in chapter four, there is no generally accepted definition for SMEs. One study by the Georgia Institute of Technology for instance, identified over 55 different definitions in 75 countries (Manuh and Brown, 1987). It is noted that most definitions appear to have been governed by the interest of the perceiver, the purpose to be served and the stage of development of the particular country and economic environment in
which the definition is to be employed (ILO, 1986; Storey, 1994; Fiet, 1996). SMEs are often classified by the number of employees and or by the value of their assets. The size classification varies within regions and across countries relative to the size of the economy and its endowments.

In Oman there is still no clear and workable definition of a small firm, so in this study a definition will be used that refers to the size both in terms of the number of employees and in terms of capital assets. This study will consider the range of small firms as employing 1-50 persons and with invested capital of below R.O 100,000.

1.4 Organization of Study

Chapter One consists of an introduction to the research, explaining the contents of the following six chapters.

Chapter Two presents a general background to the Omani economy since it is essential to introduce the reader to the environment within which these businesses function. The chapter also emphasizes phases through which the economy of Oman has passed with particular reference to the role of the oil sector. The part played by the private sector and the role of small businesses within that sector are then examined with a final section which concerns the evolution and the present status of the financial system.

Chapter Three considers the significance of SMEs for global economies, as well as reviewing the literature on the financing problems of SMEs in developed and developing countries; particular reference is made to Oman. In order to shed light on key factors which influence the practices and problems of small firms in terms of finance, the literature review seeks to focus on sources of external finance and the difficulties facing SMEs in this regard.

Chapter Four is largely concerned with the development of the research hypotheses as a framework for investigating financing small businesses in Oman. This conceptual
framework helps to postulate and test certain relationships in order better to understand the dynamics of the situation.

Chapter Five comprises the research methodology adopted in this research. Past research methodologies are reviewed, and the nature of this research, its data gathering, its sample selection procedures and the design of the questionnaire are then described. Finally, the statistical techniques used for data analysis are explained.

Chapter Six presents a survey of the results and analyses by relating the characteristics of the small firms and their owner-managers in the manufacturing, trade and service sectors to the sources of external finance and the existence of difficulties experienced by the firms in securing such finance for expansion. The test results of the hypotheses are also examined in this chapter.

Chapter Seven presents the conclusions and implications of this research based on the findings which relate to the conceptual framework. The contribution made by this work, and some suggestions for further research, as well as some theoretical, methodological, managerial implications of the study, are also offered.
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9


Chapter 2

The Structure of the Oman Economy
The Structure of the Oman Economy

2-1 Introduction

As this study is concerned with financial problems among small businesses in the Sultanate of Oman, it is essential to introduce the reader to the environment within which these businesses function. This chapter is divided into eight sections. For this purpose a general background of the Oman economy will be presented in section 2-2 and section 2-3 will emphasise the five-year Development Plans. The next section 2-4 considers the importance of Oman vision 2020. Section 2-5 discusses the role of the oil sector in the development process of the economy, while Section 2-6 looks at the foreign trade. The discussion then will narrow down to emphasise the private sector and the role of small businesses within that sector as presented in section 2-7. Last section will examine the evolution and present status of the financial system.

2-2 General Background

The Sultanate enjoys a stable political, economic and social system (Alsyabi, 2000). The excellent relations fostered with neighboring countries have enabled Oman to play an active role in promoting regional, political and economic co-operation (Ministry of Information, 2000). His Majesty the Sultan has always encouraged market-oriented policies and economic diversification as the mechanism for prosperity and growth (Al-Markhazi, 2000).

The Sultanate of Oman is an active member of many regional and international associations, such as the Arab League, the United Nations, the non-aligned movement, the Arab Gulf Co-operation Council, and the Organization of the Islamic Conference (Ministry of Information, 2000). Relations with many countries of the world, particularly the Western democratic countries, have been traditionally warm. Auty (1990) emphasizes the existence of a positive relationship between economic development and the stability of a country’s political regime.
Prior to 1970, Oman was firmly rooted in the past: a result of the deliberate policy of the previous Sultan, and the lack of any real income prior to the export of oil in 1967. However, even when this income began to flow it was not reflected in the economic and social development of the country. In fact, Oman before 1970 was a classic underdeveloped country, having almost all of the key structural features of underdeveloped economies, in other words with an economy almost at subsistence level. Modern government did not exist and public services, such as health, education and communications, were almost non-existent.

The period from 1970 until 1985 was the period of the institutional foundation of the government. By the end of this time, the structure had been formulated and the basic political, social and economic directions had been shaped. In 1975 the government began to carry out systematic development plans to modernise the economy and to transfer it from a subsistence economy to a modern one.

Over the two decades since the Government began its drive for economic, social and political development, Oman has made remarkable strides. Physical infrastructure has been brought up to advanced, modern standards over much of the country. Basic health indicators reveal dramatic improvements in life expectancy and sharp reductions in infant mortality. The coverage of primary education has become almost universal. Oman has also developed a complex structure of government and public institutions and an elaborate legal and regulatory framework governing private economic activity (World Bank report, 1994).

Oman has achieved noticeable progress on both the economic and social fronts since the mid-1970s with the commercial exploitation of oil and the implementation of structural reform programmes (Azzam, 1999). Martey, for example, states that:

The economy of Oman experienced substantial growth and domestic price stability over the period 1980-1997, during which the overall well being of the population improved significantly. Liberal trade and payments systems and stable currency supported this strong performance, notwithstanding marked fluctuations in world oil prices. The performance of the economy was not, however, associated with any significant shift in its structure. Dependence on the oil sector remains overwhelming, but the prospects for
further growth of the oil sector have become limited. Moreover, the
domestic saving-investment imbalance remained large during this period
and contributed to the narrowing of the surplus in the external resource
balance. Furthermore, as real economic growth has slowed in recent years
and the population growth rate averaged about 2.85 percent a year over
1994-1997, the annual increase in real GDP per capita during this period
tended to remain subdued at only about 1 percent (Martey, 1999. p.4).

The macro-economic environment is best summarised by Al-yousif (Al-Nadha, 1996):

"The free market economy is a solid base for Oman’s development
strategy. The Government of Oman believes firmly in free market
economy under the tenet of ‘as much Government support to the private
sector as necessary, as little Government intervention as possible” (p.16).

One of the main concerns of the Omani government is the achievement of economic
development through private sector development alongside public sector provision. Since
the Sultanate has a rapidly rising population and this population is become better trained
and educated, the growth in the private sector is needed if unemployment is not to rise
among nationals. Many activities have provided support for the development of the
private sector directly and indirectly. Indirect support has come from establishing many
infrastructure facilities, and from government expenditure, the government having itself
embarked on entrepreneurial activities in the fields of electricity and water utilities,
communications, manufacturing and tourism. This diversification has further built on the
government’s commitment to expand non-oil sector business in fields such as industry,
mining, agriculture and fisheries with the aim of eradicating the nation’s reliance on oil
by 2020. Indeed, by 2000, non-oil sector revenue had tripled from its level at the First
Development Plan.

Direct support has stemmed from the provision of many types of subsidies, interest-free
loans, and free land distribution (Al-Gorfah, 1998). The aim of these incentives has been
to stimulate and improve economic diversification and these incentives have tended to
reduce the risk associated with domestic investment, and enhance its profitability.
Additionally, these incentives are directed towards intensifying the use of advanced
technology to replace traditional practices in economic sectors, increasing their efficiency.

"Over the last two decades, Oman has recorded one of the highest growth rates in the Middle Eastern region and the world, Oman also experienced persistent growth in non-oil GDP, financial stability, confidence in the economy, and a stable currency, despite severe external terms of trade shocks resulting from sharply lower crude oil export prices in the 1980s and early 1990s. Real annual growth in the oil sector averaged 7.3 over 1970-1997" (Mansur, 1999).

However, this impressive economic performance, supported in part by an expansionary stance of fiscal policy had its costs: the official budget deficit averaged about 7.8 percent of GDP during the same period. Financing this unsustainable large fiscal deficit entailed a substantial draw down of foreign and domestic investments from the state General Reserve Fund and a loss of foreign exchange reserves of the monetary authority, as well as the accumulation of a sizeable domestic and foreign debt. The decline in public sector saving coupled with the Omani private sector's low propensity to save adversely affected the saving investment balance and increased the dependency of the economy on foreign saving and investment.

The challenge now facing policymakers is how to sustain the impressive economic performance of the last two decades over the medium and long term, while restoring and thereafter maintaining macroeconomic balance. This challenge will require substantial fiscal consolidation supported by expenditure cuts and efforts to increase non-oil revenue; the strengthening of the mobilisation of domestic saving, both public and private; diversification of the economy out of its still-excessive dependence on the oil sector; and a push to increase factor productivity through structural reforms in the real and financial sector and through investment in human resources.

With Omani’s relatively high rate of population growth, sustaining real growth in income per capita will require sustained growth in domestic savings and domestic investment, an improvement in total productivity, and substantial foreign capital inflows (Ministry of National Economy, 2000). Oman’s product and export base is extremely narrow hence oil
accounted for 31% of real GDP and 95% of export receipts in 1967 during the first year of the oil era. Oil still accounted for 92% of the export receipts in 1999 and the share of oil in real GDP stood at 36%. This economic structure exposes the economy to the vagaries of movements in world oil prices (Oman Chamber of Commerce and Industry, 2000).

The Sultanate of Oman has suffered from a considerable downtrend in the rates of saving ratio and investment compared with similar rates in other GCC countries. Similarly, the ratio of domestic saving to GDP in the Sultanate of Oman averaged 24.8%, compared with 28.2% for the GCC countries as a whole. This problem will be better reflected considering that the average rate of national saving did not exceed 13.4% of the GDP during 1991-1997 while the average rate of Gulf national saving during the same period amounted to 25.8% of the GDP of other Gulf States (Chami, 1999). In the mean time, the Sultanate of Oman has performed more efficiently in tackling the fiscal deficit and trade imbalance during the same period. Therefore should be an improvement in Omani labour productivity in order to enhance the total productivity of the country’s available resources. Economic growth in the longer term should not continue to rely on increased investment. Emphasis should be given to enhancing factor productivity, particularly for Omani nationals (Martey, 1999).

Treichel (1999) emphasised that the non-oil sector has depended directly on Central Government expenditure. Central Government expenditure was equivalent to 49% of the GDP on average during 1981-1995. Treichel inferred that government expenditure should not exceed a ceiling of 30% of the GDP. In spite of the important role of government expenditure in motivating economic performance, he concludes that exceeding the ceiling of 30% tends to have a harmful effect on growth (International Monetary Fund, 1999).

According to Al Hamed (2000), “any progress in the macro-economic framework of the Sultanate of Oman would require the exertion of intensive efforts with good planning. There is need to harmonize policy and procedures. These should be directed towards reducing the size of the public sector in order to expand that of the private sector with the
adoption of a long term strategy to implement necessary change in government organisation before privatisation in order to improve productivity for customer satisfaction and to achieve profits for shareholders. Privatisation should be addressed as a matter of policy and not as a temporary measure dictated by falling oil prices”.

Al Hamed concluded that there is a growing trend by companies in many countries to enhance their creative and competitive abilities by allocating some of their income to research and development. If the Sultanate of Oman is to move with the times it needs a technological rebirth within industry, allowing, science and technology to sponsor creativity and excellence, and promoting technical abilities of Omani companies. Chami (1999) argues that Oman’s economy is extremely vulnerable to trade shocks because of its heavy reliance on oil export proceeds and because it is a small producer of this basic raw material. Oil prices are likely to continue to fluctuate and policy measures will be needed to respond to future negative shocks by financing large budget deficits, drawing down previously accumulated foreign exchange reserves and by resorting to external borrowing. The response to shocks by this method would be limited in the near future. Chami called for the urgent implementation of structural reforms in the Oman economy.

From 1975 to 2000 the government executed five development plans. The plans provided for largely free education and health services and involved forward budgetary planning, detailed, integrated planning of public developmental expenditures on infrastructure, and increasingly detailed planning of manpower use and development. The Government also assumed an active entrepreneurial role, becoming involved in electric, communications and water utilities, manufacturing and tourism. It has also attempted to define, and influence the direction and character of private sector development.

An important factor here is the small size of the private sector in terms of capital. The sector displays a tendency to divide itself into small, individual, disorganised units (Al-Yosif, 1995). The weaknesses of its initiatives, its procedures and monopolistic tendencies have not helped the sector assume a pioneering role in the process of
development and diversification. In addition to this, various shortcomings in the legal and organisational frameworks and the incentives system have manifested themselves.

2.3 The five-year Development Plans
2.3.1 Introduction

In Oman, as elsewhere, the end product of the planning process is the Five-Year Development Plan. The structure and coverage of Oman’s plans are similar to other national development plans; however, no economy-wide econometric model or modelling has been undertaken to simulate or forecast development goals or targets (Miller, 1991).

The Government of Oman has followed a clear economic and social strategy with carefully defined features. This was crystallised in the strategic development plan approved by the Development Council in November 1975, which was based on the following long-term fundamental goals:

- Developing new sources of national income as a future replacement for existing oil revenues.
- Enhancing the proportion of investments directed towards income-generating projects, with particular emphasis on industry, mining, agriculture and fisheries.
- Concentrating on the development and upgrading of local human resources, thus enabling them to fulfill their role in the Omani economy.
- Geographically distributing investments for the benefit of all areas, with a particular focus on the less developed regions, in order to eliminate the disparity in the standards of living existing between the various regions.
- Supporting and developing the present population centres and safeguarding them from the dangers of mass migration to the densely populated areas.
- Completing the building of basic infrastructures.
- Recognising the importance of water resources as a vital element in the growth of economic activities and environmental conservation.
- Supporting the development of local commercial activity and the growth of vibrant and competitive markets which have the necessary support structures, in terms of transport, storage and the removal of commercial obstacles.
- Completing the initial stages of establishing a national economy based on private sector activity in a competitive market with loan provision for vital projects in accordance with the resources available to the state.
- Increasing the efficiency of the state’s administrative capability.


(It should be noted that the Development Council was established by Royal Decree, No. 41/74 issued on 17/11/1974, and was cancelled by Royal Decree No. 6/96 issued on January 1996, when all its powers were transferred to the Council of Ministers).

2.3.2 The First Development Plan (1976-1980)

The First Year Development Plan (1976-1980) was adopted (by Royal degree 23/176) on 17 August 1976. The initial task of the Plan was to define the major economic parameters and describe the planning legal framework. When data were not available, such as in the case of population, planning estimates were established (Miller, 1991).

This plan coincided with the oil boom and the beginning of the utilisation of natural gas resources in the country. It provided the preparatory stage for Oman’s entry into a new stage of development within the context of comprehensive socio-economic planning. The main aim of this plan was directed towards the development of the infrastructure. The government believed that the provision of a developed infrastructure was a basic precondition for the development of Oman’s economy. Therefore, government efforts have led to the development of the infrastructure in a steady and tangible way. To achieve this aim, the plan adopted the following objectives:
- To increase the capacity of Oman’s economy.
- To start providing subsidies.
➢ To develop the private sector.
➢ To complete the fundamental basis of a free national economy (Council of Development, 1976).

2.3.3 The Second Development Plan (1981-1985)

The Second plan document was much more substantial (122 pages of text compared to 62 in the First Plan). This indicates that there was a learning process during the first plan period and a positive return on the investment in the government administration (Miller, 1991). The Second five-year plan Development came in to force on the termination of the First year Development plan, in more specific forms, and adds some new objectives.

During the second five-year plan, oil revenue continued to increase. This income enabled the fund to maximise its role in meeting the developmental needs of the country. Oil income also contributed towards the acceleration of economic development and to the realisation of a level of capital formation approaching one-quarter of the Gross Domestic Product. The private sector was encouraged to participate in socio-economic activities by way of a set of direct and indirect policies and procedures. Concentrated efforts were made to complete the infrastructure, which constitutes the backbone of the development, and to extend this to all areas of the country. Priority was given to some regions, which required special attention and intensive effort (Ministry of Development, 1996).

2.3.4 The Third Development Plan (1986-1990)

At the beginning of the third plan, there were sharp falls in oil prices. During 1986-1990, the country faced the burden of increasing current expenditure and the difficulty of increasing revenues from other sources during the economic recession, which accompanied the collapse in oil prices.
In spite of these unfavourable circumstances, this plan provided (as a link in the successive chain of five-year plans) a framework within which it was possible to implement a group of comprehensive policies and procedures. On the one hand, the policies aimed at the maintenance of a reasonable level of economic activity in the country and the continuation in the provision of the basic services offered by the government such as education, health and social assistance, and on the other, in the maintenance of the economic and financial balance of the country. These policies and procedures included the reduction and suppression of expenditure and the amendment of the priority structure in the plan for investment programmes. These conditions demonstrated the wisdom of the establishment of the State’s public reserve fund during the rapid surge in oil prices, as the reliance in covering the bigger part of the deficit between revenues and government spending during the Third Five-year plan was in the form of drawing from the surpluses of this fund which reached around 1254 O.R million by the end of 1989.

2.3.5 The Fourth Development Plan (1991-1995)

Human resource development gained a special significance in the Sultanate due to the appreciation that the real concern of development, the catalyst and overall objective, is the human element. Therefore, the Sultanate has aimed to achieve rapid rates of growth by concentrating, through its five-year plans, on programmes, which lead, to the utilisation of all specialisations and national skills within the development and growth cycles (Ministry of Development, 1996).

In view of the relationship between growth and economic and social variables, the issues of human resource development, labour, education, training and rehabilitation were given special attention within the overall objectives and policies of economic growth in the Sultanate, which stemmed from the Council of Development in 1975. These objectives and policies were considered in the executive programme of the Economic Development
Law no. 1/75, which was issued by virtue of the Sultanate decree no. 9/75 on February 1975 (Ministry of Development, 1991. p. 134).

These objectives and policies emphasise the following:

“ It is most important to attend to the development of local human resources so that they may play their role to the full within the national economy. In this regard, it is important to expand the education and training programmes and to improve public health and nourishment, so that the programme carries forward the aim of rehabilitating citizens, so that they may contribute actively towards the economy and economical production, and not only to the extent of covering the needs of the administrative body” (Ministry of Development, 1991. p 134).

2.3.6 The Fifth Development Plan (1996-2000)

This plan was approved by his (Majesty the Sultan in the Royal Decree No. 1/96, issued on 10-8-AH [1/1/96]). It is considered as the first step in a new phase of development efforts, and was formulated within the framework of a clear-cut vision based on an economic approach that considers human resources as a primary dimension. These are considered the primary pillars of progress, since human capacities and technical skills are the primary guarantee of sustainable development (Ministry of Development, 1996).

The main objectives of this plan are:

➢ To work towards striking a balance between the resources and activities of the government.
➢ To put more emphasis on human resource development.
➢ To encourage saving, and to subject government projects to economic criteria.
➢ To support and promote the role of the private sector.
➢ To emphasise the importance of self-reliance and to avoid dependency (Ministry of Development, 1996).

2.3.7 The Sixth Five-year Plan (2001-2005)

In line with the general framework of the Vision for Oman’s Economy, Oman 2020, and its long term objectives, and in view of the lessons drawn from the experience of the
execution of the Fifth Five Year Plan (1996-2000) together with the challenges it involved, the overall objectives of the Sixth Five year Development plan ratified by (Royal decree No.1/2001) are illustrated in the following three basic dimensions:

- Special attention is to be given to the privatisation programme with the intention to reducing the national economy’s dependence on public spending, encouraging private sector investment, providing competitive environment and improving the efficiency of the national economy.
- Increasing the private sector share in GDP through its participation in the industrial programme of natural gas based projects in addition to strengthening its activities in its traditional fields of investment and raising its productivity.
- Increasing private saving, encouraging of local and foreign investment through creation of a suitable investment climate, and expanding the sectors activities. (Ministry of Development, 2000).

2-3-8 The Pattern of Structural Changes Throughout the Five- Year Plans

The positive impact of the government’s efforts toward private sector development have been noticeable as the economy has been experiencing a structural shift towards the private non oil sector as outlined below:

a) The non-oil sector’s contribution to GDP has been steadily increasing. During the Fifth Five development plan (1996-2000), the sector accounted for about 68.7 percent of GDP compared with a mere 43.5 percent during the first Five year plan (1976-1980).

b) The share of non-oil revenues in total government revenues has increased markedly. The average annual share of non-oil revenue in total government revenue during the Fifth Five year plan (1996-2000) was almost threefold its level during the First Five year plan. It has increased from 7.8 percent to about 21.1 percent.
c) The contribution of non-oil exports earning to total merchandise exports has significantly improved from an annual average share of only 3.8 percent during (1976-1980) to about 28.2 percent during (1996-2000).

d) Private consumption as a share of total consumption has increased, reflecting a greater role for household and private sector consumption. The private consumption share of total consumption has increased to an annual average of nearly 58 percent during (1976-1980).

e) Private investment as the share of total investment has also shown a similar upward pattern as it has been increasing since the First Five years plan. During (1996-2000) it averaged about nearly 38 percent, compared with 27.7 percent in (1976-1980).

Table (2-1) below and graphical representations below depict the gradual positive activity and private sector led economy.

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-oil/GDP)</td>
<td>43.5</td>
<td>48.9</td>
<td>57.8</td>
<td>62.4</td>
<td>68.7</td>
</tr>
<tr>
<td>Manufacturing/GDP)</td>
<td>0.7</td>
<td>1.7</td>
<td>3.2</td>
<td>4.1</td>
<td>6.1</td>
</tr>
<tr>
<td>Private Consumption/Total Consumption</td>
<td>58</td>
<td>67.3</td>
<td>60.7</td>
<td>63.8</td>
<td>64.9</td>
</tr>
<tr>
<td>Private Investment/Total Investment</td>
<td>27.7</td>
<td>21.7</td>
<td>28.5</td>
<td>34.9</td>
<td>37.9</td>
</tr>
<tr>
<td>Non-oil Export/Total Exports*</td>
<td>3.8</td>
<td>7.3</td>
<td>9.8</td>
<td>19.4</td>
<td>28.2</td>
</tr>
<tr>
<td>Non-oil revenues/Total Revenues)</td>
<td>7.8</td>
<td>11.2</td>
<td>17.9</td>
<td>21.1</td>
<td>30.8</td>
</tr>
</tbody>
</table>

* Including re-exports
2.3.9 A Vision for the future

In June 1995, the “Vision for Oman Conference (Oman 2020)” was convened. The conference paved the way for the formulation of the Fifth Five-Year Plan, as well as reviewing and approving the vision for Oman’s economy for the next 25 years. The new vision entailed limiting the role of government to strategic guidance and balancing the budget, while the private sector would assume a bigger role in the economy to increase efficiency and competitiveness. The vision also entailed privatisation as the driving force of the Omani economy, with diversification and the development and training of Omani
human resources, so that Oman is able to compete in the global economy (Ministry of Information, 1996, p. 80).

“Oil is a finite resource and its time is limited. Therefore, it is essential not to depend on it solely to finance development. From the beginning, we have stressed this truth, and our efforts have been notably successful. However, oil is still the main resource, and the fluctuation of its price is of great concern to everyone. Thus, there is no other course but to diversify the sources of our national income more widely, in order to make oil revenues only a minor element of this income. This leads us to call upon all citizens to save, invest, pursue business interests, develop industry, tourism, and agriculture, and utilise mineral resources, fisheries, livestock and other sources of revenue” (His Majesty Sultan Qaboos, 1995).

The new vision has been based on three main strategies: developing the country’s human resources, diversifying the economy to reduce the reliance on oil. Ripheenburg (1998) remarks:

“Vision 2020 foresees utilizing revenues from Oman’s non-renewable natural resources to assist in developing a feasible economy that is not dependent on oil”.

As a preparation for the Vision 2020, the government, first with the assistance of the World Bank evaluated the status of the economy and what had been accomplished in the period from 1970. This evaluation had considered each economic sector in isolation to determine the important of each sector for future economic development. In particular, what had been achieved in each sector during the period under consideration, the obstacles that hindered the development of the sector, the resources and capability of each sector, as well as policies and the mechanisms used to increase the efficiency of the sector.

In the year 2020, it is expected that the economy will no longer rely on oil, but will be diversified, with higher levels of savings and investment, while other sources of national income from the non-oil sector will assume a primary role:

- The crude oil sector’s share of GDP is estimated to drop to around 9% in 2020, compared with about 41% in 1996.
- The gas sector is expected to contribute around 10% to GDP in 2020, compared with less than 1% in 1996.
The industrial sector's contribution, where the major change is envisaged is expected to rise from 7.5% in 1996 to 29% in 2000. See Tables 2.2, 2.3, and 2.4.

Table (2.2) Projections for the Vision for Oman's Economy 2020
Main Economic Indicators as a % of GDP (Base Year 1988 = 100)

<table>
<thead>
<tr>
<th>Item</th>
<th>1995</th>
<th>2000</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Total Government Revenue</td>
<td>38.8</td>
<td>34.6</td>
<td>16</td>
</tr>
<tr>
<td>2 Total Government Expenditure</td>
<td>48.8</td>
<td>34.6</td>
<td>14</td>
</tr>
<tr>
<td>3 Budget Balance</td>
<td>10.0</td>
<td>0.0</td>
<td>2</td>
</tr>
<tr>
<td>4 Total Final Consumption</td>
<td>78.8</td>
<td>72.4</td>
<td>68</td>
</tr>
<tr>
<td>5 Domestic Saving</td>
<td>21.2</td>
<td>27.6</td>
<td>32</td>
</tr>
<tr>
<td>6 Total Investment</td>
<td>14.5</td>
<td>16.9</td>
<td>34</td>
</tr>
<tr>
<td>7 Total Imports</td>
<td>34.5</td>
<td>29.9</td>
<td>20</td>
</tr>
<tr>
<td>8 Total Exports</td>
<td>41.1</td>
<td>40.5</td>
<td>23</td>
</tr>
<tr>
<td>9 Current Account (Balance)</td>
<td>7.2</td>
<td>8.0</td>
<td>4</td>
</tr>
<tr>
<td>10 Public External Debt</td>
<td>20.9</td>
<td>16.3</td>
<td>9</td>
</tr>
<tr>
<td>11 State General Reserve Fund Balance</td>
<td>17.4</td>
<td>2.9</td>
<td>24</td>
</tr>
</tbody>
</table>

Annual Average Growth Rate (%)

<table>
<thead>
<tr>
<th>Item</th>
<th>1995-91</th>
<th>2000-96</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>12 Gross Domestic Product</td>
<td>5.8</td>
<td>5.1</td>
<td>7.4</td>
</tr>
<tr>
<td>13 Non Oil GDP</td>
<td>6.8</td>
<td>5.7</td>
<td>8.8</td>
</tr>
<tr>
<td>14 GDP Per Capita</td>
<td>0.02</td>
<td>1.0</td>
<td>3.8</td>
</tr>
</tbody>
</table>
Table (2.3) The Sectoral Relative Shares to Gross Domestic Product (%) 1993=100

<table>
<thead>
<tr>
<th>Activity</th>
<th>1995</th>
<th>2000</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oil</td>
<td>33.5</td>
<td>25.9</td>
<td>9.0</td>
</tr>
<tr>
<td>Gas</td>
<td>1.5</td>
<td>5.0</td>
<td>10.0</td>
</tr>
<tr>
<td>Agriculture</td>
<td>3.0</td>
<td>3.5</td>
<td>3.1</td>
</tr>
<tr>
<td>Fishing</td>
<td>1.1</td>
<td>1.0</td>
<td>2.0</td>
</tr>
<tr>
<td>Mining &amp; Quarrying</td>
<td>0.6</td>
<td>0.6</td>
<td>2.0</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>5.4</td>
<td>6.8</td>
<td>15.0</td>
</tr>
<tr>
<td>Electricity &amp; Water</td>
<td>1.7</td>
<td>4.3</td>
<td>2.0</td>
</tr>
<tr>
<td>Building, Construction &amp; Real Estate</td>
<td>3.2</td>
<td>6.9</td>
<td>10.0</td>
</tr>
<tr>
<td>Trade &amp; Tourism</td>
<td>14.1</td>
<td>17.8</td>
<td>18.0</td>
</tr>
<tr>
<td>Transportation &amp; Communication</td>
<td>7.0</td>
<td>8.6</td>
<td>8.0</td>
</tr>
<tr>
<td>Banks, Insurance and Financial Services</td>
<td>7.9</td>
<td>4.3</td>
<td>8.0</td>
</tr>
<tr>
<td>Other Private Services</td>
<td>8.3</td>
<td>3.2</td>
<td>5.0</td>
</tr>
<tr>
<td>Public Services</td>
<td>13.9</td>
<td>12.6</td>
<td>10.0</td>
</tr>
<tr>
<td>Other Services **</td>
<td>-1.2</td>
<td>-5.0</td>
<td>-2.1</td>
</tr>
<tr>
<td>Gross Domestic Product</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

** Custom Duties & Imputed Business Services.

Table (2.4) Estimates of Social Indicators according to the Vision for Oman's Economy (2020).

<table>
<thead>
<tr>
<th>HEALTH</th>
<th>1995</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Life Expectancy (Years)</td>
<td>67.4</td>
<td>70</td>
</tr>
<tr>
<td>2. Infant Mortality Rate per 1000 Live Births</td>
<td>20</td>
<td>10</td>
</tr>
<tr>
<td>3. Population per Hospital Bed</td>
<td>485</td>
<td>335</td>
</tr>
<tr>
<td>4. Population per Doctor</td>
<td>844</td>
<td>715</td>
</tr>
<tr>
<td>5. Population per Nurse</td>
<td>346</td>
<td>325</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>EDUCATION</th>
<th>1995</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>6. Enrolment Ratio in Higher Education (%)</td>
<td>9%</td>
<td>40%</td>
</tr>
<tr>
<td>7. Percentage of Vocational Training Students</td>
<td>4.5%</td>
<td>50%</td>
</tr>
<tr>
<td>to total Students at Secondary Level</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>MANPOWER</th>
<th>1995</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>8. Percentage of Omani Labour Force to total population</td>
<td>17%</td>
<td>50%</td>
</tr>
<tr>
<td>9. Percentage of Women in Total Labour Force</td>
<td>6%</td>
<td>12%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>OMANISATION</th>
<th>1995</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>10. Omanisation rate in Public Sector</td>
<td>68%</td>
<td>95%</td>
</tr>
<tr>
<td>11. Omanisation rate in Private Sector</td>
<td>15%</td>
<td>75%</td>
</tr>
</tbody>
</table>

2-4 Oil Sector

The foremost single factor in changing the economic appearance of the Sultanate of Oman and radically altering the course of its events was the discovery of oil in the 1950s, leading to the first export of oil in a commercial quantity in August 1967. Oman like many other developing nations relies largely on a single commodity export sector for revenues to further its economic and social development projects (Riphenburg, 1998).

The oil sector is the most important among all economic sectors. This is due to its contribution to the GDP, export earning and related government revenues (Ministry of Development, 1997). Therefore, it is necessary to examine the importance of the oil sector to the economic development of Oman, and find out how much the country is dependent upon this sector. However, its impact on the other economic variables, such as consumption and employment, are not shown directly as in the case of other goods producing sectors. Its impact is manifested indirectly in terms of creating a source of revenue that can be used to finance public expenditure.

Since such capital is exhaustible, the limited life of such resources should be taken into account. The limitation of the life of a natural resource is mainly, especially in the short term, determined by the existing volume of resources. Other factors that determine its limitation include the possible substitution of other products, and possible changes in the world demand due to technological changes (Ministry of Development, 1997).

Oman proven oil reserves are relatively small and are expected to be depleted. As the production oil wells are limited, any attempt to increase production would require more advanced foreign technology and so higher production cost. The Sultan has said:

Oil is a finite resource and its time is limited. Therefore, it is essential not to depend on it solely to finance development. From the beginning, we have stressed this truth, and our efforts have been notably successful. However, oil is still the main resource, and the fluctuation of its price is of great concern to everyone. Thus, there is no other course but to diversify the sources our national income more widely, in order to make oil revenues only a minor element of this income (Ministry of Development, 1998, p.43).
The new emerging economy has been dominated by oil; without its revenues none of what has been achieved could have even started. The country’s population has been affected, its number increasing after a long period of stagnation and its standard of living rising. Al-salmi (1998) stated that since the beginning of its modern economic development in the year 1970, Oman has been relying for its economic development on oil. Crude oil counted for more than 90% of the total exportation until 1986. However, this heavy dependence on oil has changed especially after the slump of the oil prices in 1986, when Oman started seriously to consider its economic diversification. The oil sector, naturally, led to new demands in terms of consumerism, governing, among other things, housing and general services such as health, education, communication, and transport.

The International Energy Agency (IEA), in its recent review entitled “World Energy Outlook 2000”, projects that the demand for oil will increase at an annual average rate of 1.9 per cent to the year 2020, thus will enable it to maintain its share of primary energy consumption at around 40 per cent of the total. By the end of this period oil consumption will be 115 million b/d compared to around 76 million b/d in 2000. As a result of the combined efforts of the oil producing countries, coupled with other favourable international developments, oil prices began to rise. The price of Brent increased from nearly US $ 9 per barrel at the end of 1998 to around US $ 17 immediately after the OPEC agreement to cut production. The price then went over US $ 17.9 by December 2001, and to US $ 26.66 by December 2002 with an average amounted to US $ 24.29 during 2000. The average oil price for Oman crude which had dipped from US $18.62 per barrel in 1997 to US $ 11.92 in 1998 (36 per cent), went up to US $ 17.35 per barrel in 1999 and to US$ 22.29 per barrel in 2002.
Table (2-5) Oman’s Oil Prices (US $/B)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>January</td>
<td>17.30</td>
<td>22.50</td>
<td>13.37</td>
<td>10.34</td>
<td>24.62</td>
<td>22.85</td>
<td>18.78</td>
</tr>
<tr>
<td>February</td>
<td>16.50</td>
<td>19.72</td>
<td>12.25</td>
<td>9.64</td>
<td>25.76</td>
<td>24.82</td>
<td>19.33</td>
</tr>
<tr>
<td>March</td>
<td>17.80</td>
<td>19.10</td>
<td>11.31</td>
<td>12.16</td>
<td>26.00</td>
<td>23.45</td>
<td>23.35</td>
</tr>
<tr>
<td>April</td>
<td>18.60</td>
<td>17.53</td>
<td>12.06</td>
<td>14.86</td>
<td>22.95</td>
<td>24.38</td>
<td>25.05</td>
</tr>
<tr>
<td>May</td>
<td>17.90</td>
<td>19.25</td>
<td>12.61</td>
<td>15.29</td>
<td>26.66</td>
<td>26.05</td>
<td>25.27</td>
</tr>
<tr>
<td>June</td>
<td>18.20</td>
<td>17.75</td>
<td>11.62</td>
<td>15.39</td>
<td>28.20</td>
<td>25.95</td>
<td>24.45</td>
</tr>
<tr>
<td>July</td>
<td>18.80</td>
<td>17.46</td>
<td>11.99</td>
<td>17.86</td>
<td>26.80</td>
<td>23.70</td>
<td>25.14</td>
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<tr>
<td>August</td>
<td>19.60</td>
<td>17.86</td>
<td>12.15</td>
<td>19.64</td>
<td>27.43</td>
<td>24.75</td>
<td>25.54</td>
</tr>
<tr>
<td>September</td>
<td>21.20</td>
<td>18.10</td>
<td>12.63</td>
<td>22.29</td>
<td>30.13</td>
<td>24.22</td>
<td>27.18</td>
</tr>
<tr>
<td>October</td>
<td>22.50</td>
<td>19.27</td>
<td>12.20</td>
<td>21.97</td>
<td>30.54</td>
<td>19.75</td>
<td>26.89</td>
</tr>
<tr>
<td>November</td>
<td>21.80</td>
<td>18.54</td>
<td>11.25</td>
<td>23.99</td>
<td>30.07</td>
<td>19.85</td>
<td>23.89</td>
</tr>
<tr>
<td>December</td>
<td>22.82</td>
<td>16.31</td>
<td>9.57</td>
<td>24.72</td>
<td>21.41</td>
<td>17.85</td>
<td>26.66</td>
</tr>
<tr>
<td>Average Jan-Dec</td>
<td>19.42</td>
<td>18.62</td>
<td>11.92</td>
<td>17.35</td>
<td>26.71</td>
<td>18.10</td>
<td>24.29</td>
</tr>
</tbody>
</table>

Source: Ministry of Oil & Gas and Ministry of National Economy.

Economic activity in the Sultanate is greatly influenced directly and indirectly by developments in the petroleum sectors. The petroleum sectors are responsible for a major share of GDP. The petroleum sectors, value added at current prices increased by 57.7% to US 13,384.41 million in 2000 from US 9,108.33 million in 1999, while, in terms of percentage, its share in the GDP went up to 49.1% in 2002 from 39.4 % in 1999.

The significant lesson learnt by Omani policy-makers as well as those in many oil producing countries over the last three decade is the need closely to forecast oil prices, and especially in Oman, to reduce the level of oil dependence. This is especially so for the simple reason that oil is a non-renewable resource and its supply will be exhausted some time in the future. This underscores the need to diversify the source of national revenues (Al-Syabi, 2000). The policy of diversification of national income outside of the petroleum sector via public investment in income-generating projects has been the primordial economic development goal of Oman since the inception of planning (Miller, 1991).
2-4-1 The Omani Economy before Oil

The economic development of Oman started late compared with that of other Arabian Gulf countries. The main reason for this was the limited availability of capital. According to Allen (1987), before the discovery of oil the Omani treasury was entirely dependent on customs revenue, the Zakat (religious tax) collected on agricultural produce, loans and subsidies from the British Government.

Before the discovery of oil, the Sultanate of Oman did not own or utilise any valuable natural resources. The severe limitations of resources, the shortages in technical and professional personnel and limited administrative resources all contributed to economic uncertainties. Oman found itself in a complicated state of under-development and under investment with a very low standard of living.

Before the discovery of oil, the people of Oman were dependent on agriculture. Around 1970, it has been estimated, 90% of the people worked and lived in the agricultural sector, and only 10% were involved in other activities such as fishing and trading. Oman has gone through considerable and remarkable change in the last two decades. HM Sultan Qaboos who took power in 1970 and the lead he has given to his Government and people. These extensive and radical changes have altered the previously stagnant economic, cultural, educational and social conditions, in a vigorous and effective way (Ministry of Information, 1991).

There were no government agencies or ministries in the modern sense. There were no asphalt roads to link the various parts of the vast country. Only one small port existed and this had limited capacity with no modern equipment. Education and health services, and public utilities such as electricity and water, scarcely existed (The First Five-year development Plan, 1976-1980).
2.4.2 Reserves and Production:

In many ways, Oman is atypical of GCC oil producers. As we mention before, oil was not discovered in commercial quantities until 1962 - decades after most of Oman's neighbours. Oman's oil fields also are generally smaller, more widely scattered, less productive, and more costly per barrel than in other Arab Gulf countries. The average well in Oman produces about one-tenth the volume per well compared to neighbouring countries. Oman continues to use a variety of enhanced oil recovery (EOR) techniques in order to minimize the costs of exploration and further development at new and existing oil fields. Using these technologies, Oman has succeeded in bringing down the cost of oil production to $3 per barrel in some fields and $4 per barrel in others - but these figures, while still low by world standards, are substantially above most other Gulf oil fields. Oman is not a member of the Organization of Petroleum Exporting Countries (OPEC) or the Organization of Arab Petroleum Exporting Countries (OAPEC).

Most of Oman's 5.28 billion barrels in proven oil reserves are located in the country's northern and central regions. In the North, the Yibal, Natih, Fahud, al-Huwaisah and Lekhwair fields combined account for almost half of total Omani oil production. Yibal, which produces around 180,000 bbl/d, is the largest oil field in the country. Crude oil found in this region is mainly medium or light, with gravities in the 32°-39° API range. Northern oil is mostly found along with natural gas. Heavier oil is found in southern Oman, particularly in the Nimr and Amal fields, with gravities averaging 20° API, and normally not associated with natural gas. Oman's main oil export blend is medium sour crude.

Petroleum Development Oman (PDO), the country's second-largest employer after the government, holds over 90% of the country's oil reserves and accounts for about 94% of production. PDO is a consortium comprised of the Omani government (60%), Shell (34%), Total (4%), and Partex (2%). However, Shell operates most of Oman's key fields, including Yibal and Lekhwair. As part of a strategy to increase its oil reserves, PDO has set out to develop additional exploration and recovery techniques. PDO aims to increase
the amount of oil it recovers to 34% (from 27% in early 1998). Recent exploration has been successful in southern Oman, where PDO reportedly discovered 2 major oil fields, at Al-Noor and Al-Shomou, with an estimated-combined 340 million barrels of reserves. PDO hopes to increase reserves from Al-Noor and Al-Shomou to 1.8 billion barrels in 2003 and 2.7 billion barrels by 2011.

Yibal, discovered in 1962, is Oman's largest producing oil field, supplying around one-quarter of PDO's total production. In 1986, the field's output was boosted from 120,000 bbl/d to more than 140,000 bbl/d with the installation of water injection facilities. Production was increased further following the completion of a $200-million development project, called Yibal Shusiba Phase II, in 1994. The project involved drilling 96 wells, mostly horizontal, and modifications to production stations B, C, and D, which included the installation of gas injection facilities. Yibal currently produces around 180,000 bbl/d. Oman's second largest oil field, Nimr, was discovered in 1980 and is located in the southern part of the country. Nimr currently produces about 178,000 bbl/d from more than 307 wells.

The policy pursued by the Oman government towards oil production is two-fold: namely, the optimisation of the ratio of low-cost oil to total production and the maintenance of a sustainable level of production over the medium and long terms. Keeping these broader objectives in view, Petroleum Development Oman co. (PDO), together with other oil production companies (Occidental Oman, Japex Oman, Novus Oman and Petrogas) increased their daily oil production during 2000 (Ministry of Oil & Gas, 2001). The number of oil producing wells was 109 in 1999 (of which 97 wells belong to PDO) as compared to 104 wells in 1998. Total oil production was 328.0 million barrels during 2002 as compared to 349.0 million barrels in 2001.
Table (2-6) Oil Production & Exports (Million Barrels)

<table>
<thead>
<tr>
<th>Year</th>
<th>Production</th>
<th>(per cent) Change</th>
<th>Exports</th>
<th>(per cent) Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>313.0</td>
<td>5.5</td>
<td>286.5</td>
<td>5.4</td>
</tr>
<tr>
<td>1996</td>
<td>324.5</td>
<td>3.7</td>
<td>297.6</td>
<td>3.9</td>
</tr>
<tr>
<td>1997</td>
<td>329.7</td>
<td>1.6</td>
<td>304.7</td>
<td>2.4</td>
</tr>
<tr>
<td>1998</td>
<td>327.2</td>
<td>-0.8</td>
<td>300.1</td>
<td>-1.5</td>
</tr>
<tr>
<td>1999</td>
<td>330.2</td>
<td>0.9</td>
<td>308.8</td>
<td>2.9</td>
</tr>
<tr>
<td>2000</td>
<td>349.5</td>
<td>5.8</td>
<td>326.8</td>
<td>5.9</td>
</tr>
<tr>
<td>2001</td>
<td>349.0</td>
<td>-0.3</td>
<td>332.0</td>
<td>1.5</td>
</tr>
<tr>
<td>2002</td>
<td>328.0</td>
<td>-6.0</td>
<td>306.0</td>
<td>-7.8</td>
</tr>
</tbody>
</table>

Source: Ministry of Petroleum and Gas and Ministry of National Economy 2001

2-4-3 Natural Gas

Natural gas is another important source of energy in the Sultanate of Oman. Therefore, the government’s plans aim at conserving this natural wealth and rationalising its usage. As a result of the exploration programmes, the Sultanate’s proven natural gas reserves (associated and non-associated) increased to 29.80 trillion cubic feet in 2000. The increase was due to newly drilled wells, as well as developing the existing ones. In 2000,
some 547.2 billion cubic feet of natural gas were produced (249.6 billion c.f. associated and 297.6 billion c.f. non-associated) compared to 408.5 billion cubic feet (252 billion c.f. associated and 156.5 billion c.f. non-associated) in 1999.

At present, gas is largely utilised by reinjecting it into the oil reservoirs to maintain pressure and sustain oil production. It is also used as fuel to generate power in desalination plants, cement factories and other industrial projects such as textiles, aluminum and batteries.

2.5 Foreign Trade

Current foreign trade transactions in many countries all over the world are obvious indicators of the dynamism of economic activities in those countries. This is due to the important role of foreign trade in macro-economic development in areas such as the GDP, national income and in acquiring forex foreign exchange, plus its role in tackling deficits in trade balance and in creating job opportunities for nationals.

The Sultanate has a long history of contacts and relations with countries both within and outside the Arab world. Oman has been an entrepreneurial trading state since ancient times. Copper and frankincense were quality Oman products traded throughout the civilised world; Omani merchant trade opened up new trade routes and was instrumental in developing regional trade. Since the inception of development planning, the Sultanate has followed a pro-private sector, market-oriented, open market policy (Miller, 1991). The Sultanate was the first Arab country to establish diplomatic contact with the United States of America in the first half of the 19th century, by which time it already had a treaty relationship with Britain and relations with France.

International trade accounts for a major part of economic activity in Oman with the ratio of external trade in goods to Gross Domestic Product at more than 75%. Oman enjoys a liberal trade regime with no significant restrictions on exports and imports. Prohibited items under external trade only a few items, mainly on the grounds of health and security.
As in the case of other countries in the region, oil is the major natural endowment, which generates large export earnings. However, the export market comprises a variety of other goods too. The component of non-oil exports has been growing in recent years as a result of a conscious policy shift in favour of the promotion of exports of non-oil based commodities to enable the country to rely less on oil.

The composition of imports is quite varied and includes a large component of consumption items also. The ratio of imports to GDP works out to around one-third of GDP. Imports generally carry a low rate of tariff; however, certain items of imports are exempt from duties, for example, imports from GCC countries and selected imports from other countries. A few other goods attract higher duties either for social reasons or for protecting domestic infant industries. The average import tariff rate remains low-2.4% in 2000, which fell from 4.5% in the preceding year, as a result of lowers of tariffs on selected goods from 15% to 5% in 2000. The relatively low tariff regime in Oman promotes business and encourages private investment.

2-5-1 Trade Balance

The trade balance for 1996 through to 2002 is set out in Table 2-7. The External trade balance on an f.o.b. basis, which showed a significant surplus in 2001, improved further in 2002, notwithstanding a rise in the import bill. The improvement in the trade balance was brought about by a phenomenal rise in export earnings because of a rise in the international oil price and a moderate increase in the volume of oil exports. Trade surplus in 2000 amounted to RO 2586 million and RO 2129 million in 2002.
### Table 2-7 Trade Balance (In RO Million)

<table>
<thead>
<tr>
<th>Year</th>
<th>Exports, f.o.b.</th>
<th>1. Oil &amp; gas exports</th>
<th>2. Non-oil exports</th>
<th>Imports f.o.b.</th>
<th>Trade Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>2835</td>
<td>2275</td>
<td>560</td>
<td>1627</td>
<td>1208</td>
</tr>
<tr>
<td>1997</td>
<td>2944</td>
<td>2234</td>
<td>710</td>
<td>1786</td>
<td>1158</td>
</tr>
<tr>
<td>1998</td>
<td>2123</td>
<td>1430</td>
<td>693</td>
<td>2005</td>
<td>118</td>
</tr>
<tr>
<td>1999</td>
<td>2783</td>
<td>2127</td>
<td>656</td>
<td>1653</td>
<td>1130</td>
</tr>
<tr>
<td>2000</td>
<td>4352</td>
<td>3605</td>
<td>747</td>
<td>1766</td>
<td>2586</td>
</tr>
<tr>
<td>2001</td>
<td>4258</td>
<td>3415</td>
<td>843</td>
<td>2042</td>
<td>2216</td>
</tr>
<tr>
<td>2002</td>
<td>4295</td>
<td>3307</td>
<td>988</td>
<td>2166</td>
<td>2129</td>
</tr>
</tbody>
</table>

* Revisions *Includes unrecorded imports

Source: Ministry of National Economy

### Exports

As in the case of other Gulf countries, Oman’s exports are dominated by a single commodity, oil. Although non-oil exports of Omani origin and re-exports form a part of the export basket, they are not significant. However, in response to government policy, the share of non-oil exports has been rising in the recent past. For example, exports other than oil grew over the last decade from a mere 8 percent of total exports in 1990 to 21 percent in 2000 after peaking at 33 percent in 1998. Beginning in 2000, natural gas has been added to the list of Omani exports.
2.5.2 Direction of non-oil exports

The data on the geographical distribution of non-oil exports (including re-exports) for 2002 showed no marked shift in the pattern of country-wide distribution of exports among major trade partners. As in the past, UAE accounted for the major part (39.2 per cent) of total non-oil exports of Oman, importing goods worth of RO 387.6 million. Saudi Arabia was next in order accounting for RO 69.6 million (7.1 per cent) of total non-oil exports. Other major countries which imported from Oman were Iran RO 199.9 million (20.2 per cent), Yemen RO 19.3 million (2.3 per cent), USA RO 33 million (3.3 per cent), UK 25.1 million (2.5 per cent), Tanzania RO 27.4 million (2.8 per cent), Singapore RO 10.9 million (1.1 percent), and Zambia RO 12.2 million (10.9 percent) see (Table2-8).

(Table 2-8) Geographical Distribution of Value of Non-oil Exports * in 2002
(Amount in RO Million)

| Country      | Non-oil Exports | % Of Total Non-oil Exports *
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>UAE</td>
<td>387.6</td>
<td>39.2</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>69.6</td>
<td>7.1</td>
</tr>
<tr>
<td>Iran</td>
<td>199.9</td>
<td>20.2</td>
</tr>
<tr>
<td>Yemen</td>
<td>19.3</td>
<td>2.0</td>
</tr>
<tr>
<td>USA</td>
<td>33.0</td>
<td>3.3</td>
</tr>
<tr>
<td>UK</td>
<td>25.1</td>
<td>2.5</td>
</tr>
<tr>
<td>Tanzania</td>
<td>27.4</td>
<td>2.8</td>
</tr>
<tr>
<td>Singapore</td>
<td>10.9</td>
<td>1.1</td>
</tr>
<tr>
<td>Zambia</td>
<td>12.2</td>
<td>1.2</td>
</tr>
<tr>
<td>Kuwait</td>
<td>10.1</td>
<td>1.0</td>
</tr>
<tr>
<td>Others</td>
<td>193.2</td>
<td>19.6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>988.3</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

Includes re-exports
Source: Ministry of National Economy
The country-wide distribution of imports in 2002 showed that the UAE retained its number one position besides improving its share to RO 633. million or 27.4 percent of total imports. Japan followed UAE at a distance at RO 372.5 million or 16.1 percent; UAE and Japan together met the import requirements of Oman to the extent of almost 44 percent. The imports from the UK (RO 140.1 million) and the USA (RO 151.0 million) accounted for 6.1 percent and 6.6 percent, respectively. Imports from other countries such as Germany, South Korea, India, Australia, Saudi Arabia and the Netherlands ranged between RO 45 million and RO 67 million accounting for 1 to 5 percent of total imports individually (See table 2-9).

Table 2.9 Geographical Distributions of Total Recorded Imports in 2002 (In RO Million)

<table>
<thead>
<tr>
<th>Country</th>
<th>Imports</th>
<th>% Of Total Imports</th>
</tr>
</thead>
<tbody>
<tr>
<td>UAE</td>
<td>633.0</td>
<td>27.4</td>
</tr>
<tr>
<td>Japan</td>
<td>372.5</td>
<td>16.1</td>
</tr>
<tr>
<td>UK</td>
<td>140.1</td>
<td>6.1</td>
</tr>
<tr>
<td>USA</td>
<td>151.3</td>
<td>6.6</td>
</tr>
<tr>
<td>Germany</td>
<td>101.5</td>
<td>4.4</td>
</tr>
<tr>
<td>South Korea</td>
<td>44.8</td>
<td>1.9</td>
</tr>
<tr>
<td>India</td>
<td>104.3</td>
<td>4.5</td>
</tr>
<tr>
<td>Australia</td>
<td>41.7</td>
<td>1.8</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>84.8</td>
<td>3.7</td>
</tr>
<tr>
<td>Netherlands</td>
<td>37.8</td>
<td>1.6</td>
</tr>
<tr>
<td>Others</td>
<td>597.3</td>
<td>25.9</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2309.1</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

Source: Ministry of National Economy.
2.6 Private Sector and the Role of Small Businesses

SMEs have gained importance in recent years in many GCC countries as a result of both economic and social issues facing these economies like diversification and privatization of businesses, unemployment and domination of expatriates in most small business activities. As mentioned before, the long-term objectives of economic development in Oman are to diversity the production base, and secondly, to create and develop a viable private sector capable of sustaining and increasing economic growth, and take over the present leading role of the government in the development process.

To achieve these goals, the government has taken responsibility for establishing the basic infrastructure essential for the development of the targeted sectors, and the set up of the basic industries to exploit the crude oil and natural gas in which Oman has comparative cost advantages. The private sector was given the opportunity to participate in the development in the rest of the sectors including manufacturing, agriculture, trade and service. The decline in government spending due to a sharp reduction in its oil revenues necessitated for more private sector involvement in economic development and less dependence upon public sector activity, and in this respect, small businesses can play a significant role.

The contribution of the private sector (within which small businesses exist) to the development of the national economy has improved throughout the time. This is confirmed by the increasing number of small businesses in Oman and their contribution, amongst other thing, to employment and to the gross national product. Table (2-10) shows the trend in the number of Registered Private Companies and Establishments 1998-2002.
Table (2-10) number of Registered Private Companies and Establishments 2000-2002

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Under 5</td>
<td>34,584</td>
<td>1,870</td>
<td>1,808</td>
<td>38,262</td>
</tr>
<tr>
<td>1-5</td>
<td>18,156</td>
<td>856</td>
<td>813</td>
<td>19,825</td>
</tr>
<tr>
<td>10-25</td>
<td>32,511</td>
<td>1,851</td>
<td>1,976</td>
<td>36,338</td>
</tr>
<tr>
<td>25-50</td>
<td>6,548</td>
<td>391</td>
<td>305</td>
<td>7,244</td>
</tr>
<tr>
<td>50-100</td>
<td>6,432</td>
<td>341</td>
<td>297</td>
<td>7,070</td>
</tr>
<tr>
<td>100-250</td>
<td>3,801</td>
<td>310</td>
<td>343</td>
<td>4,454</td>
</tr>
<tr>
<td>250-500</td>
<td>647</td>
<td>36</td>
<td>24</td>
<td>707</td>
</tr>
<tr>
<td>500-1000</td>
<td>273</td>
<td>23</td>
<td>20</td>
<td>316</td>
</tr>
<tr>
<td>1000-2000</td>
<td>115</td>
<td>5</td>
<td>4</td>
<td>124</td>
</tr>
<tr>
<td>2000-3000</td>
<td>50</td>
<td>4</td>
<td>5</td>
<td>59</td>
</tr>
<tr>
<td>3000-4000</td>
<td>22</td>
<td>2</td>
<td>2</td>
<td>26</td>
</tr>
<tr>
<td>4000-5000</td>
<td>15</td>
<td>-</td>
<td>-</td>
<td>15</td>
</tr>
<tr>
<td>Over 5000</td>
<td>85</td>
<td>4</td>
<td>3</td>
<td>92</td>
</tr>
<tr>
<td>Total</td>
<td>103,239</td>
<td>5,693</td>
<td>5,600</td>
<td>114,532</td>
</tr>
</tbody>
</table>

Source: Ministry of National Economy

One of the objectives of the Oman government to support small enterprises by encouragement of the various institutions to implement small business support programs. A Soft Loan scheme has been in operation for small projects and has achieved varying degrees of success. A number of agencies provide assistance of varying types and degrees and caters to different aspects of such projects.

The Oman Development Bank (ODB), which was promulgated (by Royal Decree No. 18-1997), caters to projects costing up-to RO 250,000. ODB, which is a Government organization, sanctions and disburses soft loans again based on the viability of projects. These soft loans are given at subsidized rates of interest of 6%. Typically, however, this is a debt financing institution that has its own norms of lending with regard to acceptable security for its loans and repayment periods.

The Fund for Development of Youth Projects, (promulgated in 1998 by Royal Decree No. 76-1998) is an equity-financing fund that provides equity support to projects. The Fund is limited by the assistance of a maximum of RO 100,000 to a single project if it is a partnership and RO 50,000 if it is a single-owner project. The Fund provides not only...
investment support but also management support to the projects. The Royal Decree No. 76 in 1998 to target the business requirement of the age group falling between 20 and 40 years. The objectives of the Youth Fund were two-fold :) to promote businesses, and to promote entrepreneurship. In its endeavors to achieve its objectives, the Youth Fund has adopted the equity-financing route.

A third agency catering to SMEs is the Intilaaqah scheme, a not-for-profit scheme, supported as part of the Shell Live WIRE project. The scheme offers opportunities to young unemployed Omani men and women by encouraging them to undergo training to prepare them to become self-employed in their own small enterprises. This is strictly not a financing institution but provides the very important support of training.

The "Sanad Fund" was recently launched by the government to encourage self-employment among young Omanis. The Fund will support Omani craftsmen and professionals seeking to start a business by providing assistance in starting up, financing as well as follow up assistance. Small entrepreneurs will be able to get financing up to RO 5,000 for their business.

There is in addition a Vocational Training Graduate Scheme, administered by the Ministry of Social Affairs, directed towards an emerging problem of unemployment among young Omanis leaving technical school. Leavers may be provided with 100 percent of the finance required to establish a business, up to an amount of RO 15-20,000. A group of 3 or 4 leavers would be eligible for about RO 50,000. As in the previous case loans are interest free if all labour is Omani, otherwise a rate of 3 percent is charged. This scheme has been in operation since 1980 and is run by the Ministry of Commerce and Industry. The soft loan must be matched by an equal contribution of equity, though one-third equity may be accompanied by one third loan and a one third ODB loan contribution. The interest free loan is repayable over 15 years, including an initial 5-year grace period, payment to be made in 10 equal instalments. Collateral is limited to a mortgage on plant, without additional guarantees. However projects should be priority projects to the economy.
Besides, certain Ministries are directly involved in financing schemes to provide self-employment to young Omani men and women. These schemes are not profit-oriented but focus on the social objectives of the Government.

The Omani government also has tried to help SME, by offering many incentives to business in the private sector and urging them to be more active in the country’s economic life. The participation and support to the private sector, which had almost doubled to RO 33.9 million in 1999, rose further by more than three-quarters to RO 62.5 million in 2000. In Table 2-11 which provides the breakdown of government participation and support to the private sector, it may be observed that the entire increase can be explained on account of higher contributions to domestic, regional, and international establishments which were increased from RO 21.7 million in 1999 to RO 46.7 million.

Subsidies on soft loans to industrial and tourist projects were also raised from RO 6.2 million in 1999 to RO 9.5 million in 2000 and RO 8.1 million in 2001, while subsidies on housing loan interest rates registered a small increase. Those on loans on agriculture, fisheries, etc., were reduced marginally to RO 1.8 million in 2000 and 1.6 in 2001.
Table 2-11 Government Participation and Support for the Private Sector (RO Millions)

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Subsidy on Soft Loans to Industrial and Tourist Projects</td>
<td>3.9</td>
<td>5.2</td>
<td>6.1</td>
<td>6.2</td>
<td>9.5</td>
<td>8.1</td>
</tr>
<tr>
<td>Housing Loan Interest Rate Subsidy</td>
<td>6.0</td>
<td>6.0</td>
<td>6.0</td>
<td>4.0</td>
<td>4.5</td>
<td>5.3</td>
</tr>
<tr>
<td>Subsidy on Soft Loans to Agriculture and Fisheries, Health Education and Professional Projects</td>
<td>0.5</td>
<td>2.0</td>
<td>2.0</td>
<td>1.8</td>
<td>1.6</td>
<td></td>
</tr>
<tr>
<td>Support to Oman Development Bank</td>
<td>0.4</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total Participation in &amp; Support for the Private Sector</td>
<td>12.4</td>
<td>88.1</td>
<td>17.3</td>
<td>33.9</td>
<td>62.5</td>
<td>118.5</td>
</tr>
</tbody>
</table>

Ministry of National Economy

2-6-1 Business Sectors

Private sector has taken a significant role in the development process, part of which is small businesses. The target population in this study will be small businesses in three fields: Manufacturing, Trade, and Service. The reason that these three sectors are of a particular emphasis in this study is that small businesses are mostly concentrated in these three sectors.

2.6.1.1 Manufacturing Sector

A fundamental requisite sought by countries that hope to reach the same standard of living of major western economies is diversification of income sources. Realizing this fact, the government has been giving support and encouragement to the industrial sector due to its essential role in accelerating the development process. The issuance of the (Royal Decree No. 1/79) on organization and encouragement of industry was the beginning of the industrial growth phase. The beginning of the 1980s' witnessed
economic prosperity resulting from the rise in oil prices that boosted Oman oil export income to unprecedented levels. However, by the second half of 1982, excess international output led OPEC to lower its oil production and prices. In the wake of a continuous decline in oil prices and depletion in oil reserves, the government entered a crucial period, as it needed to make a sustainable transition from a centralized oil economy into a fully diversified market oriented economy.

Manufacturing activity commenced in the 1975. The number of registered firms that was 10 in 1976 increasing to 1638 in 1996 and reached 1939 in 2000. See tables, 2.12 and 2.13. Most of them at the beginning were small sized units engaged in preparing cement blocks for construction purposes, manufacturing of food products and manufacture of furniture and wood products. The industrial units set up during 1985-89 mostly relate to the firms engaged in the manufacture of non-metallic mineral products followed by fabricated metal products and furniture and wood products. In order to augment industrial production, greater emphasis is laid on the development of the manufacturing sector in the Fourth Five Year Plan commencing in 1991. Priorities are accorded to develop industries engaged in agricultural and fishery's products, light and medium industries for which most of the required raw materials are locally available, industries producing goods to satisfy basic needs and industries providing employment.

Table (2.12) Number of Registered Industrial Establishments by Legal Entity

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Sole Ownership</td>
<td>1,117</td>
<td>38</td>
<td>49</td>
<td>34</td>
<td>30</td>
<td>1,268</td>
</tr>
<tr>
<td>General Partnership</td>
<td>181</td>
<td>11</td>
<td>7</td>
<td>8</td>
<td>8</td>
<td>215</td>
</tr>
<tr>
<td>Limited Partnership</td>
<td>71</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>4</td>
<td>79</td>
</tr>
<tr>
<td>Limited Liability</td>
<td>221</td>
<td>21</td>
<td>24</td>
<td>20</td>
<td>22</td>
<td>308</td>
</tr>
<tr>
<td>Joint Stock</td>
<td>48</td>
<td>3</td>
<td>8</td>
<td>7</td>
<td>3</td>
<td>69</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,638</strong></td>
<td><strong>75</strong></td>
<td><strong>89</strong></td>
<td><strong>70</strong></td>
<td><strong>67</strong></td>
<td><strong>1,939</strong></td>
</tr>
</tbody>
</table>

Ministry of Commerce and Industry
2.6.1.2 Trade Sector

One source of trade sector importance is its role in the availability of employment opportunities. The trade sector is providing more than three hundred thousand employment opportunities, which contribute in employing 35 percent of the total manpower in Oman. The number of employees in trade sector has increased from 75,360 persons in 1980 to 390,000 in 1998. However, a large segment of this number is non-Omani in 1995 only 27.1 percent of the employee’s numbers in this sector were...
Omanies. The high percentage of non-Omani in the trade sector has required serious efforts to increase Omani employee’s percentage, which is expected to reach 51 percent at the end of the Sixth Development Plan (Ministry of Information, 2002).

Additionally, the number of new distributive units, such as shopping centres, supermarkets, department stores, and out-of-town centres has increased. These units were set up in the new residential areas, which spread around the country. New residential areas were built in response to the increasing demand for housing, which can be attributed mostly to the increasing population especially in the main cities such as Muscat and the huge number of foreigners who were invited to participate in the country's development.

There are a number of factors that characterised the trade sector:

From the beginning, the government has encouraged development in the trade sector by adopting a free market policy in which business can be practiced competitively. An Omani is able to enter the trade sector as long as he/she has registered in the Commerce Registration Law. This encouraged businesses to enter this sector heavily, which can be seen in the increasing number of establishments shown in Table (2-10) and thus competition has intensified in this sector. However, not all the registered firms continue their existence in the market. This can be reflected in the increasing number of registrations cancelled every year. For example, the number of registrations cancelled in 1995 is 1430 most of them were small businesses (Ministry of Commerce and Industry, 1996).

Since 1980s Omani society was exposed to a Western way of life more widely than ever before. This openness coupled with high purchasing power, brought about a rapid change in taste and fashion, which encouraged the Oman market to be opened to the foreign goods and products through imports and contracts of joint ventures and agencies. The availability of these products has affected the taste and behavior of customers. Additionally, the increasing number of travelers to other places in the world have
improved the awareness of Omani customers about the quality and prices of different products, and made them more demanding in terms of quality. This in turn has intensified the competition in the market in which foreign products compete with each other and with Omani products. However, since 1990, government spending on economic development has declined as a result of duties imposed by the Gulf War as well as the reduction of oil price during that period. This situation has resulted in new economic conditions that required increasing non-oil government revenues through increasing cost of services like electricity and phone duties, and imposing customs on some services. All these procedures led to an increase in the cost of living and in turn purchasing power has declined, and thus competition among traders to satisfy the needs of such customers has intensified.

It is clear that the dominant business in this sector is the small business. This sector is most popular among small investors for many reasons, which could be the case in entering the market and the relatively small required start up capital or the common natural preference of Omanis for trade. Although practicing this activity is confined to Omani, this sector is suffering from the existence of traders who practice businesses under Omanis names. Based on the belief that such practices have a negative effect on the national economy, government rules prevent foreigners from owning businesses in this sector.

2.6.1.3 Service sector

The services sector flourished in the late 1970s to cope with needs of a fast developing economy. The service sector (especially small firms) includes all the firms in the fields of transportation, maintenance and operation, cleaning, travel agencies, beauty salons, automobile services, private recruitment offices and many other professions. The professions include services such as engineering consultation, legal consultation, accountancy and auditing, translation and many others. The problem with this sector is that some of the firms get their licenses from the Ministry of Commerce, others from the Municipalities; therefore the exact number of firms is hard to obtain.
To sum up, the three above mentioned sectors are the main focus in this study, However, it should be mentioned that the trade sector is the largest of all sectors (i.e. in terms of the number of small businesses) which small firms represent more than 90 percent in this sector (Ministry of Trade and Commerce, 2001). Population in this study is small businesses in these three sectors as will be fully explained latter on.

2.7 The Financial System
2.7.1 Introduction

The most important economic sector of any country is the financial system and banking sector. This is regarded as of paramount because of its vital role in accumulating savings and offering the necessary finance to investments, which are the life-blood of economic activity. In recent years, financial system development has gained increasing attention, both in academic and policy circles. In particular the subject has been discussed in the context of the developments in transitional economies (Herms and Lensink, 2000). The financial system plays a crucial role in economic development (Levine, 1997). Pagano (1993) provides a theoretical contribution showing how financial development may have a positive effect on growth. He stressed the role of financial institutions like banks, in providing important services such as facilitating trading, hedging, diversifying and pooling of risk, which stimulates savings mobilization, and allocating financial savings to the most efficient investment projects by screening and monitoring borrowers.

Knowledge of exactly how the design of the financial system may help to improve welfare is of particular importance to transition economies, since they still have options to influence the direction of development of their financial system (Herms and Lensink, 2000). The choice of a particular financial system has direct implications for the type of financial institutions to be established, for regulatory and supervisory design and for the choice of government policies (Levine, 1997).

An efficient financial system encourages production, accumulation of capital and growth by encouraging saving, and allocating such resources among preferable alternative uses.
Each of these functions is equally important. The efficiency of any financial system depends largely on how well it performs each function. In the same way, a faulty or inefficient financial system can cause economic crises, which could slow or even halt growth. This is clear from the recent financial crises around the world.

The financial system has, therefore, an important place in modern economic development. The view that growth in the financial sector is only accommodative is no longer valid since it has been understood for a long time that growth in the financial sector expands at the expense in growth of the real sector (Central Bank of Oman, 2001). However, the history of modern economic development asserts that growth of the financial sector could lead to the economic development of a country and that the financial sector itself could be used as an engine of growth. The financial sector in Oman has been encouraged because of structural changes that have occurred in national and international finance over the past twenty years.

Over the last ten years, the role of banking in financial intermediation has undergone a decisive change as a result of rapid developments in the worldwide financial environment. The proliferation of financial innovations has blurred the distinctions between traditional banking and other forms of financial intermediation. The Central Bank of Oman has encouraged reforms of the financial sector supported by legal changes. This is evident from the new Banking Law decreed in December 2000. This new Banking Law has opened up more opportunities to strengthen the financial system and to render it truly competitive, well structured. Commercial banks have been given greater freedom to invest locally and globally so that they can respond flexibly to different phases of the business cycle. Technological change has been a vital part of the reform process. Increased openness, tight conditions for the disclosure of provisions, as well as the necessity of setting aside provision for decreases in the value of investments, stringent capital adequacy requirements and a number of prudent measures together with a deposit insurance scheme, provides a stable environment as well as growth in the banking sector. In the same time, the development of institutions has increased to ensure that financial reforms take place in all sectors of the industry.
The Banking Law revised and updated to take into account recent domestic and international banking and financial sector developments, was officially decreed in December 2000 (Royal Decree 114/2000). This new law takes the same broad-based approach of the earlier Law and grants greater investment powers to banks. With the opening up of investment banking for commercial banks as part of liberalisation and adoption of converging practices elsewhere, the promulgation of Law, no doubt, provides increasing confidence in the Oman economy. The law will also take enhance the trust of international institutions and dynamism of the national economy, which will attract and stimulate considerable amounts of foreign investment to the country.

Banking business has been elaborated to cover new areas. Banks have been authorised to do underwriting up to 20 percent of their net worth, subject to limitations on individual underwriting obligations. Under borrowing and lending limitations of licensed banks, they have been permitted larger exposure towards loans secured by real estate and holding real estate securities (Central Bank of Oman, 2001).

The financial assets consist of two types of security: primary and secondary. Primary securities are claims against real sector units such as bills, bonds, equities etc. that are created by real sector units as ultimate borrowers for raising funds for financing their deficit spending. The secondary securities are financial claims issued by financial institutions or intermediaries against themselves to raise funds from the public. In an Omani context, examples of primary securities are loans against trust receipts, bills of exchange, etc, while secondary securities are bank deposits, insurance policies, central bank currency, etc. wide Varity of financial institutions, more popularly called financial intermediaries engage themselves in the activities of the financial system. The financial intermediaries, which are many and varied, can be classified as banks and Non-bank financial intermediaries. At the apex level, The Central Bank of Oman acts as a monetary, supervisory and regulatory authority. In the banking system, which accounts for the greatest part of the financial system in Oman, commercial banks and specialised banking institutions are the major segments. Non-bank financial intermediaries, though
small in number, play an increasingly important role and comprise pension and, mutual funds, investment institution, insurance institutions securities companies, moneychangers and leasing companies.

2.7.2 Central Bank of Oman (CBO)

In transition economies, the central bank has two main tasks. First, it is responsible for the reform and safeguarding of the payment system. Second, it aims at contributing to a stable banking system by acting as the lender-of-last-resort (Herms and Lensink, 2000). The banking sector in any country is regarded as the most important economic sector, owing to its vitae role in accumulating savings and rendering necessary finance to investments, which are the arteries of economic activity. If this is the case, they The Central Bank of Oman is the backbone of the banking sector, because it is responsible for the conducting monitory policy and ensuring the soundness and vitality of the banking sector, and thus ensuring economic stability see chart 2-A.

The Central Bank of Oman represents the solid base of the Omani banking system. It paves the way to activate the financial and economic life by providing a stable and sound financial system to meet various economic requirements. It fulfils a whole range of functions, such as issuer of currency, banker to the government, leader of the last resort and the supervisory agency for the banking system. It lays down various policies government sectors and insure stability of economic activity. The Central Bank of Oman also acts as a government consultant for economic issues in general and in monetary and financial matters in particular. To perform this role, it not only follows up the development occurring on local and international economic fronts, but also lays down the banking and monetary policies that will insure economic stability and growth.
Like other central banks around the world, The CBO is the foremost institution of the country’s monetary and financial system. It plays a key role in organising, supervising, regulating, and developing the monetary and financial systems. While the design and conduct of monetary and credit policies are its special responsibilities. The CBO gains its power from the Banking Law 1974 it also performs all the major functions of a central
bank. It acts as a currency authority; a banker to government; the banker’s bank and supervisor, a regulator of money supply and the credit; manager of the country’s monetary reserves, the provider of clearing house services; and the primary source of critical monetary, banking and balance of payments statistics. It is the sole authority for the issue of currency and coins in Oman. The currency standard prevailing in the country conforms to the “full fiduciary or reserve system” under which local currency and coins are issued with the total backing of foreign reserves comprising foreign assets, gold and special drawing rights for the IMF.

The holding of foreign reserves in Oman today is more than 300 per cent of the currency and coins in circulation. This permits confidence in the currency. As banker to the government, The CBO accepts deposits from the government, rediscounts treasury bills and provides financial accommodation to the government of up to 10 per cent of its recurring revenue and manages borrowings of the government through issuance of treasury bills and development bonds. In discharging its responsibilities as the banker’s bank, CBO accepts deposits from commercial banks which are required by Law under reserve requirements and capital deposits as well as other voluntary deposits. It offers credit to the commercial banks through rediscounting treasury bills and other eligible securities. The CBO supervises and regulates effectively the commercial banks. This is well reflected in the robust performance indicators of the commercial banks such as asset quality indicators, earning rations and capitalisation indicators (Central Bank of Oman, 2001).

The CBO has created a positive a operating environment for the banking system in Oman. The pursuit of price stability and hence preserving the internal and external value of the Omani Rial and providing adequate, in terms of the requirements of economy growth of the, bank credit to the private sector are twin objectives of the monetary and credit policies of the CBO. It regulates bank credit mainly through direct monetary instruments such as reserve requirements, lending ratios, etc. Efforts are being made of late to activate indirect monetary controls through active open market operations. This will also help in developing the bond market in Oman.
2.7.3 Commercial Banks

The commercial banking system is, by far, the most dominant segment of the financial sector. In Oman Commercial banking dates back to 1948 (Hills, 1998) when a branch of the British Bank of the Middle East was established in Muscat providing commercial banking services in the country. Since then, commercial banking activities have grown significantly in terms of branch networking, capital employed assets and the range of financial services provided. In this process of growth, some mergers and acquisitions took place, as was the trend in international banking at the time.

Five important mergers have taken place in the banking history of Oman. From these, two mergers occurred in 1993. Bank Al-Ahali Omani was merged with Bank Muscat to form Bank Muscat and the Commercial Bank of Oman took over the Oman banking corporation. In 1994 the acquisition of Oman European bank by Oman Arab Bank took place and during 1997, Oman Saving and finance Bank which started its business in January 1997, took over ANZ Grindlays; Oman Saving & Finance bank was acquired by commercial bank of Oman on August 14, 1997. In 1998, the Bank of Oman, Bahrain & Kuwait was amalgamated with Commercial Bank of Oman and in October 2000, Bank Muscat took over the Commercial Bank of Oman. Today there are fifteen commercial, six local, and nine foreign banks in Oman. The commercial banks have a total domestic branch networking of 312 branches with a few branches abroad (Central Bank of Oman, 2001).

2.7.4 Specialised Banks

There are four specialised banks in Oman, two in each of the public and private sectors. These banks operate with a network of twelve branches. The Oman Housing Bank and the Oman Development Bank are the two banks which functioning in the public sector while the Alliance Housing bank and the industrial bank of Oman are those engaged in similar activities in the private sector. The Oman Housing Bank provides finance by way
of long-term soft housing loans to all segments of Omani society in various regions to enable them to construct suitable houses.

The total assets of the bank registered a 5.9% increase from RO 165.9 million as at the end of 1998. The Bank’s capital and reserves stood at RO 53.9 million as the end of 1998. Since the establishment of the Bank and up to the end of 1998, the number of subsidised loans to the lower income category amounted to 13,346 with a total value of RO 169.3 million. In accordance with government policy, the Bank continues to provide housing loans, well distributed among all the regions but with special emphasis on those areas outside the capital, Muscat.

The Oman Development Bank was merged with the former Oman Bank for Agriculture & Fisheries in 1997. It provides assistance to development projects by granting loans, administering grants and subsidies, participating in share capital and providing technical assistance to companies. Projects financed include those related to agriculture, animal resources, fisheries, industries, exports, tourism, education, health, professional offices, crafts and workshops. The maximum loan that may be advanced by the ODP to any one project does not exceed 150% of the paid up capital of the project if it is located inside the governorate of Muscat and may not exceed 250% if it is located outside.

The above is subject to the maximum amount of any loan not exceeding RO 165,000 and to projects whose investment cost does not exceed RO 250,000. The Bank charges a rate of interest of 9% per annum of which the government bears 6% and the borrower only 3%. Further to encourage craftsmen and small investors, the bank advances small loans not exceeding RO 5000 free of interest charges.

The primary objective of the Alliance Housing Bank in the private sector, which commenced operations in 1998, is to help Omaniis realise their aspirations of home ownership. In the first year of operation, the Bank approved 203 housing loans and disbursed RO 8 million. The shareholders equity, as at 31 December 1998, was RO 22.6 million while total assets amounted to RO 23.7 million. The Industrial Bank of Oman
commenced operations in the latter part of 1998. The Bank plays its role as a catalyst for the development of Oman's industrial base by financing new and existing products in the industrial sector and the service and infrastructure sectors. The total assets of the bank as at the end of December 1998 stood at RO 27 million and total credit stood at 17.7 million. Shareholders equity amounted to RO 26.3 million at the end of 1998. (Al-Markhazi, 2000)

2.7.5 Non-bank Financial Institutions

The Non-bank financial institutions are a heterogeneous group of financial institutions other than commercial banks. They include a wide variety of financial institutions, which raise funds from the public, directly or indirectly, in order to lend them to ultimate investors and, in addition, non-bank financial intermediaries, particularly leasing and equipment, factoring, bridge financing, composite loans to trade and industry and consumer financing. Although specialised banks, which were discussed earlier, to some extent fall under this category, they are grouped with commercial banking systems for analytical clarity. Other non-bank financial companies, in the case of Oman, are:

A. Saving institutions that are purely acting as conduits of mobilisation of saving of the public, such as pension funds and mutual funds.

B. Investment institutions which undertake only investment.

C. Insurance companies.

D. Other institutions such as securities companies, moneychangers and leasing companies.

The mushroom growth of non-financial companies in the last few years reflects the rise in demand for different and wider ranges of financial services because of the economic, demographic and technological development that has taken place in the Omani economy.
2.7.6 Saving Institutions

There are a variety of pension funds, which are active in both the public and private sectors of the Omani economy. The prominent public sector provident, pension and other types of funds, which are available as investible funds, are:

States General Reserve Fund.
ROP Pension Fund
Diwan of Royal Court Pension Fund.
Public Authority for Social Insurance.
Ministry of Defence Pension Funds
Ministry of Palace Office Pension Fund.
Internal Security Services Pension Fund.
Royal Guard of Oman Pension Fund.
Sultan Special Force Pension Fund.

In addition to the above public sector provident funds, a number of provident fund schemes are in existence in the private sector. The composition of the investment portfolio of these provident funds is largely determined by the objectives of the funds. However, a good part of the corpus is invested locally.

2.7.7 Financial Markets

Financial markets have also developed in tandem with the expansion of other economic activities. All the segments of the financial market namely, capital market, the money market and forex market have grown significantly over the years. In terms of the institutional structure, the number of players in the market players such as commercial banks, specialised banks and non-banking financial intermediaries have also increased in the recent past. Besides, the quality and the range of products offered have also improved.
2.7.7.1 Capital Markets:

Stock market development and other aspects of financial market development take place simultaneously and complement each other (Demirguc-Kunt and Levine, 1996). In addition to bank finance, share issues provide possibilities for raising external funds (Herms and Lensink, 2000). With regard to the capital market, both primary and secondary markets are relatively active. In the primary market, the government mobilises funds by floating development bonds to finance its development expenditure. The amount raised by the government through development bonds rose from RO 40 million in 1991 to RO 135 million during 1999. Amounts raised by corporate business through primary market issues is on the increase. For example, this was around RO 440 million in 1998. The corporate bond market does not exist in Oman.

In the secondary market segment, although the Muscat Securities Market (MSM) is of relatively recent origin, it has grown significantly in recent years. For example, the number of listed companies & funds have risen from more than 64 in 1993 to 138 by 1998. The aggregate paid-up capital of publicly held Omani joint Stock Companies listed in the regular and parallel markets stood at RO 981 million at the close of 1998. The market capitalisation which was less than RO 450 million in 1989, rose to around RO 1316 million by 1995 and further increased to RO 2264 million by the end of 1999. Similarly, turnover, of shares traded rose in terms of value from around RO 9 million in 1989 to RO 82 million in 1995, end to approximately RO 194 million in 1999. Foreign participation in the total capital of Omani SAOG companies progressively rose from 10.63 % in 1995 to 14.77 % as at the end of 1999 (Central Bank of Oman, 2000).
Table 2-15 Performance of Some Regional and International Markets Compared with the performance of Muscat Securities Market till the end of 17 September, 2002

<table>
<thead>
<tr>
<th>Market</th>
<th>Index</th>
<th>Economic performance Jan-Sep (2002)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Muscat Securities Market</td>
<td>183,82</td>
<td>+ 20.75%</td>
</tr>
<tr>
<td>Standards &amp; Poors</td>
<td>500 845,39</td>
<td>- 26.36%</td>
</tr>
<tr>
<td>Nasdaq</td>
<td>1221,09</td>
<td>- 37.39%</td>
</tr>
<tr>
<td>FTSA</td>
<td>3860,10</td>
<td>- 26.01%</td>
</tr>
<tr>
<td>Nikkei</td>
<td>84781,80</td>
<td>- 10.07%</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>2676,46</td>
<td>+ 9.97%</td>
</tr>
<tr>
<td>Bahrain Stock Exchange</td>
<td>1803,26</td>
<td>+ 2.37%</td>
</tr>
<tr>
<td>Kuwait Stock Exchange</td>
<td>2076,40</td>
<td>+ 21.47%</td>
</tr>
</tbody>
</table>

AL-Markazi, September - October 2002

However, the role stock markets play in stimulating economic growth is not undisputed (Herms and Lensink, 2000). It is argued that stock markets stimulate investments in short-term projects since they continuously evaluate managers (Stein 1989). Also highly liquid stock markets, with a substantial amount of small shareholders and hence diffuse ownership, may decrease incentives to monitor the investors carefully (Levine, 1997). Moreover, liquid equity markets may facilitate hostile takeovers, which decrease the efficiency of resource allocation. There are others who argue that stock markets do not have an important role to since only a small part of corporate investments is financed by means of equity. Stock markets may even have a negative effect since they are merely 'casinos' (Herms and Lensink, 2000).

The stock market development is often usefully measured in terms of three ratios, namely, the market capitalisation ratio; the total value traded ratio, and the turnover ratio. The market capitalisation ratio, which is measured as market capitalisation divided by GDP, indicates the size of the market. Liquidity is measured by two ratios; namely the total value traded ratio and turnover ratio. The total value traded ratio is measured as the
total value traded divided by GDP. The total value traded ratio complements the market capitalisation ratio in that the market capitalisation may be high and trading may be minuscule. The turnover ratio is measured by the value of total shares traded divided by market capitalisation, whereas the traded value ratio captures trading in relation to the size of the stock market.

2.7.7.2 Money Market

The present economic system makes money markets a vital component of the economic structure. A money market is the place where the short-term surplus investible funds, at the disposal of banks and other financial institutions are bid by borrowers comprising companies, individuals and the Government' (Dutt and Sundharam, 2000; p. 782). The Omani money market comprises various sub markets such as the call/notice money market, treasury bills, certificate of deposits, commercial bills and commercial bills in the call money market segment. The turnover of domestic inter-bank transactions has shown good improvement. Overnight inter-bank rates have become somewhat finer and serve as a useful indicator of liquidity in the system.

2.7.7.3 Forex Market

The foreign exchange market is relatively significant, as the Omani economy is essentially foreign trade oriented. It is a small, open economy, as measured in terms of trade in goods, of around 80%. The country has followed a liberal foreign exchange system, which facilitates trade and investment. Payments and transfers across the border can be effected without restrictions. The Omani Rial has been pegged to the US dollar since 1973. In 1986, the currency was devalued from the parity rate of 1 per US dollar 2.6008.

Turnover in the forex market is relatively low as there is no inter-bank swap market and the inter-bank forward market is not significant. Such being the case, the demand for forward dollars is matched largely by transactions in the spot market as there is no sufficient forward supply. Banks provide forward cover by spot dollar and place it as
deposit outside. The difference between the borrowing cost of Omani Rials and interest gains on US dollar deposits is charged by the banks as forward premia. The forward cover allows for those payments which have underlying transactions. In principle, banks are allowed to buy forward dollars, but no premium is paid. This is because banks cannot cover in the spot market through borrowing in US dollars followed by keeping matching term deposits in Omani Rial. Hence, non-oil exporters do not sell forward their dollar receipts. The oil receipts, which accrue to the government, are sold spot generally to the Central bank and few commercial banks.

2.8 Conclusion

In this chapter the modern history and the present status of Oman economy was broadly examined. This chapter presented a background about the country where the study was conducted, and present an overview of the Oman's economy, which is dominated, by the public sector (i.e. government), and oil, to build solid base on which the economy has been developed.

Since oil is a limited natural resource, Oman was very concerned to take advantage of this temporary richness to develop the country through generous spending in the public sector and its programmes, and in the private sector. The private sector succeeded to a large extent in taking its proper role in the process of development in Oman as presented in another part of this chapter. One indicator is the increasing number of establishments in the private sector, which reached over 100,000 by 2002. In this environment small businesses represent a significant percentage in three main sectors: manufacturing, trade and service. We have also reviewed the financial system prevailing in Oman since 1970 and identified major stumbling blocks in its growth
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Chapter 3

Review of Literature
REVIEW OF LITERATURE

3.1 Introduction

This chapter reviews the literature on the financing of small and medium size enterprises (SMEs) in both developed and developing countries. This chapter is divided into seven sections. The next section 3.2 considers the importance of small businesses Worldwide, and Section 3.3 reviews sources of finance. Section 3.4 discusses financing difficulties faced by SMEs while Section 3.5 looks at the characteristics of firms and owner-managers and section 3.6 examines Islamic finance methods. This chapter is summarised in the final section 3.7.

3.2 The Important Of SMEs: Global Experience

Both developed and developing countries recognize the important contributions which Small and Medium Enterprises (SMEs) make in the development national goals. As a result, SMEs are, in most countries, a key component of the development agenda and strategy. Their effect can be seen in a number of areas including, absorption of labor, generation and distribution of income, alleviation of poverty, as a training ground for the development and upgrading entrepreneurship skills, and important vehicles for promoting forward and backward linkages in geographically and economically diverse sectors of the economy in many countries. (Gallagher & Stewart, 1984; Burns & Dewhurst, 1986; Batchelor, 1988; ASOST, 1990; Dyson, 1990; University of Cambridge, 1992, Keasey & Watson, 1993; Berry and Levy, 1994; Binks et al, 1977; Meyer, 1998; Cook and Nixson, 2000; Audretsch and Thurik, 2001). Many of developing countries’ development plans have given an important emphasis to the creation and support of small businesses, this aiming to unemployment, achieving a better income distribution, and increasing the growth rate of these economies (Kemashki, 1995).

It has been widely recognized that SMEs play a major role in most national economies. They contribute significantly to the economy and, their growth rate exceeds that of large corporations (Al-Dhahab, 2001). A study by the National Science Foundation of the USA (1999) found that the total expenditures for industrial research and development by SMEs
increased by almost three times between 1985 and 1995 in the USA while for the larger firms, the increase was only about 20% (ESCWA, United Nation, 2000).

Small and medium enterprises account for almost half of the private work force and produce almost half of the gross domestic product of the United States (Small Business Administration, 1998). European studies show similar results. SME represent 94.8% of all enterprises in Europe. They provide two thirds of employment and are responsible for 65% of economic turnover in the European Community. In this era of globalisation SMEs not only have to internationalise their strategies but also constantly innovate in order to remain competitive (EU, 2000). The European Commission discovered (European Commission, 1995) that between 1988 and 1993, SMEs in the EU were responsible for a net employment increase of 2.6 million jobs; the large enterprises lost in 1992 and 1993 the same number of jobs as they created in 1988-1991 (1 million). In the United Kingdom, SMEs account for 29 per cent of turnover and 50 per cent of non-government employment (Pike, 1997). Data for the entire European Union (EU) indicate that small enterprises, that is with less than 10 employees, generate 32.8 per cent of jobs and 25.4 per cent of turnover (Commission of the European Communities, 1999).

The UK since the late 1970s has implemented a number of schemes emphasising the role of small and medium sized enterprise in enhancing economic prosperity. As a result a number of mechanisms have been adapted in order to strengthen the position of SMEs. By 1983 the Department of Trade and Industry (DTI) had already listed 100 such mechanisms (DTI, 1983). A recent estimate (Gavron et al., 1998), based on information supplied by the Cabinet Office, suggests there are currently over 300 initiatives supporting small firms in the UK.

A larger proportion of firms employ fewer than fifty people in Northern Ireland than in any part of the UK and this makes the presence and role of small firms particularly significant. In the Northern Ireland economy small firms are a major source of employment and output. Firms with 50 employees or less account for about 56% of total employment in the private sector, considerably higher than the overall UK proportion of
Small firms in Northern Ireland represent almost 90% of all manufacturing units and account for just one-third of all manufacturing employment. This compares to the position in the early 1970s, when small firms provided only 10% of manufacturing employment. The Northern Ireland economy has been transformed from one largely dependent on externally owned branch plants to a position where almost one in three people employed in manufacturing now works in small companies with less than fifty employees. The emergence of an expanding small firm sector has the potential to drive the economic prosperity of the region (Hart and Gudgin, 1997).

Considering the role of specialist finance intermediaries in the financing of small business in the United Kingdom, Boocock and Goacher (1987) noted that “there is widespread recognition of the importance of the small business and the value of its contribution to the health of the national economy. The availability of financial support to this sector is, therefore, an issue of the utmost significance” (p. 44). In the United States small firms are more effective than large, well-established players in the area of technology. They are innovative create new jobs, develop and use modern technology serves international trade (Wetzel, 1982). This finding was supported by Almus and Nerlinger (1999) who found that the net employment effect of technology based firms founded since 1990 was positive when compared to non-innovative firms. Most new jobs in the United States, the United Kingdom, and other countries, are most likely to be created in the small business sector (Anderson, 1994). Brixy and Kohaut (1999) studied the impact of new firms on job creation in the eastern part of post-unification Germany after unification. They found that almost half of the new jobs had been created in firms established after 1991, (p.152).

SMEs in China not only dominate the nation’s economy in terms of number of firms (0.1575 million, 95.42% of the total Industrial Enterprises with Independent Accounting System), but also gain a large share in industrial output (RMB 3975.953 billion 58.70% of total Gross Industrial Output Value), and sales revenue (RMB 3600.435 billion, 56.13% of Total Sales Revenue) in 1998 (China Statistical Yearbook 1999). Moreover, SMEs in China also played a very important role in stabilizing the society. From 1978 to
1996, about 230 million labour transferred from rural areas to urban areas, was hired by SMEs which have taken 73% of the total hired employment (Horng, and Chen, 1998)

For Hong Kong SMEs, some researchers argue that Hong Kong provides the best example of a success story as they are notably more marketing oriented and internationally competitive than their counterparts in the UK or USA (Kee, 1986). Specifically, the molecular organisations and the original equipment manufacturing systems ensure that the products of Hong Kong SMEs meet the specific requirements of the buying offices, their immediate customers (Yoon, 1985) and production is not undertaken until a firm order is secured (Kee, 1986). Today, SMEs in tertiary industry, such as trading, wholesaling, retailing, catering, financing and real estate, make up the largest proportion of total establishments of SMEs in Hong Kong (Hong Kong Annual Digest of Statistics 1999).

Taiwan, which has 21 million people (as of 1998), reportedly, has 1 million enterprises. This would mean that every 21 persons have one company, needless to say that most of them are small enterprises (Al-Dahab, 2001). Small and medium enterprises play a decisive role in Taiwan’s economic history. According to the data presented in SMEs white book in 2000*, total numbers of nation-wide SME manufacturers are 142,686 represent about 97% of total manufacturers. SMEs manufacturers provide the majority of domestic job opportunities since over 1.7 million people were employee by SMEs in year 1999 (take about 77% in total manufacturing employment). It shows that the situation of SMEs have great influence to Taiwan’s economy.

In a study carried out by The World Bank, it was discovered that around 90 percent of the small enterprises which were surveyed indicated that credit was a major stumbling block regarding new investment (Parker, Riopelle and Steel, 1995). Poorly developed infrastructure also put small-scale businesses at a disadvantage when compared to large enterprises (Vachani, 1994). Collier and Mayer’s research (1989) showed that banks are more likely to provide finance for small businesses in poorer countries. This is because the role of financial institutions is related to the life cycle of enterprises and economies.
Boocock (1995) showed, on the other hand, that there is likely to be a movement away from debt to equity based forms. This was illustrated by the experience with venture capital in Malaysia. However, Demirguc-Kunt and Maksimovic (1999) who examined firm debt maturity in 30 countries during the period 1980 – 1991, argued that in countries with active stock markets, large firms have more long-term debt; stock market activity does not correlate with debt levels in SMEs. In countries with large banking sector, though, small firms have less short-term debt while their debt is of longer maturity.

According to the theory of transaction cost (Jensen and Meckling, 1976), better access to finance reduces the cost disadvantage of smaller firms when compared to large firms. It also contributes to their increasing share (Cook, 2000). The body of work which considers the issue of whether or not financial liberalisation has eased somewhat the constraints of SMEs has offered mixed results, thus far. On balance, this does not auger well for lower income economies (Steel, 1994).

After a survey of SMEs in Kenya, Kariuki, (1995) concluded that credit to this sector declined after liberalization. This was because of higher nominal interest rates and increases in other transaction costs. Romano, (1991) surveyed entrepreneurs in 214 Hungarian SMEs. He discovered that access to finance was one of the major problems faced by these entrepreneurs, with this being a definite constraint on their ability to increase technology levels in their firms. Ivy (1997) also found that from a sample of new SMEs in Slovakia, 44 percent faced problems related to finance. In their study of enterprises in Bangladesh, Nepal and the Philippines, Meire and Pilgrim's (1994) found that only those enterprises which tended to be large had viable access to finance in the formal sector. They also noted high transaction costs for smaller loans. Despite programmes aimed specifically at small-scale enterprises, only between 12 percent and 33 percent of those firms surveyed were found to have access to formal credit. The kind of formal sector credit was actually found to be out of reach for SMEs in Ghana and Tanzania (Dawson, 1993).
The extent to which small businesses were able in the late 1980s, to access external credit finance was measured by Levenson and Willard (2000). Data from a U.S national survey showed that only 2.4 percent of firms failed to obtain the funding which they applied between 1987-88. Another 2.17 percent faced some short-run constraints but did finally receive the credit they applied for by the end of survey period. Furthermore, 4.22 percent, it was estimated were discouraged from applying for finance because they expected to be turned down.

Despite such constraints, however, as small businesses grow, there is an ever-greater need for formal structures, systems, procedures and controls (Gorman and Doran, 1999; p. 60). SME research is not, therefore, limited to assessing growth constraints from a funding perspective. Financial reporting practices in SMEs sector engaged in manufacturing in Australia were researched by McMohan (1999). The work concluded that better financial reporting is an important enabling factor in allowing the growth aspirations of such firms to become reality. In a study of 150 SMEs in Scotland, Smith (1999) investigated the performance of a micro firm in its first years. Smith found that use of IT in clusters of devices has a very significant and positive association with performance. Batten and Hettihewa (1999) for their part, surveyed 73 small firms in Sri Lanka they found that most firms under-utilize-assets, tending to use existing rather than the latest technology and they are also reliant on family savings, an attitude which may inhibit their growth.

Globalization can be both a negative and positive impact on SMEs. Globalization involves the integration of world markets and offers opportunities for exploiting scale. Moreover, globalization involves the disappearance of trade barriers, creating new opportunities for all firms, either large or small. As a consequence, increasing competition in international markets may have a negative impact on the survival rates of (small) businesses (Dewar, Tammy, McMurchy, Gregg 2000).

On the other hand, the risk of variability in sales caused by the increased international competition and the volatility in exchange rates, can be better absorbed by small firms
adopting production technologies that permit them to adapt quickly to changes in market demand (ESCWA, 2000). The latter argument reveals the interrelationship between globalization and information technology. Globalization creates opportunities for small firms, provided that entrepreneurs use other or new (production) technologies, whereas information technology developments enable globalization (Audretsch and Thurik, 2001).

Globalization is offering more and more opportunities to small businesses. Between 1993 and 1994, Roper (1999) examined the effect of strategy choice on subsequent business performance in small businesses in Ireland. He argued that small businesses performance is shown to depend strongly on strategy choice. One choice that had, according to Roper a positive effect on both profitability and growth was the development of new export markets. Lautanen (2000) considered small firm’s decision to export in 1995, concluding that ‘the smaller the firm, the faster is the adoption of the export strategy’ (p.120).

Additionally, the increase in international competition and the increase in cross-cultural influences, through which globalization expresses itself, has made people aware of the existence of other cultures and their characteristics through the nature and type of products and services offered. This exposure of people to foreign products, making people aware of available consumer goods from all over the world, has created new 'global' wants and needs and accordingly more diverse consumer demands. Particularly in the past decades there has been an increased diversification of consumer preferences and an increased demand for tailor-made and individualized goods and services. Next to the process of globalization, expressing itself through an increase in international competition and cross-cultural influences (Audretsch and Evans, 1994) this demand for variety can be attributed to an increasing prosperity (Jackson, 1984). An increasing prosperity creates preferences for goods and services fulfilling higher needs. Accordingly, a large number of niches has been created, offering opportunities to new entrepreneurs (Westhead, and Story, 1994). Many specialty companies have entered the market place. Moreover, flexible specialization enables small firms to adequately respond to a change in consumer demands (Loveman and Sengenberger, 1991).
In short, globalisation is important to small businesses as it offers a wide variety of specialty niches, a huge marketplace and new opportunities for entrepreneurs. Without new markets and customer demands, small businesses are faced with competing with firms that are already established with products and services that are equally established.

3.2.1 SMEs - Oman

In Oman small businesses have earned recognition from the government (Oman daily newspaper, 2001). This is because of their importance in generating new jobs, developing local resources, and playing an important complementary role to large firms (Al.Markazi, 2001). By reinforcing economic growth and development, small firms help to create a more prosperous society, thus improving the nation’s well being as a whole.

The high priority given to promoting small business in Oman is not just because of the above-mentioned contributions, but also more significantly due to Oman industrial structure. As the pace of industrialization increases, it is expected that Small and Medium Enterprises will complement the activities of Large Scale Enterprises through integration into the mainstream of industrial development. Small and Medium Enterprises (SMEs) represent the largest category of establishment in economic sectors. According to the statistical yearbook issued by the Ministry of Commerce and Industry (1998), firms with invested capital of below RO 100,000 accounted for 96% of the total registered establishments; businesses with capital invested above RO 100, 000 accounted for 4% only. This is shown in Figure No (3.1)
Small and Medium Enterprises are mostly endogenously based enterprises, their links with large companies in Oman contribute indirectly to the same goal and therefore, by encouraging these links, the growth and expansion of SMEs are fostered. As the Omani economy moves into a more complex phase of industrialization and because more global, in its activities, the integration of efficient network of supply industries is extremely essential if export activities are to expand (Al-Markhazi, 2001).

Furthermore, Small and Medium Enterprises are the most useful platform upon which entrepreneurs can upgrade their investments and hone their management skills. SMEs have played many vital roles in providing avenues for local investors to diversify into manufacturing outputs as well as offering affordable investment opportunities that are suitable for domestic investors and the present managerial capability. From this point of view, it is important to note that the role of SMEs should be increased, not just as feeder industries, but also as the mainstay of Oman’s economic transition and especially in the wake of achieving Oman economy plan by the year 2020. The government has made it clear that the SMEs will play one of the leading roles in Oman’s future industrial thrust (Al-Dhahab, 1998).
Lessons have been learnt from the experience of countries that are ahead of the Sultanate of Oman in terms of private sector driven economic development. These suggest clearly that Oman should put more emphasis on small and medium scale establishments in the forthcoming stage of development as this will bring great benefits to the drive for economic diversification (Ministry of Development, 1995).

This strategy requires the implementation of a number of policies as follows:

- Facilitating procedures and upgrading information systems, particularly those related to foreign markets.
- Utilizing financial instruments, such as taxes and subsidies directed towards certain sectors or specific entities.
- Establishing a business center that extends its services to small and medium scale enterprises.
- Facilitating the access to necessary finance, both capital and soft loans, through the establishment of a special fund for this purpose, "The Venture Capital Fund".

In conclusion, the strategic significance of SMEs in the overall economic growth and development of the nation in general and for Oman in particular is attributable to numbers of factors. For example, SMEs account for nearly 93 percent of the total number of establishments, their ability to employ more worker per unit of capital, which contributes to a more equal distribution of income, there are also able to act as major vehicles for transferring or developing technical know-how. Moreover, they provide an impetus for inter-firm linkages to the domestic economy and encourage endogenous and balanced industrial development.

3.3 Source of Finance

The financial needs and financing modes of businesses change and develop over time. Generally, start-ups depend on internal financing, namely retained earnings, personal savings and contributions from friends, relatives and business associates, in addition to trade credit from financial intermediaries (Roper, 1999). As a firm starts to establish a track record, it attracts the attention of investors who are willing to inject equity into the
company. This facilitates bank loans. By going public, the firm eventually raises funds in the securities markets (IFC, 2000), (see figure 3.2).


Limited access to finance is an important issue for SMEs. While access to capital will not solve all the problems faced by SMEs, it remains a crucial factor in ensuring their competitiveness by enabling them to invest in the latest technologies. However, traditional approaches, in the form of aid programmes, have failed in most cases to facilitate access to resources. Commercial banks and investors have been reluctant to service SMEs for a number of reasons, including high risks and transaction costs (CBA, 1998). Emphasis must be placed on enabling financial institutions to receive reliable financial information and lower the cost of servicing SMEs. Furthermore, building the capacity of traditional financial intermediaries to serve SMEs is not enough. The need for new and better financial products and initiatives is paramount (United Nation, 2001).

Most small firms in the United Kingdom have the following forms of finance:

(1) The personal capital of the owner; (2) The personal capital of his/her family; (3) Retained profits; (4) Bank overdraft; (5) loans and (6) trade credit (John Stanworth and Colin Gray, 1991). Bates and Hally (1982), argue that there are four occasions when SMEs might need finance. (1) The need for start-up capital. (2) To finance expansion for example to buy new buildings, plant or machinery and to finance working capital (3) To
obtain "venture capital" to finance an innovation and (4) To adjust the existing financial structure of the business.

3.3.1 Equity Finance

SMEs have three main sources of capital; internal financing, loans from financial institutions, and equities. Capital structure decisions, however, depend on market conditions, government regulations and institutional features. The vast majority of SMEs in developing counties meet their financing need through internal sources and bank loans.

Owner-managers’ personal savings have been shown in most research to be the most important source of equity finance for new SMEs (Bates and Hally, 1982; Dunkelbererg and Cooper, 1983; Van Auken and Carter, 1989; Levy, 1993; Liaw, 1999). Other studies show, however, that profit that has been internally generated is the most frequently used source of finance, especially for established firms (Lawrence et al., 1985; Oakey et al., 1990; Roberts, 1991; Chiu, 1998).

Most small firms whose business is based on technology rely on internal profit as the main source of capital for investment, according to Oakey (1993), who noted such firms were reluctant to rely on external funding because:

*Risks associated with the onerous terms demanded by external lenders of money Firm’s owners were generally not adverse to external assistance 'per se' since it was clearly a means of expanding their businesses at a faster rate. However, in practice it was generally believed, both in Britain and in the United States, that the burden of risk was heavily biased in favour of the firm’s owner, while returns to the lender (Partly due to this unbalanced risk, were excessive (Oakey, 1993, p52).

The majority of small businesses rely primarily on personal savings for start-up, but most of them still need access to outside finance (either equity or loan) in order to survive or grow (Mason, al 1998). However, business tends to reduce their reliance on personal savings and diversify their sources of external finance as they grow and develop.
Another source of equity finance “Venture capital” is a significant source of externally generated equity for SMEs, which are seeking to expand (Hofer and Sandberg (1987; Batchelor, 1989; Hall. 1989; Hsueh and Chen (2000) Venture capital firms provide equity investment to SMEs whose ventures are likely to grow rapidly. They tend to favour high-technology industries including biotechnology, telecommunications, computers, internet and other specialty niche areas. Venture capital investment is perceived as long-term risk finance where the main source of income to the investor is capital gain from sale of stock of the portfolio companies rather than dividend income. Venture capitalists, through board-level control or representation, are actively involved in the management of the portfolio company on the basis that success of venture does not depend solely on supplying capital (United Nations, 2001).

In the U.K, venture capital funds now account for over a third of all venture capital raised in Europe (The Economist, 1994). In this way small firms can be supported to enable them to take advantage of market opportunities. However, venture capital funds in the U.K have a high rejection rate, as venture capitalists tend only to invest in established small firms. They participate in only around two percent of the proposals they receive from SMEs (Walker, 1989).

Informal investment by private individuals has been shown to be important in financing in the start-up and growth of small firms. Gaston and Bell (1988) studied the opportunities for small firms seeking equity from informal investors; Informal investors accepted 30 percent of the proposals they received according to their study.

The largest source of investment for small firms in the U.S.A is also informal investors (Harvey, 1992) while investors playing an increasingly important role in the financing small businesses in the United Kingdom (Mason et al; 1989; Dawson, 1993).

**3.3.2 Debt Finance**

Information asymmetries and moral hazard have a marked impact on banks and other finance providers particularly at the start-up stage. This is because of the lack of
collateral and market presence, which characterize most high-tech start-ups. Many SMEs, which require external finance, prefer to use debt as a source of finance and other lending institutions, particularly banks, are the most usual source of this kind of finance (Wilson Committee, 1979; Van Auken and Carter, 1989; Samuels et al, 1990; University of Cambridge, 1992; Keasey and Watson, 1993; Henderson et al; 1995; Black and Gilson, 1998).

There have always been a few institutions which have catered for smaller firms. Consequently, SMEs have rarely attempted to obtain debt finance from sources other than banks. In the U.K, banks have played a major role in financing the expansion of small firms, with the large clearing banks providing around 90 percent of all small firms lending (Batchelor 1989).

Bates and Hilly (1982) discovered that SMEs are frequently forced to obtain short-term and medium-term loans, but such finance is very expensive. This is because it is difficult to obtain adequate finance for expansion. Small firms are shifting from short-term finance toward long-term finance (Hobson, 1994) but they are still heavily dependent upon short-term bank loans and overdrafts to finance their investment requirements (Bolton Committee, 1971; Stanworth and Gray, 1991; Keasey and Watson, 1993; Austin et al; 1993).

In a survey of European debt structures small firms in Britain were found to rely too heavily on overdrafts as a source of financing. 75 % of the debts of small firms in the U.K were accrued either through overdrafts or other forms of short-term loans. Overdrafts alone accounted for 58 percent of the total debt, compared with 35 percent in Italy and just 14 percent in Germany (Lund, and Wright, 1999).

However, other non-bank sources of finance (leasing factoring and finance) companies, for example, are now providing a growing proportion of the needs of small firms (University of Cambridge, 1992; Tannous and Sarker; 1993; United Kingdom 1994 Cowling and Westhead, 1996).
In comparison with large firms, SMEs have a noticeably higher proportion of current assets within total assets (Dimson, 1978). Dimson’s research also showed that small firms rely heavily on current liabilities. This was through trade credit, which was found to be the next major source of debt finance after overdrafts (Keasey and Watson, 1994). Important and regularly used as a source of debt by small firms, trade credit is useful for firms which experience liquidity problems (Hutchinson and Gray, 1986; Walker, 1989).

### 3.3.3 Government Assistance

One of the important sources of external finance for small firms is through government assistance such incentives can boost the overall resources of a business, particularly in the form of grants or low-interest loans (Oakey, 1984).

Many of Europe’s economically successful regions are characterised by particular forms of relationships between companies, which emphasise co-operation, trust and networking. For example in Denmark, there are a number of programmes run primarily by the Danish Technological Institute aimed at encouraging small groups of firms to jointly acquire consultancy services and solutions to problems which no single firm could afford to acquire on its own (EDSRSG 1999). A significant spin-off of the process is that firms subsequently continue to collaborate on areas of mutual benefit. Other European regions are characterised by partnership and close co-operation between the public sector, industry and education and training providers. Of particular significance is the role of some Chambers of Commerce in promoting inter-company co-operation on specific projects relating to product development, manufacturing processes and marketing.

The UK since the late 1970s has implemented a number of schemes emphasising the role of small and medium sized enterprise in enhancing economic prosperity. As a result a number of mechanisms have been adapted in order to strengthen the position of SMEs. By 1983 the Department of Trade and Industry (DTI) had already listed 100 of such mechanisms (DTI, 1983). A recent estimate (Gavron et al., 1998) based on information
supplied by the Cabinet Office suggests there are currently over 300 initiatives supporting small firms in the UK.

Due to the vast range and number of initiatives available to support SMEs, certain amount confusion exists among SMEs concerning the selection of the most appropriate package for their business needs. In the last decade two major attempts have been made in order to make SMEs fully aware of support initiatives available and help in the selection of the most appropriate initiative. Training and Enterprise Councils (TECs) launched in 1988 and the one stop shop solution in the form of Business Link launched in 1992 have both been deemed as, at best, partial successes (Gibb 1980). The Your Business Matters; Conference reported that although business support schemes provide much of the assistance required by small and medium sized enterprises, most business are unaware what is available and find the range of support confusing (Berger and Udell, 1998). Companies welcomed the Business Link Promise all the help a business ever needs in one place but felt that the Government needs to strengthen this effort by addressing the confusion, overlap and lack of customer focus in its schemes for small firms (Black and Gilson, 1998). Governments in Canada and France have been offering educational programs and services in competitive intelligence to smaller firms (Calof and Skinner, 1999).

Considerable sums of public money are spent to diminish alleged debt gaps, particularly for small expanding firms and start-ups. Subsidised loans and loan guarantees are the most common instruments of government assistance programs to support small and new businesses. There are differing views whether the resulting debt gap influences the probability of survival (Cressy, 1996).

In both developed and developing countries governments have recognized that small firms may have difficulty in obtaining finance from the private sector especially if simply left to market forces. As a result, many governments have attempted to make more finance available for investment and working capital for small firms (Levitsky, 1983).
Most governments acknowledge the importance of small businesses and are aware that smaller enterprises face difficulties, which are not experienced by their larger counterparts. Because of this, support structures in the form of government agencies or small business development centers have been created to promote the development of small enterprises in many areas of the world (ESCWA, 2000) Oman is no exception, especially in the provision of financial assistance. The government has grant scheme to support the small sector with project cost up to RO 100,000. About 70 industrial units have been assisted through the grant scheme (Ministry of Trade and Industry, 2001).

There have also been significant private initiatives, trying to provide all-under –one-roof support to budding SME entrepreneurs. The Fund for Development of Youth Projects and the Intilaagah are the two major initiatives. The Youth Fund encourages Oman youth to establish small business, wherein the fund authorities will assist the entrepreneur from concept to commissioning and also provide managerial guidance, apart from directly participating in financing the project. Intilaaqha, on the other hand, works with the purpose of stimulating and encouraging young Omanis to consider the option of starting their own businesses and to provide assistance to those who wish to take up that option. Since its inception in 1995, Intilaaqah has trained 319 aspirants out of which 71 have started their own businesses (Al-Dhaahb, 2001).

3.4 Difficulties In Raising Finance

The debate on the nature of the finance gap has been evolving over the years but is essentially captured by the notion put forward by Binks: "The smaller the firm, the larger the proportionate increase in the capital base required to respond to an increase in demand, but the lower its ability to command loan and equity finance", the finance gap is about a viable level of demand that is not satisfied (Binks, 1992). Because small firms need a high proportionate amount of finance they will need to go externally, the additional demand combined with limited resources means they can experience problems. Therefore, as the firm grows it will typically seek external financing. Ray and Hutchinson (1983) identified two dimensions to the existence of the finance gaps, a supply-dimension
and a cost-dimension. They argued that if the marginal return on the investment, available to small businesses exceeds their marginal cost of capital, due to discontinuities in the provision of finance, such that funds were not available for otherwise profitable investment then a gap would exist. Also, if the cost of money to small concerns, defined as the risk less rate of interest plus allowances for differentials in risk and loan administration costs, exceed the cost of money to large concerns, then a gap would exist. Thus, due to excessive cost, the small enterprises would be unable to invest and thereby grow as much as possible.

However, the existence of debt gaps is not only attributed to small size of the firm, but is also related to problems associated with information asymmetries, information gaps, advice gaps and service gaps. Asymmetric information in the relationship between the banks and small firms can cause two problems; ex-ante limitations in the available information about the abilities of the entrepreneur and also about the quality of the project (adverse selection), and an ex-post monitoring procedure (moral hazard). It was identified by Stiglitz and Weiss (1981) that there is a capital market failure to fill the debt gaps, the argument was that many commercially viable projects do not qualify for debt funding, due to adverse selection and moral hazard problems.

While the problems of small businesses are not substantially different from those of large firms, in practical terms their problems are specific and particular (Bates and Hally, 1982). Their problems in raising finance can be categorized into three areas: (1) the nature and characteristics of the small firms themselves, (2) the attitudes of owner-managers to equity financing, (3) the economics of equity capital investment.

Many studies considered the difficulties of small firms in obtaining external finance. The first important study in Great Britain was conducted by the Committee of Inquiry on Finance and Industry. It found that the growth of small firms in Britain may have been held back because they did not have access to certain facilities which were available to larger firms (Macmillan Committee, 1931). This lack of opportunities was later called the “Macmillan Gap” and the Committee concluded by confirming the existence of a long-term capital gap for small firms because they were unable to obtain external finance for
longer periods in amounts of less than £200,000. The Macmillan Committee recommended that an institution be established to provide funds for such firms.

This problem of acquiring adequate external finance is still recognized, some seventy years later in the United Kingdom as a major constraint on small firms, especially in the start-up and growth stages (Radcliffe Committee, 1959; Bolton Committee, 1971; Binks & Coyne, 1983; Masonet al, 1988; Dewhurst & Burns, 1989; Batchelor, 1989; Caired, 1992; University of Cambridge, 1992; Storey, 1994) and in other developed and developing countries (Jen, 1963, Schmitz, 1982; Anderson, 1982, Kee et al, 1986; Peterson & Shulman 1987; Ahmed, 1987; Patvardham, 1988; Hajjar, 1989; Hassan, 1990; Levy, 1993, and Abakhail, 1999).

In comparison to large firms, small businesses were also recognized as being at a considerable disadvantage in the financial market (Bolton Committee, 1971; Wilson Committee, 1971; Paish & Briston, 1982; Ahmed, 1987). One of the reasons why businesses fail is a lack of capital (Stoll & Curleys, 1970, Springman, 1973; Wucinich, 1979; Bank of America, 1980; Finley, 1984; Flahvin, 1985; Bruno et al, 1987, Peterson et al, 1987; Hall & Young, 1991; Hall, 1989; Smallbone, 2001). Small firms also have limited access to capital (Storey, 1983). Having adequate capital and credit is generally acknowledged to be one of the prerequisites for business success and survival (Broom and Longenecker, 1975; Jones, 1979; Stanworth and Gray, 1991; Wilson, 1994, Black and Gilson, 1998).

The size of the firm is also a factor, and this contributes significantly to the inadequacy of financial resources (Bannock, 1981). It is suggested in some studies that institutional sources of finance for small firms in the United Kingdom were adequate (Burns 1987; Aston Business School, 1991) and in Oman, it has also been suggested that small firms are well provided with sufficient routes to financial assistance (Alhinai, 2000). However, the number of firms with viable businesses is insufficient. Indeed, in some cases, the shortage of viable investment opportunities is far more serious than any shortage of funds to finance them (Harper, 1994).
3.4.1 Equity Gap

The lack of equity finance is the most obvious finance gap relating to small firms' financial development. Despite the frequent expression of concern through government reports and the formulation of support schemes and institutional innovations, the empirical research has accentuated the existence of an equity gap. The argument can be traced through official reports (Macmillan, 1931; Radcliffe, 1959; Bolton, 1971; Wilson, 1979; Hall, 1989; ACOST, 1990).

To access external finance, SMEs generally fund their operations through equity or debt financing although a gap remains in both the equity and long-term debt markets for small firms. Davidson and Dutia (1991) examined 86,000 firms in 343 industries over a period of five years. They found that small firms relied more heavily upon debt capital than larger enterprises, their findings being confirmed by Gupta (1969); Walker and Petty (1987); and Van Auken and Carter (1989).

This ‘equity gap’ for small firms was first identified in the United Kingdom by the Macmillan Committee (1931) and later confirmed by the Bolton (1971) and Wilson Committee (1971). This ‘equity gap’ was later narrowed by the formation of new institutions. This included Charterhouse Industrial Development and the Industrial and Commercial Finance Corporation Limited (ICFC) (Bannock & Doran, 1987). In spite of this narrowing, the gap still existed at the end of the 1980s (Bannock & Partners, 1991). The University of Cambridge (SBRC, 1992) asserted, however, that the perception of widespread financial constraints on small firms could not be supported by any evidence of disadvantaged firms. It was generally agreed that the equity gap had narrowed following development in the private sector markets together with the introduction of government initiatives to complement the private sector activities. The equity gap was defined also by Mason & Harrison (1998) as "primarily a shortage of seed, start-up and early stage finance", and in general small firms frequently encounter difficulties in securing equity financing. This could be due to many factors, namely, the cost of raising equity is proportionately higher the smaller the amount invested (high administrative, screening, and monitoring costs which are somehow fixed), the probability of business
failure is normally higher and that both growth potential and exit prospects are uncertain (Stanworth & Gray, 1991). The business risk is reinforced by the possible existence of moral hazard problems, which arise because of the prevalence of limitations on the financiers in their attempt to accurately and constantly monitor and observe the business performance. Thus the supply of equity finance is likely to be restricted (Binks and Coyne, 1983; Smallbone and North, 1995).

Mason and Harrison (1998) show that the “equity gap” among small firms reflects both demand and supply. In terms of demand, the owner-managers of SMEs are reluctant to surrender equity to outsiders. This is a result of perceived loss of independence, loss of control and freedom of action, the dilution of earnings and the cost involved (Bolton Committee, 1971; Wilson Committee (1979); Bannock, 1981; Vickery, 1981; Binks and Vale, 1990; Tannous & Sarker, 1993; Bank of England, 1996 Mason and Harrison, 1998).

The Wilson Committee (1979) estimated that 75 percent of small firms resist external participation in order to avoid control by outsiders while Vickery (1989) pointed out that the attitudes in which equity is not seen as an element of business financing, can be illustrated in to a typical family business. Such a firm may have passed to the grandson or great-grandson of the founder and therefore the company is seen as a part of the family estate. (Binks and Vale, 1990, p.77). Pointed out that owner-managers “are often unfamiliar with the investors, with protocol and criteria and often the implications of an external equity investment”.

The Commission on Public and British Business (1997, p. 135), which rejected some of the widely held views concerning the equity gap broadly supports this view. Summaries of the key judgments of the commission are offered in table (3.1). However, a number of commonly held views have been called into question because of significant changes in the financial market in the UK over the last ten years.
Table (3.1) Summary of Charges on Financing SMEs

<table>
<thead>
<tr>
<th>Charges</th>
<th>Evidence</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment capital is generally scarce for SMEs.</td>
<td>False. Most SMEs find few difficulties obtaining finance.</td>
</tr>
<tr>
<td>Finance for start-ups is scarce.</td>
<td>Probably false, especially in the 1980s when start-up finance was plentiful. However, it is hard to measure the number of potential start-ups that are denied finance.</td>
</tr>
<tr>
<td>It is difficult for high-tech firms to obtain finance.</td>
<td>Partly true. There is theoretical and empirical evidence of difficulties in the early stages, especially for venture capital.</td>
</tr>
<tr>
<td>Venture capitalists are reluctant to provide patient capital for SMEs</td>
<td>Partly true, but there is more evidence that SMEs are also reluctant to give up equity.</td>
</tr>
</tbody>
</table>


It was found in the Cambridge study that between 80 and 90 percent of SME finance requirements were being met (SBRC, 1996). This was supported by Aston Business School (1991), whose study suggested that that any equity gap, which exists, is small. Start-up SMEs have not experienced any particular problems in obtaining finance such the level of business start-up in the UK rose rapidly over the 1980s. During this period, the main four clearing banks were enthusiastic lenders to start-up firms during the era of the Lawson boom (CPPBB, 1997).

3.4.2 Debt Gap

Debt finance is required by many small firms in order to reach the stage when they become attractive to external investors. This is particularly true for small high-technology firm, some of which have managed successfully their initial development stage almost entirely from loans (Cressy, 1996; Smith, 1998).

A number of sources (Levy, 1993; Peterson and Rajan, 1994; Ang, Lin and Tyler, 1995; Berger and Udell, 1995; Binks and Ennew, 1997; Cole and Wolken, 1996) note that SMEs tend to depend on the owner-manager’s savings, financial help from friends and
family, and trade credit, especially at the start-up stage. External equity is generally considered as a last resort (Story, 1994). Levistky and Prased (1989), for example, show that the majority of small firms begin without institutional help. However, it has been demonstrated in a number of studies that, when such firms begin to grow, innovate and/or diversify, institutional financing is needed in order to aid expansion (Macmillan Committee, 1931; Radcliff Committee, 1959; Bolton Committee, 1971; University of Cambridge, 1992).

Access to credit by small firms is thought by many researchers to be restricted largely because of the stringent lending conditions imposed by financial institutions. Loans from banks in the initial years are difficult, as younger firms are less likely to obtain bank loans as they have no track record (Oakey, 1984; Kee et al. 1986; University of Cambridge, 1992). A lack of material security is the most serious drawback for SMEs seeking assistance from financial institutions (Binks et al. 1986, Yoon, 1988; Meyer, 1998).

A contrary view was expressed by Meza & Webb (1987) who identified adverse selection problems in the presence of different (but unobservable) entrepreneurial abilities as causing an oversupply of debt finance than a debt gap. Nevertheless, it has been argued that that the existence of information asymmetries can create a situation where high quality projects are denied funding (credit rationing), and low quality projects are granted funds (oversupply of credit). There is one view suggesting that oversupply, and credit rationing can co-exist. There has been a conflicting debate; however, different assumptions lead to different outcomes.

3.4.3 Technology Gap

Smaller businesses, particularly those which are high-risk and technology-based, tend to experience more problems than large businesses in raising finance (Waite, 1973; Barber et al., 1989; Ascot, 1990; Westhead and Storey, 1994). Regarding this, the Radcliffe Committee (1959, p.328) identified a “technological gap”, as shown below:
There are certain problems about the provision of finance for the commercial development by small businesses and private companies regarding new inventions and innovations of technique. One problem is that the amount of capital required to finance development may be larger in relation to a small company's capital structure and apparent earning prospects than financial institutions would ordinarily feel justified in putting up. The other problem is that of risk: the risks in the commercial exploitation of technical innovation are likely to be greater than those in expanding an existing line of production or extending into existing lines of business and, however, promising the innovation, the risk are certainly more difficult to assess. This makes it more difficult for the company that wants to develop an invention to convince potential lenders that their money will be well invested (p 128).

Covin, Prescott, and Slevin (1990) studied the differences between the operations of high-tech and low-tech small firms, employing a distinction between macro- and micro-strategy variables. At the macro level, they found that high-tech firms tended to have more entrepreneurial management styles as well as organic structures; at the micro level, innovative marketing, patents and copyrights, new product development, and customer service and support were all considered important.

Warren and Hutchinson (2000) studied success factors for high-technology SMEs. They found that the firms success factors identified by the founders were the following items: (1) the firm never borrowed money, (2) good partnership between co-founders, with trust previously established, (3) high skill-level of employees, (4) sound knowledge of the business, (5) good technical back-up, which fosters trust and confidence from customers, (6) good after-sales support, (7) luck-right time, right place, (8) ability to spot a gap in the marketplace, (9) good social atmosphere, (10) did not expand internationally too fast and thereby compromise the local market.

Technological capabilities are among the most recognized determinants of the success of new ventures as they allow these firms to pursue those strategic options that can best maximize their chances for survival and achieve superior performance (Zahra, 1996). Zahra and Bogner, (2000) examined the relationships between technology strategy and new venture performance. The results suggest that new ventures should pursue a formal technology strategy to achieve successful performance.
3.4.4 Information and knowledge gap

The Economic Advisory Group (1971) examined a number of small firms in the UK that had made unsuccessful approaches to financial institutions. Their findings suggested that this perceived ‘finance gap’ was actually an ‘information gap’ or an ‘availability of fund gap’ (Aston Business School, 1991). The group also noted that the majority of firms were unsuccessful in obtaining finance because they received poor advice about suitable sources of finance or because they lacked certain relevant information. Having identified this gap, some enterprise agencies were able to provide firms with the information they needed in order to select and approach suitable funding sources (Aston Business School, 1991).

This same lack of knowledge, or being in possession of poor information, is also considered to be the main reason why many small firms failed to apply to appropriate funding bodies (Colombo and Delmastro, 2000; Harvey, 1992). According to Bates and Hally (1982, pp.2-3), however, the source of the problem often lies with the owner-managers themselves who do not always react promptly to information and who may not seek appropriate advice until after a crisis has occurred.

Similar difficulties also exist in Oman, where companies may not apply for financial assistance at all because they do not know that such support is available; they may equally apply to institutions which are inappropriate for their needs, or, on application, may not supply the information required that would make their application successful.

3.4.5 Banks and Small firms

Banks, like other business, concentrate on creating value under controlled risk. When a business applies for a loan, a bank focuses on the risks involved and the methods to mitigate those risks. Therefore, banks are reluctant to lend to SMEs for a number of reasons including the following:
The information asymmetry that arises from small businesses’ lack of financial information and standardized financial statements, in addition to the bank’s limited knowledge about the borrower’s company.

The high risks involved in the lending to SMEs as a result of the shortfall of assets that can be used as collateral, high failure rates, low capitalization and vulnerability to market risks.

The higher transaction costs associated with lending to SMEs. SME loans are small and repetitive.

A successful SME financing strategy is one that ensures tailored financial services that meet the specific needs of small industries while coping with problems of high risks and transaction costs. In this respect, a number of innovative approaches have been undertaken to overcome barriers to SME financing. These include the use of credit scoring and rating, credit bureaus and training programmes for credit officers. These schemes have been very successful in the United States and Europe (The Economist Intelligence Unit, 2000).

Small firms usually depend on financial intermediaries, particularly the commercial banks, in order to obtain credit for their operations (Berger and Udell 1995). Sudin and Shanmugam (1994) found that problems related to the character factor indeed appear to be the major difficulty faced by the bank officers when dealing with small business customers. The main reasons are the lack of knowledge in accounting, the insufficient information on loan application given to the bank, the business being a one-man show, the lack of knowledge in working capital management, no proper business plan, great urgency for loan, and the applicant’s inability to explain financial problems professionally.

The banks willingness to provide needed financing was the primary selection criterion given by these small businesses for choosing their lending banks. An IBM Consulting Group (1995) survey of small-business perspectives toward commercial bank revealed significant dissatisfaction with bank financing and services. Another survey on small-

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business owners in Canada revealed that obtaining financing is no longer the most serious concern due to of the industry's effort to gather detailed information about the availability of credit to small business (Canadian Banker, 1997).

Graeme (1993) states that a small business using bank finance should ask for services, including: -

- flexibility in the type of facilities provides,
- end of financial year tax planning including payment of interest in advance,
- consistency in the interpretation and implementation of the bank's policies and decisions at all levels of the bank,
- direct dealing with the bank's officers responsible for the loan facilities and the ability to deal with these people on a continuing basis.

Larry (1992) found that the typical interaction between banker and borrower over prospective business loans often proves unsatisfactory for the small business owner. Local banking institutions continue to represent the most readily-accessible sources of outside capital for small businesses, both for start-ups and expansion of already-established business. A point is that bankers do not spend enough time explaining underlying principles behind commercial lending time-tested principles that generally serve as the framework for all commercial loan decisions. As reported by Clarke (1999) the full story on Small and Medium-sized enterprises shows that policy makers need more information from other suppliers of credit and about other types of financing. While the Canadian Bankers Association publishes the seven major banks' business credit statistics on a quarterly basis, there's no comparable information available about the other sources of small firms financing.

Nakamura (1993) mentioned that information externalities constitute the reason for credit markets unreliability. An information externality in credit markets exists when each lender relies on information generated by the lending activities of other institutions. Banks tend to raise their lending requirements more during an economic down-turn, creating a credit crunch were borrowers have difficulty obtaining credit at any price. This
dynamic interaction between information and economic behavior involves an externality that is the failure of one borrower to conclude a loan and to make loans more costly and harder to obtain for later borrowers.

The reduction in economic activity leads to less information and thus a further reduction in economic activity. As such, there may be a useful role for the Government to play in encouraging credit activity. Cowling and Westhead's study (1996) suggests that small firms should provide their bankers with more detailed financial information. The 'finance gap' is a function of limited debt funding opportunities for small firms because the cost of debt to small firms is significantly greater than for large firms (Holmes, Dunstan and Dwyer, 1994, p. 27). They (Holmes, Dunstan and Dwyer, 1994) found that for micro-small and small firms, application cost including costs associated with completion of the information requirements of the lending institution, represented a significantly greater proportion of total funds borrowed than for medium and large firms. Small firms can experience a loan gap because they have insufficient business collateral.

According to Lund and Wright (1999), economists have often argued that market imperfections in the financing of small firms arise mainly because of information asymmetries - the owner of a small business generally has much better information that the bank on his firm’s performance, and has more control of the outcome. Such problems can lead to credit rationing for small and medium-sized enterprises that is, finance is not made available to all firms with viable projects whose net present value is positive.

In such studies as Hall & Hutchinson, (1995) and Keasy & Watson, (1993), the relationships between small firms and their banks have been scrutinized. The financial difficulties faced by small businesses been the subject of much debate, especially concerning the role of banks but, in spite of this the small business sector is still been an important market for most banks (Buerger & Ulrich, 1986; Churchill & Lewis, 1986; Batchelor, 1988; Berry et al., 1993; Henderson et al., 1995). Berry et al., noted three main reasons why this sector (SME) is important for banks. These are as follows: (1) small businesses rely more on banks for leading than any other external source of finances.
Competition among banks for small business clients is relatively small. (3) The small business sector is an important growth area.

The main issues which have been raised by research to account for of the financial difficulties faced by small firms are as the follows: (1) Rate of interest (Hall, 1989; Stanworth & Gary, 1991; Hutchinson & McKillop, 1992; Bradford, 1993; Keasy & Watson, 1993), (2) Security (Hundsdiek, 1985; Bink et al, 1986; Storey et al., 1987; Hall, 1989; Hutchison & McKillop, 1992; Confederations of British Industry, 1993) (3) The allocation of finance (Ray & Hutchison, 1983; NEDC, 1986).

Bank finance seems to generate a higher rate of return for small firms but it is also more expensive when compared to other sources of finance (Keasey & McGuinness, 1990). Other problems include high interest rates, which were regarded as the most important problem facing small businesses (Stanworh & Gary, 1991; Bradford, 1993). Hall (1989, p. 55) outlined the major difficulties as the “risk inherent in the small firm sector” and “the endemic conservatism of bank managers”. Small firms are certainly required to pay higher interest rates as well as providing a higher level of security. Hutchinson and McKillop (1992) argue, however, that the increased level of risk warrants higher interest charges as well as higher collateral ratios for small business loans.

Some researchers argue that the consolidation of the banking industry may reduce the supply of credit to small business. Meyer (1998) finds commercial banks to be an important source of external credit to small firms. In addition to supplying credit, nearly all banks provide transaction and deposit services. This relationship is very important in that banks can gain information that can be used in decision-making and for pricing credit. Technological and institutional changes, banking consolidation, and modernization of the banking and financial markets will not have major negative affects on the core relationship between small business and local banks. Governmental intervention in the financial markets, to support and supply credit to small business, is a necessary response to negative changes in the financial markets.
Recent financial crises in some industrialized countries such as Finland, Norway, Sweden, and Japan have contributed to a decline in economic activity through reduced spending and business closures. There are two mechanisms through which financial intermediation may affect production and employment: the balance sheet of firms and households and the bank lending mechanisms (see Holmström and Tirole, 1997). Financial crises weaken firm profitability and household income prospects; combined with high indebtedness, this results in weakened borrower quality. Credit losses squeeze bank capital, affecting bank behavior. While Gibson (1995), using Japanese data, finds that a firm's investment depends on the financial health of the firm's main bank, Vale (1996) finds that inventory investment by Norwegian firms was not affected by their relationship with a problem bank during the banking crisis. Kinnunen and Vihriälä (1999) focus on the effects of financial factors on small business closures during the Finnish financial crisis of 1991–1993. The results show that financial factors affect real outcomes not only through the balance sheets of firms and households but also through bank behavior.

Keasy and Watson (1993) stated that small businesses, which provided both security and tangible assets were, however, able to obtain reduced interest charges although lack of collateral was found to be one of the main reasons that small firms were unable to raise funds. A study in 1992 by the 3i/ Cranfield European Enterprise center (quoted by the Confederation of British Industry 1993) showed that 74 percent of small firms for example, had to provide collateral against borrowing. Other studies found that banks often assess the creditworthiness of new firms more restrictively than for older established businesses (Moor, 1994) is also sometimes assessed on the quality of management especially when the firms has no or shorter track record (Binks, 1979). Insufficient collateral leads to the loss entrants or expansions, which were potentially viable (Binks et al., 1986).

The Economists Advisory Group (NEDC, 1986) undertook a review of the provision of bank lending to small firms. It was found that although certain improvements in the lending policy of banks toward such firms were noted, attitudes of some of the bank
managers needed to change. Misallocation of finance occurred frequently, the report concluded, partly because of the constraints, which were faced by lenders but also because the firms themselves often opted to apply for loans instead of equity.

Ray and Hutchinson (1983), noted that certain firms were successful in raising finance while others firms, which are more deserving of obtaining finance, have been unsuccessful. This may be because of the inability of banks accurately to evaluate and understand the viability of small businesses. As a result, much potential growth of firms may be lost (Binks et al; 1992).

Much of the literature mentioned earlier focuses on the financing problems faced by small firms and also shows how such difficulties manifest themselves. This is achieved largely comparing small firms with their large counterparts small firms rely on trade credit, for example, whereas large firms do not. So although the literature above is useful source of background material, it is not likely to yield hypotheses. The following section, therefore, will examine the available literature in the field SMEs with a view to identifying factors related to the ease or difficulty of obtaining finance.

3.5 Firms and Owner-Manager Characteristics

These characteristics are very important factors which are all too often neglected in the research on the finance gap (University of Cambridge, 1992; Hughes, 1994; Landstrom and Winborg, 1995; Cressy and Olofsson, 1997; Meyer, 1998; Liu et al’ 1999). The Age and size of the company; ownership type; business plan and the profile of the owner-managers (his/her age, training, education and business experience) are all factors which will influence the financial decisions.

3.5.1 Size and Age of companies

Size and age are just two dimensions typically differ (Burke and Hill, 1990; Mirvis, 1994; Herd and OhEocha, 1998). The difficulties in raising finance are noted as being inversely
related to the age and size of the firms; that is, smaller and/or younger firms experience more difficulties than larger firms (Hankinson, 1991; Barrow, 1993; Terpstra and Olson, 1993; Mirvis, 1994; Wiklund, 1998).

Bank credit and other institutional lenders as possible sources of finance seem to be used more frequently as the size of the firms increases; that is to say the ‘larger’ the small firms are the more they rely on bank credit and finance from other institutional lenders (Bolton Committee, 1971; Dunkelberg and Copper, 1983; Peterson and Rajan, 1994; Cole and Wolken, 1996).

Age also influences the sources of finance, with younger firms appearing to use less bank and institutional finance than established firms. This is because younger firms do not have an established track record (Binks, 1979; Bannock, 1981; Van Auken and Doran, 1989; University of Cambridge, 1992).

3.5.2 Business Plan

The business plan is viewed as one of the most important stages in start-up of a new venture (Roberts, 1983; Knight and Knight, 1993) but it is also even more important to expand the existing one, according to Timmons, (1980) and Pickering, (1989). The business plan acts as a blueprint to guide and control a firm’s daily operations (Shuman et al; 1985; Lves, 1993; Thurik, 1996).

As a consequence, loan applications are not usually seriously considered without a properly formulated and presented business plan (Berry et al; 1993, Carty, 1994). In order to evaluate the ability of small businesses to repay loans and overdrafts the bank themselves use business plans, these also offer the owner managers an opportunity to demonstrate her/her expertise, experience and skills (Read, 1998).

Many applications for credit are not supported by realistic and practical business plans (Roberts, 1983; Salazar, 1986; ACOST, 1990; Barrow, 1993; Boocock and Presley, 1993). For example, ACOST (1990, p 31) commented:
From the investor’s viewpoint, the major consideration in deciding whether or not to supply capital is the quality of the business plan presented by the potential borrower. If the firm’s management cannot formulate the competitive advantages of its products, together with a clear implementation plan, it can hardly be expected to induce an investor to assess it accurately, or to bear part of the risks of the business (p.91).

3.5.3 Ownership type

Merritt (1998) noted that government policies and the type of firm are important regarding the financing of small businesses because the legal structure of a business undoubtedly has an influence on its ability to acquire external finance. For example, owner-managers may perceive limited company status as an advantage when attempting to raise finance (Posner, 1986) because lenders and investors are more likely to regard such firms as safer options (Freedman and Godwin, 1992). Research in developed and developing countries also demonstrates that incorporated firms are more likely to have access to external sources of finance than unincorporated firms (Freedman and Godwin, 1992; Mishra, 1995). Other studies show that private limited companies are more likely to rely upon bank finance (Storey, 1994) and also are more likely to have access to external equity markets (Binks et al, 1997).

Conversely, unincorporated firms are often more limited by the availability of collateral and therefore find it more difficult to obtain finance (Barlow and Robson, 1999). This is because such firms usually have only the owner-manager’s family home as collateral.

3.5.4 Owner-Manager Characteristics

In previous studies on the growth and entrepreneurial success of new enterprise, the main factors noted generally fall into three categories: (i) those factors relating to the personal characteristics of the entrepreneur, such as educational background, work experience and previous entrepreneurial experience, interpersonal relationships and family background, desire for authority, leadership ability and other psychological characteristics; (ii) factors relating to enterprise organization and resource management, such as financial
management, marketing management, management team, internal management, and so on; and (iii) external factors, such as economic growth, industrial development, government policy and the social, cultural and historical background. Studies of these factors include Reynolds (1977), Hofer and Sandberg (1987), Chang (1991), Hughes and Storey, 1994; Ota (1996), Chiu (1998).

However, whilst it is certainly true that these factors can affect the ability and probability of success and growth of a new enterprise, on the basis of the theories of Say and Schumpeter (1911), along with the development of the entrepreneurial economy in the US in the late 20th century, Drucker (1985) put forward the view that innovation and entrepreneurship were the key factors affecting an enterprise's success and ongoing growth.

In their recent study, Rajan and Zingales (2000) noted that the traditional vertically-integrated pyramid-type company organization is no longer suited to today's rapidly changing environment. The reason for this is that in the knowledge economy of today, specialized human capital and the mobility of such specialized human capital is more important than in the past. The traditional form of company organization derives its authority from the company's ownership of capital, but human capital is not an asset that can be owned, so the traditional method of using authority to manage a company is no longer valid.

An organization can now only provide incentives to make the objectives of specialized human capital conform to those of the company, so as to encourage employees to work hard and to innovate. At the same time, democratic methods of sharing authority must be used if the company is to raise its efficiency and survive in today's environment of fierce competition.

Zheng's (2001) research in Chinese SMEs tested the hypothesis that better Human Resource Management (HRM) will generally be associated with better performance. Better HRM in Chinese SMEs is characterized by firms practicing seven elements for
example there is free market selection of staff and workers, provision of incentive reward systems by linking performance with payment and provision of social security and welfare schemes for retention purpose and training and development of competent and skilled workers takes place on an on-going basis. Performance evaluation is exercised to promote staff instead of promotion of staff based on superior's personal opinions toward and relationship with subordinates as well as the length of services in firms. Furthermore there is management communication to encourage staff participation in management and decision-making and exercise of appropriate labor unions power to create cohesion and to truly protect staff interest and clarify labor management relationship.

Wiesner and McDonald (2001) study on Australian SMEs considered a wide range of standard human resource practices and some industrial relations practices. The Australian small business sector has been characterized by low uptake of human resource practices, little or no collective representation of employees and little or no employee participation. Their results of a national study on HRM in Australian SMEs reveal a moderate take-up of human resource management practices and they note some factors that may have a negative effect on HRM practices. They investigated the impact of organisational size, the presence of a HR manager and prevalence of a strategic plan on the uptake of HR practices in SMEs as well as low unionisation, low employee participation and a low incidence of collective practices.

3.5.4 Age of Owner-Manager

The age of the owner-manager can have both a direct and indirect impact on the level of entrepreneurship. The direct effect implies that people of a certain age are often considered more likely to start a business. Peters, Cressy and Storey (1999) found evidence that on average younger people are less likely to become self-employed. Several publications show that the probability of a person becoming self-employed increases with age (Brock en Evans, 1986; Evans en Leighton, 1989; Audretsch and Evans, 1994; Verheul and Thurik, 2001). Evans and Leigton (1989) show that relatively many entrepreneurs start a business in their mid-thirties and that the average age of an entrepreneur is over 40 years. Storey (1994) reports that people typically start a business
when they are between 25 and 40 years old. However, recently some contrary evidence was assembled by Van Gelderen (1999), who reports that so-called nascent entrepreneurship in the Netherlands is most frequent among the age group between 25 and 34 years of age. It is unknown whether this indicates an age effect or a generation effect.

At the macro-level contradictory evidence exists on the relationship between age structure and entrepreneurship as well. Evans and Leighton (1989) find that a declining age of the population has a negative effect on the level of self-employment, whereas Reynolds, Hay and Camp (1999) report that countries with more individuals in the age class of 25-44 years old have more start-ups and that the presence of so-called 'early career' individuals is an important determinant of the level of business start-ups.

Indirectly, age structure influences the level of entrepreneurship through different intermediary factors, like psychological and social characteristics of the entrepreneur, financial resources, behavior and networks or contacts. These factors all depend on the age of the entrepreneur and co-determine entrepreneurship (Peters, Cressy and Storey, 1999).

The Bolton Commission of Inquiry made clear that SME owner-manager group was heterogeneous in native.

When we come to look at the human and social factors affecting (small firms) we can see that firms are, in fact, as varied and individual as the men who founded them (Bolton, 1971, p22).

Petts, Herd & O’hEocha (1998) asserted that the age of the owner-manager may be an important variable with regard to business behavior since his/her age is positively related to the survival of his/her firm (Dewar, 2000). However, this variable appears to be negatively related to success in obtaining finance (Hustedde and Pulver, 1992). Mature, middle-aged owner managers are more likely to possess assets. Therefore, they have more security/ collateral than the younger or older-owner manager. As a result, those
under and beyond middle age are more likely to face difficulties in obtaining finance (Cressy, 1996).

3.5.5 Training, Education and experience

Human capital theorists hypothesize that education is an investment that yields higher wage compensation in return for individual variations of skills, training, and experience (Mincer, 1974). Taken collectively to the national level, they theorize that investment in education leads to economic growth (Psacharopoulos and Woodhall, 1985). Educational investment in individuals or firms may yield vastly different results with unique environmental conditions. The educational levels of entrepreneurs and employees in firms predict an increasing likelihood of entrepreneurial activity, productivity, and relative success associated with education and experience.

The experience and knowledge of managers can have a significant effect on their willingness and ability to improve their businesses (Petts, Herd & O’hEocha (1998). As a general rule, individuals with higher education levels are viewed as more active in business environments (Mishra, 1995; Merritt, 1998). Furthermore, education and training in management is critical for the development of small businesses (Holliday, 1995, p.10).

Organizations provide training for many reasons. They wish to orient new hires to the organization or teach them how to perform in their initial assignment. Some organizations also wish to improve the current performance of employees who may not be working as effectively as desired, or to prepare employees for future promotions, or for upcoming changes in design, processes, or technology in their present jobs (Fisher, et al., 1999). Training can help an organization succeed in a number of ways. Traditionally, training facilitates the implementation of strategy by providing employees with the skills and knowledge needed to perform their jobs.

Training also assists in solving immediate business problems, such as when a team of managers in an action-learning program studies a real problem and recommends a
solution. Finally, to keep ahead in a highly competitive and turbulent environment, it has been suggested that the training function must foster a continuous learning culture and stimulate managers to reinvent their corporation (Martocchio and Baldwin, 1997).

Recent changes in the environment of business have made the Human Resource Development function even more important in helping organizations maintain competitiveness and prepare for the future (Goldstein & Gilliam, 1990). Technological innovations require training, with employees often needing more sophisticated skills in troubleshooting and problem solving than they did previously. The pressure of global competition is also changing the way organizations operate and the skills that their employees need. For instance, organizations have been increasingly providing quality management and customer service training in an attempt to keep up with rising consumer expectations (Bellizzi & Piontkowski, 1990; Lee, 1991).

In the United States approximately 70 percent of employers provide some formal training (Noe, 1998). The larger the company, the more likely its workers were to have been trained. In smaller companies, 75 percent of respondents in firms with fewer than 500 employees received some training, compared with 82 percent in companies with more than 1,000 people (Schaaf, 1998). Smaller to midsize firms, employing 100 to 499 people, averaged 140,040 dollars per company for training; these companies make up about 78 percent of the Dun & Bradstreet data base of 146,837 U.S. organizations.

Those employing between 500 and 999 people, about 10 percent of the database, planned to spend about 237,600 dollars each. The largest companies, those with 10,000 or more employees (1 percent of the database), had training budgets that averaged well over 15 million dollars. Small companies (50-99 employees) spend about one-third as much as large employers (500+ employees) (Noe, 1998).

Most training goes to managerial, supervisory, white-collar, salaried employees. Eighty percent of people at work today are hourly workers. Mincer (1997) also reported that
people who in the past have received training are more apt to undergo further training in the future.

Of the nearly $60 billion expended by organizations employing one hundred or more employees, 42.1 billion dollars was spent on HRD staff salaries, and another 14.7 billion dollars was allocated for outside services (seminars, conferences, materials, etc.) (Blanchard and Thacker, 1998). The most recent reports estimate that employers spend around one percent of payroll on training. To keep up with the current trend, this amount is expected to increase to three percent by the year 2000 (Chance, 1998).

Honig (1998) examines the performance of 215 informal micro-enterprises in Jamacia, studying the influence of owners, human capital, social capital, and financial capital on their business profitability. He found that several factors were determined to enhance the businesses, profitability in all categories. Vocational training demonstrated consistently strong and positive effects. Years of experience in the business were consistently positive and strongly associated with increasing profits. The variation in starting capital had little effect on profits in the higher technological firms. Although additional starting capital played an important role for both businesses with and without employees, increasing amounts failed to differentiate the success of those firms that were already operating in the higher technological tier. Obtaining a small business loan enhances the profitability of all firms, except those segmented into a high technological tier. One interpretation of this finding is that the role of technological choice is extremely important, and appears to dwarf that of varying amounts of starting capital.

Chandler and Hanks (1998) studied the substitutability of founders human and financial capital in emerging business ventures. The analysis shows that, on average, firms with high levels of founder human capital and low levels of initial financial capital perform similarly to firms that have low levels of founder human capital and high levels of financial capital. This finding suggests that founders with a strong background experience may be able to start businesses that survive and thrive with less financial capital than their less-experienced counterparts. The proportion of initial capital provided by the
founder differs significantly across industry types. In more capital-intensive industries, founders provide a smaller proportion of the start-up capital. Interestingly, the amount of initial capital provided by the founder does not vary significantly across industry types. This suggests that the amount of initial capital provided by the founder may result from contributing all they can give to the business, which appears to be similar across business types.

The American Society for Training and Development (ASTD) suggests that the number of companies using Intranet or Internet-based training is growing each year (Dewar et al., 2000). The Information Week Online forecasts (Nolan, 2000) by 2003, U.S. companies project to spend $11.5 billion annually on online education for their employees. As for Taiwan’s development, a recent survey by Commonwealth Magazine (2000) estimates that the potential e-learning market of Taiwan will reach approximately US$160 million in 2003. Moreover, many experts are further predicting in 2002, Taiwan’s enterprises will spend more than 30% of training expenditure in Internet-based training (http://www.good2U.com).

Most owner-managers do not have financial training and as a result, many difficulties arise because of their inability to forecast financial needs (CPI, 1982). Growth requires considerable financial investment, but obtaining finance is often contingent upon his skills of the entrepreneur. Education in management skills and business experience are seen to be of vital importance when potential lenders evaluate start-up companies (Berry et al; 1993). Berry et al. also discovered that lenders prefer to see a link between the owner-managers past experience and the skills required to start the proposed new business. This is viewed as a way to avoid some of the problems related to adverse selection.

Fong (1990) emphasized that owner-managers have to acquire appropriate skills and knowledge before starting their own business since only 6 percent of owner-managers started their businesses immediately after graduation; 46 percent of owner-managers were former employees of their firms. On the job training was also important to owner-managers before embarking on their own business ventures. Hustedde and Pulver, (1992)
reported that the greater the extent of business experience of individuals, the less likely they are to acquire external finance.

3.6 Islamic Finance Methods

3.6.1 Mudarabah:

Mudarabah is an Arabic word which means wandering the earth and preparing the ground for the purpose of making a living. Mudarabah is called (Qirad) in some parts of Arabia (Hejaz). Qirad and Mudarabah were used before Islam, to finance a significant part of trade in Arabia (Presley, 1988).

Mudarabah is a form of partnership were one of the contracting parties, called the sahib al-mal or rabb al-mal (the financier), provides a specified amount of capital and acts like a sleeping or dormant partner, while the other party, called the mudarib (entrepreneur), provides the entrepreneurship and management for carrying on any venture, trade, industry or service with objective of earning profits. The mudarib is in the nature of a trustee as well as an agent of the business (Zarka, 1971). As a trustee he is required to act with prudence and in good faith, and is responsible for the losses incurred due to his wilful negligence. As an agent he is expected to employ and manage the capital in such a manner as to generate optimum profits for the mudarabah business without violating the values of Islam.

The mudarabah agreement could be formal or informal, and written or oral (Zuhayli, 1998), in view of the Quranic emphasis on the writing and formalizing of loan agreements (Al-Quran, 2:282-3), it would be preferable for all mudarabah agreements to be in writing, with proper witnesses, to avoid any misunderstanding. Mudarabah has also been called Shirka.

3.6.2 Musharkah:

Musharkah (shirkah or sharikah) refers to partnership between two or more person. Of this times, shirkha is classical and preferable (Jaziri, 1932). However, musharkah has
become more commonly used in modern times. Profits or losses are split between the shareholders according to a predetermined formula, depending on the investment ratio. Musharkah may be one of two kinds: shirkah al-milk (non-contractual) and shirkah al-uqud (contractual).

Musharakah is different from Mudarabah in at least one respect. In the latter, the financier has no right in the management of the project in which his finance is being invested. Musharaka arrangements, in contrast, do allow the financier to participate in the management. These two techniques are very similar in that the provider of finances directly shares the profits and willing to bear the losses, if any, to extent of his investment (Alfadhily, 1998).

3.7 Summary

This Chapter discussed the importance of the small business sector (SMEs). The theoretical literature concerned with financing practices and the problems experienced by small business in developed and developing economies were reviewed. Key factors that influence the financing practices and problems of small business were highlighted by undertaking a literature review which focused on source of external finance and the difficulties often experienced by small business in raising funds.

The importance of small businesses in generating economic wealth is well documented and thus is becoming more important, especially in developing countries. Such nations may embrace a policy of industrialization in order to achieve growth and in this small businesses have an important part to play in supplying components and supporting services.

In Oman small businesses have earned recognition from the government. This is because of their importance in generating new jobs, developing local resources, and playing an important complementary role to large firms. By reinforcing economic growth and development, small firms help to create a more prosperous society, thus improving the nation’s well being as a whole.
Most small firms use external finance and while debt finance is the most preferred type of finance, banks are the most popular source; the most popular source of equity finance is personal savings of the owner-manager. Venture capital is important sources of external equity to aid the expansion of small businesses in the United Kingdom and the United States. Government assistance is also widely used.

Banks are the main sources of external finance but small firms face a number of problems in obtaining bank finance. Among the issues raised in this regard are high interest rates, insufficient collateral, and allocation of finance to small firms.

Many financing problems simply arise from the nature and size of small businesses. They often face gaps in funding, information and knowledge, as well as in financial skills. Such gaps seem to have more an effect on small, young firms especially in the start-up stage and particularly high-technology firms.

A number of studies have shown which characteristics in particular of both the firm and the owner-manager affect the availability of external finance. The business characteristics such as size, age, ownership type and business plan have been shown to influence the financing difficulties of small business. Owner-manager characteristics such as age, training, education and previous experience can also affect patterns of financing.
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Chapter 4

Research Framework
Research Framework

4.1 Introduction

From the literature which is related to SMEs it is evident there is a clear lack of research of both quality and quantity on Oman. However, to ensure that small businesses make an effective contribution towards the goal of diversification and to enable them to participate in the development process, it is important to overcome the problems such businesses face in financing their projects. This work attempts to make a contribution towards this by discussing and reviewing in detail the problems on financing small businesses in Oman.

As a developing country, Oman is moving towards privatization. Small businesses have been recognised by government because of their importance in creating new jobs, developing local resources, and playing a complementary role to larger firms (Almarkhazi, 2001). By reinforcing economic growth and development, small businesses help to achieve a more prosperous society, thus generally contributing to the well-being of the whole nation.

In order to study the financing of small businesses, this chapter presents a research framework which provides a conceptual foundation for this study. Developing such a framework will help in the postulating and testing certain relationships in order to better understand the dynamics of the situation. Once the variables have been identified and the relationship amongst them has been established, hypotheses will be formulated to test the validity of these theoretical relationships.

The chapter is divided into six sections. The second section presents the conceptual frameworks. The third section focuses on those variables which are thought to influence the financing of SMEs and contribute to their effectiveness. The following sections provide a theoretical overview of the financing of small firms and define the selected variables and set out the hypotheses to be tested. The final section offers a summary of the chapter.
4.2 Conceptual Framework

A study of the literature reveals some factors that influence the ease or lack of it by which small businesses gain access to and/or obtain external finance. These factors can be categorised in three main areas:

1- The characteristics of the company itself
2- The characteristics of the owner-managers
3- Islamic finance methods (Musharaka and mudaraba)

Analysing each of the three factors described above contributes to understanding financial practices and particularly small businesses. Therefore, in order to achieve its objective, the study will investigate and examine the effect of these factors upon financing practices and problems of small business in Oman.

The two major dependent variables, which will be investigated, are:

1- Need for finance.
2- Difficulties in raising finance.

Further independent variables are as follows:

i. **Company Characteristics**
   - Age of company
   - Size of company
   - Ownership type and
   - Business plan

ii. **Owner-Manager’s Characteristics**
   - Age of owner-manager
   - Level of Education and training
   - Business experience

iii. **Islamic Finance Methods**
   - Musharkah and
   - Mudarabah
4.2.1 Company Characteristics

It can be seen in the literature that SMEs have a real impact on certain types and sources of finance (Moore, 1994; Cressy, 1993; Hughes and Story, 1997; Black and Gilson, 1998; Smallbone and Rogut, 2001). Small enterprises, especially recently established ones, often rely on internal finance such as the owner’s personal funds, profits retained by the firm, and on loans from family, friends or directors. Generally, the newer and/or smaller the business, the less likely it is to obtain loans and external equity.

However, as a firm expands and establishes itself, it is able to access an increasing range of finance options and can thus increase its trade credit and enter into more short-term loan arrangements. Other options such as venture capital and private equity may also become available as a firm expands. The more established the track-record of the firm is, the more profit it is likely to retain, and the more attractive it will be to external investors.

The size and age of firms also influence potential lenders terms as businesses, which are small or recently established, are lower in terms of value when used as security. Banks also prefer to offer loans based on tangible assets (Mugler, 2000) because in this way they can attempt to counteract problems regarding increased risk, moral hazard and adverse selection. For example, in the event of bankruptcy, service sector companies have few tangible assets. Therefore, such firms generally obtain less favourable credit terms than firms in the manufacturing sector where there are usually assets that can be sold on in the event of failure (Therrien et al., 1986; Riding and Swift, 1990). Furthermore, technology-based firms are more likely to rely on internal sources of finance because of the high cost of obtaining external finance.

The existence of a business plan, because it is perceived to be an important tool for raising finance, is positively associated with obtaining external finance. Therefore, firms that do not have such a plan are more likely to find it difficult to obtain loans (ACOST, 1993; Boocock and Presley, 1993; Read, 1998). Business plans are used by banks to assess the ability of SMEs to repay loans, as well as giving the owner-manager an opportunity to demonstrate his/her expertise and experience (Read, 1998).
The form of a business ownership type will also influence the sources of finance which are open to it, as well as how difficult it is to obtain finance (Freedman and Godwin, 1992; Mishara, 1995; Charlesworth, 1998). Incorporated firms are more likely to succeed in acquiring external finance than unincorporated firms. Unincorporated businesses are also more likely to face problems in obtaining finance as they are more limited by their comparative lack of collateral.

4.2.2 Characteristics of Owner-Managers

One of the most critical issues facing those who want to realize the successful experience of economic development in developing countries understands where entrepreneurial firms originate from and what characteristics are relevant to their success. Compared to people in general, entrepreneurs are significantly higher in scale, reflecting a need for achievement, independence, and effectiveness of their leadership, and are lower in scale, reflecting emphasis on need for support (Coleman, 1998).

The ten significant characteristics of successful entrepreneurs, as Silver had observed, are as follows: 1. Outer-directed, middle-class background. 2. Absent father/dynamic mother (reversed for female entrepreneurs). 3. Optimal childhood deprivation, for example, illness, size, ethic, or financial deficiency. 4. Guilty that he has not fulfilled the American dream and become a professional. 5. Able to focus intensively on a single subject for a sustained period of time. 6. Courage; no fear of failure, but several failsafe plans. 7. Creative; always problem-solving. 8. Insightful; can see a problem as a market. 9. Happy; never sick, bitter, or depressed. 10. Communications skills; persuasive abilities (Silver, 1987).

Basically, most professional corporate managers do not have the capability to start and nurture small corporations, but neither can many entrepreneurs go it alone in managing larger, more mature corporations. An enlightened entrepreneur who hires good professional managers and uses them well has a very good chance for successful expansion of the company. Entrepreneurs are reflected in risk taking with regard to investment decisions and strategic actions. They face environmental uncertainty, the extensiveness and frequency of product innovation and related tendency toward
technological leadership, and the firms pioneering nature as evident in the propensity to aggressively and proactively compete with industry rivals (Zahra 1996, 2000).

In a perfect capital market, there would be no difference between internal and external funding of any investment project under Modigliani-Millers theorem (1958). However, when the capital market is no longer perfect (under the presence of asymmetric information and agency problems), the cost of external funds can be much higher than that of internal funds and can lead to under-investment. This is especially true for those entrepreneurial firms in which entrepreneurs are accustomed to complaining that they cannot obtain enough external funds to exploit profitable investment opportunities.

Human capital theorists hypothesize that education is an investment that yields higher wage compensation in return for individual variations of skills, training, and experience (Mincer, 1974). Taken collectively to the national level, they theorize that investment in education leads to economic growth (Psacharopoulos and Woodhall, 1985). Educational investment in individuals or firms may yield vastly different results with unique environmental conditions. The educational levels of entrepreneurs and employees in firms predict an increasing likelihood of entrepreneurial activity, productivity, and relative success associated with education and experience.

A firm’s ability to gain external finance is affected by the age of owner-managers; older owner-managers are less likely to obtain external finance (Hustede and Pulver, 1992; Pets, Hard and O’Eeocha, 1998; Petters, Cressy and Storey, 1999). Conversely, both younger and older owner-managers were found by other studies to be more likely than those who were middle-aged to face difficulty in obtaining finance (Cressy, 1993; Gelderen, 1999).

Many studies find that a significant problem for SMEs is their lack of management skills. This relates in part to the centrality of the board of directors to the success of such firms. According to Whincop (2001), the board has a particularly important role in educating and providing information to IPO markets, in fostering trust relations both within the firm and with investors, and in enabling interactions with third parties and networks. Together these serve to support the firm’s corporate governance system.
and to stabilize its relationship with investors and other key stakeholder groups. To remedy this weakness, management training in focused areas can help strengthen SMEs and promote their long-term viability in both domestic and international markets.

Although it is intuitively apparent that investments in training will positively impact small firm performance, there is only limited evidence and considerable debate concerning the relationship between training and small firm performance outcomes. Part of the problem relates to organisational constraints such as lack of time or finance, and ignorance regarding the potential benefits associated with education, training and the availability of already tested training programmes. These often serve as barriers to the training efforts of small firms (Westhead and Storey, 1997).

Patton and Marlow (2000) argue that causal links between owner-managers training and performance are difficult to obtain because of the considerable range of variables, which impinge on the relationship between training and performance. These include the external context, firm characteristics, ownership structures, characteristics of the management team, the nature and degree of training, etc. They therefore recommend going beyond identifying causal links to identify positive outcomes associated with training that are advantageous for the firm in its broadest sense.

Education and training are vital in management if small businesses are to be developed effectively (Holliday, 1995, p.10.). Owner-managers levels of education, training and experience will largely determine the financial expertise within their businesses and this, in turn, will affect the sources of finance they can use and the level of difficulty they face in raising such finance (Mincer, 1974; Rothwell, 1985; Keasey and Watson, 1993; Chandler and Hanks, 1998 Cavalluzo, 1999). Bates (1991) showed that commercial banks are more likely to lend to individuals with more human capital, more equity and with demographic traits that are associated positively with business viability. In this context human capital is likely to be reflected in the levels of education, their age, and previous managerial experience. Consequently owner-managers who have received effective training tend to have greater levels of experience in financial management they experience fewer difficulties in obtaining external sources of finance.
4.2.3 Islamic finance methods

Equity Capital Participation (Musharaka and mudharaba)

The study offers the hypothesis that “the majority of small businesses refuse to share ownership of the business with the provider of its equity capital (the Musharaka, Mudaraba financing method). In order to examine this hypothesis, it was necessary to discover the opinion of the owners of small businesses regarding the Islamic financing method. It was found that some investors offered small businesses the finance they required in return for a share in ownership, if the concern was just being established, or a share in the profit or loss of certain transaction, if the concern was already established. Where respondents had rejected the possibility of Musharaka, Mudaraba they were asked to specify why they rejected this form of obtaining finance.

4.3 Economic Theory

Reviewing the related literature shows the important of considering theoretical literature that might give an insight and provide an understanding of why and how small firms differ from their large counterparts in terms of financing practices and problems. This section of this chapter, therefore, provides a theoretical overview of the financing of small firms. This makes it possible then to review and consider the central issues of the study: an examination of the sources of external finance that can and may be used and difficulties faced when attempting to raise finance.

4.3.1 Theory of the Small Firm

Small firms have long been a matter of concern for government and policy makers. In the populist tradition of thought, an economy based on small firms has been regarded as the alternative to the standard course of capitalist industrialization, generated, with its tendency towards increasing concentration of industries in the hands of a few large firms (Kitching, 1982).

Size theories of the firm can be classified into four approaches, namely, conventional microeconomic approach (or the technological approach), the transaction cost
approach (or the institutional approach), industrial organization approach, and the dynamic model of size distribution approach (You, 1995).

In the conventional microeconomic approach, firm size is determined by technical and allocation efficiency. The traditional analysis of firm size is conducted in the context of a competitive equilibrium. In a competitive equilibrium, the actual firm size will be the efficiency size in the sense that the long-run average cost is minimized at that point. Here, the technologically determined economies of scale and scope are the principal determinants of firm size (You, 1995). The efficient firm size can be determined uniquely only if the long run average cost curve is Ushaped. One way by which decreasing returns to organization size may occur is where there is a fixed input such as the entrepreneurial input (Kihlstrom and LaFont, 1979). Firm size therefore, depends on the individual entrepreneur’s willingness to take risk. Walker, (1987) posits that changes of efficient firm size over time depend on the nature of technological change. Lucas (1978) posits that there is a given distribution of managerial talents across entrepreneurs.

In equilibrium therefore, the greater the talent of an entrepreneur, the greater the size of the firm (measured in number of employees) he/she manages. Those with talents below that of the marginal manager, who is indifferent between being a manager and being an employee, will automatically be employees. According to Lucas, in this way a full size distribution of firms can be determined from a distribution of talent (skills). The model rationalizes the common observation that the number of small firms increases during recession. Since in this model the wage rate represent opportunity cost of becoming a manager, the falling real wages and the rising unemployment in recession will induce some ‘marginal’ employees who were previously wage-earners to switch to setting up their own business.

The third approach is the industrial organization approach. Firm size and its distribution (market structure) are determined by market power. In this approach there is no presumption that the observed firm size or its distribution is efficient or in the process of adjustments towards the efficient equilibrium. Rather, the size distribution of firm is thought to reflect the distribution of market power and the competitive structure of the market. The market share of firms in an industry with heterogeneous
products will depend not only on the pricing strategy but also on which segment of the market they serve. The size of a firm serving different segments of the market may differ for at least two reasons. One is that they may require different technologies. Another reason is that the magnitude of demand (the location of the demand curve) may differ across different segments of the market. In this vein, firms producing mass-consumption goods will be larger than firm producing specialty goods (You, 1995).

The fourth theory is the dynamic model of the size and distribution of a firm’s approach. This includes stochastic models, life-cycle models and evolutionary models. The stochastic model for instance, is based on Gibral’s law, which states that the growth rate of a firm is independent of its current size and its growth history (You, 1995). If every firm experiences the same growth rate subject to random variations year after year, the size distribution will turn to a log normal distribution. That is a skewed distribution rather closed to the typical size distribution of firms actually observed in most industries. It is also important to acknowledge the qualitative factors that distinguish a small business from a large firm. In the United States, the Committee for Economic Development has out-lined four characteristics that describe the domain of a small business (Hodgetts and Kuranthko 1998). The factors are:

- Management of a small business is independent, since the manager usually owns the firm.
- Capital is usually supplied by an individual or a few individuals hold ownership.
- The area of operations is primarily local, although the market is not necessarily local.
- The firm is small in comparison with the largest competitors in the industry.

Taken together, these characteristics provide a qualitative description of small business.
4.3.2 Agency Theory

Modern finance theory examines “the way in which the capital market enables allocation of scarce financial resources between individuals and business enterprises over time” (McMahon et al; 1993, p.69). One contribution of such theory has been the development of agency theory; this has considerable relevance when studying the financing of small and medium-sized firms.

Agency relationship was defined by Jensen & Meckling (1976), p. 306) as “a contract under which one or more persons, the principal (s), engage another person (the agent) to perform some service on their behalf, which involves delegating some decision making authority to the agent.” To relate this to SMEs: the owner-manager acts as the agent for the lender (the principal) and the principal must then ensure that the agent fulfils the terms of the contract (that is, repaying both the loan and interest). In his research, McMahon (1993) examines agency theory from the perspective of the financial interests of stakeholders, exploring how stakeholders benefit from each other.

Agency problems, according to Jensen & Meckling (1976), result from conflicts of interest between those parties who are associated with the firm. For example, an owner-manager might have to take action which could undermine the worth or security of the firm. Barnea et al., (1981) offer the following agency problems that can be of serious concern to a firm:

- The level of asymmetric information is greater in the sense that the firm (agent) is unable to reveal the exact nature of the firm to the financier (principal).
- The agent has the capacity and incentive to affect wealth transfers between parties or the agent has the capacity and incentive to forgo new profitable investments when the existing assets support the debt issued.
- The partial ownership of the firm by an owner manager may allow consuming the firm’s assets beyond that which a manager who is the sole owner of the firm would consume.
Other examples which consider the relationship between small firms and their finance providers include Hajjar (1989); Hassen (1992); Landstrom (1992); Deakins and Hussain (1992); Honig, (1998); Chandler and Hanks’ (1998); Cooper, Warren and Hutchinson, (2000).

4.3.3 Information Asymmetries

A wide range of literature exists regarding the appropriate capital structure of companies. These dates back to Modigliani and Miller (1958) and even earlier. Many studies relate to small and medium sized enterprises (SMEs) and emphasize information asymmetries as one of the most important factors affecting the finance of small businesses (Berger and Uell, 1998; Coleman, 1998).

Institutional investors will require information on a firm’s performance before providing finance, as investors need to know that projects are commercially viable before investing. However this information is not always readily available. As Storey, (1994, p.205) notes “the small business owner is likely to be significantly better informed about the business than an outsider such as, a bank”.

According to Binks et al. (1987) p.36): in the real world, however, banks and small firms operate in an environment where information is often both not wholly accurate and expensive to access. Thus, the distribution of information between the two parties to the contract is asymmetric. This means that often same certain pieces of information is available only to one party but not to the other. This can result in an oversupply of credit; Storey, (1994) notes that, “if banks are unable to discriminate effectively between good and bad projects, they are likely to make some investments in bad projects and so “over-invest” in the market place”

Information asymmetries can, therefore, contribute to more expensive external finance (Myers & Majluf, 1984; Keasey & Watson, 1993). As a result in the agency relationship, lenders often demand high interest rates from SMEs in order to compensate for the possibilities of wealth expropriation (Pettit and Singer, 1985).
The amount of information about an enterprise is generally not neutral with respect to size. Peterson and Rajan (1992) observe that small enterprises are most likely to face credit rationing because most potential lenders have little information on the managerial capabilities or investment opportunities of such firms and are unlikely to be able to screen out poor credit risks, or to have control over borrowers’ investment. This information gap problem on credit supply is buttressed by Jaff and Russel (1976) when they indicated that if lenders were unable to identify the quality of risk associated with particular borrower, then credit rationing would occur. This phenomenon is analogous to the lemons argument advanced by Akerlof, (1970). The existence of asymmetric information prevents the suppliers of funds from taking the right investment decision.

In their analysis of Business Angels, Harrison and Mason, (1994) pointed out that there are business owners, whose firms are constrained in their growth by a “shortage” of equity, and who would be prepared to share their equity with the informal investors. The implication of their research is that an information barrier exists between the two groups and that it would be beneficial to the economy as a whole if this barrier were overcome. In other words there is the problem of asymmetric information in the equity market as far as small business operations are concerned and this leads to market failure that calls for government intervention.

Asymmetric information tends to impact financial conditions and prospects of the businesses rather than lender. The supply of credit is often restricted or available only at a higher cost, especially in the case of high tech firms (Hakim, 1989).

4.3.4 Adverse Selection and Moral Hazard

Stiglitz & Weiss, (1981) also note a ‘debt gap’, which is created because the providers of finance to small firms, particularly in the case of banks, have difficulties in making good lending decisions (adverse selection) and in appraising and monitoring loans (moral hazard). This is especially under conditions of uncertainty and also with asymmetric information.
Adverse selection tends to occur when lenders have insufficient information about the expected success of projects. In such cases higher interest rates are often charged to borrowers to cover the cost of additional monitoring and to cover themselves against the risk of bad debts. Low-risk (but low-return) borrowers will then not proceed with their projects because of the higher interest rate causing more expense. The lender is left with high-risk (but high return) projects and borrowers obtain a portfolio that may result in lower returns. Moral hazard may also prevent the lender from monitoring directly all the firm’s decisions since, for the small amount of finance involved, it is not economic to monitor the firms closely (United Kingdom, 1994).

To combat such problems, banks usually demand personal security or collateral in order to ensure the owner-manager’s commitment (Berry et al, 1993). This, according to Storey, also “provides an incentive for the entrepreneur to seek less risky projects, on the grounds that he or she incurs losses if the project fails”) (Storey, 1994, p.213). Also, a willingness to provide collateral indicates a “signal to the bank that the entrepreneur believes the project is likely to succeed-otherwise he or she would not commit their personal resources to it” (Storey, 1994, p210). Not all small or medium sized firms have access to collateral, and it is because of this lack of suitable collateral that many small firms fail to expand (Binks et al, 1987).

4.3.5 Cost of External Finance and the Rate of Return

Because SMEs have a high rate of failure, investors are often reluctant to lend to them (Scarborough & Zimmerer, 1984; Batchelor, 1989; Smallbone, 1990). Storey et al. (1987, p.3) make this point in their study, claiming that: “the fundamental characteristic which distinguishes small firms from large is their relatively high probability of failure.” For example, information asymmetries, moral hazard and adverse selection, which have been noted above, mean that agency problems in small and medium-sized firms are likely to be severe (McMahon et al., 1993).

Beedles (1992) notes that smaller firms pay more for external finance and external equity, as well as debt finance (Confederation of British Industry, 1993), with the higher cost of equity capital being associated with flotation costs (Archer & Faerber,
Asymmetric information also contributes to higher costs in obtaining external finance (Myers & Majluf, 1984; Keasey & Watson, 1993).

The smaller the amount of external funds, the higher the cost of financing (NEDC, 1986), the higher the level of collateral, the higher the cost of finance (Hutchinson & McKillop, 1992; McKillop & Hutchinson, 1994). Investors and lenders may also demand high interest rates in order to compensate the possibilities of wealth exploitation by the owner-managers and/or for additional monitoring costs (Pettit & Singer, 1985).

Compared to internal financing, external finance is more expensive. Also, the necessary rate of return on new investment will be higher if external financing is used (Baumol et al, 1970). Furthermore, it has been noted that the rate of return on new equity capital is higher than the rate of return on either retained earnings or new debts. Some research work, however, (Whittington, 1972; Birley & Westhead, 1990) appears to contrast Baumol et al. Whittington (1972) for example, has argued that additional profits may be obtained from better use of existing capital rather than from the new capital.

The inverse relationship between the use of outside finance and profitability of small firms was also reported by Birley and Westhead (1990) while Keasey and Watson, (1994) discovered that bank finance for SMEs tends to generate a higher rate of return. The writers noted that external financing is more expensive, the lenders are more likely to charge interest rates. As a consequence, external finance is only used, therefore, for projects that can cover higher costs (Keasey & Watson, 1993).

4.3.6 Credit Market Theory

Accordingly a credit market is sometimes assumed to have the following features:

- A multiplicity of freely operating financial intermediaries constituting the credit supply side, while homogenous deficit-spending investors make up the demand side.
- Both intermediation and investment activities are driven by profit maximization motive.
- Intermediaries mobilize financial resources through the issue of primary securities to surplus spending units or savers.
- Resources mobilized are allocated among investors through the issue of secondary debt securities.
- Both types of securities are designed in such a manner that they suit the investment and financing needs of both the savers and investors respectively with regards to maturity, risk-return preferences, liquidity and marketability.
- The assumption of perfect market symmetry and completeness of information holds as intermediaries and borrowers possess similar and all the required information on the quality of the investment projects.
- And intermediation transaction cost is negligible (Mwenda, 1993).

Given the above assumptions, credit supply increases monotonically while demand decreases with interest rates. If credit markets were like standard markets then interest rates would be the “prices” that equate demand and supply for credit. However, excess demand for credit is common; applications for credit are frequently not satisfied. As a result the demand for credit may exceed the supply at the market interest rate (Jaff, 1990). Credit markets deviate from the standard model because the interest rate indicates only what the individual promises to repay, not what he will actually repay (which means that the interest rate is not the only dimension of a credit contract).

The issue of the allocation of credit has profound implications at both the macro and micro levels. At the micro level, in the absence of a credit market, those with resources would have to invest the resources themselves, probably receiving a lower return than could be obtained by others. When credit is allocated poorly, poor investment projects are undertaken, and the nation’s resources are squandered. The special nature of credit markets is most evident in the case of credit rationing, where borrowers are denied credit even though they are willing to pay the market interest rate (or more), while apparently similar borrowers do obtain credit (Jaff, 1990).
4.4 Definitions

4.4.1 Small Business Definition

Before examining how small businesses differ from large ones, it is first necessary to define what constitutes small business. Definition however, is one of the greatest difficulties encountered by policy-makers and researchers (Ray and Hutchinson, 1983; Burns and Dewhurst, 1986; Haakim, 1989; Keeble et al; 1991; Al-Dathab, 2002). There is actually no one accepted definition of an SME. According to Keeble et al; (1991), the notion of “small” is a relative concept which varies very widely between different industries. There is no clear-cut definition of small business even in the UK and the definition also differs from one country to another.

Austin et al. (1993) demonstrated the diversity of the SMEs in the UK through different definitions, which depended upon industry type as used within the Bolton Report. Hakim (1989) noted that the absence of a fixed definition regarding small firms means that it is difficult to summarise research results on this topic. Studies which appear to be discussing the same things may yield conflicting results. This could be because the studies are actually talking about firms of quite different size, in different industries and different parts of the country; these may also be identified through very different mechanisms.

The Bank of England (1996) defined small business as ones with a turnover of up to and including £1 million per year. However, another definition of a small business is one which has fewer than 500 employees (ACOST, 1990).

Binks (1980), when discussing the problems of finance for small firms, limited his study to firms employing fewer than 30 people. This according to him “should not be taken as a rigid boundary, for it is the nature of small firms that their wide variation renders rigid thresholds in any one measure of size both unhelpful and misleading” (p.27). On the other hand University of Cambridge (1992) defined SMEs as those with 10 to 99 employees. Firms with fewer than 10 employees were considered to be micro firms while those between 10 to 99 employees were medium firms. Ahmed (1987); Hakim (1989); and Aston Business School (1991) used 50
employees as the limit for SMEs while Clifford et al, (1991) used 40 –50 employees as the bound in their study.

The European Commissions criteria for defining a Small and Medium Sized Enterprise (SME) are as follow: Fewer than 500 employees, annual turnover of less than ECU 38 million, and no more than one third of its capital controlled by a company which exceeds the above criteria.

Some countries use a measure of capital or assets to define an SME. For example, in the U.S.A., an SME is defined as a firm with fewer than U$ 5 million in total assets (Walker and Petty, 1987; Tamari, 1980), while in India, an SME is defined as having fixed assets of fewer than R. 6 million. Other countries use employment and criteria. For example, in the Philippines firms with 10-99 employees and with assets of 20 million peosos are defining as medium-sized enterprises (Asian Development Bank, 1992).

In Japan a small and medium scale enterprise (SME) is now defined as one which employs less than 300 workers or one whose equity capital less than 100 million (but for the trade businesses a different definition is used). Presently some 5.1 million enterprises or over 99 per cent of the total enterprises operating in Japan are classified as SME and some 29 thousand companies are defined as large corporations.

In Hong Kong, Liu and Wong (1992), after a review of government statistics, suggest that manufacturing enterprises employing fewer than 500 persons can be regarded SMEs. On this basis, an SMEs in Hong Kong constituted 99.83% of the local manufacturing establishments, employed 84.22% of the total manufacturing labour force, and contributed 77.31% of the total sales of goods (Report on 1998 Annual Survey of Industrial Production). The official definition of SMEs in China was revised in 1988. The classification criteria for SMEs in China are different from that of Hong Kong. The breakdown is mainly based on the major production capability of a given enterprise rather than the number of employees or the amount of capital. For examples, SMEs producing synthetic ammonia are firms with an annual production capability of less than 60 thousand tons. SMEs in the cotton-spinning sector are firms that produce less than 80 thousand spindles of product annually. Small watch manufacturers are
firms with an annual production capability of less than 1 million pieces (China Small and Medium Enterprises Development Yearbook 1997).

Similarly, in the ESCWA countries, the definitions of a micro, SMEs vary widely. In Yemen, for example, a small enterprise is one employing fewer than four workers, and medium-sized enterprise is one that employs between two and nine workers. In Jordan, a small enterprise is one with between four and 10 employees and medium-sized is one with between 10 and 25 (United Nation, 2001).

Generally, two approaches can be adopted in defining small businesses (Bolton, 1971): the statistical: (quantitative) and the economic (qualitative). The two approaches will be discussed in the following section:

4.4.1.1 The Statistical Definition (Quantitative)

In this approach statistical criteria are used to form the definition; the size of the business is determined according to selected criteria. In general, however, there are no standard criteria by which small businesses can be defined in statistical terms, although traditionally, small businesses are classified in terms of sales, the number of employees, (ILO, 1986; Manuc and Brown, 1987; Krakoff and Fouss 1993, Longenecker and Moore, 1991; Al-Dahab, 2001).

One problem with statistical definition is generalisability. Defining a business as small in one industry does not mean that all other industrials have the same criteria to define their small businesses, e.g. business classified as small in manufacturing might be considered large in another industry such as catering (Bolton, 1971). There are several criteria for defining size and some are relevant to all industrial areas while others are relevant to a certain types of business (Longenecker and Moore, 1991). Examples of criteria used to measure size are:

- Number of employees
- Sales volume
- Asset size
- Volume of deposits
- Turnover
The number of employees is one of the most widely used criteria. The leading proponent of this view being the Small Business Administration (SBA), which is an organisation, set up by US federal Government in 1953 to lend money to small firms. It defines a small business as one with 500 employees or fewer.

In the UK, a mixture of definitions is used. Although the most common is that suggested by the Bolton Committee (1971), which suggested different statistical definitions for different sectors of the economy (see table 4.1). The reason behind this is that while what is small in one sector (for example, 200 employees in manufacturing), might be considered as large in another. Therefore, the committee decided to use both employment size in the manufacturing, construction, mining and quarrying sectors and the level of the turnover in the industries such as relating wholesale trade, motor trades, and miscellaneous services. For road transport, the limit was set for the number of vehicles owned, while, in catering, multiple and brewery managed public houses were excluded.

Table (4.1) Statistical definitions for different sectors

<table>
<thead>
<tr>
<th>Industry</th>
<th>Definition (upper limit)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>200 employees or less</td>
</tr>
<tr>
<td>Retailing</td>
<td>£50,000 p.a. turnover</td>
</tr>
<tr>
<td>Wholesale trade</td>
<td>£200,000 p.a. turnover</td>
</tr>
<tr>
<td>Construction</td>
<td>25 employees or less</td>
</tr>
<tr>
<td>Mining and quarrying</td>
<td>25 employees or less</td>
</tr>
<tr>
<td>Motor trade</td>
<td>£100,000 p.a. turnover or less</td>
</tr>
<tr>
<td>Miscellaneous services</td>
<td>£50,000 p.a. or less</td>
</tr>
<tr>
<td>Road transport</td>
<td>5 vehicles or less</td>
</tr>
<tr>
<td>Catering</td>
<td>all except multiples and brewery managed public houses</td>
</tr>
</tbody>
</table>

Source: Report of the Committee of Inquiry on Small Firms, 1972, p.3

Statistical definitions are used for a variety of purposes. Table (4.2) gives certain examples of statistical definitions that are used by governments to define what is a small firm for the purpose of official assistance (Beesley and Wilson, 1984).
Examples of small business statistical definitions relating to government assistance in the UK in 1982 in Table (4.2)

<table>
<thead>
<tr>
<th>Type of Assistance</th>
<th>Definition (upper limit)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1- Definition relating to employment</strong></td>
<td></td>
</tr>
<tr>
<td>Employment Act Exemption</td>
<td>20 employees</td>
</tr>
<tr>
<td>Export Award</td>
<td>200 employee</td>
</tr>
<tr>
<td>Employment subsidy</td>
<td>200 employee</td>
</tr>
<tr>
<td>Computer aided production management</td>
<td>500 employee</td>
</tr>
<tr>
<td>Management Advisory service</td>
<td>1000 employee (min.100)</td>
</tr>
<tr>
<td><strong>2- Definition relating to annual turnover</strong></td>
<td></td>
</tr>
<tr>
<td>VAT registration</td>
<td>£15,000</td>
</tr>
<tr>
<td>Price code exemptions</td>
<td>£1 million (manufacturing)</td>
</tr>
<tr>
<td><strong>3- Miscellaneous definition</strong></td>
<td></td>
</tr>
<tr>
<td>Small exporter policy</td>
<td>£100,000 (export value)</td>
</tr>
<tr>
<td>Corporation tax reduced rate</td>
<td>£80,000 (profits)</td>
</tr>
<tr>
<td>EIP loans</td>
<td>£20 million (fixed assets)</td>
</tr>
</tbody>
</table>


The applicability of any statistical definition will need, however a revision of the criteria from time to time. Definitions, for example, which are based on turnover, must be adjusted in terms of inflation. The Wilson Committee (1979), for example, adjusted the upper limit which was previously suggested by the Bolton committee, in 1971 in turnover for retailing to £200,000. Turnover for retailing by 1990 had risen to £450,000 however, (Stanworth and Gray, 1991). Nonetheless, size is the most commonly used factor to define small businesses. This was stated by Scarborough and Zimmerer, (1984) when they noted:

"Any firm can be considered small when its sales volume, total employees, capital investment, and so forth are much smaller than the corresponding figures for the largest firm in its field"(p.13).

But, definitions can be misleading in certain criteria. Turnover, for example, is relative and may not give accurate definition in all cases since there are some businesses with number of employees that may be considered to be small even though they have a high turnover. There are other cases in which a business might be handled by a complex management system. Based on such criteria, the business may be considered as large, although it may not be considered so in terms of turnover compared to a large business in the same industry. Another further example is the number of employees in a developed economy, this criterion is easily quantified. Also, generally the greater the investment per employee, the larger the size of the establishment (Gahien, 1986). Even so, the number of workers is not an ideal size
indicator as it can be paradoxical. Gahein (1986) mentions the case of large company, which requires a high level of technology and therefore turns to automation, thereby reducing the number of employees. Small firms with low levels of technology may, conversely, depend on a large number of employees to run their concern. The number of employees depends also on type of business management, according to Gahein, (1986). There is a well-organized manager who can and does work hard he/she may be able to control a large firm successfully but, in contrast, there may someone else who is not able to achieve even this, in a small firm.

There are also some special cases in which the “number of employees” is unsatisfactory as criteria to identify the size of establishment. For example, in an over-populated country, where labour is abundant and cheap and capital is scarce, there is tendency to substitute labour intensive methods for capital intensive methods (Gahein, 1986). Obviously, if in such cases, employment were used alone as a definition, the size of firms would be over-estimated.

In short, a number of approaches using size are used to define what a small firm is. So firms might be considered small in terms of capital, sales turnover, physical size or production quantity. These approaches all have weaknesses, as reported by the Bolton Committee in 1971. Because of this, the Bolton Committee suggested that the most appropriate definition should be one that emphasizes the principal characteristics of small firms that make them different from large firms.

4.4.1.2 The Economic Definition (Qualitative)

Because of the conclusion of the Bolton Committee mentioned above, it was suggested that three main characteristics should be considered when defining SMEs. These are as follows:

- A small firm is one that has a relatively small market.
- It is managed personally by its owner and not through a formalized management structure.
It is also independent in the sense that it is not part of a larger enterprise and the owner managers are subsequently free from external control in their decision-making.

These three factors above constitute what the Bolton committee called an economic 'definition'. However, for practical purposes, the committee used a 'statistical definition'.

A combination of the two approaches was suggested to define a small business and such a definition was adopted by the Committee for Economic Development (CED), which defined a small business as one that manifests at least two of the following four characteristics (Carson, 1986):

- Management of the firm is independent and usually has ownership.
- Capital is supplied and the ownership is held by an individual or a small group.
- The area of operation is mainly a local one with workers and owners living in one home community. The market need not however, be local.
- The firm within its own industry must be relatively small when compared with the biggest units in the same field; this can be in term of sales volume, the number of employees or other significant criteria.

While the 'economic' definition was originally suggested to overcome the deficiencies and problems associated with the 'statistical' definition, the statistical model is used more often because it is more practical and less costly.

However, any definition will, to some extent, be unsatisfactory for all purposes since no single definition can be equally applicable for the great variety of purposes of those seeking a definition (Stanworth and Gray, 1991; Keasey and Watson, 1993). As a result, researchers are likely to use a definition of their own which is appropriate to their particular target group and their own work (Storey, 1994).

There is still no clear and workable definition of a small firm in Oman. So in this study a definition will be used that refers to the size both in terms of the number of employees and in terms of capital assets. This study will consider the range of small firms as employing 1-50 persons and with invested capital of below R.O 100.000.
4.4.2 Dependent Variables

4.4.2.1 Need for External Finance

Also for the demands of this study, the need for external finance is defined as the business’s wish to use external funds to finance growth or expansion. Furthermore, the business is defined as having a need for external finance if it has approached a financier and applied for funds, whether or not the application was successful.

4.4.2.2 Difficulties in Raising Finance

Two main areas of difficulty exist for SMEs in raising external finance. Firstly, finance to support expansion plans is often refused. Some reasons for this, outlined in research from the Aston Business School (1991) and the University of Cambridge (1992) include:

- Lack of personal financial contribution.
- Lack of success in a previous business venture.
- Lack of security or collateral.
- The proposed plans may lacks viability or the project may be too risky.
- Lack of track record.
- Expansion which is too rapid.
- The firm has exceeded the limit of its borrowing in the past.

Secondly, a firm may eventually succeed in raising external finance but may encounter problems in the process which may then constrain its expansion plans (University of Cambridge, 1992). Thus, the problem does not necessarily mean that the firm is unsuccessful in acquiring funds but the offer is made on terms which the business regards as unfavourable when compared to the risk involved. Cases in this second category could include:

- A high level of security or collateral is required.
- Interest rates are high.
- The offered duration of loan is too short.
- The funds offered are insufficient.
4.4.3 Independent Variables

4.4.3.1 Company Characteristics

Age of company
The age of company is calculated as the number of years it has been in business at the date of the survey.

Size of company
The company size is measured in terms the number of people presently employed by the business. Because the Ministry of Trade and Industry in Oman does not have a clear definition for the size of the SMEs, this study has considered small firms to be ones which employ between 1-50 people including full-time and part-time employees and with invested capital of below than R.O 100.000.

Written business plan
In this study, a business plan is defined as a document which presents an analysis of a firm’s current position and, as explained by Knight and Knight (1993, p.33), “charts the course and destination of a company in specific terms for the first twelve months of operations and in general terms for at least the second and third years of operation”.

Ownership Type
The types of firm’s will be based on the classification provided by the Ministry of Trade in Oman.

4.4.3.2 Characteristics of Owner-Manager

Age of the Owner-Manager
Owner-managers are requested to indicate their age at the time of the survey.

Education, training and experience of the owner-manager
The level of education and training of owner-managers of the small business are measured in the following terms: educational background, business training, prior employment history, and experience.
4.4.3.3 Islamic Finance

Musharkah
A musharkah is a business arrangement based on the concept of profit and loss sharing. In this arrangement, two or more parties sign a contract to combine their efforts, in the way of physical and financial resources, to operate a business.

Mudarabah
This is a type of business arrangement between two parties where one party supplies capital and the other provides labor and managerial services. Profits are shared between the two parties per agreed-upon terms, but the entire loss is borne by the supplier of capital (financier).

4.5 Statement Of Hypotheses

Need for External Finance

Characteristics of Small Businesses and their Need for External Finance

H.1 An association exists between the age of small businesses and the need for external finance.

H.2 An association exists between the Employment size of small businesses and the need for external finance.

H.3 An association exists between the preparation of a business plan and the decision to apply for external finance.

H.4 An association exists between the type of ownership of the small business and the need for external finance.

Characteristics of the Owner-Manager and the decision to apply for External Finance

H.5 An association exists between the age of the owner-manager of a small business and the decision to apply for external finance.

H.6 An association exists between the level of formal education and training of the owner-manager of a small business and the decision to apply for external finance.
H7. An association exists between business experience of the owner-manager of a small business and the decision to apply for external finance.

Difficulties in Raising External Finance
Characteristics of Small Firms and the Existence of Difficulties in Raising External Finance.

H.8 An association exists between the age of small businesses and existence of difficulties in raising external finance.

H.9 An association exists between the employment size of small businesses and existence of difficulties in raising external finance.

H.10 An association exists between the existence of a written business plan in a small business and existence of difficulties in raising external finance.

H.11 An association exists between the ownership of a small business and the existence of difficulties in raising external finance

Characteristics of the Owner-Manager and the Existence of Difficulties in Raising External Finance.

H.12 An association exists between the age of the owner-manager of a small business and the existence of difficulties in raising external finance.

H.13 An association exists between the level of formal education and training of the owner-manager of a small business and the existence of difficulties in raising external finance.

H.14 An association exists between relevant business experience of the owner-manager of a small business and the existence of difficulties in raising external finance.

Islamic Financing Methods

H.15 Majority of small businesses refuses to share the ownership of the business with the provider of equity capital (Musharaka and mudarhaba financing method).

4.6 Summary

This chapter has offered an examination of the conceptual framework which will be used to test the relationships among the study's variables. The main or dependent variables are the need for finance, and difficulties in raising finance. In order to explain these dependent variables, three key independent variables will also be used.
These are the characteristics of the company, the characteristics of the owner-manager, and Islamic finance methods.

This chapter has also offered a brief examination of agency theory which may help to explain some of the problems that can occur in the relationships between small firms (agents) and lenders (principals). For example, particular difficulties which result from asymmetric information have been noted. In general, small firms will be in possession of more information regarding their operations than their lenders are privy to. At the same time, such businesses do not publish as much financial information as larger enterprises as they are not obliged to produce verifiable information since their securities are not traded publicly. Indeed, many small businesses may fear that action will be taken against them if information is disclosed.

Such asymmetries work may work favourably at the start when owner-managers might doubt the likely success of the firm, while potential investors already may have experience in similar ventures or may have personal knowledge of or familiarity with the local market. Furthermore, the lender may also have knowledge of other small businesses in the area.

Information asymmetries have a particular effect on newly established, high-tech enterprises because of "technological uncertainty". There may also be difficulties in such firms in communicating information efficiently and clearly to potential lenders, the result of which may be that lenders, because of the uncertainty, deny credit, even when an enterprise is actually creditworthy.

The chapter continued by offering a definition of what is meant by an SME, and outlined the key variables of the conceptual framework. It concluded with a presentation of the hypotheses of the study.


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Chapter 5

Research Methodology
Research Methodology

5.1 Introduction

The preceding chapter is a theoretical framework and was developed in order to highlight key research questions and to identify important variables. The hypotheses having been developed, the next stage involves designing a research method that will effectively gather data in order to test out these hypotheses. Therefore, this chapter concentrates on the design of such a methodology. While methodologies are important in themselves, they only provide generic guidelines as to how research should be conducted; they are not absolute prescriptions (Remenyi and Williams, 1995). Methodology, the process, then of the study (Creswell, 1994), refers to the framework of procedures within which the research is carried out; it describes merely an approach to problems that later may be used in a research programme (Remenyi and Williams, 1995).

First, however, it is necessary to understand the difference between the terms “method” and “methodology” since there are difficulties in research in distinguishing between them (Bryman, 1984). Methodology, whether qualitative or quantitative, refers to an epistemological stance while method, refers to the means of gathering data. Methodology may also be explained as the process, principal and procedure by which researchers investigate problems (Wagner, 1997).

Oppenheim (1992, p.6) defined research design as:

*The basic plan or strategy of research, and the logic behind it, which will make it possible and valid to draw more general conclusions from it. Thus, the research design should tell us how our sample will be drawn, what sub-groups it must contain, what comparisons need to be measured (when and what intervals), and how these measures will be related to external events, for example to social, medical or other interventions. Research design is concerned with making our problem researchable by setting up our study in a way that will produce specific answers to specific questions.*
The importance of research design is described by Hakim (1987, p.171) as follows:

*Research is in the nature of sailing off to chart unexplored seas or, more correctly, trudging off to map unexplored territories. Research design is about aiming in the right direction, getting your bearings right (from previous studies) and making sure you are adequately equipped to get there and back. Columbus set sail to find the western route the East Indies and came across the West Indies and American instead. Research designs, which fail in their original intentions, are not always quite so lucky, but it helps if one is clear that their original plan made sense, can offer some reasons on why it went awry, and describes what was discovered instead.*

An overview of the research methodology is offered here, after which some of the research methodologies that have been used in past studies are reviewed. A description of this research follows, together with a discussion of the data collection methods and the procedures used to select samples. The design of the questionnaire and the pilot test are then described. Finally, the techniques that been used for data analysis are explained.

### 5.2 Overview of the Research Methodology

Two main types of empirical research exist in social science: the quantitative and the qualitative approach.

Quantitative approaches are usually related to logical positivism, which is the traditional empirical research paradigm of the natural sciences. Qualitative research, on the other hand, relates more to the phenomenological, hermeneutic research tradition of the social, rather then the natural sciences. While the quantitative approach tends to draw on techniques such as experiments, surveys, histories and analysis, the qualitative approach uses techniques such as the case study, observation and interviews (Wagner, 1997). Quantitative research emphasizes fixed measurements, and testing causal relations and hypotheses while qualitative research attempts to understand the social world (Bryman, 1984). Generally speaking, quantitative methods offer a wide-ranging but shallow focus while qualitative methods provide a narrower but more detailed picture (Babbie, 1973).
Both approaches have advantages and disadvantages. Bader, (1982) explains these advantages and disadvantages in terms of “reality stance” focusing on the relationship between the researcher and the topic under investigation. Quantitative methodology according to Bader, uses a deductive form of logic. In such methodology, theories and hypotheses are tested out to see how they affect relationships. Concepts, variable and hypotheses are selected before the study start of the research and remain fixed with the intention of formulating generalizations that contribute to the study and enable better prediction, explanation and/or understanding of phenomenon. This outcome is useful only if the instruments that are used are both valid and reliable. Qualitative methodology, however, relies on inductive logic with data emerging from informants, rather than being previously identified by researcher. Such evolving data useful information which leads to an explanation of the phenomena.

Qualitative methods are accurate and provide more facts (March, 1988). Nevertheless, these can be slower to emerge; the method is more expensive and more complicated. Quantitative methods are quicker, cheaper, simpler and provide wide-ranging overviews. However, they are also more subjective and are prone to bias. Wagner (1997) asserted the two different approaches offer different trade-offs with regard to external validity, reliability and precision. He notes that quantitative measurements are qualitatively accurate while qualitative evaluations are always subject to human judgment and, as result, can be flawed. External validity is greater in the qualitative approach because the context and the subject of the study are not artificially separated. Gill and Johnson (1993) refer to validity and reliability, considering that the quantitative approach is high in terms of internal validity and reliability but is low in ecological validity or naturalization. This is because the approach is highly structured. Conversely, the qualitative approach is low in internal validity and reliability because its structure is weak.

5.3 Methodologies of Previous Studies

Because in past research a number of methodologies have been used in the study of SMEs, this section reviews some of these to act as a guide to the research design and
methodology used in this work. A wide range of methods, including questionnaires, interviews and observations, are available to collect primary data.

It can be seen that most recent research studies that consider SMEs have tended to be exploratory in nature (Oakey, 1984; Van Auken and Carter, 1989; Burns and Walker, 1991; Austin, 1993; Peel and Wilson, 1996). Oakey (1984), for example, examined different patterns of capital investment funding and investigated the effect these had on innovation within SMEs by using chi-square and correlation to analyze results. During the initial stages of paradigm development, research that is descriptive in nature is also prevalent (Tamari, 1980; Osaze, 1981; Dunkeleberg and Cooper, 1983; Calof, 1985, Hutchinson et al, 1986; Hajjar, 1989; Jones, 1994; Keasey and Watson, 1994; McKillop and Hutchinson, 1994 and Abakhail, 1999). One example of this kind of work is that of Hajjar (1989) who investigated, via mail questionnaires and interviews, the provision of finance in SMEs. His findings were presented in percentage form.

Further studies have focused on the examination of certain relationships within SMEs, the differences among groups, or the independence of various factors (Bracker and Pearson, 1986; Ahmed, 1987; Bracker, et al., 1988; Carter and Van Auken, 1990; Keasey and McGuinness, 1990; Hassan, 1990). Methods have ranged from the use of the field study approach (Osaze, 1981; Oakey, 1984), to the case study (Binks et al., 1986; Ahmed, 1987, Austin et al., 1993). Studies such as these have involved an in-depth examination of a small number of SMEs in their own context.

Some previous studies rely entirely on published data. The most common methods of collecting primary data, however, are by questionnaires and interviews. So, although it is generally agreed that the most effective way of studying the life of an SME is by participant observation or ethnography, to the best of this researcher’s knowledge, no studies exist which have used such methods (Curran and Burrows, 1986; Stockport and Kakabadse, 1992; Holiday, 1995). Ethnography “provides a detailed insight into the day to day activities and operations of the small firms”. It also, according to Stockport and
Kakabadse (1992, p.188), “provides a means for generating better quality information and knowledge of entrepreneurship”.

Most of the studies outlined above used quantitative techniques. This is consistent with the observations of Wortman (1987) and Gibb (1990) who noted a shift from employing relatively unsophisticated tools, such as percentages and ratios, to the utilization of more statistical methods of analysis such as Droms tools. These include the Chi-square test (McKiernan and Morris, 1994; Peel and Wilson, 1996), the T-test and F-test (Bracker and Pearson, 1986) and correlation (Keasey and McGuinness, 1990).

5.4 Research Strategy

The best research design for any study is the most appropriate one and in order to discover this a careful consideration of the nature of the objects under study must be carried out (Romano, 1989. P.41.). Furthermore, “no single approach is always or necessarily superior; it all depends on what we need to find out and on the type of question to which we seek an answer” (Oppenheim, 1992, p.12).

The literature review shows that most mainstream researchers use primary sources of data in their research. These sources include:

1. Observations
2. Case studies
3. Personal / Telephone interviews
4. Questionnaires

Each of these sources of data is examined briefly.

5.4.1 Observation

In general, scientific enquiry begins with observation. It then reverts to it again and again to check the accuracy of what has been achieved. Direct observation is one of the most favored methods of collecting information, especially true if the research relates to human behavior since, this demands close observation of public activities. Observation methods vary, however, according to the field of knowledge. The effects of observation are likewise diverse.
A researcher is able to collect data by directly observing people. This may be in a natural work environment and can be performed in two ways. The researcher can be a participant observer, in that he/she is involved in the natural environment. Conversely, a researcher may be an unparticipant observer where he/she watches the things happening without any personal involvement (Sekaran, 1992).

This research method offers certain advantages. For example, it can result in the elimination of bias by respondent's involvement in answering questions using survey methods (Abakhail, 1999). In such cases, there is no need to depend on "second hand" accounts from respondents who offer their own interpretations of events (Saunders et al., 1997; p. 199). On the other hand, however, there are problems associated with this technique. For instance, the researcher may demonstrate bias in data collection, especially if he/she has not been properly trained. Furthermore, respondent's behaviour may be affected by observation itself. This can be more a problem if observation takes place for only a short period of time (Sekaran, 1992).

The greater disadvantage of the observation method is that many individuals may not behave naturally when being observed because they are very much aware of the process. In addition, the observer may fail to foresee the occurrence of certain external factors that condition the researcher. Another disadvantage of observation is that it is costly in terms of both time and financial resources; it was considered inappropriate for this research study.

5.4.2 Case Study
The case study was defined by Yin (1989) as “an empirical inquiry that investigates a contemporary phenomenon within its real life context; when the boundaries between phenomenon and context are not clearly evident; and in which multiple sources of evidence are used” (p.29).

The case study approach is relevant in work that focuses on the understanding of certain areas of function of an organisation that are not well documented but can be investigated best through contact with the organisation (Bryman, 1989). Case studies are most useful
for issues that require deep understanding of how things happen rather than testing out the relationships between the events that occur (Bryman, 1984). This approach, then, involves an in-depth analysis of the subject of the study including archives, interviews, questions and observations, thus allowing the collection of meaningful information (Lang and Heiss, 1984). It represents an intensive form of analysis and concentrates on a single organisation. The case study may also be used in comparative work.

The main advantages of the case study are as follows:

- Case studies focus attention, not on the total population, but on an individual unit in that population. It could be an individual, family or an institution or group.
- Quasi-experiments are strong on representation but weak on control.
- Data are collected by a variety of unstructured means (observations, interviews, documents and records).
- The case study is suited more to the generation of hypotheses than their testing.
- Case studies can and do exhibit the whole series of methods of data collection.
- Case studies can be used in order to test theories. This view stands in marked contrast to the idea that they mainly allow new ideas to be generated.
- Case studies provide in-depth description.

In case study research, it is considered more appropriate to treat representatives in terms of qualitative logic for the selection of cases for study, rather than a quantitative logic of sampling from a population.

In contrast, the main disadvantages for the case study are:

- Hypothesis testing is not possible.
- In a case study, there is a lot of opportunity for the biases of the researcher to be brought into the research.
- Causal inferences are impossible because there is no control over confounding variables.
- Case studies are more time-consuming than other types of design.
Therefore, this method does not meet the needs of this study. The focus of this thesis is to build a general knowledge about the financing problems facing small business in Oman, which will not be possible with a few cases.

### 5.4.3 The Interview

#### 5.4.3.1 Personal Interviews

The interview is one of the most significant and effective tools in collecting information, especially given that people like to talk directly more than they like to write. Badr (1982, p.351), however its complexity is sometimes underestimated (Easterby-Smith et al., 1996). It is defined as a direct verbal contact between the researcher and the sampling population. Interviews may be conducted either face-to-face or through telephone. Saunders (1997) classified interviews according to the structural nature of questions such as structured interviews, semi-structured interviews or unstructured interviews.

Each one of these serve to address a specific research problem. The driving force behind choosing between a structured and an unstructured is largely the researcher's understanding of the research problems and variables (Babbie, 1973; Lang, 1984; and Robin and Babbie, 1989).

The following elements which help the interviewer to collect as much information as possible:

- the interviewer should explain the purpose of the study.
- the interviewer may explain further the specific information required.
- in the event that the interviewed individual misunderstands the question, the Interviewer should ask another question in clarification.
- the interviewer may investigate the accuracy of answers given by the subject.

In order for the interview to be effective, the researcher should:

- specify the time of the interview and how long it will last.
- prepare a detailed and full plan of the interview, including a list of questions accompanied with a briefing about the purpose of the study for the subject.
choose the wording of the questions carefully.

There are several advantages of the interview. These are as follows:

- The rate of response is expected to be high;
- The presence of the interviewer can eliminate, to a large extent, 'don't know' answers and confusion over certain questions that require elaboration or clarification.
- It gives an opportunity to the researcher to observe the non-verbal language of the respondent.
- It is a flexible and adaptable way of finding things out.
- It is the best method of assessing personal qualities.
- It provides a quantitative measure for diagnosing and dealing with problems (Marshall and Rossman, 1989; Badr, 1982).
- It is a significant means of obtaining consultations which facilitate communication between the interviewer and the respondent.
- It allows the interviewer to explain and clarify his/her questions to elicit significantly more answers and also to provide detailed in-depth information (Goldhor, 1972).

Conversely, interviewing as a research method also presents some disadvantages:

- The results are of high cost because the use of trained interviewers is expensive in terms of both money and time.
- It is not always easy to get the appointments with the respondents, if he/she happens to be the head or a senior functionary of the organisation.
- They also encompass the potential for interviewer bias (Shaughnessy, 1994).

To some extent, this research relied on interviews at the formative stage. The objective of these interviews was to gather basic understanding of the important issues related to the financing small businesses in Oman.
5.4.3.2 Telephone Interviews

Like face-to-face interviewing, telephone interviewing has its advantages and disadvantages.

Large survey research organisations that have a permanent staff can complete a telephone survey, and even those researchers who must hire and train interviewers can complete a telephone survey faster than one requiring face-to-face interviews or mailed questionnaires (Singleton et al, 1988).

The use of the telephone when conducting interviews is an impractical method in a country such as Oman due to difficulties relating to telephone communications, as many rural areas lack telephone lines. The sense of discretion, which prevails in Omani society, leads to an extreme reluctance to give information over the telephone. In addition, this method prevents the researcher from learning about the social and economic features of the subject. The cost of telephone calls is also considered to be an obstacle, as these are high in comparison to cost in countries such as the United States of America and United Kingdom. Furthermore, short telephone conversations do not allow for sufficient collection of information or proper observation of the reactions of the subject towards the question.

5.4.4 Questionnaire

The questionnaire is the most popular method of collecting data and the most frequently used method in the social sciences (Stone, 1978). Generally speaking, a questionnaire is a list of questions designed to elicit information from or obtain the opinions of respondents who have been chosen in some designated manner (Miller, 1991).

A questionnaire is a written set of questions decided on in advance, to which respondents record their answers, usually within rather closely defined parameters. It is an efficient way of collecting data for a researcher who knows what he/she requires and who is aware of ways to measure the variables of interest (Zikmund, 1994; Malhotra, 1996; p. 350). Noted that 'Designing a questionnaire is an art rather than a science. The process begins by specifying the information needed and the type of interviewing method. The next step
is to decide on the content of individual questions'. Questionnaires provide a rapid, cheap, efficient and accurate means of assessing information about an organisation (Clover and Basley, 1987; Shaughnessy, 1994; Remenyi and Williams, 1995).

In view of the objectives of this research, the mail questionnaire approach was selected as the most appropriate method of data collection. As well as allowing data to be collected from a variety of widely dispersed locations, it is less time consuming and less expensive. It can be also expected to produce results ranging at least as good as, if not substantially better than those that can be obtained by more costly methods (Sudman and Bradburn, 1984).

The following are the advantages for using the mail survey approach (Marshall and Rossman, 1989; May, 1993):

- It permits anonymity; this advantage helps reduce the reluctance of participants to answer the questionnaire, which is of a particular important to research in Oman in which people may hesitate to speak openly to others.
- The sample size can be increased compared to in-depth interview, because the costs are reduced.
- It is possible to cover a wider geographical area at a lower cost.
- It provides a greater uniformity across measurement situation than interviews. Each person responds to exactly the same questions that can be more easily analyzed and interpreted than the data received from oral responses.
- Standard instructions are given to all subjects.

However, there are a number of disadvantages of the mail questionnaire. According to May (1993), these include:

- There is no control over who answers the questionnaire.
- There is no possibility of probing the answer given by respondents.
The need to keep questions relatively simple and straightforward is paramount, as the researcher has no control over how respondents will interpret the questions once the document has been posted.

The response rate may be low and it's possible that bias in the final sample cannot be checked.

5.5 Data Collection:

In this research data was collected in four stages:

i. Instrument Development;
ii. Pre-testing;
iii. Sampling;

5.5.1 Instrument Development

In carrying out market research, scaling techniques are generally used; these can be classified as comparative and noncomparative with the latter being the most widely used in such research (Malhotra, 1999; p. 255). Scaling techniques include continuous and itemised rating, semantic differential and Stapel scales. The Likert scale, which was named after its developer, Rensis Likert, is perhaps the most widely used. This method asks respondents to indicate their degree of agreement or disagreement with a number of statements (Albaum, 1997). Such questionnaires are simple to design, administer and analyse. Respondents also find them easy to understand, which makes them suitable for mail, telephone, or personal surveys (Malhotra, 1999). Questionnaires which use closed-ended questions are all relatively simple to process, offering the researcher the advantage of a standard format of responses from which to conduct statistical tests. Open-ended questions, on the other hand, are often time-consuming, especially when a large sample is being examined, since answers may vary widely. This may also lead the researcher to misinterpret certain replies and miscode responses. When standard answers are chosen, however, from a list in a Likert scale closed-ended questionnaire, such responses can be coded quickly, easily and without error.
Nonetheless, as Abalkhail (1999) points out, careful attention must still be paid to the actual design of the questionnaire since the format, spacing and positioning of questions can affect the response rate significantly (Mayer and Piper, 1982). It is also important that the questionnaire is attractive, well organised and looks simple to read and complete.

The purpose of the questionnaire in this study is to obtain basically two different types of information: first descriptive data such as the characteristics of an owner-manager and business organisation; second, data of a subjective nature such as the respondents' beliefs and opinions. Generalisation can take place after the data have been analysed, relating the views of the sample of respondents to the population as a whole.

In order to develop the questionnaire, the researcher examined several questionnaires that had previously been used in SME research. In particular, examples used by Boswell (1973); Pratten (1991); Reid (1996) and Abakhail, (1999). The purpose was to understand the correlation between their objectives and the information they had collected. As well as a number of articles, PhD theses and exploratory survey regarding Oman economy were reviewed in order to develop a relevant and useful questionnaire.

To insure that the mail questionnaire had as few defects as possible, many suggestions proposed by Dillman (1978); McKiernan and Morris, (1994) and the Total Design Method (TDM) were incorporated into the design.

The first step suggested in TDM concerns the writing of the questions in order to strengthen their constructive validity. This step includes determining whether the structure of the question will open-ended or closed-ended, in order to generate the most valid data. Wording that is clear, accurate and without bias should also be used.

TDM provides many suggestions to avoid wording related problems:

- Keep the wording simple;
- avoid unconventional phrases;
- do not be vague;
- avoid objectionable questions that are too personal;
avoid implicit alternatives;
- avoid implicit assumptions (Malhotra, 1996).

Considerable attention is given to the physical design of the questionnaire (Abalkhail, 1999). The format, spacing, and positioning of questions can have a significant effect on the response rate (Mayer and Piper, 1982). The TDM also stresses the need to present an attractive, well-organised questionnaire that looks easy to complete:

- No questions should be placed on the front and the back page;
- questions related to one subject should be grouped together;
- questions eliciting personal information must be placed at the end;
- clear directions must be given to answer the questions;
- the front and back pages should be carefully designed; and
- the size of the questionnaire should not exceed 12 pages.

Pre-testing is a very important procedure in TDM. A specific set of TDM suggestions in pre-testing this study questionnaire were followed with the following objectives:

- Is the terminology used in the questionnaire fully understood?
- are questions interpreted by respondents in the same manner as the researcher intends?
- does any aspect of the questionnaire suggest bias on the part of the researcher?
- to find out the time taken by respondents to complete the questionnaire.

To maximise the rate of response, TDM has suggested the following procedures during the data collection stage:

- Minimising the cost of filling in the questionnaire in terms of time and money;
- request to respondents and appreciation of their co-operation;
- reassuring the confidentiality of information disclosed;
- convincing the respondents about the significance of their participation in the research;
- maintaining complete anonymity of the respondents;
Following the suggestion of Dillman (1978) and Sudman and Bradburn (1982), a booklet type questionnaire is used. There are three reasons why the use of booklet format in questionnaire is desirable (Sudman and Bradburn, 1982).

- It prevents pages from being lost or misplaced.
- A booklet makes it easier for the respondent to turn pages.
- A booklet looks more professional and easier to follow.

5.5.2 Pilot Study (Pre-testing)

Barrett argues that pilot work can be used "to establish whether subject understand instructions, to ascertain how much time it takes to test each subject, to obtain practice in administering all the tasks and making all the necessary measurements" (Barrett, cited in Breakwell et al., 1995, p.37).

Pilot work can be used to test out the various operational definitions and research methods, which are still under active consideration, and to see if some of these methods and definitions are more useful or are simpler to administer than others"(Barrett, cited in Breakwell et al., 1995).

The purpose of the pilot test is to see how the survey works and whether changes are necessary before the full-scale study begins. To prepare the questionnaire, several steps were taken to insure that the questions met the study objectives, contributed to the testing of the hypotheses and was free of grammatical errors. When I was in the UK, the questionnaire was pre-tested by two lecturers in Loughborough University (Business School), one lecturer from University of Leicester (Management Center) and two research students. They provided some appropriate and constructive comments, which helped me to revise the questionnaire.

In Oman one lecturer from Sultan Qaboos University was asked to check the questionnaire for grammatical errors and question ambiguity. Some comments were
given by PhD students from Sultan Qaboos University such as the length of time needed to answer the questionnaire, the layout of the questions, the arrangement of various sections, and the contents of the cover letter. It was clear that the questionnaire was too long, it might be helpful to make clear at the outset of the questionnaire that some respondents will only need to answer a few questions since the questionnaire is designed in such a way that no one will need to answer all questions.

After making some necessary modifications the questionnaires were translated into Arabic language. To improve the reliability of translation, Arabic and English versions were reviewed by an academic at Sultan Qaboos University who has experience in small business research. The purpose of this step was to test the adequacy of the scales and if those scales cover all the dimensions of the concerned variables. Based on this comments the Arabic version was revised and some sentences were rephrased. The Arabic version was also reviewed by different Arabic/English speakers for proof-reading, and to avoid alteration or misrepresentation, and to ensure the accurate translation of the terminology.

In addition a specialist at the Research Department in the Oman Chamber of Commerce and Industry reviewed a copy of the questionnaire. A number of helpful comments were made by the Chamber.

The pilot study served several purposes:

- Checking for reliability.
- Testing the clarity of the items.
- Changing the layout of the Questionnaire.
- A few more items were included, and some were excluded.
- Modifying the writing style to clarify some technical terms.
- Confirming the grouping of the topics within the categories.
- Careful reviewing of the questionnaire before delivery to respondents.

Once the questionnaire was verified, a pilot study was conducted with ten small business managers. The Managers were asked to comment on areas such as wording, order,
irrelevant items and ambiguity. Respondents were also asked to add, if needed, variables that they thought were important to measure. I conducted face-to-face interviews with the owner-managers to discuss the questions and to listen to the respondent comments as the clarity of the questions. The questions were rephrased according to comments of the respondents. A final draft was prepared, incorporating the comments from the pilot test.

5.5.3 Sampling Frame

Sampling size is one of the most important elements in reducing sampling error. In this study, the aim is to maximise the sample size to be able to test our hypotheses. Roscoe (1975) provides rules of thumb for determining sample size:

1. “Sample sizes larger than 30 and less than 500 are appropriate for most research.
2. Where samples are to be broken into sub-samples (Males/females, juniors/seniors etc.) a minimum sample size of 30 for each category is necessary.
3. In a multivariate research - includes multiple regression analysis - the sample size should be several times - preferably 10 times or more - as large as the number of variables in the study.
4. For simple experiment research with tight experimental control (matched pairs) successful research is possible with samples as small as 10 to 30 in size” (Rescoe, 1975, p.253)

The Oman Chamber of Commerce and Industry was contacted for the purpose of obtaining a list of small businesses and asked to support and provide lists for the study. The General manager of Oman Chamber of Commerce and Industry supported the study by issuing a letter to be sent with the questionnaires to owner-managers of small businesses encouraging them to respond and raising the importance of the subject.

In the absence of any official definition of SMEs in Oman, therefore a range of the chosen criteria to define a small business had to be estimated for the purpose of the study. It was decided a small business is one that has an invested capital that does not exceed OR 100,000 and the number of the employees ranges between 1-50.
Oman Chamber of Commerce and Industry issued a Trade Directory in 2001. The directory divided the organisations and activities and sub-activities into five categories or class, (excellent class, first class, second class, third class, and fourth class) which contains the following information:

- Names and addresses of the firms.
- Types of the firm's products.
- Annual production capacity.
- Total investment capital.
- Number of employees.
- Date of licence approval.

The Ministry of Commerce and Industry issued an Industrial statistical Year book (issue 2002). This book comprises the result of the industrial census as well as some data on manufacturing industries in the Sultanate including financial indicators, labour indicators, category and geographical distribution of industry.

The information in the directory and industrial book was very helpful in serving the purpose of this study since it contain data on the invested capital and number of employees. Using the Trade Directory (2001), Industrial statistical book (issue 2002) and after getting assistance from three senior officers in both agencies (Executive Vice President in the Capital Market Authority, Director General of Industry, Director of Research centre), the researcher compiled a list of 8220 small business in the capital area Muscat; this included manufacturing sector, trade and services sectors. A total of 822 small businesses were selected at random (about 10 %) from the list to be the sample in this study.

5.5.4 Instrument Distribution

A mail questionnaire, as mentioned earlier, was used as a main tool for data collection in this research. Based on the comments of Oman Chamber of Commerce and Industry and
other researchers about low response rate, a number of procedures were conducted to insure a reasonable response rate:

- A cover letter was sent with the questionnaire. It was directed to the manager/owner of the firms explaining the purpose of the study, the way of answering questions, and encouraging the respondents to give any comments if they wish. To encourage respondents to give clear and correct information, confidential treatment of the information given was assured.

- A letter from Oman Chamber of Commerce and Industry was attached to the questionnaire. This letter was signed by general manager of the Commerce and Industry. The name of the researcher, the title and purpose of the research and indication of the importance of the study were presented in this letter. The respondent was asked, in this letter, to provide as accurate information as possible and return the questionnaire as soon as possible.

- The respondent was asked to return the questionnaire to the researcher using the attached stamped addressed envelope to reduce the excuses and expenses of answering the questionnaire.

- Within two weeks of sending the questionnaire a follow up reminder was sent to the non-respondents.

Out of 822 questionnaires 12 were returned because of change of address. 5 participants sent an apology for not responding; two of them were no longer in the business and the other three thought the questionnaire not relevant to their businesses. This resulted in a total of 805 questionnaires of which 397 usable were returned representing a response rate of 48.2 percent. Such a response rate is acceptable.

The 397 usable questionnaires were tabulated and entered to the computer to be analyzed using SPSS.
5.6 Data Preparation

After the definition of the research problem, the development of an appropriate research design, and the completion of the fieldwork, the next step was the preparation and analysis of the data that had been collected (Malhotra, 1999, Durrani, 2001). This begins with checking that the questionnaires that have been received are acceptable. (See Figure 5.1) The data are then edited, coded and transcribed. In the final stages, the resulting data are "cleaned", missing responses are followed up, and the strategy for use in the analysis is selected (Malhotra and Birsk, 1999).

Figure (5.1) Data Preparation Process

5.7 Data Analysis Techniques

A number of data analysis techniques are available, the selection of which depends on the size, nature, complexity and source of the data (Allison, 1999). These techniques include conceptual analysis (Roure et al., 1990) and regression analysis (Macmillan et al., 1987).

5.7.1 Descriptive

Descriptive statistics refer to the transformation of the raw data into a form that will make them easy to understand and interpret. Describing responses is typically the first form of analysis. Descriptive statistics describe data that have been gathered using frequencies. Descriptive statistics is medium for describing data in a manageable form. The calculation of average, frequency and percentage is the most common form of summarising data. (Babbie, 1973; Sekarn; 1992; Zikmund, 1994). Descriptive statistics summarise the distribution of attributes on a single variable, while others summarise the association between variables, called measure of association (Babbie, 1973).

5.7.2 Nonparametric Testing

For the analysis of the data in this study, a nonparametric statistical test has been selected in preference to a parametric test. Making such a choice depends firstly, on the level of measurement of the study and, secondly, on what is known about the sample population. This study’s data are unsuitable for parametric testing since tests of this kind are best used with samples where the variables of the study are being measured on an interval scale and where the observations result from a specific population (Siegel and Castellan, 1988). The observation and the variables in this research do not meet with the conditions mentioned above because this study’s variables will be measured on an ordinal scale, which is weaker than the exact population parameter. A nonparametric statistical, on the other hand, does not require specific assumptions to be made about the population and so this is advantageous since it involves less computational work, making it easier and quicker to use (Conover, 1980).
5.7.3 Measurement of Variable

It is important that the measurement requirements of the selected test are understood if meaningful data are to result. Four levels of measurement: nominal, ordinal, interval and ratio are available with an ordinal scale being chosen for this study. Some of the variables under scrutiny in this work, such as the age and size of the firm, and the age of the owner-manager, are regarded as interval or ratio variables because the differences between the categories are identical. When such interval or ratio variables are grouped together, however, they become ordinal variables (Siegal and Castellan, 1988; Bryman and Cramer, 1990, p.65). Other variables: for example, “approached external source” or “did not approach external source”; “have business plan” and “did not have business plan”; “successful” and “not successful”; and “some difficulties” and “no difficulty”; will also be grouped together. These are classed as paired opposites or dichotomous variables, and are generally known as ordinal variables (Siegel and Castellan, 1988).

5.7.4 Analysis of Variance (ANOVA)

ANOVA is used when examining the differences among means for two or more populations (Norusis, 1978). However, researchers sometimes need to examine differences in the mean values of a dependent variable for several categories of a single independent variable (Malhotra, 1996).

Research will use a one-way ANOVA to examine the means of three or more groups of sectors (b.g. business activity). This is because “an ANOVA permits the researcher to use the data in the sample for the purpose of making a single inferential statement concerning the means of the study’s populations” (De Vaus, 1996)

ANOVA assumes that the categories of the independent variable are fixed. As a result, inferences are made only to the specific categories which are under consideration. It also assumes that the error term is normally distributed with a zero mean and with a constant variance. Finally, it makes the assumption that the data can be transformed to satisfy the
idea of normality. Error terms are uncorrelated in ANOVA but if they are found to be correlated, then the f value may be seriously distorted (Wasserman and Kutner, 1985).

5.7.5 Chi-Square

When exploring the possible sources of external finance available for SMEs the data has generally been described in terms of percentages. Chi Square Tests can also be used, however, to show if there is a need for external finance, to show the pattern of financing practices and to outline the incidence of difficulties among SMEs when seeking finance. There are some limitations regarding this technique. For example, data has to be converted from percentages to absolutes. There is also an underlying assumption that the observation is an independent one. Finally, the chi-square analysis is not valid when the expected frequencies in any of the cells are fewer than five, or when the table has two rows and two columns (Malhorta, 1999).

5.8 Summary

This chapter has explained the importance of the research design in undertaking the study successfully. In order to select the most suitable method for this research work, the author, has reviewed a number of research strategies employed in previous studies of SMEs. The quantitative approach was chosen as the most appropriate tool for collecting the necessary primary data, but a qualitative method was also used. The design of the questionnaire for the survey is also discussed to show how this will elicit descriptive and subjective data from the samples. A questionnaire in booklet format was used in order to achieve a useful level of response. The Statistical Package for the Social Sciences (SPSS) programme, which is an integrated system of computer programmes designed for the analysis of social science data, will be used to process the data by frequency, percentage and to obtain correlation and statistical measurements. It was decided to use SPSS for the purpose of data presentation and interpretation since, within SPSS, a wide variety of data-management facilities and statistical procedures are available. These simplify the process of data analysis. The results will be presented and discussed in the following chapters.
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Chapter 6

Data Presentation and Analysis
Data presentation and Analysis

6.1 Introduction

The preceding chapter introduced the methodology selected for this research study. Following the collection of data in response to mailed questionnaires, this chapter discusses the finding and results produced after analyzing the data collected from 397 small businesses in Oman and covering three main sectors, namely manufacturing, trade and services, and tests the research hypotheses which were discussed in the analytical framework chapter. This is by far the largest academic research ever conducted on the small businesses sector in Oman, in a previous survey, Al-Said (1994) examined only 52 SMEs in the manufacturing sector. The results of the present study can therefore be expected to be more representative of the Omani economy than the previous study.

Of the 822 questionnaires distributed, 397 were returned; this represents approximately 48.2 percent. Table 6.1 and Figures 6.1 represent a summary of the distributions and responses of small firms by sector. The group to which the largest numbers of questionnaires were sent (39.2 percent) was the trading firms. Firms in the services sector were the next largest group (36.5 percent), leaving (24.3 percent) in the manufacturing sector.

<table>
<thead>
<tr>
<th>Type of Sector</th>
<th>No. Distributed</th>
<th>Percent</th>
<th>No. Returned</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>200</td>
<td>24.3</td>
<td>94</td>
<td>11.4</td>
</tr>
<tr>
<td>Trade</td>
<td>322</td>
<td>39.2</td>
<td>180</td>
<td>21.8</td>
</tr>
<tr>
<td>Service</td>
<td>300</td>
<td>36.5</td>
<td>123</td>
<td>14.9</td>
</tr>
<tr>
<td>Total</td>
<td>822</td>
<td>100.0</td>
<td>397</td>
<td>48.2</td>
</tr>
</tbody>
</table>
As discussed in the analytical framework chapter, two dependent variables which are of primary interest to this study are “need for external finance” and “difficulties in raising external finance”. The ‘need for external finance’ variable was collected by asking all respondents to indicate whether they had approached external sources of finance (filter question). The ‘existence of difficulties’ variable involves two measurements. Firstly, for those respondents who have approached external sources, they were asked to indicate the status of their most recent application (‘successful’ or ‘not successful’). Secondly, for those who have successfully obtained external finance, they were asked to indicate the existence of difficulties in the process of applying and obtaining the finance. The independent variables can be categorised in three main areas: the characteristics of the company itself such as age of company; size of company; ownership type; business plan; The characteristics of the owner-manager include age, education, training and business experience and; Islamic financing methods (Musharakah, mudharabah).

The following section offers a description of the sample data, especially the characteristics of the firms and the owner-managers that participated in the study. Diamantopoulos and Schlegelmilch (1997) commented on the importance of descriptive analysis:
Data description is a typical first step in any data analysis project. In addition to being an important, self-standing activity when descriptive focus characterizes the analysis objectives, descriptive analysis provides a very useful initial examination of the data, even when the ultimate concern of the investigator is inferential in nature (i.e. involving estimation and/or hypothesis testing) (p.41).

Frequency distribution interpretation is greatly enhanced when percentages are available (RUIBS, 1993) and percentage analysis in turn depends to a large extent on using cross tabulation which facilitates a more in depth analysis of the data (Marsh, 1995).

6.2 Descriptive analysis

The statistical analysis begins with the use of frequency distributions. The objective of this is to count the number of responses associated with different values of one variable; and these counts are then expressed in percentage terms. (Marsh Catherine, 1995, p. 452).

This section describes the results of the ‘frequencies’ data generated from SPSS. Using the ‘frequencies’ output can alert the researcher to possible errors in the data; in addition, tables can be set up for any variable, irrespective of the level of measurement (Diamantopoulos and Schlegelmilch, 1997). For example, the variable “age of company” was grouped into five categories to make it easier for the researcher to identify the age groups of firms. The age group “0-5” years can be classed as young firms, while the bands “6-10” and “11-15” years can be considered as middle aged, and “16 and over” as older firms.

6.2.1 Organization Variables

Background information on the small businesses that participated in the survey will be provided in this section. The characteristics examined include age of company; size of company; ownership type; business plan and the source of finance used by firms when they first started (Establishment stage).
6.2.1.1 Age of company

Company age is one of the most studied demographic factors for small business research. This is especially so for studies which focus on the survivability of small businesses. Age is viewed as an important factor, because of its impact on the types and sources of finance (Moore, 1994). The newer/smaller the firm, the lower its ability to command loans and external equity; the difficulties in raising finance were found to be inversely related, not only to the size, but also to the age of the firms. Younger SMEs lack an established track record (Freer, 1980; Binks and Vale, 1990) and they face higher average credit costs than large firms (Jomo, 1998). Table 6-2 shows the breakdown of the age of companies in the sample.

Table 6-2 Age of Companies

<table>
<thead>
<tr>
<th>Company age</th>
<th>Manufacturing Frequency</th>
<th>Percent</th>
<th>Trade Frequency</th>
<th>Percent</th>
<th>Service Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>5 years and below</td>
<td>15</td>
<td>16.0</td>
<td>77</td>
<td>42.8</td>
<td>36</td>
<td>29.3</td>
</tr>
<tr>
<td>6-10 years</td>
<td>20</td>
<td>21.3</td>
<td>50</td>
<td>27.8</td>
<td>50</td>
<td>40.7</td>
</tr>
<tr>
<td>11-15 years</td>
<td>39</td>
<td>41.5</td>
<td>27</td>
<td>15.0</td>
<td>21</td>
<td>17.1</td>
</tr>
<tr>
<td>16-20 years</td>
<td>17</td>
<td>18.1</td>
<td>6</td>
<td>3.3</td>
<td>4</td>
<td>3.3</td>
</tr>
<tr>
<td>21-25 years</td>
<td>2</td>
<td>2.1</td>
<td>7</td>
<td>3.9</td>
<td>3</td>
<td>2.4</td>
</tr>
<tr>
<td>Over 25 years</td>
<td>1</td>
<td>1.1</td>
<td>13</td>
<td>7.2</td>
<td>9</td>
<td>7.3</td>
</tr>
<tr>
<td>Total</td>
<td>94</td>
<td>100</td>
<td>180</td>
<td>100</td>
<td>123</td>
<td>100.0</td>
</tr>
</tbody>
</table>

ANOVA  
F=4.757  
Df=2  
Significance=. 009

Using ANOVA, it was found that there is a significant difference (F=4.757 df = 2 sig.= 0.009) between the ages of the firms in trade, manufacturing and services sectors. The trend of the means suggests that the trade sector has the youngest firms.

From Table 6-2 it is clear that most small companies in the manufacturing sector are middle aged. Fifty-nine respondents (62.8 percent) had been running between 6-15 years; only fifteen respondents (16 percent) of the firms had been in business 5 years and below; seventeen respondents (18.1 percent) between 16-20 years and three respondents (3.2 percent) had been operating for over 21 years. This implies that most of the responding firms are mature companies which have accumulated a substantial amount of experience in manufacturing their products.

The results indicate that most of the companies in the trade sector have been in business for ten years or less. One hundred and twenty seven respondents (70.6
percent) had been running between 10 years and below; twenty-seven respondents (15 percent) of the firms had been in business between 11-15 years; six respondents (3.3 percent) between 16-20 years and twenty respondents (11.1 percent) had been operating between 21 and over.

In the service sector, Table 6-2 illustrates that eighty-six respondents (70 percent) had been running between 10 years and below, and the most prominent category (69 percent) had been operating between 6-10 years. A significant minority of the companies in the service sector therefore were young (operating for fewer than 5 years), twenty-one respondents (17.1 percent) of the firms had been in business between 11 and 15 years; four respondents (3.3 percent) between 16-20 years and twelve respondents (9.7 percent) had been operating between 21 and over.

The highest frequency in the manufacturing sector (41.5 percent) comprises firms which had been in operation between 11-15 years, while the equivalent in the trade sector (42.8 percent) were firms which had been in business for 5 years and below 40.7 percent were firms which had been in business between 6-10 years. The fact that small businesses in the trade and service sectors were slightly below average age and manufacturing had a slightly above average age may be reflective of the high failure rate of small businesses in trade and service sectors. This can partially be attributed to the fact that the manufacturing sector is the sector most supported by the government in Oman. The figures also suggest that manufacturing companies tend to be more mature businesses and this is probably because plant and machinery, together with specific expertise relating to production processes, are necessary elements in setting up a manufacturing business; these are not easily or quickly acquired. It is more likely that someone setting up a new concern will focus on the trade or services sector since these require less specialised expertise and smaller investment in terms or equipment.

6.2.1.2 Employment size

Ever since the publication of the Birch Report (Birch, 1979), it has been the contribution of SMEs to employment generation which has been one of the main foci of attention for policy makers. Whilst the Birch methodology has recently been the subject of considerable debate, there are a large number of studies which have demonstrated that smaller firms have been making a disproportionate contribution to
job generation across a variety of time spans (Storey & Johnson, 1987; Sengenberger et al, 1990). At the same time, there continues to be debate about the number of SMEs that actually create employment on a significant scale and about the nature of the employment created. Moreover, the regional employment contribution of SMEs is still a subject of debate. For example, some empirical analyses have been unable to demonstrate a significant relationship between regional start-up activity and employment change (Audretsch & Fritsch, 1996; Fritsch, 1997) whilst other studies see new and small enterprises as engines of regional growth and employment creation (Audretsch & Fritsch, 2000).

The absence of reliable aggregate statistical data makes it difficult to produce accurate estimates of the precise contribution SMEs are making to employment generation, although the data that are available suggest they are making a significant contribution (Smallbone et al, 1995; Bartlett & Rangelova, 1997; Chepurenko et al., 2000). In Poland, for example, official statistics show that the share of total employment in the private sector increased by 14% between 1990-95, accounting for 52% of total employment by the end of the period (Polish Ministry of Industry, 1995).

In Europe SMEs represent 96.8% of all enterprises (Lund and Wright, 1999). They provide two thirds of employment and are responsible for 65% of economic turnover in the European Community (EU, 1995). A larger proportion of firms employ fewer than fifty people in Northern Ireland than in any part of the UK and this makes the presence and role of small firms particularly significant. In the Northern Ireland economy small firms are a major source of employment and output. Firms with 50 employees or fewer account for about 56% of total employment in the private sector, considerably higher than the overall UK proportion of 48% (Moore, 1994). Small firms in N.I. represent almost 90% of all manufacturing units and account for just one-third of all manufacturing employment. Compared to the position in the early 1970s, when small firms provided only 10% of manufacturing employment, there has clearly been a massive increase in their contribution. The Northern Ireland economy has been transformed from one largely dependent on externally owned branch plants to a position where almost one in three people employed in manufacturing now works in small companies with less than fifty employees. The emergence of an expanding
small firm sector has the potential to drive the economic prosperity of the region (Hart and Gudgin, 1997).

In Oman, the volume of domestic labour in the private sector increased from 87,000 workers in 1976 to 518,000 workers in 1995 (Al-Markhazi, 2000). The private sector employed about 67.7 percent of the total labour force in the country, with the exception of the Defence and National Security Units. The number of workers in the public sector (Government units and semi government institutions) decreased from 248,000 in 1995 to about 236,000 in 2000, a decrease of 4.8 percent. Therefore, the share of the public sector in total labour force in 2000 was 25.8 percent, compared to about 32.4 percent in 1995 (Ministry of Development, 2002).

One of the most important characteristics of a firm’s performance is size. Bank credit and other institutional lenders as possible sources of finance seem to be used more frequently as the size of the firms increases; that is to say the ‘larger’ the small firms are the more they rely on bank credit and finance from other institutional lenders (Bolton Committee, 1971; Cole and Wolken, 1996). The number of fulltime employees of respondent organisations is presented in Table 6-3 below.

<table>
<thead>
<tr>
<th>Employment size</th>
<th>Manufacturing</th>
<th>Percent</th>
<th>Trade</th>
<th>Percent</th>
<th>Service</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frequency</td>
<td>Frequency</td>
<td></td>
<td>Frequency</td>
<td></td>
<td>Frequency</td>
<td></td>
</tr>
<tr>
<td>1-9</td>
<td>3</td>
<td>3.2</td>
<td>107</td>
<td>59.4</td>
<td>79</td>
<td>64.2</td>
</tr>
<tr>
<td>10-19</td>
<td>3</td>
<td>3.2</td>
<td>13</td>
<td>7.2</td>
<td>31</td>
<td>25.2</td>
</tr>
<tr>
<td>20-29</td>
<td>25</td>
<td>26.6</td>
<td>15</td>
<td>8.3</td>
<td>5</td>
<td>4.1</td>
</tr>
<tr>
<td>30-39</td>
<td>27</td>
<td>28.7</td>
<td>24</td>
<td>13.3</td>
<td>4</td>
<td>3.3</td>
</tr>
<tr>
<td>40-49</td>
<td>31</td>
<td>33.0</td>
<td>12</td>
<td>6.7</td>
<td>4</td>
<td>3.3</td>
</tr>
<tr>
<td>50 &amp; above</td>
<td>5</td>
<td>5.3</td>
<td>9</td>
<td>5.0.</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>94</td>
<td>100.0</td>
<td>180</td>
<td>100</td>
<td>123</td>
<td>100.0</td>
</tr>
</tbody>
</table>

ANOVA
\[ F = 96.989 \]
\[ d = f^2 \]
Significance = .000

The results in Table 6-3 show the majority of the firms in the manufacturing sector have between 30-49 employees (fifty-nine respondents: 61.7 percent); only a tiny proportion (3.2 percent) were in the 1-9 category; and another small fraction (3.2 percent) were in the 10-19 category; 25 respondents (26.6 percent) came in the 20-29 category.
The results indicate that 95 percent of the firms in the trade sector employ between 1-49 employees. The majority of firms, therefore, are small-scale enterprises, according to the definition of small business in this study. This result is quite similar to the findings of the national survey by the Ministry of Trade and Industry (2000) which found that 93 percent of firms in the trade sector employed fewer than 50 employees. This table also shows that one hundred and seven respondents (59.4 percent) between 1-9 employees, twenty eight respondents (15.5 percent) were in 10-29 category; thirty six respondents (20 percent) were in the 30-49 category; nine respondents (5 percent) had 50 employees & above.

The results in Table 6-3 also show that over one half of the respondents in the service sector (64.2 percent) employ between 1-9 employees; thirty-six respondents (29.3 percent) were in the 10-29 category; and eight respondents (6.6 percent) were in the 30-49 category.

The differences between the three sectors were tested by ANOVA and were found to be significant at a 0.05 level (F=96.989, df = 2, sig.=0.000). The findings of the study show that in the trade and service sectors most small firms employ fewer than 9 employees (59.4 percent in the trade sector, and 64.2 percent in the service sector). However, the majority of firms in the manufacturing sector (58. percent) employ between 30-49 people. This could be because the firms in the trade and services sectors tend to be newer and are likely therefore to start as smaller concerns. Manufacturing firms, on the other hand, have generally been established for longer and are likely to have expanded and built up a larger workforce.

6.2.1.3 Sales turnover of Companies

Sales turnover is one variable used to measure an organization’s size. To explore the financial performance of SMEs in the sample, respondents were asked to indicate their company’s sales turnover for the last three years. To identify sales turnover in Omani Riyals four categories were established. The first group had turnover of less 100.000, the second group 100.000-299.000, the third group 300.000-499.000; and the fourth group had sales turnovers of more than 500.000. Table 6-4 presents the participating firms based on their sales turnover for 1999-2001.
Using ANOVA it was found that there is a significant difference between the sales turnover of the firms in the trade, manufacturing, and service sectors. Almost all of the responding companies had turnovers of less than OM 100,000 as shown in Table 6-4. The mean % of companies in the manufacturing sector with a sales turnover of less than OM 100,000 was 68 percent while 17.7 percent had a turnover between OM 100.00 and 299.000; 11.7 percent between OM 300.00 and 499.000 and 2.1 percent over OM 500.000. It can be seen from the table above that majority of the companies in the manufacturing sector 68.percent had a sales turnover below OM 100.000 between 1999-2001.

As presented in Table 6-4, the mean % of small enterprises in the trade sector, with a sales turnover less than OM 100.000 was 72.5 percent; 11.2 percent between OM 100.00-299.000; 10.7 percent between OM 300.00 and 499.000 and 4.8 percent more than OM 500.000. The majority of companies in the trade sector 72.5 percent had
sales turnover of less than OM 100,000 between 1999-2001. This shows a significant variation in the levels of sales turnover and indicates that small firms in the trade sector have small sales turnover.

It can be seen from the table above that the majority of companies in the service sector 92.4 percent had a sales turnover below OM 100,000 between 1999 and 2001. 4.9 percent had a sales turnover OM 100.00 and 299.000 and 2.1 percent between OM 300.000 and 499.000. This low level of sales turnover is influenced by different factors such as the external environment, the characteristics of owner-managers, internal aspects of the business and so on. Also, many of businesses in the trade and services sectors are comparatively new in a country that is just building up its industrial and economic base. Thus, they have not yet had time or sufficient experience to expand their output and turnover.

### 6.2.1.4 Ownership Type

As small businesses are diverse, a question was included as to the type of ownership. Table 6-5 shows the distribution of the firms based on types of ownership.

<table>
<thead>
<tr>
<th>Ownership Type</th>
<th>Manufacturing Frequency</th>
<th>Percent</th>
<th>Trade Frequency</th>
<th>Percent</th>
<th>Service Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sole ownership</td>
<td>23</td>
<td>24.5</td>
<td>122</td>
<td>67.8</td>
<td>78</td>
<td>63.4</td>
</tr>
<tr>
<td>General partnership</td>
<td>15</td>
<td>16.0</td>
<td>13</td>
<td>7.2</td>
<td>22</td>
<td>17.9</td>
</tr>
<tr>
<td>Limited partnership</td>
<td>45</td>
<td>47.9</td>
<td>41</td>
<td>22.8</td>
<td>17</td>
<td>13.8</td>
</tr>
<tr>
<td>Multinational partnership</td>
<td>9</td>
<td>9.6</td>
<td>1</td>
<td>.6</td>
<td>3</td>
<td>2.4</td>
</tr>
<tr>
<td>Shareholding company</td>
<td>2</td>
<td>2.1</td>
<td>3</td>
<td>1.7</td>
<td>3</td>
<td>2.4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>92</strong></td>
<td><strong>100.0</strong></td>
<td><strong>180</strong></td>
<td><strong>100</strong></td>
<td><strong>123</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

Table 6-5 clearly indicates that most small companies in the manufacturing sector were owned by limited partnerships (forty five respondents, 47.9 percent); twenty three respondents, 24.5 percent were in sole ownership; fifteen respondents (16 percent) were owned general partnerships and nine respondents (9.6 percent) were in multinational partnership.
Over half (67.8 percent) the firms in the trade sector were found to be in sole ownership while very few (1.7 percent) were shareholding companies. This contrasts with the pattern in the manufacturing sector where only about a quarter (24.5) of the firms were in sole ownership.

In the service sector, seventy-eight respondents (63.4 percent) reported that their firms were under sole ownership; seventeen respondents (13.8 percent) were part of limited partnerships; twenty-two respondents (17.9 percent) were in general partnerships and three respondents (2.4 percent) said their firms were owned by a shareholding company.

These results indicate that the majority of the firms of respondents in the trade and service sectors were under sole ownership (67.8 percent and 63.4 percent respectively) while the majority (74.9 percent) of the firms of respondents in the manufacturing sector were in limited partnerships. This could be explained by the fact that manufacturing firms have a greater need for plant, machinery and specialised production equipment. They also are, in general, larger enterprises (33% employed between 40 and 49 people). As such, they may need the support of more than one manager while the smaller, newer companies in the trade and service sectors can be more easily run by a sole owner.

6.2.1.5 Business plan

Firms need to have clear objectives to achieve organizational goals. Without planning goals cannot be achieved. Updating a business plan is one of the most important planning activities to be carried out in order to obtain loans. According to one banker, "We can't just give it (a loan) out to anybody, especially when many of the loan applicants come to us with very shabbily presented proposals" (Sunday Star, 8 October 2000, p.20). Business plans are used by banks to evaluate the ability of an SME to repay loans and overdrafts and also give the owner-manager an opportunity to demonstrate his or her skills and experience (Read, 1998). {ACOST (1990, p.31)} concluded:

From the investor's viewpoint, the major consideration in deciding whether or not to supply capital is the quality of the business plan presented by the potential borrower. If a firm's management cannot
formulate a coherent business strategy, analyzing the market opportunity and competitive advantages of its products, together with clear implementation plan, it can hardly be expected to induce an investor to assess accurately, or bear part of the risks of the business (p.31).

Table 6-6 demonstrates that over half the respondents (67 percent) in the manufacturing sector have a written business plan; the majority of the respondents, firms in trade the sector (56.7 percent) do not have a written business plan while only 42.8 percent have a written plan. This table also shows that only 25.2 percent in the service sector have a written business plan and 74.8 percent do not. Using the chi-square test, it was found that there is a significant difference (\(T=28.932\) df = 2 sig. = 0.000) between trade, manufacturing and services sectors in the use of a business plan.

<table>
<thead>
<tr>
<th>Type of sector</th>
<th>Business plan</th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>Yes</td>
<td>63</td>
<td>67.0</td>
<td>67.0</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>31</td>
<td>33.0</td>
<td>100.0</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>94</td>
<td>100.0</td>
<td></td>
</tr>
<tr>
<td>Trade</td>
<td>Yes</td>
<td>77</td>
<td>42.8</td>
<td>43.3</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>102</td>
<td>56.7</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>Missing</td>
<td>1</td>
<td>.6</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>180</td>
<td>100.0</td>
<td></td>
</tr>
<tr>
<td>Service</td>
<td>Yes</td>
<td>31</td>
<td>25.2</td>
<td>25.2</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>92</td>
<td>74.8</td>
<td>100.0</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>123</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Chi-Square \(T=28.932\) Df = 2 Significance=. 000

The absence of these plans among the majority of the sample firms in the trade and service sectors probably reflects the time pressures faced by owner-managers as well as a lack of expertise in the preparation of such plans. It may also reflect the lack of experience of the managers in these firms since they tend to have been in operation for a shorter period of time.

The respondents who had written business plans were asked to explain the extent of their agreement with the statement given regarding the written business plan since the business plans give the owner-manager an opportunity to demonstrate his or her skills

Table 6-7 presents the mean score (x) of the degree of these statements. Respondent were asked to rate these statements on a five-point Likert scale (1=strongly disagree, 2= disagree, 3= uncertain, 4= agree, 5=strongly agree) to measure the extent of their feelings about each statement.

Table 6-7 Measuring opinions regarding the business plan

<table>
<thead>
<tr>
<th>Statement</th>
<th>Manufacturing</th>
<th>Trade</th>
<th>Service</th>
</tr>
</thead>
<tbody>
<tr>
<td>Producing a business plan has been of great help to me in planning the future of the business</td>
<td>Mean 4.1563 64</td>
<td>4.1974</td>
<td>4.4828</td>
</tr>
<tr>
<td></td>
<td>Std. D. .5968</td>
<td>7122</td>
<td>.5085</td>
</tr>
<tr>
<td>The targets in my business plan were designed to obtain finance</td>
<td>Mean 4.0781 64</td>
<td>3.7500</td>
<td>3.9655</td>
</tr>
<tr>
<td></td>
<td>Std. D. .8029</td>
<td>76</td>
<td>29</td>
</tr>
<tr>
<td>The lender was primarily interested in the security available for the loan and showed little interest in the business plan</td>
<td>Mean 4.3016 63</td>
<td>4.1867</td>
<td>4.1379</td>
</tr>
<tr>
<td></td>
<td>Std. D. .6384</td>
<td>75</td>
<td>29</td>
</tr>
<tr>
<td>The lender was primarily interested in the content of my business plan</td>
<td>Mean 3.6508 63</td>
<td>3.6800</td>
<td>3.6207</td>
</tr>
<tr>
<td></td>
<td>Std. D. .8262</td>
<td>.8724</td>
<td>.8625</td>
</tr>
</tbody>
</table>

The respondents in the manufacturing sector strongly agreed with the statement that “The lender was primarily interested in the security available for the loan and showed little interest in the business plan”. This statement received the highest scoring mean (4.30). Respondents also strongly agreed with the importance of business plans contained in the statements “Producing a business plan has been of great help to me in planning the future of the business” and “The targets in my business plan were designed to obtain finance”. These statements received means of 4.16 and 4.08 respectively.

Respondents in the trade and service sector who participated in the survey strongly agreed with the statement “Producing a business plan has been of great help to me in planning the future of the business”. This statement received the highest scoring mean of 4.1974, 4.4828 respectively with standard deviations of .7122 and .5085. Respondents also strongly agreed with the statement “The lender was primarily
interested in the security available for the loan”. This statement received means of 4.1869 and 4.1379 with standard deviations of .6302 and .9151. The business plan as a target designed to obtain finance received a mean of 3.7500 in the trade sector and 3.9655 in the service sector. This shows that it was generally agreed in all three sectors that the business plan was of great importance in obtaining finance since, although respondents in the manufacturing sector said that lenders showed little interest in the business plan, they also acknowledged that the plan was vital for them in planning the future of their businesses and that they had designed these plans with the purpose of obtaining finance.

6.2.1.6 Main sources of start-up capital

At the establishment stage, the finance of fixed assets could come both from internal and external sources. The smaller the enterprise, the more reliant it is upon loans and investment from close family members, as well as loans from other family members and various credit associations. This shows that the need to obtain start-up funding from informal sources is greater amongst SMEs than amongst large enterprises (Peterson and Shulman 1987). The proportion of enterprises obtaining start-up funds from banks was highest amongst medium-sized enterprises; larger enterprises can also obtain funding from affiliates. This question was developed under six broad categories namely; personal resources only, relative and friends, commercial bank only, government institutions, relative and friends in return for a share in the profits or losses of the business only (inactive partner) and as an active partner who shares both profits and losses as well as the management of the company. The idea was to identify the main sources of start-up capital for small businesses. These categories were finalized after a fairly comprehensive pilot study, taking into account the input received from potential participants.

Respondents were asked to indicate which of these sources of finance they relied on for start-up capital. Table 6-8 presents a summary of the result.
### Table 6-8 Source of finance at the establishment stage

<table>
<thead>
<tr>
<th>Source of finance</th>
<th>Manufacturing Frequency</th>
<th>Percent</th>
<th>Trade Frequency</th>
<th>Percent</th>
<th>Service Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal resources only</td>
<td>31</td>
<td>33.0</td>
<td>110</td>
<td>61.1</td>
<td>55</td>
<td>44.7</td>
</tr>
<tr>
<td>Relatives/Friends</td>
<td>10</td>
<td>10.6</td>
<td>12</td>
<td>6.7</td>
<td>28</td>
<td>22.8</td>
</tr>
<tr>
<td>Government Specialized credit institutions</td>
<td>26</td>
<td>27.7</td>
<td>13</td>
<td>7.2</td>
<td>7</td>
<td>5.7</td>
</tr>
<tr>
<td>Commercial bank only</td>
<td>16</td>
<td>17.0</td>
<td>36</td>
<td>20.0</td>
<td>17</td>
<td>13.8</td>
</tr>
<tr>
<td>Venture capital</td>
<td>2</td>
<td>2.1</td>
<td>1</td>
<td>.6</td>
<td>6</td>
<td>4.9</td>
</tr>
<tr>
<td>Relatives and / or friends in return for a share in the profit of the business only (inactive partner)</td>
<td>4</td>
<td>4.3</td>
<td>4</td>
<td>2.2</td>
<td>10</td>
<td>8.1</td>
</tr>
<tr>
<td>Relatives and / or friends in return for a share in the profits and management of the business (active partner)</td>
<td>5</td>
<td>5.3</td>
<td>2</td>
<td>1.1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Missing</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2</td>
<td>1.1</td>
</tr>
<tr>
<td>Total</td>
<td>94</td>
<td>100.0</td>
<td>180</td>
<td>100.0</td>
<td>123</td>
<td>100.0</td>
</tr>
</tbody>
</table>

An inspection of the data presented in Table 6-8 clearly shows thirty-one respondents (33 percent) in the manufacturing sector relied on their personal resources; while ten respondents (10.6 percent) relied on relatives and friends. Government institutions and commercial banks could be considered as the second most important source of finance in terms of start-up capital since forty-two (44.7 percent) of the 94 respondents financed their start-up capital through these channels. 27.7 percent used government credit institutions and 17 percent used commercial banks only. Overall, only 2.1 percent of enterprises relied upon venture capital as their main source of funding, and only 4.3 percent obtained funding from relatives and / or friends in return for a share in the profit of the business only. Inactive and active partners both showed very low percentages (see Table 6-8 above for precise figures). This may suggest that, in seeking finance, owner-managers prefer to rely upon sources that do not affect the decision-making processes of their firms by having a vested interest in them. Owning shares of the business seems to be perceived as invasive, irrespective of whether or
not the shareholder is actively involved in the running of the business since the responses for both categories (active and inactive) are similar.

Regarding the trade sector, the table illustrates that one hundred and ten respondents (61.1 percent) relied on their personal resources for the start-up capital while twelve of respondents (6.7 percent) relied on relatives and friends. This shows that owner-managers in the trade sector were much more likely to have organised and arranged finance for themselves rather than relying on friends and/or family members. This suggests they perhaps wished to avoid the personal involvement of others close to them, preferring instead to deal with outside agencies on a purely professional level.

Commercial banks could be considered as the second most important source of finance start-up capital after personal resources since 36 (20. percent) of the 178 respondents financed their start-up capital through this channel. Overall, only 7.2 percent relied on government institutions.

In conclusion, it is significant that in all sectors, personal resources are favoured as the means of securing start-up capital, suggesting that owner managers prefer the degree of control over their own decision-making that their own capital offers to them. This is reinforced by the fact that few respondents said they relied on relatives or friends in return for a share in the profits. Also, the preference for their own sources of finance may suggest that owner-managers are more likely to start up a new business venture only when they have the necessary resources to do so; it suggests that they do not readily speculate since few of the respondents used venture capital.

External equity finance is still not widely used by small firms in manufacturing, trade and services at the establishment stage. This finding seems to suggest that the majority of small firms prefer to use internal equity, particularly personal saving (Bates and Hally, 1982; Levy, 1993). However, small firms in the manufacturing sector rely more on government resources (27.7 percent) compared with 7.2 percent in the trade sector and 5.7 percent in the service sector.

In Taiwan, Hsueh, (2001) found that the three most important sources of start-up capital noted by the companies interviewed were: (i) personal savings; (ii) loans or
investments from banks; and (iii) loans or investments from family members. More than 50% of enterprises stated that the entrepreneurs own savings were the main source of start-up funding. One point worth noting is that the proportion of enterprises in the service sector obtaining start-up capital from banks and relatives was low, suggesting that the range of funding sources available to companies in the service sector is relatively limited. This may be as a result of the difficulty in appraising the intangible assets in the service sector enterprises.

6.2.2 Profile of the respondents

The respondents who participated in the mail survey were owner-managers of 397 small businesses in the manufacturing, trade and service sectors in Oman. Most past studies on small businesses suggest the characteristics of owner-managers influence the financing of small businesses.

Cooper, Gimeno-Gascon and Woo (1994) utilized a longitudinal study of 1053 new ventures in Japan and found that measures of general human capital (e.g. the entrepreneur, his/her education) influenced both survival and growth. Management know-how variables (having had parents who owned a business or having work experience in a business organization) had a more limited impact. Industry-specific know-how (entrepreneurs starting a business closely related to what they did in the past) contributed to both survival and growth. The amount of initial financial capital also contributed to both.

Warren and Hutchinson (2000) studied success factors for high-technology SMEs. They found that the firms, success factors identified by the owner-manager were the following: (1) the firm never borrowed money, (2) good partnership between co-founders, with trust previously established, (3) high skill-level of employees, (4) sound knowledge of the business, (5) good technical back-up which fosters trust and confidence from customers, (6) good after-sales support, (7) luck and being in the right time at the right place, (8) ability to spot a gap in the marketplace, (9) good social atmosphere, (10) not expanding too fast (internationally) thereby compromising the local market.
Chandler and Hanks (1998) studied the substitutability of owner-managers human and financial capital in emerging business ventures. The analysis shows that, on average, firms with high levels of founder human capital and low levels of initial financial capital perform similarly to firms that have low levels of founder human capital and high levels of financial capital. This finding suggests that founders with strong background experience may be able to start businesses that survive and thrive with less financial capital than their less experienced counterparts. The proportion of initial capital provided by the founder differs significantly across industry types. In more capital-intensive industries, founders provide a smaller proportion of the start-up capital. Interestingly, the amount of initial capital provided by the founder does not vary significantly across industry types. This suggests that the amount of initial capital provided by the founder may result from contributing all they can give to the business; this appears to be similar across business types.

Zheng’s (2001) research on Chinese SMEs tested the hypothesis that better human resource management (HRM) will generally be associated with better performance. Better HRM in Chinese SMEs is characterized by firms practising seven key elements: for example free market selection of staff and workers; provision of incentive reward systems by linking performance with payment and provision of social security and welfare schemes for retention purposes; and training and development of competent and skilled workers taking place on an on-going basis. Performance evaluation is exercised to promote staff instead of promotion being based on a superior’s personal opinions of employees and their relationships with subordinates, as well as the length of services in firms. Furthermore, there exists management communication to encourage staff participation in management and decision-making as well as exercise of appropriate labour union power to create cohesion to protect the interests of staff and to clarify the relationship between the management and the labour force.

Wiesner and McDonald’s (2001) study on Australian SMEs considered a wide range of standard human resource practices and some industrial relations practices. The Australian small business sector has been characterized by low uptake of human resource practices, little or no collective representation of employees and little or no employee participation. The results of a national study on Australian SMEs reveal a
moderate take-up of human resource management practices and they note some factors that may have a negative effect on HRM practices. The researchers investigated the impact of organisational size, the presence of an HR manager and the prevalence of a strategic plan on the uptake of HR practices in SMEs, as well as low unionisation, low employee participation and a low incidence of collective practices.

This section provides background information on the owner-manager. The characteristics examined include age, education, training and business experience. The results are presented and discussed below.

6.2.2.1 Age

The age of owner-manager is viewed as an important factor in the study of small business. Mature (middle-aged) owner-managers are more likely to own assets and therefore have more security/collateral than younger or older owner-managers; hence the latter are more likely to face difficulties in obtaining finance (Cressy, 1993). In other words the middle age owner managers are more aware of and more familiar with new ways of doing business. Older owner-managers are traditionally resistant to changing their ways of doing business (Al-Sudairy, 2000).

The age of the owner-manager can have both a direct and indirect impact on the level of entrepreneurship. The direct effect implies that people of a certain age are often considered more likely to start a business. Peters, Cressy and Storey (1999) found evidence that, on average, younger people are less likely to become self-employed. Several publications show that the probability of a person becoming self-employed increases with age (Brock and Evans, 1986; Evans and Leighton, 1989; Acs, Audretsch and Evans, 1994).

Evans and Leighton (1989) show that in relative terms, many entrepreneurs start a business in their mid-thirties and that the average age of an entrepreneur is over 40 years. Storey (1994) reports that people typically start a business when they are between 25 and 40 years old. However, recently some contrary evidence has been assembled by Van Gelderen (1999) who reports that so-called nascent entrepreneurship in the Netherlands is most frequent among the age group between 25
and 34 years of age. It is unknown whether this indicates an age effect or a generation effect.

Table 6-9 presents the collected responses by age of the small firms respondents

**Table 6-9 Age of owner-manager**

<table>
<thead>
<tr>
<th>Owner-manager Age</th>
<th>Manufacturing Frequency</th>
<th>Percent</th>
<th>Trade Frequency</th>
<th>Percent</th>
<th>Service Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under 20</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>.6</td>
<td>2</td>
<td>1.6</td>
</tr>
<tr>
<td>20-30</td>
<td>22</td>
<td>23.4</td>
<td>31</td>
<td>17.2</td>
<td>33</td>
<td>26.9</td>
</tr>
<tr>
<td>31-40</td>
<td>25</td>
<td>26.6</td>
<td>52</td>
<td>28.9</td>
<td>51</td>
<td>41.5</td>
</tr>
<tr>
<td>41-50</td>
<td>37</td>
<td>39.3</td>
<td>64</td>
<td>35.6</td>
<td>27</td>
<td>22.0</td>
</tr>
<tr>
<td>51-60</td>
<td>8</td>
<td>8.5</td>
<td>24</td>
<td>13.4</td>
<td>5</td>
<td>4.1</td>
</tr>
<tr>
<td>60 and over</td>
<td>2</td>
<td>2.2</td>
<td>5</td>
<td>2.8</td>
<td>10</td>
<td>8.2</td>
</tr>
<tr>
<td>Missing</td>
<td>3</td>
<td>1.7</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>94</td>
<td>100.0</td>
<td>180</td>
<td>100.0</td>
<td>123</td>
<td>100.0</td>
</tr>
</tbody>
</table>

ANOVA

F=6.034  Df=2  Significance= .003

As shown in Table 6-9, thirty-seven respondents (39.3 percent) in the manufacturing sector are between 41 and 50 years of age while, twenty-five respondents (26 percent) are between 31 and 40 years of age. The remainders are between 20-30 (23.4 percent). Only ten respondents (10.7 percent) of the owner-managers are 50 years and above, and none of them are below the age of 20.

This table also shows that the respondents who participated in the mail survey were owner-managers of 180 small businesses in the trade sector. As presented in this table, it can be seen that the highest frequency was for the age group aged 20-40; this group represented eighty three respondents (46.1 percent). Sixty four respondents (35.6 percent) were between 41 and 50; only ten respondents (16.2 percent) of the owner-managers were aged 50 years and above, and only .6 percent were under 20.

Reynolds, Brock and Evans, (1986) report that countries with more individuals in the age group 25-44 years old have more start-ups and that the presence of so-called 'early career' individuals is an important determinant of the level of business start-ups.
The most frequent age group of the owner-managers in the service sector is the 20-40 age bracket (68 percent); the remaining groups are between 41-50 (22 percent) with only fifteen respondents (12.3 percent) of the owner-managers being 51 years and above, and two (1.6 percent) being below the age of 20. This shows that the owner-managers in the service sector are younger than their counterparts in the trade and manufacturing sectors. The differences between the three sectors were tested using ANOVA and it was found that there were significant differences (P 0.003).

However, it can be noted that in all three sectors the majority of owner managers are between the ages of 31 and 50 (a total of 65.9%, 64.5% and 63.5% in the Manufacturing, trade and service sectors respectively). This suggests that it is usual for owner-managers to have some work experience, before setting up their own businesses.

6.2.2.2 Educational Level

A recurrent theme in previous research concerned with small firms is the relatively high education level in comparison with their counterparts in western countries (Blawat and Dominiak, 1994; Glas and Petrin, 1998; Kuczi and Vajda, 1992). This may partly reflect the high overall level of education in some of the former socialist economies and partly the limited alternative employment opportunities under transition conditions for people educated to university (or equivalent) level. Such levels of education encourage them to look towards business ownership both as a source of income and as a potentially satisfying occupation for their abilities.

The respondents were asked about their level of education. Table 6-10 shows the educational profile of the respondents. In the manufacturing sector, seventeen (18.1 percent) of the respondents had less than a secondary school certificate, fifteen (16 percent) held secondary school certificates, nineteen (20.2 percent) had diplomas; thirty five (37.2 percent) held Bachelor degrees; and six respondents (2.1) had achieved higher degree. It can be deduced from the table that most of the sample held diplomas degrees and above.
### Table 6-10 Educational Level

<table>
<thead>
<tr>
<th>Education level</th>
<th>Manufacturing Frequency</th>
<th>Percent</th>
<th>Trade Frequency</th>
<th>Percent</th>
<th>Service Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below secondary school</td>
<td>17</td>
<td>18.1</td>
<td>61</td>
<td>33.9</td>
<td>33</td>
<td>26.9</td>
</tr>
<tr>
<td>Secondary school</td>
<td>15</td>
<td>16.0</td>
<td>42</td>
<td>23.3</td>
<td>33</td>
<td>26.8</td>
</tr>
<tr>
<td>Diploma</td>
<td>19</td>
<td>20.2</td>
<td>25</td>
<td>13.9</td>
<td>16</td>
<td>13.0</td>
</tr>
<tr>
<td>University degree</td>
<td>35</td>
<td>37.2</td>
<td>44</td>
<td>24.4</td>
<td>33</td>
<td>26.8</td>
</tr>
<tr>
<td>Higher Degree</td>
<td>6</td>
<td>6.4</td>
<td>7</td>
<td>3.9</td>
<td>4</td>
<td>3.3</td>
</tr>
<tr>
<td>Missing</td>
<td>2</td>
<td>2.1</td>
<td>1</td>
<td>.6</td>
<td>4</td>
<td>3.3</td>
</tr>
<tr>
<td>Total</td>
<td>94</td>
<td>100.0</td>
<td>180</td>
<td>100.0</td>
<td>123</td>
<td>100.0</td>
</tr>
</tbody>
</table>

ANOVA

\[ F=6.096 \quad \text{Df}=2 \quad \text{Significance}=0.002 \]

In the trade sector the highest frequency was for respondents who had less a secondary school certificate; sixty-one respondents (33.9 percent) came in this category; forty-two (23.3 percent) had secondary school certificates; twenty five (13.9 percent) held diplomas; forty four (24.7 percent) held Bachelor degrees; and seven respondents (3.9) had a higher degree.

In the service sector, the highest frequency was for respondents who had Bachelor degrees; thirty three respondents (26.8 percent) were in this group; thirty three (26.8 percent) had secondary school certificates; sixteen (13.0 percent) held diplomas; and only four respondents (3.3 percent) had a higher degree.

The ANOVA result showed that there is a significant difference \( F= 4.757 \, \text{df} = 2 \, \text{sig.}= 0.009 \) between the levels of education in the trade, manufacturing and service sectors. It is evident from Table 1-10 that the owner-managers in the manufacturing sector have the highest levels of education as 43.6 percent have a degree or higher degree. However, in trade and service sectors the owner-managers tend to have been educated only to secondary school / high school level (57.2 percent in the trade sector and 53.7 percent in the service sector). There were very few owner-managers in the commercial and service sectors who had been educated to higher degree level. It could be suggested that it may be perceived that, in order to set up a manufacturing enterprise, more specialist experience and skills are necessary.
6.2.2.3 Business Experience and Training

Traditionally, training and development was not viewed as an activity that could help companies create "value" and successfully deal with competitive challenges (Noe, 1998). Today that view has changed. Companies that use innovative training practices are likely to report better financial performance than their competitors that do not. Training also helps a company to meet competitive challenges. As companies attempt to expand into foreign marketplaces, their success will be determined by employee's ability to work in a new environment (Noe, 1998).

Researchers with an interest in human resource management have often limited their investigation to large firms (Storey, 1992). Observers, however, have recently called for more study examining human resource issues within small and medium-sized businesses (Purcell, 1993). While smaller employers may be interested in tracking developments in large organizations, it should not be assumed that practices used by large firms are necessarily beneficial or practical for smaller business (Wagar, 1998).

Researchers in the United States have noted the shortage of survey data documenting human resource management practices and their impact on firm performance (Becker and Gerhart, 1996). Furthermore, the absence of data on human resource practices is particularly acute with regard to small businesses (Rowden, 1995; Flanagan & Deshpande, 1996).

Small businesses have created most of the new jobs in recent years and will need training if they are to survive and grow. As previously stated, it is estimated that organizations with fewer than twenty employees create ninety-eight of all net new jobs (Evance and Leigton, 1989). Although many small businesses will go out of business in the first year, many of the ones that survive will become larger companies (Kelly & Thompson, 1988). Traditionally, small businesses have been reluctant to invest in employee training, feeling that it is hard to see an immediate payoff for the cost of training classes and production time (RUIBS, 1993).

The reasons it is difficult to market training to small businesses are numerous, but the majority have fifty or fewer employees, with tremendous workloads, and a lack of
clearly defined duties. Due to a lack of human resource professionals or training personnel, training is mostly on-the-job training. Also it is difficult for an employee to be absent, even for a day, for training. But the chances are good that these new jobs require ongoing training. That is why more small businesses are taking on the responsibility of training. Further, that is where the new jobs are. Of the 12 million new jobs created in the nation between 1992 and 1996, small and micro size businesses added nine and one-half million, seventy nine percent of all new jobs.

Managers in small and medium enterprises need training to keep their companies competitive. The owner-managers need training in a number of areas to better compete in today’s market (Al-Markzi, 2002). Therefore, a question was included asking whether the respondents had attended any training programmes or had prior working experience before operating their present business.

From Tables 6-11 and 6-12, it appears that two thirds of respondents in the manufacturing sector had prior working experience before operating their present business. Over half (58.6 percent) had 9 years or less working experience. The period of working experience for the remaining owner-managers was 10-12 years, (2.1 percent) 13-15 years, (1.1 percent) 16 years and more (14.9 percent).

However, the majority of respondents in the trade sector did not have any prior working experience before operating their present business. Only seventy-three respondents (40.6 percent) had working experience. Forty-nine respondents (27.3 percent) had 9 years or less working experience. The periods of working experience for the remaining owner-managers were 10-12 years (1.7 percent), 13-15 years (12.2 percent), and 16 years and more (9.4 percent).

Table 6-11 Business Experience

<table>
<thead>
<tr>
<th>Business Experience</th>
<th>Manufacturing Frequency</th>
<th>Percent</th>
<th>Trade Frequency</th>
<th>Percent</th>
<th>Service Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>72</td>
<td>76.6</td>
<td>73</td>
<td>40.6</td>
<td>69</td>
<td>56.1</td>
</tr>
<tr>
<td>No</td>
<td>22</td>
<td>23.4</td>
<td>106</td>
<td>58.9</td>
<td>54</td>
<td>43.9</td>
</tr>
<tr>
<td>Missing</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>.6</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>94</td>
<td>100.0</td>
<td>180</td>
<td>100.0</td>
<td>123</td>
<td>100.0</td>
</tr>
</tbody>
</table>
Table 6-12 Years of Experience

<table>
<thead>
<tr>
<th>Years of Experience</th>
<th>Manufacturing Frequency</th>
<th>Percent</th>
<th>Trade Frequency</th>
<th>Percent</th>
<th>Service Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-3</td>
<td>28</td>
<td>29.8</td>
<td>16</td>
<td>8.9</td>
<td>25</td>
<td>20.3</td>
</tr>
<tr>
<td>4-6</td>
<td>12</td>
<td>12.8</td>
<td>14</td>
<td>7.8</td>
<td>20</td>
<td>16.8</td>
</tr>
<tr>
<td>7-9</td>
<td>15</td>
<td>16.0</td>
<td>19</td>
<td>10.6</td>
<td>9</td>
<td>7.3</td>
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<tr>
<td>10-12</td>
<td>2</td>
<td>2.1</td>
<td>3</td>
<td>1.7</td>
<td>8</td>
<td>6.5</td>
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<tr>
<td>13-15</td>
<td>1</td>
<td>1.2</td>
<td>5</td>
<td>2.8</td>
<td>1</td>
<td>.8</td>
</tr>
<tr>
<td>&gt; 16</td>
<td>14</td>
<td>14.9</td>
<td>17</td>
<td>9.4</td>
<td>6</td>
<td>4.9</td>
</tr>
<tr>
<td>No Experience</td>
<td>22</td>
<td>23.4</td>
<td>106</td>
<td>58.9</td>
<td>54</td>
<td>43.9</td>
</tr>
<tr>
<td>Total</td>
<td>94</td>
<td>100.0</td>
<td>180</td>
<td>100.0</td>
<td>123</td>
<td>100.0</td>
</tr>
</tbody>
</table>

In the service sector, 56.1 percent of owner-managers had prior working experience before operating their present business. Fifty-four respondents (44.4 percent) had 9 years or less working experience. The periods of working experience for the remaining owner-managers were 10-12 years (6.5 percent), 13-15 years only (.8 percent), and 16 years and more (4.9 percent). Such experience gives them a useful background in terms of their involvement with the industry they are currently operating in. It also gives entrepreneurs an advantage in terms of issues such as quality, performance, or technical skills.

These figures are interesting in that they show that managers are roughly twice as likely to start a business in the services and trade sectors without previous experience that they are in manufacturing fields. In other words, while around three quarters of managers in the manufacturing sector said they had previous experience, only about half (40.6 and 56.1%) said they had experience in the trade and services businesses respectively. This is probably because it is more difficult to begin a business in manufacturing with no knowledge of the processes involved in producing the goods while in services and trade no actual goods are produced so it could be argued that the skills needed are less specialised. It was noticeable, however, that owner-managers in the manufacturing sector were more likely to start up their own businesses after a comparatively short period of experience than those in the other two sectors. This may indicate that these managers, that is, those in manufacturing, were interested in starting up a business of their own once they had gained some experience. In other words, they were intent on joining the industry to gain some experience before moving on to an enterprise of their own. The importance of experience in the
manufacturing field in particular is borne out by the figures which show that more respondents in manufacturing companies had considerable periods in manufacturing (14.9% had more than 16 years experience), before create there own business.

In terms of training there are support activities in entrepreneurial and managerial development training. These support activities include training for potential entrepreneurs who desire to establish new SMEs, and advanced training activities for entrepreneurs and managers. In some countries, training is conducted with the Collaboration of the United Nations Industrial Development Organisation (UNIDO) and ILO. This is also the case for example, in Thailand, where the Industrial Services Division and the Thailand Management Development and Productivity Centre (TMDPC) play a significant role in providing management training for managers (Kanthachai, 1990).

In the Philippines, the Institute of Small Scale Industries (ISSI) and the Small Business Advisory Centre (SBAC) provide basic and advanced management training for potential and existing entrepreneurs. Under the initiative of the United Nations Development Programme (UNDP) and ILO, Small Scale Industrial Development in the Cooperatives Sector was established in order to provide similar training facilities for entrepreneurs and managers in Myanmar (UNIDO, 1986). In Oman, for example, similar institutions include the Oman Chamber of Commerce & Industry; the General Administration Institute (Ministry Of Civil Service); Government Vocational Training Centres and Private Vocational Training Institutes.

In New Zealand a BIZ programme was established by the Government in 1998 to build management capability amongst SME owners and managers. The primary foci for the programme were the assessment of business needs, the delivery of training and seminars, one-on-one mentoring, and networking (Gibb, 2000).

Many of Europe’s economically successful regions are characterised by particular forms of relationships between companies, which emphasise co-operation, trust and networking. For example, in Denmark, there are a number of programmes run primarily by the Danish Technological Institute aimed at encouraging small groups of firms jointly to acquire consultancy services and solutions to problems which no
single firm could afford to acquire on its own (EDSRSG, 1999). A significant spin-off of the process is that firms subsequently continue to collaborate on areas of mutual benefit. Other European regions are characterised by partnership and close co-operation between the public sector, industry, and education and training providers. Of particular significance is the role of some Chambers of Commerce in promoting inter-company co-operation on specific projects relating to product development, manufacturing processes, and marketing.

In relation to this, half of the respondents (50 percent) in the manufacturing sector said they had undergone some training; these results are shown in Tables 6-13 and 6-14. Thirty-four respondents (36.2 percent) said they had training in Oman Chamber of Commerce and Industry; six respondents (6.4 percent) obtained training in the General Administration Institute (Ministry of Civil Service); three respondents (3.2 percent) from Government Vocational Training Centres; and four respondents (4.3 percent) from Private Vocational Training Institutes.

Table 6-13 Training

<table>
<thead>
<tr>
<th>Training</th>
<th>Manufacturing Frequency</th>
<th>Percent</th>
<th>Trade Frequency</th>
<th>Percent</th>
<th>Service Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>47</td>
<td>50.0</td>
<td>41</td>
<td>22.8</td>
<td>53</td>
<td>43.1</td>
</tr>
<tr>
<td>No</td>
<td>47</td>
<td>50.0</td>
<td>139</td>
<td>77.2</td>
<td>70</td>
<td>56.9</td>
</tr>
<tr>
<td>Total</td>
<td>94</td>
<td>100.0</td>
<td>180</td>
<td>100.0</td>
<td>123</td>
<td>100</td>
</tr>
</tbody>
</table>

Table 6-14 Sources of Training

<table>
<thead>
<tr>
<th>Sources of Training</th>
<th>Manufacturing Frequency</th>
<th>Percent</th>
<th>Trade Frequency</th>
<th>Percent</th>
<th>Service Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oman Chamber of Commerce &amp; Industry</td>
<td>34</td>
<td>36.2</td>
<td>24</td>
<td>13.3</td>
<td>18</td>
<td>14.6</td>
</tr>
<tr>
<td>General Administration Institute (Ministry Of Civil Service)</td>
<td>6</td>
<td>6.4</td>
<td>5</td>
<td>2.8</td>
<td>26</td>
<td>21.1</td>
</tr>
<tr>
<td>Government Vocational Training Centres</td>
<td>3</td>
<td>3.2</td>
<td>7</td>
<td>3.9</td>
<td>5</td>
<td>4.1</td>
</tr>
<tr>
<td>Private Vocational Training Institutes</td>
<td>4</td>
<td>4.3</td>
<td>5</td>
<td>2.8</td>
<td>4</td>
<td>3.3</td>
</tr>
<tr>
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<td>50</td>
<td>139</td>
<td>77.2</td>
<td>70</td>
<td>56.9</td>
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<tr>
<td>Total</td>
<td>94</td>
<td>100.0</td>
<td>180</td>
<td>100.0</td>
<td>123</td>
<td>100</td>
</tr>
</tbody>
</table>

In the trade sector only forty-one of the respondents (22.8 percent) from the total hundred and eighty said they had undergone some training in business and
management; these results are shown in Table 6-13. Twenty-four respondents (13.3 percent) said they had training from Oman Chamber of Commerce and Industry, five respondents (2.8 percent) from the General Administration Institute (Ministry of Civil Service), seven respondents (3.9 percent) from Government Vocational Training Centres, and five respondents (2.8 percent) from Private Vocational Training Institutes. The breakdown is shown in Table 6-14.

In the service sector, 43.1 percent had undergone some training (see Tables 6-13 and 6-14. Eighteen respondents (14.6 percent) said they had received training from the Oman Chamber of Commerce and Industry, twenty six respondents (21.1 percent) from the General Administration Institute (Ministry of Civil Service), five respondents (4.1 percent) from Government Vocational Training Centres, and four respondents (3.3 percent) from Private Vocational Training Institutes.

These figures suggest that the Oman Chamber of Commerce is effective in reaching members of the manufacturing sector in terms of training since 36% of respondents said they had received training there. However, it is noticeable that, with the exception of the General Administration Institute for respondents in the services sector, very little training seemed to be undertaken by the respondents at all. This may be a cause for concern since many owner-managers appear to be embarking on small business ventures with only nominal training. It must be admitted here, though, that a sizeable proportion of responses to this question are missing.

These results also show that half of the manufacturing and services owner-managers have some training, whereas a majority of the trade owner-managers have not undergone any training. This might suggest that most trade owner-managers are insufficiently informed about the availability of the training programmes that suit their needs, or they might have serious reservations about the ability of training to provide solutions to their problems.

6.3 Need for External Finance

Small firms usually depend on financial intermediaries, particularly the commercial banks, in order to obtain credit for their operations (Berger and Udell 1995). Sudin and Shanmugam (1994) found that problems related to the factors below appear to be
the major difficulties faced by bank officers when dealing with small business customers. The main factors include the lack of knowledge in accounting, insufficient information on loan applications given to the bank, the business being a one-man operation, the lack of knowledge in the field of working capital management, having no proper business plan, the great urgency for a loan, and the applicant’s inability to explain financial problems professionally. The banks’ willingness to provide the finance needed was the primary selection criterion given by these small businesses for choosing their lending banks.

An IBM Consulting Group survey (1995) of small-business perspectives toward commercial banks revealed significant dissatisfaction with bank financing and services. Another survey on small-business owners in Canada revealed that obtaining finance is no longer the most serious concern of managers due to the industry's effort to gather detailed information about the availability of credit for small businesses (Canadian Banker, 1997).

Larry (1992) found that the typical interaction between banker and borrower over prospective business loans often proves unsatisfactory for the small business owner. Local banking institutions continue to represent the most readily-accessible sources of outside capital for small businesses, both for start-ups and for the expansion of already established businesses. He points out that bankers do not spend enough time explaining underlying principles behind commercial lending although these generally serve as the framework for all commercial loan decisions. As reported by Clarke (1999), to fully understand the financing market for small and medium-sized enterprises (SMEs), policy-makers need more information from other suppliers of credit and should know about other types of financing. While the Canadian Bankers’ Association publishes the business credit statistics of the seven major banks on a quarterly basis, no comparable information is available about other sources of SME financing.

Nakamura (1993) mentioned that information externalities constitute the reason for the unreliability of credit markets. Information externality in credit markets exists when each lender relies on information generated by the lending activities of other institutions. Banks tend to raise their lending requirements more during an economic
down-turn, creating a credit crunch when borrowers have difficulty obtaining credit at any price. This dynamic interaction between information and economic behaviour involves an externality; that is, the failure of one borrower to conclude a loan and to make loans more costly and harder to obtain for later borrowers.

The reduction in economic activity leads to less information and thus a further reduction in economic activity. As such, there may be a useful role for the government to play in encouraging credit activity. Cowling and Westhead's study (1996) suggests that small firms should provide their bankers with more detailed financial information. The 'finance gap' is a function of limited debt funding opportunities for small firms because the cost of debt to small firms is significantly greater than for large firms (Holmes, Dunstan and Dwyer, 1994, p. 27). These researchers found that, for micro-small and small firms, application costs including costs associated with the completion of the information requirements of the lending institution, represented a significantly greater proportion of total funds borrowed than for medium and large firms. Small firms can experience a loan gap because they have insufficient business collateral.

According to Lund and Wright (1999), economists have often argued that market imperfections in the financing of small firms arise mainly because of information asymmetries. The owner of a small business generally has much better information that the bank on his/her firm’s performance, and has more control of the outcome. Such problems can lead to credit rationing for small and medium-sized enterprises which means that finance is not made available to all firms with viable projects whose net present value is positive.

Table 6-15 shown that out of 94 respondents, 63 respondents (67 percent) had approached an external source of finance in the manufacturing sector. Table 6-16 indicates the most commonly cited reason for applying for external finance: 33 % of respondents said this was for expansion, 31 % of respondents stated it was for working capital, and 30% of respondents for capital purchases. Other reasons were that 21 % of respondents said they needed finance for relocation, 20 % of respondents for financing product development, 13 % respondents for imports and 9 % of respondents for modernization.
Out of 180 respondents, 134 respondents (74 percent) had approached an external source of finance in the trade sector; the results shown in Table 1-15. The most commonly cited reasons for applying for external finance were as follows: 88 % of respondents said this was for expansion, 48 % of respondents for working capital, and 34 % of respondents for capital purchases. Others reasons included modernization (22 % of respondents), and import (17 % of respondents). See Table 6-16.

Table 6-15 Need for external finance

<table>
<thead>
<tr>
<th>Need for external finance</th>
<th>Manufacturing Frequency</th>
<th>Trade Frequency</th>
<th>Service Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>63</td>
<td>134</td>
<td>90</td>
</tr>
<tr>
<td>No</td>
<td>31</td>
<td>46</td>
<td>33</td>
</tr>
<tr>
<td>Total</td>
<td>94</td>
<td>180</td>
<td>123</td>
</tr>
</tbody>
</table>

ANOVA F=. 881 Df=2 Significance=. 414

Table 6-16 Objectives of Loans Financing (%)

<table>
<thead>
<tr>
<th>Objectives of Loans Financing</th>
<th>Manufacturing Frequency</th>
<th>Trade Frequency</th>
<th>Service Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expansion</td>
<td>33</td>
<td>88</td>
<td>50</td>
</tr>
<tr>
<td>Relocation</td>
<td>21</td>
<td>11</td>
<td>27</td>
</tr>
<tr>
<td>Capital purchases</td>
<td>30</td>
<td>34</td>
<td>29</td>
</tr>
<tr>
<td>Modernization</td>
<td>9</td>
<td>22</td>
<td>23</td>
</tr>
<tr>
<td>Financing product development</td>
<td>20</td>
<td>17</td>
<td>14</td>
</tr>
<tr>
<td>Financing entry of new market</td>
<td>3</td>
<td>10</td>
<td>3</td>
</tr>
<tr>
<td>Import</td>
<td>13</td>
<td>17</td>
<td>11</td>
</tr>
<tr>
<td>Working capital</td>
<td>31</td>
<td>48</td>
<td>9</td>
</tr>
</tbody>
</table>

In the service sector, out of total of 123 respondents, 90 (73.2 percent) had approached an external source of finance. Table 1-16 indicates the most commonly cited reasons for applying for external finance: fifty respondents said it was for expansion, twenty nine respondents for capital purchases, twenty seven respondents for relocation, and twenty three respondents for modernization.
It is evident from Table 6-16 that expansion is the most important reason for applying for external finance in the three sectors. The differences between the need for external finance in the three sectors was tested by ANOVA but the result was found not to be statistically significant. It is significant, however, that the result shows that businesses in Oman are, in general, seeking to expand and that finance is required in order for this to occur.

6.3.1 Awareness of lending institutions

A common feature of most financial support activities observed in practice takes the form of low interest rate loans and/or direct subsidies, and occasionally tax and customs relief. Another form typically adopted is to oblige banks to allocate a set minimum proportion of lending to entrepreneurs; otherwise the bank faces penalties. In Korea, for example, commercial banks operating on a nationwide scale must reserve at least 35 percent of their loanable funds for entrepreneurs of small and medium enterprises (SMEs), while other local financial institutions are obliged to allocate 50 percent (UNIDO, 1986). In Thailand, the Industrial Finance Corporations of Thailand (IFCT) and the Small Industry Finance Office (SIFO) provide financial assistance for entrepreneurs to purchase raw materials, new technology at low interest rates and longer periods of repayment. Besides the Bank of Malawi and Grameen Bank which are the main credit sources for Malawian entrepreneurs offering special loans and interest rates, the Malawian Saving and Credit Organisation (MUSCO) is also active (Beza, 1989).

In the Philippines, much financial aid especially directed towards entrepreneurs in SMEs, is directed through the Cottage Industrial Guarantee and Loan Fund (CIGLF). This is a joint programme offered by both public and private financial institutions: the Ministry of Trade and Industry as well as the National Cottage Industrial Development Authority (NACIDA) of the Philippines (Conti 1990). In Sri Lanka, the Credit Guarantee Scheme is issued by the Central Bank and covers 60 percent of the total amounts loans (UNIDA, 1986). In Indonesia, the Indonesian Credit Insurance company provides a guarantee and bears the risk resulting from non-repayment of the bank credit supplied to entrepreneurs, while the Institute of Cooperative Credit Guarantees (ICCG) guarantees the credits granted by Bank Rakyat of Indonesia to
entrepreneurs and cooperatives (ADB, 1989). Other commercial banks also provide soft loans through a number of specific schemes.

Many countries have set up special institutions to provide credit to entrepreneurs especially those in SMEs. A typical example is in India, where the Gujarat Industrial Investment Corporation (GIIC) provides 100 percent financing of project costs for entrepreneurs who require no collateral and third party guarantees (Patel 1982). Besides the financial assistance illustrated above, perhaps one of the most notable credit facilities provided for entrepreneurs in many countries is venture capital. This is evident in countries such as South Korea, India, the Philippines and Thailand where their financial institutions provide venture capital with participation of equity which is normally restricted to 49 percent of paid-up capital of the invested enterprises. Some entrepreneurs are given assistance in the form of conventional loans, development loans (that is, those which allow profit and risk sharing with the project’s proponents) and equity investment (where the financial assistance takes the form of a direct subscription to the shares of enterprises undertaking the project). (See ADB, 1989 and 1990).

In Northern Ireland, the Local Enterprise Development Unit (LEDU), sponsored by the Department of Economic Development, has over twenty year’s experience in supporting and developing small businesses (Roper, 1999). It aims to strengthen the Northern Ireland economy by encouraging enterprise and stimulating improvements in the competitiveness of both new and existing businesses within certain markets. LEDU concentrates its efforts on developing small manufacturing and certain service businesses with export potential, the majority of which employ fewer than fifty people.

Most SME failed to obtain the required financing due to a low level of awareness or are poorly advised about appropriate sources of finance. Hence, the information gap has provided the rationale for the activities of many enterprises, which have sought to provide SMEs with comprehensive information on funding sources (Aston Business School, 1991). In this regard, many small firms are prevented from getting loans due to a lack of information and a poor level of awareness. A lack of knowledge or imperfect information was found to be the main reason why SMEs, failed to approach appropriate funding bodies (Harvey, 1992). However, Bates and Hally (1982) and the
CBI (1982) pointed out that the root of the problem often lies with the owner managers themselves who tend to react late to information and do not approach the appropriate person for advice until a funding crisis occurs.

Since the 1970s, the Oman government has established a number of specialised financial institutions and has adopted policy measures to provide credit which is more cheaply available and accessible to SMEs including Intilaaqah Scheme, the Development Bank, the Fund for Development of Youth Projects and an Enterprise Allowance Scheme (Sanad). At this stage in the development of the Sultanate, the government is attempting to build up a sustainable industrial base, which is possible only with healthy co-existence of the SMEs. However, for a long time, the Oman Development Bank has provided financial assistance to the SMEs. To encourage craftsmen and small investors, the Oman Development Bank advances small loans not exceeding RO 5,000, which are interest free. The Export Credit Guarantee Agency, which is functioning under the Oman Development Bank, also supports the industrial sector by way of credit guarantees for exports (Al-Dahaib, 2002). Furthermore, the government also has a grant scheme to support the small business with projects costing up to RO 100,000.

The respondents were asked whether or not they were aware of the existence of these government-backed initiatives/schemes. Table 6-17 shows the distribution of respondent awareness. 52 percent of the respondents were aware of the Development Bank and 14.9 percent were not aware; 55.3 percent of the respondents were aware of Fund for the Development of Youth Projects and 11.7 percent were not; 55.3 percent of the respondents were aware of the Enterprise Allowance Scheme (Sanad) and 11.7 percent were not aware of this.

Although a significant percentage of respondents were aware of the schemes available to them, as can be seen from the figures in Table 6-17, a worrying proportion, especially in the trade and services, were not. This could indicate that these schemes are not marketed and publicised effectively. This could result, over time, in a slower rate of start-up of new small businesses since many would-be entrepreneurs will not be aware of financial support that is available to them.
### Table 6-17 Awareness government-backed initiatives/schemes

<table>
<thead>
<tr>
<th>Awareness towards the lending institutions</th>
<th>Manufacturing</th>
<th>Trade</th>
<th>Service</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Frequency</td>
<td>Percent</td>
<td>Frequency</td>
</tr>
<tr>
<td>Development Bank</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aware</td>
<td>49</td>
<td>52.1</td>
<td>81</td>
</tr>
<tr>
<td>Not aware</td>
<td>14</td>
<td>14.9</td>
<td>49</td>
</tr>
<tr>
<td>Missing</td>
<td>31</td>
<td>33.0</td>
<td>50</td>
</tr>
<tr>
<td>Total</td>
<td>94</td>
<td>100.0</td>
<td>180</td>
</tr>
<tr>
<td>Fund for Development of Youth Projects</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aware</td>
<td>52</td>
<td>55.3</td>
<td>73</td>
</tr>
<tr>
<td>Not aware</td>
<td>11</td>
<td>11.7</td>
<td>57</td>
</tr>
<tr>
<td>Missing</td>
<td>31</td>
<td>33.0</td>
<td>50</td>
</tr>
<tr>
<td>Total</td>
<td>94</td>
<td>100.0</td>
<td>180</td>
</tr>
<tr>
<td>Enterprise Allowance Scheme (Sanad)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aware</td>
<td>52</td>
<td>55.3</td>
<td>84</td>
</tr>
<tr>
<td>Not aware</td>
<td>11</td>
<td>11.7</td>
<td>46</td>
</tr>
<tr>
<td>Missing</td>
<td>31</td>
<td>33.0</td>
<td>50</td>
</tr>
<tr>
<td>Total</td>
<td>94</td>
<td>100.0</td>
<td>180</td>
</tr>
</tbody>
</table>

#### 6.3.2 Length of time loan application takes

The respondents who participated in the survey were also asked about the length of time a loan application takes. The results in Table 6-18 below indicate that most loan applications take 2-13 weeks (49 percent) in the manufacturing sector while they are thought to take 8-19 weeks in the trade and service sectors (41.1 percent and 38.2 percent respectively). The time may be shorter for manufacturing companies because they tend to be more established concerns, having generally been in business longer than the majority of companies in the other two sectors. It may also be easier to confirm the financial stability and security of a manufacturing concern where tangible goods are produced.
6.4 Sources of External Finance

The majority of small firms in the manufacturing sector used government loans as the most important source of external finance. Table 6-19 illustrates the sources of external finance of the respondents. Forty-six (48.9 percent) of the respondents had used government loans. Other external sources of finance used were bank overdrafts (five respondents: 5.3 percent), and bank loan of less than 5 years (seven respondents: 7.4 percent), loan of more than 5 years (four respondents: 4.3 percent). This study found that the small business in the manufacturing sector prefer to deal with loan facilities or financing available with Government agencies instead of commercial banking institutions. This result confirms that the Oman government agencies are helping SMIs to obtain loans.

Table 6-19 Sources of External Finance

<table>
<thead>
<tr>
<th>Sources of External Finance</th>
<th>Manufacturing Frequency</th>
<th>Percent</th>
<th>Trade Frequency</th>
<th>Percent</th>
<th>Service Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government Loan</td>
<td>46</td>
<td>48.9</td>
<td>12</td>
<td>6.7</td>
<td>9</td>
<td>7.3</td>
</tr>
<tr>
<td>Bank overdraft</td>
<td>5</td>
<td>5.3</td>
<td>82</td>
<td>45.6</td>
<td>28</td>
<td>22.8</td>
</tr>
<tr>
<td>Loan &lt;5 years</td>
<td>7</td>
<td>7.4</td>
<td>24</td>
<td>13.3</td>
<td>27</td>
<td>22.0</td>
</tr>
<tr>
<td>Loan &gt;5 years</td>
<td>4</td>
<td>4.3</td>
<td>11</td>
<td>6.1</td>
<td>15</td>
<td>12.2</td>
</tr>
<tr>
<td>Venture Capital</td>
<td>0</td>
<td>0.0</td>
<td>1</td>
<td>.6</td>
<td>8</td>
<td>6.5</td>
</tr>
<tr>
<td>Leasing</td>
<td>0</td>
<td>0.0</td>
<td>1</td>
<td>.6</td>
<td>2</td>
<td>1.6</td>
</tr>
<tr>
<td>Factoring</td>
<td>0</td>
<td>0.0</td>
<td>0</td>
<td>0.0</td>
<td>0</td>
<td>0.0</td>
</tr>
<tr>
<td>Missing</td>
<td>32</td>
<td>34.0</td>
<td>49</td>
<td>27.2</td>
<td>34</td>
<td>27.6</td>
</tr>
<tr>
<td>Total</td>
<td>94</td>
<td>100.0</td>
<td>180</td>
<td>100.0</td>
<td>123</td>
<td>100.0</td>
</tr>
</tbody>
</table>
Most of the small firms in the Trade and service sectors had used bank overdraft as the most important source of external finance (45.6 percent of the respondents in the trade sector and 22.8 percent in services sector). Another, external source of finance used was a government bank which was used by (6.7 percent in the trade sector and 7.3 percent in the service sector). Haron, (2000) revealed similar patterns to this in his research. In Malaysia, he found that SMEs prefer to use loan facilities or the financing available with commercial banking institutions instead of with government agencies, even for future financing choices. However, a survey conducted by the British Chamber of Commerce (February, 1994) of 752 small firms (firms with 50 employees or fewer) showed that 62 percent of the firms raised funds through their owner’s capital and 40 percent through a bank loan; these were the most important sources of external finance.

6.5 Difficulties in Raising External Finance

According to the 1999 edition of Chusho Kigyo Hakusho (a White Paper on small and medium sized businesses”, 1999) almost 70 % of Japanese SMEs experienced some difficulty raising capital while about 50 % had difficulties establishing business relationships and lacked adequate human resources (the salaries been offered were too low). Moreover, 70% of firms experienced a shortage of capital when starting, and almost all SMEs used debt financing and the owner’s personal funds as sources of capital. The paper also revealed that only 10.7 % of SME owners were willing to use equity capital (one percent are actually preparing to go public and 9.7% were expecting to go public eventually). The majority of Japanese business owners (56.8%) were not willing to use equity. These results are consistent with those found in other countries. For example, CBA (1998), reported that the majority of Canadian small business owners were not aware of sources of equity capital and that most entrepreneurs preferred not to seek equity capital due to the loss of control.

Using ANOVA, it was found that there is a significant difference (F=11.713 df = 2 sig.= 0.000) between the status of recent applications for external finance in the trade manufacturing and services sectors. Table 6-20 shows that out of 63 small companies which had approached external sources of finance in the manufacturing sector, 51 small firms (54percent) had been successful in gaining finance. However, out of 94 respondent firms, 31 firms (33 percent) did not report the status of their recent
applications for external finance. Although this lack of data makes it difficult to draw conclusions regarding the precise picture, it is clear that, in both the manufacturing and trade sectors, at least half of companies are successful in their applications for finance. At the same time, a smaller proportion of companies in the services sector were successful. This may be due to the fact that companies in this sector tended to be relatively new and run by younger managers; they may therefore be regarded as a higher risk.

Out of 51 respondents who had been successful in getting external finance, thirty-nine respondents (41.5 percent) had no difficulties in the process of applying and obtaining finance while fourteen respondents (15 percent) stated that they had faced some difficulties in the process of applying for and obtaining finance. Table 6-21 presents the process of applying for external finance. The large proportion of missing responses to this question makes it very difficult to draw conclusions.

Table 6-20 Status of recent applications

<table>
<thead>
<tr>
<th>Status of applications</th>
<th>Manufacturing Frequency</th>
<th>Percent</th>
<th>Trade Frequency</th>
<th>Percent</th>
<th>Service Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Successful</td>
<td>51</td>
<td>54.3</td>
<td>87</td>
<td>48.3</td>
<td>40</td>
<td>32.5</td>
</tr>
<tr>
<td>Not successful</td>
<td>12</td>
<td>12.8</td>
<td>47</td>
<td>26.1</td>
<td>50</td>
<td>40.7</td>
</tr>
<tr>
<td>Missing</td>
<td>31</td>
<td>33.0</td>
<td>46</td>
<td>25.6</td>
<td>33</td>
<td>26.8</td>
</tr>
<tr>
<td>Total</td>
<td>94</td>
<td>100.0</td>
<td>180</td>
<td>100.0</td>
<td>123</td>
<td>100.0</td>
</tr>
</tbody>
</table>

ANOVA  
F=11.713  
df=2  
Significance=. 000

Table 6-21 The process of applying for external finance

<table>
<thead>
<tr>
<th>The process of applying for external finance</th>
<th>Manufacturing Frequency</th>
<th>Percent</th>
<th>Trade Frequency</th>
<th>Percent</th>
<th>Service Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very easy</td>
<td>0</td>
<td>0.0</td>
<td>1</td>
<td>.6</td>
<td>2</td>
<td>1.6</td>
</tr>
<tr>
<td>Fairly easy</td>
<td>39</td>
<td>41.5</td>
<td>40</td>
<td>22.2</td>
<td>17</td>
<td>13.8</td>
</tr>
<tr>
<td>Fairly difficult</td>
<td>11</td>
<td>11.7</td>
<td>33</td>
<td>18.3</td>
<td>17</td>
<td>13.8</td>
</tr>
<tr>
<td>Very difficult</td>
<td>3</td>
<td>3.2</td>
<td>7</td>
<td>3.9</td>
<td>5</td>
<td>4.1</td>
</tr>
<tr>
<td>Missing</td>
<td>41</td>
<td>43.6</td>
<td>99</td>
<td>55.0</td>
<td>82</td>
<td>66.7</td>
</tr>
<tr>
<td>Total</td>
<td>94</td>
<td>100.0</td>
<td>180</td>
<td>100.0</td>
<td>123</td>
<td>100.0</td>
</tr>
</tbody>
</table>
Out of 134 small companies in the trade sector, which had approached external sources of finance, 87 (48.3 percent) had been successful in gaining the finance they needed.

Out of 87 respondents who had been successful in getting external finance, forty-one respondents (22.8 percent) had no difficulties in the process of applying for and obtaining finance while forty respondents (22.2 percent) stated that they had faced some difficulties in the process of applying for and obtaining finance.

In the services sector, out of 90 small firms, which had approached external sources, only 40 small firms (32.5 percent) had been successful in gaining finance.

Out of these 40 respondents who had been successful, nineteen respondents (15.4 percent) experienced no difficulties in the process of applying for and obtaining the finance but twenty-two respondents (17.9 percent) stated that they had faced some difficulties in the process.

Respondents were asked also what type of difficulties they faced in obtaining external finance. In this section, the difficulties are identified in Table 6-22 showing both the mean score for the factors regarding difficulties and the standard deviation. Respondents were asked to rate these factors on a five-point Likert scale (1-5: 1=strongly disagree, 2= disagree, 3= uncertain, 4= agree, 5= strongly agree).

Table 6-22 presents the means of the type of difficulties

<table>
<thead>
<tr>
<th>Type of difficulties in obtaining external finance</th>
<th>Manufacturing</th>
<th>Trade</th>
<th>Service</th>
</tr>
</thead>
<tbody>
<tr>
<td>Higher interest rate</td>
<td>Mean 4.4167</td>
<td>4.2927</td>
<td>4.0385</td>
</tr>
<tr>
<td></td>
<td>N 12</td>
<td>41</td>
<td>26</td>
</tr>
<tr>
<td></td>
<td>Std.D .6686</td>
<td>.6018</td>
<td>.6622</td>
</tr>
<tr>
<td>Shorter loan durations</td>
<td>Mean 3.917</td>
<td>3.659</td>
<td>3.346</td>
</tr>
<tr>
<td></td>
<td>N 12</td>
<td>41</td>
<td>26</td>
</tr>
<tr>
<td></td>
<td>Std.D .793</td>
<td>.825</td>
<td>1.018</td>
</tr>
<tr>
<td>Insufficient amount of finance</td>
<td>Mean 3.8333</td>
<td>3.4634</td>
<td>3.6923</td>
</tr>
<tr>
<td></td>
<td>N 12</td>
<td>41</td>
<td>26</td>
</tr>
<tr>
<td></td>
<td>Std.D .2673</td>
<td>.6744</td>
<td>1.1232</td>
</tr>
<tr>
<td>Unreasonable level of security</td>
<td>Mean 3.8333</td>
<td>3.3415</td>
<td>3.3077</td>
</tr>
<tr>
<td></td>
<td>N 12</td>
<td>41</td>
<td>26</td>
</tr>
<tr>
<td></td>
<td>Std.D .7177</td>
<td>1.3713</td>
<td>.8376</td>
</tr>
</tbody>
</table>
The respondents strongly agreed that a higher interest rate is the main difficulty in obtaining external finance; this received the highest mean score 4.42 and a standard deviation of .6686 in the manufacturing sector; a mean of 4.292 with .6018 standard deviation in the trade sector, and a mean of 4.0385 with a standard deviation of .6622 in the services sector. Respondents also agreed that the insufficient amount of finance, and the unreasonable level of security were significant. These two factors received a mean of 3.833 with standard deviations of 1.2673 and 7177 in the manufacturing sector. In the trade sector the respondents strongly agreed that the higher interest rate is the most important difficulty in obtaining external finance and this received the highest mean score. Respondents also agreed that shorter loan durations were significant: this reason received a mean score of 3.659 and a .825 level of standard deviation.

These reasons suggest that small businesses may not, especially at their outset, be willing or able to service expensive loans carrying high rates of interest. Since finance is often sought to establish or expand a business it makes sense that this has to be accomplished as economically as possible. The other obstacles, such as short-term loans, small loans and unreasonable levels of security, also can be seen to place undue pressure on a small enterprise without offering the support that is needed.

Table 6-23 below lists the reasons for failure to obtain external finance. Respondents were asked to rate these factors on a five-point Likert scale (1-5: 1=strongly disagree, 2= disagree, 3= uncertain, 4= agree, 5=strongly agree) Having an incomplete business plan to be the major reason for failure in obtaining external finance and received the highest scoring mean (3.83), a lack of securities or collateral scored 3.50, a lack of viability of proposed plans (3.42), a lack of personal financial input (3.42) are also important issue to be considered and the lowest scoring mean was received for “Project is too risky” (2.25).
Table 6-23 Reasons for failure in obtaining external finance

<table>
<thead>
<tr>
<th>Reasons for failure in obtaining external finance</th>
<th>Manufacturing</th>
<th>Trade</th>
<th>Service</th>
</tr>
</thead>
<tbody>
<tr>
<td>Incomplete business plan</td>
<td>Mean 3.8333</td>
<td>3.8913</td>
<td>3.7800</td>
</tr>
<tr>
<td></td>
<td>N 12</td>
<td>46</td>
<td>50</td>
</tr>
<tr>
<td></td>
<td>Std.D .7177</td>
<td>.3147</td>
<td>.5817</td>
</tr>
<tr>
<td>Lack of securities or collateral</td>
<td>Mean 3.5000</td>
<td>3.4255</td>
<td>3.6200</td>
</tr>
<tr>
<td></td>
<td>N 12</td>
<td>47</td>
<td>50</td>
</tr>
<tr>
<td></td>
<td>Std.D 1.4460</td>
<td>.9497</td>
<td>.9010</td>
</tr>
<tr>
<td>Lack of viability of proposed plans</td>
<td>Mean 3.4167</td>
<td>3.4894</td>
<td>2.3200</td>
</tr>
<tr>
<td></td>
<td>N 12</td>
<td>47</td>
<td>50</td>
</tr>
<tr>
<td></td>
<td>Std.D .6686</td>
<td>.8307</td>
<td>1.2362</td>
</tr>
<tr>
<td>Lack of personal financial input</td>
<td>Mean 3.4167</td>
<td>2.8298</td>
<td>2.7000</td>
</tr>
<tr>
<td></td>
<td>N 12</td>
<td>47</td>
<td>50</td>
</tr>
<tr>
<td></td>
<td>Std.D .7930</td>
<td>.6365</td>
<td>.9530</td>
</tr>
<tr>
<td>Lack of adequate business planning</td>
<td>Mean 3.4167</td>
<td>3.5532</td>
<td>3.6000</td>
</tr>
<tr>
<td></td>
<td>N 12</td>
<td>47</td>
<td>50</td>
</tr>
<tr>
<td></td>
<td>Std.D 1.2401</td>
<td>.7165</td>
<td>.7559</td>
</tr>
<tr>
<td>Inadequate source of repayment</td>
<td>Mean 3.3333</td>
<td>3.3404</td>
<td>3.9400</td>
</tr>
<tr>
<td></td>
<td>N 12</td>
<td>47</td>
<td>50</td>
</tr>
<tr>
<td></td>
<td>Std.D 1.4975</td>
<td>.8667</td>
<td>1.1502</td>
</tr>
<tr>
<td>Lack of success in a previous business venture</td>
<td>Mean 3.2500</td>
<td>3.1915</td>
<td>3.4800</td>
</tr>
<tr>
<td></td>
<td>N 12</td>
<td>47</td>
<td>50</td>
</tr>
<tr>
<td></td>
<td>Std.D 1.0553</td>
<td>.9002</td>
<td>.8389</td>
</tr>
<tr>
<td>Too rapid expansion</td>
<td>Mean 3.0000</td>
<td>3.3191</td>
<td>3.5000</td>
</tr>
<tr>
<td></td>
<td>N 12</td>
<td>47</td>
<td>50</td>
</tr>
<tr>
<td></td>
<td>Std.D 1.3484</td>
<td>.7549</td>
<td>.6468</td>
</tr>
<tr>
<td>Lack of management competence</td>
<td>Mean 2.9167</td>
<td>1.9787</td>
<td>2.7200</td>
</tr>
<tr>
<td></td>
<td>N 12</td>
<td>47</td>
<td>50</td>
</tr>
<tr>
<td></td>
<td>Std.D 1.2401</td>
<td>.7369</td>
<td>.8816</td>
</tr>
<tr>
<td>Lack of track record</td>
<td>Mean 2.9167</td>
<td>2.3191</td>
<td>2.4800</td>
</tr>
<tr>
<td></td>
<td>N 12</td>
<td>47</td>
<td>50</td>
</tr>
<tr>
<td></td>
<td>Std.D .9962</td>
<td>.6292</td>
<td>.7624</td>
</tr>
<tr>
<td>Project is too risky</td>
<td>Mean 2.2500</td>
<td>1.9362</td>
<td>1.5400</td>
</tr>
<tr>
<td></td>
<td>N 12</td>
<td>47</td>
<td>50</td>
</tr>
<tr>
<td></td>
<td>Std.D .9653</td>
<td>.7344</td>
<td>.9521</td>
</tr>
</tbody>
</table>

In the trade sector, having an incomplete business plan received the highest scoring mean (3.83913), a lack of adequate business planning (3.5532), the lack of viability of proposed plans (3.4894) are also important issues to be considered while the lowest mean was received for “Project is too risky” (1.9362). While having an inadequate source of repayment received the highest scoring mean from the participants in the service sector (3.9400), incomplete business plan received 3.7800 and a lack of
securities or collateral 3.6200; the lowest mean was received for “Project is too risky” (1.5400). These results suggest that, while putting forward risky or non-viable plans is a reason for failing to obtain finance, not having produced appropriate plans is an even more common reason for finance to be denied. Ironically, this may mean that firms are sometimes refused loans, not because their ideas are flawed, but because they have failed to demonstrate their usefulness. Thus, being able to show clearly the rationale for expansion or development in a detailed and well-formulated business plan would almost certainly increase the success rates of Omani businesses in acquiring finance.

In the next section, the results of the data collection, outlined above, are presented in terms of the study’s hypotheses.

6.6 Statistical Tests on the hypotheses

This section presents the results of testing the hypotheses that were developed and explained in the chapter concerning the analytical framework.

Need for External Finance

Characteristics of Small Businesses and their Need for External Finance

H1. An association exists between the age of small businesses and the need for external finance.

Younger enterprises with short track records appear to make less use of bank and institutional finance than established ones (Oakey, 1984; Kee et al., 1986; Peterson and Schulman, 1987; Al-Hajjar, 1989; Van Auken and Doren, 1989; University of Cambridge, 1992). A significant minority of the firms in the sample are young and small and therefore lack collateral or security. However, in order to measure the strength of the association between the age of small businesses and the need for external finance in the manufacturing, trade and services sectors, Spearman's Correlation analysis was conducted. Contrary to what might have been expected, the results in Table 6A-1 do not show any association between the age of small businesses and the need for external finance. This might be explained by the fact that, since the business expansion of Oman is in its early stages, some firms have not yet become used to applying to government or independent agencies for financial help, preferring
instead to rely on known sources of income. It might also suggest that, in the early stages of a business, managers are more reluctant to apply for financial aid until their firm has become established.

Table 6A-1: Correlation between the Age of Firms and the Need for External Finance

<table>
<thead>
<tr>
<th>Type of Sector</th>
<th>Need for external finance</th>
<th>Age of firms</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Correlation Coefficient</td>
<td>Correlation Coefficient</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>Sig. (2-tailed)</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>N</td>
</tr>
<tr>
<td>Manufacturing</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Need for</td>
<td>1.000</td>
<td>-0.059</td>
</tr>
<tr>
<td>external</td>
<td></td>
<td>.569</td>
</tr>
<tr>
<td>finance</td>
<td></td>
<td>94</td>
</tr>
<tr>
<td>Age of firms</td>
<td>-0.059</td>
<td>1.000</td>
</tr>
<tr>
<td></td>
<td>.569</td>
<td>94</td>
</tr>
<tr>
<td></td>
<td>94</td>
<td></td>
</tr>
<tr>
<td>Trade</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Need for</td>
<td>1.000</td>
<td>-0.004</td>
</tr>
<tr>
<td>external</td>
<td></td>
<td>.956</td>
</tr>
<tr>
<td>finance</td>
<td></td>
<td>180</td>
</tr>
<tr>
<td>Age of firms</td>
<td>-0.004</td>
<td>1.000</td>
</tr>
<tr>
<td></td>
<td>.956</td>
<td>180</td>
</tr>
<tr>
<td></td>
<td>180</td>
<td></td>
</tr>
<tr>
<td>Service</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Need for</td>
<td>1.000</td>
<td>-0.047</td>
</tr>
<tr>
<td>external</td>
<td></td>
<td>.609</td>
</tr>
<tr>
<td>finance</td>
<td></td>
<td>123</td>
</tr>
<tr>
<td>Age of firms</td>
<td>-0.047</td>
<td>1.000</td>
</tr>
<tr>
<td></td>
<td>.609</td>
<td>123</td>
</tr>
<tr>
<td></td>
<td>123</td>
<td></td>
</tr>
</tbody>
</table>

H.2 An association exists between the Employment size of small businesses and the need for external finance.

Statistical tests were conducted to identify if an association exists between the employment size of small businesses and the need for external finance. The results indicate a significant association between employment size and the need for finance in the trade and service sectors. This means that, the larger the firms, the more likely they are to approach an external source; small firms command lower loans because they lack an established track record. The results also indicate that smaller firms rely more on internal finance, and, as a result, external finance is not needed at the moment, or they do not want to obtain external finance because of insufficient assets that can be used as collateral (Binks et al., 1992). However, the correlation tests failed to find any association between the employment size of small businesses and the need for external finance in the manufacturing sector. This could be because small firms
find less of a need for external finance since such companies have fewer employees and less plant and equipment. Larger firms, on the other hand, face greater demands when they wish to expand; it was shown that expansion is the most likely reason for applying for outside finance.

Table 6A-2: Correlation between the Employment Size of Firms and the Need for External Finance

<table>
<thead>
<tr>
<th>Type of Sector</th>
<th>Need for external finance</th>
<th>Employment size</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Manufacturing</strong></td>
<td><strong>Correlation Coefficient</strong></td>
<td><strong>1.000</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Sig. (2-tailed)</strong></td>
<td><strong>.970</strong></td>
</tr>
<tr>
<td></td>
<td><strong>N</strong></td>
<td><strong>94</strong></td>
</tr>
<tr>
<td><strong>Trade</strong></td>
<td><strong>Correlation Coefficient</strong></td>
<td><strong>1.000</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Sig. (2-tailed)</strong></td>
<td><strong>.000</strong></td>
</tr>
<tr>
<td></td>
<td><strong>N</strong></td>
<td><strong>180</strong></td>
</tr>
<tr>
<td><strong>Service</strong></td>
<td><strong>Correlation Coefficient</strong></td>
<td><strong>1.000</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Sig. (2-tailed)</strong></td>
<td><strong>.000</strong></td>
</tr>
<tr>
<td></td>
<td><strong>N</strong></td>
<td><strong>123</strong></td>
</tr>
</tbody>
</table>

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

H.3 An association exists between the preparation of a business plan and the decision to apply for external finance

It can be seen from the literature that the existence of a business plan is the most important step in the launching of a new concern (Roberts, 1991; Knight and Knight, 1993). The business plan acts as a guide for the firm in order to organise and control its day-to-day activities and operations (Shuman et al; 1985). Because of this, lenders do not usually consider applications for loans without a suitably detailed and comprehensive business plan (Berry et al; 1993, Carty, 1994). The banks also use the business plans of companies in order to evaluate whether or not small businesses are likely to repay the loans and overdrafts for which they apply. Furthermore, a business plan offers to managers and owners the opportunity to demonstrate skill, experience and expertise (Read, 1998).
Table 6A-3 provides evidence that a written business plan is significantly associated with the decision whether or not to apply for external finance, suggesting that a small business which has prepared a business plan is more likely to apply for external finance. The result implies that a business plan is principally used as a tool for raising finance (Schuman et al., 1985; Carty, 1994; Read, 1998). It may also suggest that a company which is thinking of applying for external finance is more likely to prepare for this by setting out a business plan before its application and that managers realise that their company is much more likely to gain the financial assistance it is seeking if a detailed plan has been formulated. Therefore, the hypothesis is substantiated.

Table 6A-3: Correlation between the Existence of a Written Business plan and the Need for External Finance

<table>
<thead>
<tr>
<th>Type of Sector</th>
<th>Need for external finance</th>
<th>Business plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>Correlation Coefficient</td>
<td>1.000</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.000</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>94</td>
</tr>
<tr>
<td></td>
<td>Correlation Coefficient</td>
<td>.519**</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.000</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>94</td>
</tr>
<tr>
<td>Trade</td>
<td>Need for external finance</td>
<td>1.000</td>
</tr>
<tr>
<td></td>
<td>Correlation Coefficient</td>
<td>.347**</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.000</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>179</td>
</tr>
<tr>
<td></td>
<td>Correlation Coefficient</td>
<td>.000</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.123*</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>123</td>
</tr>
<tr>
<td>Service</td>
<td>Need for external finance</td>
<td>1.000</td>
</tr>
<tr>
<td></td>
<td>Correlation Coefficient</td>
<td>.225*</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.012</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>123</td>
</tr>
</tbody>
</table>

** Correlation is significant at the 0.01 level (2-tailed).
* Correlation is significant at the 0.05 level (2-tailed).

H.4. An association exists between the type of ownership of the small business and the need for external finance.

Need for external finance is influenced by the form the business takes. For example, some studies in both developed and developing countries have shown that incorporated firms are more likely to succeed in gaining access to external sources of finance than businesses which are unincorporated (Freedman and Godwin, 1992;
Mishra, 1995). Furthermore, research suggests that private limited companies are more likely to rely on bank finance (Storet, 1994) and are more likely to have access to external equity markets (Binks et al., 1986).

Posner (1986) suggests that owner-managers may perceive that achieving limited company status gives them a greater chance of raising finance because limited company status lends greater credibility to potential lenders and/or investors (Freedman and Godwin, 1992). Conversely, unincorporated firms seeking finance may be limited by the availability of collateral (Barlow and Robson, 1999) because the family home may well be the only asset of most owner-managers.

Statistical tests were carried out to identify if an association exists between the type of ownership of small businesses and the need for external finance. The results of the correlation test used to test the hypothesis relative to the ownership of the respondent organisation and the need for external finance are shown in Table 6A-4. These indicate that there is a statically significant association between ownership type and the need for external finance in the trade sector only. However, the Spearman's Correlation analysis test failed to find any association between the type of ownership and the need for external finance in the manufacturing and service sectors.

Table 6A-4: Correlation between the Type of Ownership and the Need for External Finance

<table>
<thead>
<tr>
<th>Type of Sector</th>
<th>Need for external finance</th>
<th>Correlation Coefficient</th>
<th>Sig. (2-tailed)</th>
<th>N</th>
<th>Type of ownership</th>
<th>Correlation Coefficient</th>
<th>Sig. (2-tailed)</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>Need for external finance</td>
<td>Correlation Coefficient</td>
<td>1.000</td>
<td>.</td>
<td>Type of ownership</td>
<td>Correlation Coefficient</td>
<td>1.000</td>
<td>.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.</td>
<td>.</td>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.</td>
<td>.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>N</td>
<td>94</td>
<td>4</td>
<td></td>
<td>N</td>
<td>94</td>
<td>4</td>
</tr>
<tr>
<td>Trade</td>
<td>Need for external finance</td>
<td>Correlation Coefficient</td>
<td>1.000</td>
<td>.</td>
<td>Type of ownership</td>
<td>Correlation Coefficient</td>
<td>-.289**</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.</td>
<td>.</td>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.</td>
<td>.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>N</td>
<td>180</td>
<td>180</td>
<td></td>
<td>N</td>
<td>180</td>
<td>180</td>
</tr>
<tr>
<td>Service</td>
<td>Need for external finance</td>
<td>Correlation Coefficient</td>
<td>1.000</td>
<td>.</td>
<td>Type of ownership</td>
<td>Correlation Coefficient</td>
<td>-.069</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.</td>
<td>.</td>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.</td>
<td>.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>N</td>
<td>123</td>
<td>123</td>
<td></td>
<td>N</td>
<td>123</td>
<td>123</td>
</tr>
</tbody>
</table>

** Correlation is significant at the 0.01 level (2-tailed)
Characteristics of the Owner-Manager and the decision to apply for External Finance

H.5. An association exists between the age of the owner-manager of a small business and the decision to apply for external finance.

According to Petts, Herd & O’hEocha (1998) the age of owner-managers is likely to be important when considering business behaviour since this is a factor which is often related to the survival of a business (Peters, Cressy and Storey (1999). In other words, the age of the manager is positively related to an enterprise’s survival. This does not appear to be the case, however, with success in obtaining finance where the relation appears to be negative (Hustedde and Pulver, 1992).

This may be because middle-aged owner managers are more likely to possess assets and to have accrued more security and collateral than younger owner-managers just beginning their enterprises, or older-owner managers who may have worked in other areas before setting up their businesses. Also, middle-aged managers may be perceived by lenders to have amassed useful experience without being yet near the end of their working lives. As a result, those under and beyond middle age have been found to be more likely to face difficulties in obtaining finance (Cressy, 1993).

As shown in this study in Table 6A-5, however, no evidence was found of an association between the age of the owner-manager and the decision to apply for external finance.
Table 6A-5: Correlation between Owner-Manager’s Age and the decision to apply for External Finance

<table>
<thead>
<tr>
<th>Type of Sector</th>
<th>Need for external finance</th>
<th>Correlation Coefficient</th>
<th>Sig. (2-tailed)</th>
<th>N</th>
<th>Owner-Manager Age Correlation Coefficient</th>
<th>Sig. (2-tailed)</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>Need for external finance</td>
<td>Correlation Coefficient</td>
<td>.94</td>
<td>.345</td>
<td>.098</td>
<td>.100</td>
<td>.94</td>
</tr>
<tr>
<td></td>
<td>Owner-Manager’s Age</td>
<td>Correlation Coefficient</td>
<td>-.098</td>
<td>.345</td>
<td>1.000</td>
<td>-.145</td>
<td>.055</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Sig. (2-tailed)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>N</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade</td>
<td>Need for external finance</td>
<td>Correlation Coefficient</td>
<td>1.000</td>
<td>.055</td>
<td>-.145</td>
<td>1.000</td>
<td>.177</td>
</tr>
<tr>
<td></td>
<td>Owner-Manager’s Age</td>
<td>Correlation Coefficient</td>
<td>-.145</td>
<td>.055</td>
<td>1.000</td>
<td>-.132</td>
<td>.146</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Sig. (2-tailed)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>N</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Service</td>
<td>Need for external finance</td>
<td>Correlation Coefficient</td>
<td>1.000</td>
<td>.146</td>
<td>-.132</td>
<td>1.000</td>
<td>.123</td>
</tr>
<tr>
<td></td>
<td>Owner-Manager’s Age</td>
<td>Correlation Coefficient</td>
<td>-.132</td>
<td>.146</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Sig. (2-tailed)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>N</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

H6. An association exists between the level of formal education and training of the owner-manager of a small business and the decision to apply for external finance.

It was proposed that the level of education and training of the owner-manager has an influence and an impact on the decision to apply for external finance. In order to measure if such an association exists between the level of formal education of the owner-manager and the need for external finance, a correlation analysis was conducted. Table 6A-6 provides evidence of an association between the levels of education of respondents in the manufacturing sector only. However, the Spearman's Correlation analysis failed to find any association between the levels of education of respondents in the trade and services sectors and the need for external finance.

In terms of training, Table 6A-7 examines the association between the levels of training of the owner-managers of a small business in the three sectors and the decision to apply for external finance. The results show the training level is significantly associated with the need for external finance.
Table 6A-6 Correlation between the level of Formal Education and the decision to apply for External Finance

<table>
<thead>
<tr>
<th>Type of Sector</th>
<th>Need for external finance</th>
<th>Owner-Manager’s Education</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Manufacturing</strong></td>
<td><strong>Need for external finance</strong></td>
<td><strong>Correlation Coefficient</strong></td>
</tr>
<tr>
<td>Manufacturing</td>
<td>Owner-Manager’s Education</td>
<td>Correlation Coefficient</td>
</tr>
<tr>
<td></td>
<td>Correlation Coefficient</td>
<td>-.226*</td>
</tr>
<tr>
<td></td>
<td>Correlation Coefficient</td>
<td>1.000</td>
</tr>
<tr>
<td></td>
<td>Correlation Coefficient</td>
<td>.084</td>
</tr>
<tr>
<td></td>
<td>Correlation Coefficient</td>
<td>1.000</td>
</tr>
<tr>
<td></td>
<td>Correlation Coefficient</td>
<td>-.055</td>
</tr>
</tbody>
</table>

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

Table 6A-7 Correlation between Training and the decision to apply for External Finance

<table>
<thead>
<tr>
<th>Type of Sector</th>
<th>Need for external finance</th>
<th>Owner-Manager’s Training</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Manufacturing</strong></td>
<td><strong>Need for external finance</strong></td>
<td><strong>Correlation Coefficient</strong></td>
</tr>
<tr>
<td>Manufacturing</td>
<td>Owner-Manager’s Training</td>
<td>Correlation Coefficient</td>
</tr>
<tr>
<td></td>
<td>Correlation Coefficient</td>
<td>.249*</td>
</tr>
<tr>
<td></td>
<td>Correlation Coefficient</td>
<td>1.000</td>
</tr>
<tr>
<td></td>
<td>Correlation Coefficient</td>
<td>.197**</td>
</tr>
<tr>
<td></td>
<td>Correlation Coefficient</td>
<td>1.000</td>
</tr>
<tr>
<td></td>
<td>Correlation Coefficient</td>
<td>379**</td>
</tr>
</tbody>
</table>

* Correlation is significant at the 0.05 level (2-tailed).
** Correlation is significant at the 0.01 level (2-tailed).
H.7 An association exists between business experience of the owner-manager of a small business and the decision to apply for external finance.

It is clear that the majority of owner-managers do not have financial training and, because of this, difficulties may arise because they are unable to predict with any accuracy their financial needs (CPE, 1982). Financial investment will be needed in order for any business to grow, but obtaining the necessary finance often depends upon the skills of the entrepreneur. Such skills and relevant experience on the part of the owner-manager are perceived to be vitally important when lenders are considering offering financial backing (Berry et al., 1993). Berry et al. noted that potential lenders look for a link between past experience and the skills required to start the proposed new business as such a link would seem to indicate a greater likelihood of success. This is viewed as one way to avoid some of the problems of adverse selection.

Owner-managers need to acquire relevant skills and knowledge before starting up a business. This is shown by the fact that only 6 percent of owner-managers started their businesses immediately after graduation (that is, with little or no experience) while 46 percent of owner-managers were former employees of their firms (Fong, 1990). This kind of on the job training was also viewed as important to owner-managers before they began their own enterprises. Hustedde and Pulver (1992) reported that the greater the business experience of individuals, the less likely they are to acquire external finance.

Table 6A-8 shows the results of the test that was carried out to examine if an association exists between the business experience of the owner-manager and the decision to apply for external finance. The results show that the business experience of the owner-managers in the manufacturing trade and service sectors is significantly associated with the decision to apply for external finance.
Table 6A-8: Correlation between Owner-Manager’s Experience the decision to apply for External Finance

<table>
<thead>
<tr>
<th>Type of Sector</th>
<th>Need for external finance</th>
<th>Owner-Manager’s Experience</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>Correlation Coefficient 1.000</td>
<td>.194*</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.061</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>94</td>
</tr>
<tr>
<td></td>
<td>Correlation Coefficient .194</td>
<td>1.000</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.061</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>94</td>
</tr>
<tr>
<td>Trade</td>
<td>Correlation Coefficient 1.000</td>
<td>.234**</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.002</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>180</td>
</tr>
<tr>
<td></td>
<td>Correlation Coefficient .234**</td>
<td>1.000</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.002</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>179</td>
</tr>
<tr>
<td>Service</td>
<td>Correlation Coefficient 1.000</td>
<td>.215*</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.017</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>123</td>
</tr>
<tr>
<td></td>
<td>Correlation Coefficient .215*</td>
<td>1.000</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.017</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>123</td>
</tr>
</tbody>
</table>

** Correlation is significant at the .01 level (2-tailed).
*Correlation is significant at the .05 level (2-tailed).

Difficulties in Raising External Finance

Characteristics of Small Firms and the Existence of Difficulties in Raising External Finance.

H.8. An association exists between the age of small businesses and existence of difficulties in raising external finance.

Younger small businesses face difficulties in raising larger loans because of insufficient assets to use as collateral (Binks et al., 1992). However, statistical tests were carried out to identify if an association exists between the age of the small businesses and the difficulties in raising external finance. The results of the correlation test are shown in Table 6A-9. This table indicates an association between the age of small business in the trade and service sectors and the existence of difficulties, while this table does not provide evidence of a significant association between the age of small businesses in the manufacturing sector and the existence of difficulties.
Table 6A-9: Correlation between the Age of firms and Difficulties in Raising External Finance

<table>
<thead>
<tr>
<th>Type of Sector</th>
<th>The process of applying for external finance</th>
<th>Age of firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>Correlation Coefficient</td>
<td>1.000</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>53</td>
</tr>
<tr>
<td>Trade</td>
<td>Correlation Coefficient</td>
<td>-120</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.392</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>53</td>
</tr>
<tr>
<td>Service</td>
<td>Correlation Coefficient</td>
<td>-380**</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.000</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>81</td>
</tr>
<tr>
<td></td>
<td>Correlation Coefficient</td>
<td>-475**</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.002</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>41</td>
</tr>
</tbody>
</table>

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

H.9. An association exists between the employment size of small businesses and existence of difficulties in raising external finance.

Size and age are just two dimensions along which businesses typically differ (Mirvis, 1994; Hillary, 1997; Herd and Oheocha, 1998). Difficulties in raising finance are noted as being inversely related to the age and size of the firms; that is, smaller and/or younger firms experience more difficulties than larger firms (Burke and Hill 1990; Hankinson, 1991; Barrow, 1993; Terpstra and Olson, 1993; Mirvis, 1994; Wiklund, 1998).

However, Table 6A-10 shows no association between the size of small businesses and the existence of difficulties in the process of obtaining external finance. The relationship between the size of firms and the existence of difficulty in obtaining finance is also observed in other studies (Terpstra and Olson, 1993; Moore, 1994).
<table>
<thead>
<tr>
<th>Type of Sector</th>
<th>The process of applying for external finance</th>
<th>Employment size</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Correlation Coefficient</td>
<td>Sig. (2-tailed)</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>1.000</td>
<td>-.142</td>
</tr>
<tr>
<td>Trade</td>
<td>1.000</td>
<td>.029</td>
</tr>
<tr>
<td>Service</td>
<td>1.000</td>
<td>.039</td>
</tr>
</tbody>
</table>

H.10. An association exists between the existence of a written business plan in a small business and existence of difficulties in raising external finance.

Table 6A-11 below provides evidence that the existence of a written business plan in the manufacturing and trade sectors is significantly associated with the process of applying for external finance. This result implies that the business plan is related to ease in obtaining external finance. However, the Spearman's Correlation test did not show an association exists between a written business plan in small businesses in the service sector and the existence of difficulties in raising external finance.
Table 6A-11: Correlation between the existence of a Business Plan and Difficulties in Raising External Finance

<table>
<thead>
<tr>
<th>Type of Sector</th>
<th>The process of applying for external finance</th>
<th>Business plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>Correlation Coefficient .395** Sig. (2-tailed)</td>
<td>.395**</td>
</tr>
<tr>
<td></td>
<td>N 53</td>
<td>.003</td>
</tr>
<tr>
<td>Trade</td>
<td>Correlation Coefficient .414** Sig. (2-tailed)</td>
<td>.414**</td>
</tr>
<tr>
<td></td>
<td>N 81</td>
<td>.000</td>
</tr>
<tr>
<td>Service</td>
<td>Correlation Coefficient -.047 Sig. (2-tailed)</td>
<td>-.047</td>
</tr>
<tr>
<td></td>
<td>N 41</td>
<td>.771</td>
</tr>
</tbody>
</table>

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

H.11 An association exists between the ownership of a small business and the existence of difficulties in raising external finance.

The statistical tests that were carried out, the results of which are given below in Table 6A-12, did not reach a level of significance regarding the relationship between the ownership of the respondent’s organisation and existence of difficulties in raising external finance.

Table 6A-12: Correlation between Ownership and Difficulties in Raising External Finance

<table>
<thead>
<tr>
<th>Type of Sector</th>
<th>The process of applying for external finance</th>
<th>Ownership Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>Correlation Coefficient -.108 Sig. (2-tailed)</td>
<td>-.108</td>
</tr>
<tr>
<td></td>
<td>N 53</td>
<td>.440</td>
</tr>
<tr>
<td>Trade</td>
<td>Correlation Coefficient -.049 Sig. (2-tailed)</td>
<td>-.049</td>
</tr>
<tr>
<td></td>
<td>N 81</td>
<td>.664</td>
</tr>
<tr>
<td>Service</td>
<td>Correlation Coefficient -.077 Sig. (2-tailed)</td>
<td>-.077</td>
</tr>
<tr>
<td></td>
<td>N 41</td>
<td>.634</td>
</tr>
</tbody>
</table>
Characteristics of the Owner-Manager and the Existence of Difficulties in Raising External Finance.

H. 12 An association exists between the age of the owner-manager of a small business and the existence of difficulties in raising external finance.

The results in Table 6A-13 indicate that there is evidence that the age of the owner-manager in the manufacturing and trade sectors has an association with the process of applying for external finance. This finding shows that the age of the owner-manager would necessarily affect the ease with which external finance was made available in these two sectors. This might be because older managers are regarded as more experienced and therefore as more secure. However, the result did not show any association between the age of the owner-manager in the service sector and the existence of difficulties in raising external finance.

Table 6A-13: Correlation between the Age of the Owner-Manager and the Existence of Difficulties in Raising External Finance.

<table>
<thead>
<tr>
<th>Type of Sector</th>
<th>The process of applying for external finance</th>
<th>Owner-manager Age</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>Correlation Coefficient: 1.000</td>
<td>-.607**</td>
</tr>
<tr>
<td></td>
<td>Correlation Coefficient: -.607**</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Correlation Coefficient: -.423**</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Correlation Coefficient: 1.000</td>
<td>-.225</td>
</tr>
<tr>
<td></td>
<td>Correlation Coefficient: -.225</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Correlation Coefficient: .143</td>
<td></td>
</tr>
<tr>
<td>Trade</td>
<td>The process of applying for external finance</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Correlation Coefficient: 1.000</td>
<td>-.423**</td>
</tr>
<tr>
<td></td>
<td>Correlation Coefficient: -.423**</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Correlation Coefficient: .143</td>
<td></td>
</tr>
<tr>
<td>Service</td>
<td>The process of applying for external finance</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Correlation Coefficient: -.225</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Correlation Coefficient: .143</td>
<td></td>
</tr>
</tbody>
</table>

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

H. 13. An association exists between the level of formal education and training of the owner-manager of a small business and the existence of difficulties in raising external finance.

Education and training in general are both regarded by lenders as critically important when evaluating companies (Berry et al, 1993). However, Statistical tests, illustrated
in Tables 6A-14 and 6A-15, do not show any association between the level of education and training of the owner-manager and the existence of difficulties in raising external finance. These findings are consistent with the findings of Hustedde and Pulver (1992).

Table 6A-14: Correlation between the Education of the Owner-Manager and the Existence of Difficulties in Raising External Finance

<table>
<thead>
<tr>
<th>Type of Sector</th>
<th>The process of applying for external finance</th>
<th>Owner-manager Education</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>Correlation Coefficient: 1.000</td>
<td>-.292</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed): .</td>
<td>.034</td>
</tr>
<tr>
<td></td>
<td>N: 53</td>
<td>53</td>
</tr>
<tr>
<td>Trade</td>
<td>Correlation Coefficient: -292</td>
<td>1.000</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed): .034</td>
<td>.</td>
</tr>
<tr>
<td></td>
<td>N: 53</td>
<td>92</td>
</tr>
<tr>
<td>Service</td>
<td>Correlation Coefficient: 1.000</td>
<td>-.095</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed): .</td>
<td>.397</td>
</tr>
<tr>
<td></td>
<td>N: 81</td>
<td>81</td>
</tr>
<tr>
<td></td>
<td>Correlation Coefficient: -095</td>
<td>1.000</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed): .397</td>
<td>.</td>
</tr>
<tr>
<td></td>
<td>N: 81</td>
<td>179</td>
</tr>
</tbody>
</table>

Table 6A-15: Correlation between the Training of the Owner-Manager and Existence of Difficulties in Raising External Finance

<table>
<thead>
<tr>
<th>Type of Sector</th>
<th>The process of applying external finance</th>
<th>Owner-manager Training</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>Correlation Coefficient: 1.000</td>
<td>.129</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed): .</td>
<td>.359</td>
</tr>
<tr>
<td></td>
<td>N: 53</td>
<td>53</td>
</tr>
<tr>
<td>Trade</td>
<td>Correlation Coefficient: .129</td>
<td>1.000</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed): .359</td>
<td>.</td>
</tr>
<tr>
<td></td>
<td>N: 53</td>
<td>94</td>
</tr>
<tr>
<td>Service</td>
<td>Correlation Coefficient: 1.000</td>
<td>-.054</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed): .</td>
<td>.763</td>
</tr>
<tr>
<td></td>
<td>N: 41</td>
<td>41</td>
</tr>
<tr>
<td></td>
<td>Correlation Coefficient: -.054</td>
<td>1.000</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed): .763</td>
<td>.</td>
</tr>
<tr>
<td></td>
<td>N: 41</td>
<td>123</td>
</tr>
</tbody>
</table>

Chandler and Hanks (1998) in their research examined the human and financial capital of the founders of new business ventures and their substitutability. Their analysis demonstrated that firms with high levels of human capital and low levels of initial financial capital performed in a similar way to firms that had low levels of human capital and high levels of initial financial capital from their founders’ point of view. Chandler and Hanks’ finding suggests that such founders who have considerable background experience, may start businesses that survive and expand although they have less financial capital than their less-experienced counterparts.

Table 6A-16 offers the results of Spearman's Correlation test. The results show that the experience of owner-managers helps organizations compete better in the marketplace; this then makes external finance more easily available.

<table>
<thead>
<tr>
<th>Type of Sector</th>
<th>The process of applying for external finance</th>
<th>Owner-manager Experience</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Correlation Coefficient Sig. (2-tailed)</td>
<td></td>
</tr>
<tr>
<td>Manufacturing</td>
<td>1.00 .751**</td>
<td>.000 53</td>
</tr>
<tr>
<td></td>
<td>N .53</td>
<td>53</td>
</tr>
<tr>
<td></td>
<td>Correlation Coefficient Sig. (2-tailed)</td>
<td>1.000 1.000</td>
</tr>
<tr>
<td></td>
<td>N .53</td>
<td>94</td>
</tr>
<tr>
<td></td>
<td>Correlation Coefficient Sig. (2-tailed)</td>
<td>.449** 1.000</td>
</tr>
<tr>
<td></td>
<td>N .81</td>
<td>81</td>
</tr>
<tr>
<td></td>
<td>Correlation Coefficient Sig. (2-tailed)</td>
<td>.000 1.000</td>
</tr>
<tr>
<td></td>
<td>N .81</td>
<td>179</td>
</tr>
<tr>
<td></td>
<td>Correlation Coefficient Sig. (2-tailed)</td>
<td>1.000 .573**</td>
</tr>
<tr>
<td></td>
<td>N .41</td>
<td>41</td>
</tr>
<tr>
<td></td>
<td>Correlation Coefficient Sig. (2-tailed)</td>
<td>.000 1.000</td>
</tr>
<tr>
<td></td>
<td>N .41</td>
<td>123</td>
</tr>
</tbody>
</table>

** Correlation is significant at the 0.01 level (2-tailed).
Islamic Financing Methods

The objective of this part of the questionnaire was to discover the opinions of small entrepreneurs concerning Islamic financing methods. This was intended, in turn, to test the hypothesis that says, "The majority of small business concerns would not accept sharing the ownership of their business in return for the provision of equity capital."

Musharaka, which means sharing, is an Islamic financing method, where the investor offers the necessary funds in return for a share in the ownership of the concern and hence, a share of both the profit and the loss.

Because the analysis regarding Islamic financing methods showed that there were no significant differences in opinion regarding this matter in the three sectors (that is, the manufacturing, trade and service sectors), the researcher decided not to examine this area sector by sector. Instead, it was decided to examine this area across the three SME sectors as a whole.

Respondents were asked their opinions concerning Musharaka; only one hundred fifty nine respondents (40.4 percent) supported this financing method while two hundred and thirty (57.9 percent) of the respondents rejected it. Table 6A-17 presents the collected responses concerning Musharaka.

Table 6A-17 Respondents’ Opinion concerning Musharaka

<table>
<thead>
<tr>
<th>Type of response</th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accept</td>
<td>159</td>
<td>40.1</td>
<td>40.9</td>
</tr>
<tr>
<td>Reject</td>
<td>230</td>
<td>57.9</td>
<td>100.0</td>
</tr>
<tr>
<td>Missing</td>
<td>8</td>
<td>2.0</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>397</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

As can be seen from Table 6A-18, it is clear that one hundred forty six of the respondents (36.8 percent) who rejected this method attributed their rejection to the fact that they wanted the business to remain in their own names as they set up the business through their own efforts. Eighty six of the respondents (21.7 percent)
rejected this method because they believed that the new participant would interfere in
the management of their business.

Table 6A-18 Reasons for Rejecting Musharaka

<table>
<thead>
<tr>
<th>Type of respondent</th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wanted to keep own name</td>
<td>146</td>
<td>36.8</td>
<td>62.9</td>
</tr>
<tr>
<td>Interference</td>
<td>86</td>
<td>21.7</td>
<td>100.0</td>
</tr>
<tr>
<td>Missing</td>
<td>165</td>
<td>41.6</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>397</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Of the one hundred fifty nine respondents who were prepared to accept Musharaka as a method of financing, fifteen of them (15.4 percent) preferred to do this via relatives and friends; 17.1 percent preferred to go to an Islamic bank if this was available in Oman and 4.8 percent preferred to approach a national company. Table 6A- 19 shows the sources of finance preferred by the respondents.

Table 6A-19 Sources of finance preferred by the respondents

<table>
<thead>
<tr>
<th>Sources</th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relatives/Friends</td>
<td>61</td>
<td>15.4</td>
<td>39.2</td>
</tr>
<tr>
<td>Commercial bank</td>
<td>8</td>
<td>2.0</td>
<td>44.2</td>
</tr>
<tr>
<td>Islamic bank (if existing)</td>
<td>68</td>
<td>17.1</td>
<td>87.8</td>
</tr>
<tr>
<td>National company</td>
<td>19</td>
<td>4.8</td>
<td>100.0</td>
</tr>
<tr>
<td>Missing</td>
<td>241</td>
<td>60.7</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>397</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Mudharaba is another Islamic method of financing. This is the willingness of one party to provide the capital which is needed while the other party provides his efforts and “know-how”. When profits are generated they are distributed between the two in agreed proportions. On the other hand, if losses occur, the provider of the finance loses his capital and is held responsible for the loss while the other party suffers no financial loss other than the failure to be compensated for lost effort.
Using ANOVA, it was found that there was no significant difference among the respondents in the manufacturing, trade and services sectors regarding their opinions of Mudharaba.

Table 6A-20 Respondents’ Opinion concerning the Mudharaba Financing Method

<table>
<thead>
<tr>
<th>Type of response</th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accept</td>
<td>184</td>
<td>46.3</td>
<td>46.9</td>
</tr>
<tr>
<td>Reject</td>
<td>208</td>
<td>52.4</td>
<td>100.0</td>
</tr>
<tr>
<td>Missing</td>
<td>5</td>
<td>1.3</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>397</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

ANOVA $\text{F}=2.514$  $\text{Df}=2$  $\text{Significance}=.082$

Table 6A-20 shows the respondents’ opinion concerning Mudharaba. One hundred and eighty four respondents (46.9 percent) accepted this financing method, and two hundred and eight (52.4 percent) of the respondents rejected it as a method of financing their needs. 21.7 percent of those who rejected this method attributed their rejection to the fact that they did not want the provider of the equity to interfere in the management of the business in the future; 33.2 percent rejected this method because they believed that the provider of the capital might withdraw from the business later on and would establish a business to produce or sell the same products, so competing with them. Table 6A-21 shows the reasons for rejecting Mudharaba.

Table A-21. Reasons for Rejecting Mudharaba Financing Method

<table>
<thead>
<tr>
<th>Type of response</th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management Interference</td>
<td>86</td>
<td>21.7</td>
<td>39.4</td>
</tr>
<tr>
<td>Fear of Competition</td>
<td>132</td>
<td>33.2</td>
<td>100.0</td>
</tr>
<tr>
<td>Missing</td>
<td>179</td>
<td>45.1</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>397</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

The findings concerning Islamic finance methods confirm the hypothesis that sharing ownership in return for the provision of capital is not accepted among most small business entrepreneurs.
6.7 Summary

The first part of this chapter has presented an analysis of the questionnaire responses from owner-managers of small businesses from three sectors (manufacturing, trade and services) in Oman. The questionnaires numbered 397 in total.

The aim of this analysis, descriptive in nature, is to provide a general overview of the main characteristics of both the owner-managers and the organizations which this study has sought to examine, as well as the nature of certain Islamic financing methods. The relationship between these, the independent variables, and the dependent variables: the sources of finance used by small businesses, the need of such enterprises for external finance, and the difficulties faced by such companies in obtaining finance, is the focus of the analysis presented above.

The second part of the chapter tests the hypotheses put forward in the research. These hypotheses were explained in detail in the chapter concerning the analytical framework (Chapter four) in which the relationships between the independent and dependent variables, noted above, were examined.

The following chapter presents an overall summary of the entire study and its implications, together with recommendations based on the findings of this research.
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Chapter 7

Conclusion & Implications of the Research
Conclusion & Implications of the Research

7.1 Introduction

The previous chapter discussed the data analysis and reported the test results of the hypotheses. In this final chapter, a summary and the conclusions of the research findings and their contribution are presented. The objective is to demonstrate the extent to which the major objectives of this research have been achieved and to explore the implications of the results found in the empirical work. Therefore, this chapter is divided into two main sections. The first will summarise and draw conclusions based on the finding related to the conceptual framework. The second section will discuss the implications of the research.

7.2 Summary and findings of the research

It has been shown, almost to a global extent, that SMEs play a crucial role in economic development. As a result, small firms are, in most countries, a key component of the development agenda and strategy. Their effect can be seen in a number of areas including, the absorption of labour, the generation and distribution of income, the alleviation of poverty, as a training ground for the development and upgrading of skills in entrepreneurship, and as important vehicles for promoting forward and backward linkages in geographically and economically diverse sectors of the economy in many countries. However, these benefits will not accrue if small firms are disadvantaged by inequalities in the financial market. Small firms face difficulties in obtaining appropriate finance in the start-up, growth and development phases. Such difficulties stem from a number of interlinked factors, including a higher risk of failure, information asymmetries between small firms and lenders, and the costly administration of loans for small firms.

This study attempts to provide guidelines to assist planners and decision-makers in Oman to design a programme which will encourage the participation of small firms in the Sultanate’s process of development. The main objective of this study is to consider the activities, procedures and problems that face small businesses in Oman in obtaining finance. It covers three sectors: manufacturing, trade and services.
In pursuing this main objective, the study attempts to examine the association between certain characteristics such as the age and size of the company, its ownership type, the existence of a business plan etc.; the firm’s need for external finance; and the difficulties they face in raising such finance. It further considers the association between certain characteristics of owner-managers {for example, age, education, training and business experience} and external finance.

The Islamic finance methods of Musharaka and Mudaraba, both forms of equity finance, are discussed since equity finance is the main method used in the financing of small businesses.

The study also attempts to explain the similarities and differences in the procedures and financing problems of small firms in the manufacturing, trade and service sectors in Oman.

The main findings of this study can be reviewed in the following sections:

7.2.1 Characteristics of the Small Firms and Owner-Managers

It was found that the youngest firms (those between 5 and 10 years old) in the sample were those in, firstly, the trade and, secondly, the services sectors, while the majority in the manufacturing area were between 6 and 15 years old. It was felt that manufacturing businesses were likely to be more established because such firms receive more government aid and require more specialist equipment and expertise than firms in the other two sectors.

Manufacturing firms also tended to be larger than companies in either of the other two sectors. The majority of such firms employed between 20 and 49 people while the majority in the services sector employed between 1 and 19. Trade companies were smallest, the majority employing fewer than 9 people. This could be because the trade and service firms tended to be less well established.
Almost all the responding companies had turnovers of less than OM 100,000, with more companies in the service sector accruing a small turnover than in the other two. This could be because these companies were relatively new and had not yet accumulated the experience or time to expand their profitability.

In terms of ownership, most firms in the trade and services sectors were in the hands of a sole owner, with most of the rest of such companies in general or limited partnerships. In the manufacturing sector, however, where companies tended to be larger, almost half the companies were in limited partnerships.

Very few businesses in any of the three sectors were multinational partnerships or shareholding companies.

Most companies in the manufacturing sector also had a business plan, although a sizeable number (33.0%) did not. Since these companies, as mentioned before tend to be both larger and more established, it might be expected that this would be the case. A majority of businesses in the trade and service sectors did not have such a plan, however, with almost three quarters of service companies admitting this. So, while a large number of respondents said they regarded business plans as important, both for securing loans and for the overall efficient running of their businesses, this recognition was not borne out by the existence of such plans. A large proportion of respondents also noted that lenders were frequently more interested in security for the proposed loan than in the existence of a business plan.

Their own capital was the main source of finance used by owner-managers at the start-up stage in all three sectors although this was most common in the trade sector. This signifies that this method of finance allows owner-managers the greatest degree of control over their own business. Commercial banks were also an important source of funding for the trade and service sectors, while the manufacturing sector was the only one to make good use of government credit institutions. While relatives and friends were used as a source of finance in all three sectors, particularly in the service field, it was
comparatively rare to find that this kind of support was accepted in return for a share of the profits and/or a share in the management of the business.

Owner-managers tended to be, on average, slightly older in the trade and manufacturing sectors, with the largest group being in the 41 – 50 year age bracket in these fields. Managers in the service sector, however, were more numerous in the 31 – 40 year range, suggesting that perhaps it was perceived that slightly more experience is needed before establishing a business in the trade and manufacturing areas. It might also suggest that trade and manufacturing businesses tend to last longer than those in the service sector.

The manufacturing sector tended to attract entrepreneurs of higher educational levels than for other sectors since over a third of owner-managers in this field held university degrees. Educational levels were lower in the trade and service sectors with over half of their managers being educated to only secondary level or below. Very few managers in any of the three sectors were educated above university first degree level which suggests that business does not attract those of the highest academic levels. Again, this suggests that the manufacturing sector requires more skill, experience and investment than the other areas.

Again, the manufacturing sector contained the largest number of owner-managers with previous experience, although the majority had only between 1 – 3 years. Nearly a quarter had no experience at all. In the trade and services fields, on the other hand, over half and just under half respectively had no experience, a clear indication that the industrial base of Oman is still in its infancy. In terms of training, while half of the owner-managers in the manufacturing sector and just under half of those in the service sector had prior training, over three quarters in the trade field had had no training at all. The majority of those from all three sectors received their training from either the Oman Chamber of Commerce and Industry, or, in the case of the majority of those from the service sector, from the General Administration Institute.
7.2.2 Need for external finance

The survey results in this study show that the majority of owner-managers said that their companies needed external finance in order to fund their operations, though this need was greater in the trade and services sector. Generally, this was needed for expansion, especially in the trade sector where 88% of respondents quoted this as their reason for seeking finance. Although the rates were lower in the other two fields (50% in the service sector and 33% in manufacturing), it is encouraging that many businesses in Oman are seeking to expand.

While most respondents in all three sectors were aware of the government sources of finance, a sizeable proportion were not and this is worrying if many businesses are seeking to expand, thus strengthening the economic foundations of the nation. These lending schemes may require more efficient marketing and advertising.

Once companies had applied for loans, decisions took between 8 and 13 weeks in the majority of cases in the manufacturing sector, and rather longer (between 14 and 19 weeks) for most firms in the other two sectors.

Summary of the statistical tests of hypotheses concerning the need of external finance

While no association was found in this study between the age of small businesses and the age of the managers themselves and the need for external finance, other significant correlations were discovered. Firstly, a significant association was found to exist between the employment size of small businesses and the need for external finance in the trade and service sectors with smaller firms relying less on outside sources of funding. An association was also found between the existence of a business plan and the need to apply. It would appear that a firm realising it will need a loan to further its business is likely to produce a plan in order to convince the lender of its case.
Further associations were found in Hypotheses 4 and 6, showing a link between the type of ownership and the need to seek an outside source of funds in the trade sector only, and an association between the level of education of the owner manager and the decision to apply for finance only in the manufacturing field. Finally, an association was found to exist between the owner-manager’s experience and the decision to apply for external finance in all three sectors, suggesting that more experienced business managers will better understand the implications and benefits of finance than less experienced counterparts.

7.2.3 Sources of External finance

The results show that almost half the firms in the manufacturing sector use government loans as their main source of finance while bank overdrafts account for the largest proportion of firms in the trade sector. In the services sector, most firms use either bank loans or loans which last for less than five years. This may be because manufacturing companies tend to be more established, with more employees and with more experienced managers; they may therefore be perceived by the government as more secure. The other two sectors may not be as confident in applying for government finance because they are newer and tend to be managed by less experienced people.

7.2.4 Difficulties in raising external finance

Most manufacturing firms said that the majority of their applications for finance were successful and that they found the process of applying fairly easy. This was generally so for firms in the trade sector also though they were less confident about the process of applying for loans with the proportion saying that this was fairly easy being balanced with those who rated it fairly difficult. Just under half of firms in the services sector, however, were unsuccessful in their applications for finance.

The main reason for experiencing difficulties in raising finance was high rates of interest, with incomplete business plans, a lack of securities or collateral, and a lack of viability of the proposed plans being the main reasons that applications were turned down.
The results of the correlation tests showed no significant connections at all between the business size, the type of ownership, and the levels of education and training of the owner managers in any of the sectors. However, an association was found between the age of the company in the trade and services sectors and difficulties in raising external finance which suggests that this may be so because these firms tend to be younger and therefore less well established. Significant correlations were also found between such difficulties and the age of owner managers and the existence of a business plan in the trade and manufacturing sectors, showing that it is likely that younger managers and firms which have not taken the trouble to organise a viable business plan are less likely to find sources of investment. Finally, as might be expected, business experience is the most significant factor in all three sectors with regard to difficulties in raising funds, thus making it clear that the greater the experience of the company, the more likely it is to successfully obtain financial assistance.

7.2.5 Islamic finance methods

Most respondents in the survey asserted that they would reject the Musharaka method of finance in which funds are offered in return for a share of the ownership of the business concerned. The most common reason given for this rejection is that the owners did not want the interference of a third party, wishing, instead, to keep their company under their own control. When respondents were prepared to accept this form of funding, a number preferred to enter into the agreement with family while the majority preferred to go to an Islamic bank, suggesting that perhaps the bank was viewed as more impersonal and therefore less intrusive. It is difficult to make clear judgments in this area, however, since a large proportion of the responses to this question were missing.

Responses regarding the acceptance of the Mudharaba system were similar, with slightly more respondents saying they would reject this form of finance than those who would accept it. In this method of finance, one party provides capital and the other his knowledge or effort, with profits being shared in agreed proportions. Fear of competition and dislike of interference were offered as the main reasons for rejection.
The results here would seem to confirm that most owner managers wish to remain firmly in control of their own companies and are very reluctant to allow outside interference in their concerns, especially if this interference also involves taking a share of the profits.

7.3 Implication of this Research

7.3.1 Introduction
This study's aims were to examine the need for finance of small business in Oman, the sources used by such businesses and the difficulties faced in obtaining finance. In carrying out this research, it is worth pointing out that this study is the largest survey that has been conducted in this area, with a total of 397 firms being consulted; as such, it is the most representative study so far in the Sultanate. As a result, the findings of this work have a number of implications which may be of help in promoting the success of small companies which are vital to the economic growth of Oman. These implications are examined specifically in the sections which follow.

7.3.2 Implication for Academics
This study seeks to extend the body of academic knowledge in the area of business finance, especially with regard to small and medium-sized enterprises. As such, it is likely to be of interest, not only to academics working in this field in Oman itself, but also to those working in similar areas in other nations since it will permit comparisons to be made between developed and developing countries. The literature review in this thesis considers not only the finance needs, sources and problems of small business in Oman but also looks at research carried out in similar areas in other developing and developed nations. It is hoped that this study will encourage further work to examine the needs and problems faced by small enterprises in greater detail or in more specific focus.

7.3.3 Implication for Entrepreneurs
This study has a number of important implications for entrepreneurs. By outlining the problems facing SMEs when seeking finance, it enables them to make decisions with the benefit of more information regarding the problems they are likely to encounter. The research points out the requirements that are sought by would-be investors, making
applications for loans more likely to meet with success. The stages of applying for financial support are detailed in the study, together with the milestones required by lenders; this information allows entrepreneurs to prepare the stages in advance. The comparative data, which would allow entrepreneurs to view differences in the trade, services and manufacturing sectors, might be useful in making decisions about proposed business ventures.

7.3.4 Implication for owner-managers
Existing owner-managers are also likely to find this study of use to them in planning subsequent applications for external finance and in understanding why previous attempts to secure loans have been unsuccessful. They will gain information on those factors which potential lenders regard as important, such as the provision of a well-organised business plan, and are therefore likely to make loan applications which are successful. The study will also be of use in informing them of possible pitfalls, offering guidance on how to avoid these.

Furthermore, the findings of the survey showed that many owner-managers were unaware of certain sources of finance for SMEs. It is therefore hoped that this work may aid owner-managers in tapping sources of finance that are under-utilised or that were previously unknown to them. For example, it was found that external equity finance was not widely used by the businesses surveyed in this thesis.

The study’s findings, in a general sense, might also be useful to the existing and potential owner-managers of small and medium-sized enterprises by offering an extensive source of information to help them in the planning and running of their businesses. The findings point out, for example, the importance of training both for the employees of small business and for the owner-managers themselves.

7.3.5 Implications for Policy Makers
All policy makers who are interested in the growth and strength of the Omani economy are likely to find this study of use since the economy will undoubtedly benefit from the
expansion and proliferation of small and medium-sized enterprises. The study demonstrates some of the difficulties facing such businesses when they wish to expand, make capital purchases or develop their products and/or services. By being aware of the problems facing these important sections of the Oman economic base, policy makers are more likely to be able to help them by facilitating their development and by removing obstacles which threaten or limit them. For example, it was made clear in the study that information channels were inefficient; many owner-managers of small firms were unaware of government schemes and initiatives designed to help them. It was also noted that decisions regarding loans often take a long time; policy-makers may well wish to consider efficient ways of streamlining this process.

7.3.6 Areas for Future Research
Future research projects might address in more detail the main content of this study. For example, sectors other than the three (trade, manufacturing and the service sectors) examined in this study could be scrutinised. An even wider sample could also be selected in order to allow the findings to be more accurately generalised.

A wider examination encompassing different types of financing for SMEs could be undertaken, as well as a study to determine the implications for businesses of succeeding or failing in attaining loans at various stages in their development.
Appendix A
تحية طيبة وبعد،

تُلعب المنتشَأات الصغيرة والمتوسطة دورًا هامًّا في اقتصادات دول العالم، حيث يؤدي وجود هذه المنتشَأات جنبًا إلى جنب مع المنتشَأات الكبيرة إلى تطور وتنمية عُجَلة التنمية.

ويعتبر التمويل أهم المعوقات التي تعاني منها المنتشَأات الصغيرة والمتوسطة في عُمان، حيث تخف صعوبة التمويل اللازم لهذه المنتشَأات حجر عُثرة في طريق نموها.

ونظراً لأهمية الموضوع فإن أحد الباحثين العمانيين يقوم حالياً بإعداد دراسة للدكتوراه في المملكة المتحدة حول بَدائل التمويل المتوقرة واستفادة المنتشَأات الصغيرة والمتوسطة منها والصعوبات التي يواجهها المستثمر في الحصول على التمويل اللازم، وقد أُعد الباحث استبِياناً لهذا الغرض. أملين تكريمك التعاون معه وتعيين الاستبِيان الذي يكون من خمسة أقسام رئيسية.

غُنايم قيامكم بتعيين أربعة أقسام.

وطرضاً بقبول فائق الاحترام،

[ลาย]

رابد بن أحمد الصوادي
نائب المدير العام

صدقاء بريد: 1400 روي - الرمز البريدي: 112 - سلطنة عمان - تليفون: 27576484/94 - Internet: http://www.omanchamber.org, E-mail: purbeli@omanchamber.org - Fax: 270497 - Cable: AL-GHURFA
الموضوع: استبيان حول بدلات التمويل المتوفرة واستفادة المنشآت الصغيرة والمتوسطة منها والصناعات التي تواجهها المستهلك في الحصول على التمويل المالي.

نود اقتناعكم بأن الفاصل/ عبد العزيز بن سليمان الخروصي يقوم حالياً بإجراء دراسة للدكتوراه في المملكة المتحدة حول موضوع تمويل المؤسسات الصغيرة في سلطنة عمان والصناعات التي تواجهها المستهلك في الحصول على التمويل.

يرجى التكرم بمساعدته وتسهيل مهمة قد الأهمية.

شكرًا تعاونكم معاً
واضفًا بقولنا فائق الاحترام...
FINANCING SMALL BUSINESSES IN OMAN

QUESTIONNAIRE
Section A
(Background of the firm)

1- Which of the following best describes the form of your business organization?

☐ Sole ownership ☐ Limited Partnership
☐ Shareholding company ☐ General Partnership
☐ Multinational partnership ☐ Other (Please specify) __________

2- How long has your organization been in business?

☐ 0-5 years ☐ 6-10 years
☐ 11-15 years ☐ 16-20 years
☐ 21-25 years ☐ Over 25 years

3- What best describes your type of business?

☐ Manufacturing ☐ Service
☐ Trade

4- How many employees do you currently have in this business? (Including owners and employees-full time and part time)

☐ 1 - 9 ☐ 10 - 19
☐ 20 - 29 ☐ 30 - 39
☐ 40 - 49 ☐ 50 & above

5- What has been the sales turnover of your firm?

<table>
<thead>
<tr>
<th>Year</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
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</thead>
<tbody>
<tr>
<td>&lt;100,000</td>
<td>☐</td>
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<td>100,000-299,000</td>
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<td>300,000-499,000</td>
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<tr>
<td>&gt;500,000</td>
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</table>
6- Does the firm have a written business plan?  
(A document which contains an analysis of the firm's current position, where it would like to be in the future, and how it plans to get there)  
☐ Yes ☐ No  If No, go to Question 8

7- How strongly do you agree with each of the following statement?  
(Please circle appropriate number for each reason on scale 1 to 5)

1=strongly Disagree  2= Disagree  3= Uncertain  4= Agree  5=Strongly agree

Producing a business plan has been of great help to me in planning the future of the business  
1 2 3 4 5

The targets in my business plan were designed to obtain finance  
1 2 3 4 5

The lender was primarily interested in the security available for the loan  
1 2 3 4 5

The lender was primarily interested in the content of my business plan  
1 2 3 4 5

8- Which of the following source(s) of finance did you use when you first started?  
(You may tick more than one, if applicable)

☐ Personal resources only  ☐ Relatives/Friend  ☐ Ventures capital  
☐ Commercial bank only  ☐ Relative and/or friends in return for a share in the profit of the business only (inactive partner)  
☐ Relative and/or friends in return for a share in the profits and management of the business (active partner)  
☐ Other (please specify) __________
Section B
(Background of the Owner-Manager)

9-What is your highest academic qualification or nearest equivalent?

- No formal education at all
- Elementary school certificate
- Diploma
- Other (please specify) ________

10- In which of the following age groups are you?

- Under 20 years
- 26 - 30 years
- 36 - 40 years
- 46 - 50 years
- 56 - 60 years
- 66 years and over

11- Did you have prior experience in running small business?

- Yes
- No If No, go to Question 13

12- If yes, how many years of prior business experience you had?

- Under 1 year
- 4 - 6 years
- 10 - 12 years
- 16 years or more

- 1 - 3 years
- 7 - 9 years
- 13 – 15 years

13- Have you attended any entrepreneurial development / business management training courses organized by the government or the private sector?

- Yes
- No If No, go to Question 15
14- If yes, who provided the entrepreneurial development/ business management-training course?

☐ Oman Chamber of Commerce & Industry  ☐ General Administration Institute (Ministry of Civil Service)
☐ Government Vocational Training Centres  ☐ Private Vocational Training Institutes
☐ Other (please specify) ________

15- Have you ever approached external sources for financing your business expansion?

Yes  ☐ If yes, go to Question 16

No  ☐ If No, go to Question 31
Section C
(Firms, which have approached external source of finance)

16- In what year did you last apply for external finance? Year ___________

17- What was the main purpose for you application for external finance? (You may tick more than one, if applicable)

- Expansion
- Capital purchases
- Financing product development
- Import
- Relocation
- Modernization
- Financing entry of new market
- Working capital
- Other (please specify) ______

18- What source of external finance did you apply for?

- Government Loan
- Bank overdraft
- Long-term loan >5 years
- Leasing
- Venture Capital
- Medium term loan <5 years
- Trade Supplies
- Factoring
- Other (please specify) ______

19- Was your application for external finance successful or not successful?

Successful

- If successful, go to question 21

Not successful

- If not successful go to question 20

20- Do you think your application for external finance was not successful because the following reason?
(Please circle appropriate number for each reason on scale 1 to 5)

1=Strongly Disagree  2= Disagree  3= Uncertain  4= Agree  5=Strongly agree
<table>
<thead>
<tr>
<th>Reason</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project is too risky</td>
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<tr>
<td>Lack of personal financial input</td>
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<tr>
<td>Lack of viability of proposed plans</td>
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<td>Lack of track record</td>
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<tr>
<td>Lack of management competence</td>
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<td>Lack of success in previous business venture</td>
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<tr>
<td>Lack of securities or collateral</td>
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<tr>
<td>Inadequate source of repayment</td>
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<tr>
<td>Too rapid expansion</td>
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<tr>
<td>Lack of adequate business planning</td>
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<tr>
<td>Incomplete business plan</td>
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<tr>
<td>Other (please specify)</td>
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</table>

Now please proceed to Question 25

21- If your application was successful; did you accept or reject the offer?

- Accepted
- Rejected

22- If an offer of external finance was made why did you reject the offer?

(Please circle appropriate number for each reason on scale 1 to 5)

<table>
<thead>
<tr>
<th>Reason</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
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<tbody>
<tr>
<td>Rate of interest was too high</td>
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<tr>
<td>Unreasonable level of security</td>
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<tr>
<td>Insufficient amount of finance</td>
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<tr>
<td>Duration of loan offered was too short</td>
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<tr>
<td>Supplying institution wanted some equity participation</td>
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<tr>
<td>Others (please specify)</td>
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</table>

Now please proceed to Question 26
23- In the process of applying and obtaining the external finance, would you say it was?

- Very easy to obtain
- Fairly difficult to obtain
- Fairly easy to obtain
- Very difficult to obtain

If faced difficulties, go to question 24

If no difficulty, go to the Question 25

24- When attempting to raise external finance did you face any of the following difficulties?
(Please circle appropriate number for each reason on scale 1 to 5)

1 = Strongly Disagree  2 = Disagree  3 = Uncertain  4 = Agree  5 = Strongly agree

- Higher interest rate  1  2  3  4  5
- Insufficient amount of finance 1  2  3  4  5
- Shorter loan durations 1  2  3  4  5
- Unreasonable level of security 1  2  3  4  5
- Others (please specify) __________ 1  2  3  4  5

25- What source(s) of external equity have you used for business expansion? (You may tick more than one, if applicable)

- Relative/ Friends
- Financing institutions
- Government
- Venture Capital
- Others (please specify) _____
- None If none, go to Question 27

26- What source(s) of external debt have you used for business expansion? (You may tick more than one if applicable)

- Bank overdraft
- Medium term loan <5 years
- Long-term loan >5 years
- Government
- Leasing
- Other (please specify) _____
27- What sort of security did you provide in seeking the external finance?

- Life policies
- Other guarantee
- None
- Personal guarantee
- Mortgage on properties
- Other (please specify) ____

28- How many weeks did it take from submitting the formal application for a loan until the date when funds became available to you?

- Less than two
- 5-7
- 11-13
- 17-19
- 2-4
- 8-10
- 14-16
- Over 20

29- Approximately what is the current mix between equity and debt in your firm? (to the nearest 10%)

<table>
<thead>
<tr>
<th>Total Equity</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Debt</td>
<td>Percentage</td>
</tr>
<tr>
<td>Total</td>
<td>100 %</td>
</tr>
</tbody>
</table>

30- Are you aware or not aware of the existence of the following government-backed initiatives/schemes?

<table>
<thead>
<tr>
<th>Initiative</th>
<th>Aware</th>
<th>Not aware</th>
</tr>
</thead>
<tbody>
<tr>
<td>Development Bank</td>
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<td></td>
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<tr>
<td>Fund for Development of Youth Projects</td>
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<tr>
<td>(SANAD)</td>
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<tr>
<td>Other (please specify)</td>
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<td></td>
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</tbody>
</table>
Section D

(Firms, which have never approached external source of finance)

31- Are you fully aware of the sources of external finance available for your business expansion?

☐ Yes ☐ No

If No, please proceed to question 34

32- If yes, which of the following sources of finance are you aware of? (You may tick more than one if applicable)

☐ Financial institution/Banks ☐ Government incentives
☐ Formal venture capital ☐ Informal venture capital
☐ Trade suppliers ☐ Factoring
☐ Leasing ☐ Other (please specify) ________

33- If you are aware of the sources of external finance available, what are the reasons for not applying?

(Please circle appropriate number for each reason on scale 1 to 5)

1=Strongly Disagree 2= Disagree 3= Uncertain 4= Agree 5=Strongly agree

External finance is not required at the moment 1 2 3 4 5
External finance is too costly 1 2 3 4 5
External finance is too difficult to obtain 1 2 3 4 5
External finance is too risky 1 2 3 4 5
Do not want to lose control and independence 1 2 3 4 5
Do not like to be in debt 1 2 3 4 5
Other (please specify) ______________ 1 2 3 4 5

34- Which of the following source of internal finance have you used for business expansion? (You may tick more than one if applicable)

☐ Personal saving ☐ Partners/directors
☐ Profit retained in the business ☐ None
Section E
Islamic Financing Methods

35- If you needed start-up or growth capital to set up a new business or expanding the existing one, and this was offered to you in return for a share in the profits or losses and management of the business, would you accept the offer?

☐ Yes  ☐ No

If No, is it because
The business was set up by your efforts and you wish it to remain under your name and management  ☐

You believe the new participant would interfere in the management of your business  ☐

If Yes, which of the following potential investors would you prefer:

☐ Friends  ☐ Relatives
☐ Commercial bank  ☐ Islamic bank (If exist)
☐ Notional company

36- If you needed start-up or growth capital to establish a new business or expanding the existing one, and this was offered to you against sharing the profits, If losses occur, the provider of the capital incurs the loss, whilst you (Provider of labor, enterprise and experience) lose your time and efforts.

Would you accept the offer?

☐ Yes  ☐ No

If No, is this due to one of the following reasons

You don’t want to show any one the size of your profit  ☐

You believe the provider of the equity capital would interfere in the management of the business in the future  ☐

You believe the provider of the capital might withdraw from your business later on and establish a business, which would reduce or sell the same products and so compete with you  ☐
If Yes, which of the potential investors mentioned in the Question 36 would you prefer to share the business with?

☐ Friends  ☐ Relatives
☐ Commercial bank  ☐ Islamic bank (If exist)
☐ Notional company

If there any other aspects of the financing small business in Oman you would like to comment on please do so below:

Thank you for your co-operation.
جامعة لـفترة (المملكة المتحدة)

قسم الاقتصاد

تمويل المؤسسات الصغيرة في سلطنة عمان

أقتـبـيـان
القسم الأول

(خلفية على الشركة)

1- كيف يمكنك وصف نوع المشروع التجاري لديك؟
- مؤسسة فردية
- ملكية مشتركة
- شركة محدودة
- شركة دولية
- أخرى (رجاء حدد)... 

2- كم من الوقت مضى على إنشاء مشروعك التجاري؟
- 6 - 10 سنوات
- 11 - 20 سنة
- أكثر من 20 سنة

3- كيف يمكنك أن تصف مشروعك التجاري؟
- صناعي
- تجاري
- خدمات

4- كم عدد العاملين حاليا في هذا المشروع؟
(هذا يشمل المالكين و العاملين الدائمين و غير الدائمين)
- 10 – 19
- 20 – 29
- 30 و أكثر
- 49 و أكثر

5- ماذا كان حجم المبيعات في السنوات اذناء؟
- >500,000
- 300,000-499,000
- 100,000-299,000
- 0- 99,000
- عام 1999
- عام 2000
- عام 2001
6- هل للشركة خطة عمل مكتوبة؟ (وثائق تتحتوي على التحليلات المتعلقة بالوضع الحالي للشركة ومستقبل الشركة، وماهي خطط إبلاوغ ذاك الوضع)

☐ نعم ☐ لا

إذا كان الجواب لا، انتقل إلى السؤال رقم8

7- إلى أي مدى تتفق مع كل من الجمل أدناه:
(من فضلك ضع دائرة حول الرقم المناسب لكل سؤال على المقياس 1 إلى 5)

1- لا اتفاق بشدة 2- لا اتفاق 3- غير متأكد 4- اتفاق 5- اتفاق بشدة

ätبع خطة عمل مسبقة، كان العامل الكبير للتخطيط المستقبلي للمشروع

أهداف خطة المشروع كانت معدة لغرض الحصول على الموارد المالية

· ممول الفرض كان مهتمًا قبل كل شيء بالضمانات المتوفرة لسد الفرض

· ممول الفرض كان مهتمًا في المقام الأول بمحتويات خطة المشروع

8- أي من مصادر التمويل الآتية استخدمت عندما قمت بالمشروع؟

☐ أقارب / أصدقاء ☐ مصادر شخصية فقط

☐ بنك تجاري فقط ☐ مصادر اقراض حكومية

☐ أقارب و/ أو أصدقاء مقابل حصة من إرباح المشروع فقط (شريك غير فعال)

☐ رأس مال مستثمر (مخاطر) ☐ أقارب و/ أو أصدقاء مقابل حصة إرباح المشروع وإدارة المشروع (شريك فعال)

☐ أخرى (رجاء حدد) .........................
القسم الثاني

(خلفية على المدير المالك)

9 - ما هي أعلى شهادة إعدادية أو ما يعادلها حصلت عليها؟
☐ حاصل على الشهادة الإعدادية
☐ حاصل على الشهادة الثانوية
☐ شهادة جامعية
☐ دراسات عليا
☐ أخرى (رجاء حدد) .........

10 - حدود أي مجموعة من الأعمار تكون؟
☐ أصغر من 20 سنة
☐ 20 - 25 سنة
☐ 26 - 30 سنة
☐ 31 - 35 سنة
☐ 36 - 40 سنة
☐ 41 - 45 سنة
☐ 46 - 50 سنة
☐ 51 - 55 سنة
☐ 56 - 60 سنة
☐ 61 - 65 سنة
☐ 66 سنة أو أكبر

11 - هل كانت لديك أي خبرة سابقة في إدارة مشروعات صغيرة؟
☐ نعم
☐ لا

إذا كان الجواب نعم، انتقل إلى السؤال رقم 12.

12 - إذا كان الجواب نعم، كم عدد سنوات الخبرة العملية السابقة المتوفرة لديك؟
☐ أقل من سنة
☐ 1 - 3 سنوات
☐ 4 - 6 سنوات
☐ 7 - 9 سنوات
☐ 10 - 12 سنة
☐ 13 - 15 سنة
☐ 16 سنة أو أكثر
13 - هل سبق لك أن حضرت أي دورات (نظمتها الحمومة أو القطاع الخاص) لتطوير قدرات واداء أصحاب المشروعات أو إدارة الأعمال؟

☐ نعم
☐ لا

إذا كان الجواب لا، انتقل إلى السؤال رقم 16

14 - إذا كان الجواب بنعم، من هي الجهة المختصة التي قامت بإدارة الدورة؟

☐ غرفة صناعة و تجارة عمان
☐ معهد الإدارة العامة (وزارة الخدمة المدنية)
☐ مراكز حكومية للتدريب
☐ مراكز القطاع الخاص للتدريب
☐ أخرى (رجاء حدّد) .........

15 - هل سبق لك محاولة الحصول على مصادر خارجية لتمويل مشروعك؟

☐ نعم
☐ لا

إذا كان الجواب بنعم انتقل إلى السؤال رقم 17

إذا كان الجواب لا، انتقل إلى السؤال رقم 32
القسم الثالث

(المنشآت التي تقدمت للحصول على مصادر تمويل خارجية) 

16 - في أي عام حاولت الحصول على تمويل خارجي؟ العام ............

17 - ما هو السبب الرئيسي لمحاولة الحصول على تمويل خارجي؟ (يمكنك التأشير على أكثر من سبب إذا استوجب الأمر)

• انتقال إلى مكان آخر
• التوسعة
• زيادة رأس مال المستثمرين
• التحديث
• التمويل للدخول إلى أسواق جديدة
• تمويل تنمية المنتج
• دعم رأس المال التشغيل
• الاستيراد
• أخرى (رجاء حدد) ............

18 - ما هي مصادر التمويل الخارجي التي تقدمت لها؟

• رأس المال المخاطر
• قرض حكومي
• قرض على المكشوف من البنك
• قرض لفترة متوسطة (5 سنوات أو أقل)
• قرض لفترة طويلة (5 سنوات أو أكثر)
• مؤسسات تمويلية
• التاجر
• الوسيط التجاري
• التاجر
• أخرى (رجاء حدد) ............

19 - هل كان تقديرك لطلب التمويل الخارجي ناجحا أم لا؟

• ناجح
• غير ناجح

(إذا كان الجواب ناجح، انتقل إلى السؤال رقم 21)
(إذا كان الجواب غيرناجح، انتقل إلى السؤال رقم 20)
20 - هل تعتقد أن عدم نجاح طلبك للتمويل الخارجي لأي من الأسباب الآتية؟

<table>
<thead>
<tr>
<th>رقم السؤال</th>
<th>معامل نسبة الفوائد عال جدا</th>
<th>مستوى التأمين غير معقول</th>
<th>مبالغ التمويل غير كافية</th>
<th>العرض كان محدد بدقة قصيرة لدفع الضرائب</th>
<th>المؤسسة المملوكة ادانت المشاركة في المشروع</th>
<th>شيء آخر (رجاء حدد)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>5</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>1</td>
<td>0</td>
</tr>
</tbody>
</table>

من فضلك اكمل إلى سؤال رقم 26

21 - إذا كان تقديمك لطلب القرض ناجحًا؛ هل قبلت إم رفضت؟

- [ ] موافق
- [ ] لم أوافق

22 - إذا كان المصدر الخارجي للتمويل قدوافق على طلبك، لماذا رفضت العرض؟

(من فضلك ضع دائرة حول الرقم المناسب لكل سؤال على المقياس 1 إلى 5)

<table>
<thead>
<tr>
<th>رقم السؤال</th>
<th>موافق</th>
<th>غير متأكد</th>
<th>موافق</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>5</td>
<td>4</td>
<td>3</td>
</tr>
</tbody>
</table>

من فضلك اكمل إلى سؤال رقم 26
24 - عند محاولتك للحصول على الدعم من التمويل الخارجي هل واجهت هذه المشاكل؟
(من فضلك ضع دامرة حول الرقم المناسب لكل سؤال على المقياس 1 إلى 5)

1 - لاوافق بشدة 2 - لا يوافق 3 - غير متأكد 4 - موافق 5 - موافق بشدة

معدل نسبة الفوائد عال جدا
مبالغ التمويل غير كافية
العرض كان محدود بعدة قصيرة لدفع القرض
مستوى التأمين غير معقول
شيء آخر (رجاء حدد) .........

25 - ما هي مصادر المساهمة في رأس المال التي استخدمتها في توسيع مشروعك؟
(يمكنك التأشير على أكثر من سبب إذا استوجب الأمر)

- مؤسسات تمويل
- أقارب / أصدقاء
- رأس مال مستمر
- الجهات الحكومية
- لا يوجد (من فضلك انتقل إلى سؤال 27)
- شيء آخر (رجاء حدد) .........

26 - ما هي مصادر الدين الخارجي التي استعنت بها لتوسيع مشروعك؟
(يمكنك التأشير على أكثر من سبب إذا استوجب الأمر)

- السحب على المكشف من البنك
- قرض متوسط الائتمان (5 سنوات أو أقل)
- قرض طويل الائتمان (أكثر من 5 سنوات)
- قرض حكومي
- التأجير
- أخرى (رجاء حدد) .........
27 - ما هي نوع الضمانات التي قدمتها لحصولك على دعم مالي خارجي؟

- بوليصات التأمين على الحياة
- ضمانات شخصية
- محفظة عقارية
- ضمانات أخرى
- أخرى (رجاء حدد) ...

28 - كم أسبوع استغرق تقديمك للطلب للقرض حتى أصبح الاقتراض متيسرًا لك؟

- أقل من أسبوعين
- 2 - 4
- 5 - 8
- 10 - 14
- 11 - 16
- 17 - 20
- أكثر من 20

29 - على وجه التقارب ما هي نسبة الاندماج بين المساهمة في التمويل والمديونية في مشروعك؟ 
(القرب 10%)

- قبلية كاملة 
- دين كامل 
- المجموع 100%

30 - هل كنت على علم أم لا بوجود خطط ومبادئ من الدعم الحكومي للمشاريع؟

- ليس على علم
- على علم

- مشروع سند
- بنك التنمية
- صندوق تنمية المشروعات الشباب
- قروض لاقامة المشاريع الصغيرة (حدد)
القسم الرابع

(المنشآت التي لم تتقدم للحصول على مصادر تمويل خارجية على الإطلاق)

1. هل انت على علم كامل بمصادر التمويل الخارجي المتوفرة لتنمية مشروعك؟
   - نعم
   - لا
   (إذا كان الجواب لا من فضلك انتقل إلى سؤال رقم 24)

2. إذا كان الجواب بنعم، ما مدى علمك بأي مصدر من مصادر التمويل الآتية؟
   (يمكنك التأشير على أكثر من واحد إذا استوجب الأمر)
   - مؤسسات مالية / بنوك
   - حوافز حكومية
   - رأس مال مستثمر مخاطر (رسمي)
   - الوسيط التجاري
   - تجار ممولين
   - التأجير
   - أخرى (رجاء حدد) ...

3. إذا كنت على علم بتوفر مصادر التمويل الخارجي، ما هي الأسباب التي منعتك من التقدم إليها؟
   (من فضلك ضع دائرة حول الرقم المناسب لكل سؤال على المقياس 1 إلى 5)
   - لا أوافق بشدة = 1
   - أوافق = 2
   - غير متأكد = 3
   - موافق = 4
   - موافق بشدة = 5

   1. لم اكن بحاجة إلى التمويل الخارجي في الوقت الحاضر
   2. التمويل الخارجي مكلف جدا
   3. من الصعوبة جدا الحصول على التمويل الخارجي
   4. التمويل الخارجي محفوف بالمخاطر
   5. لا اريد فقدان السيطرة وحرية العمل
   6. لا أريد ان يكون لديونا
   7. أخرى (رجاء حدد) ...

4. أي من مصادر التمويل الداخلية الآتية التي استعملتها لتنمية مشروعك؟
   - المدركات الشخصية
   - شركاء / مدراء
   - أرباح متبقية في المشروع
   - لا شيء
القسم الخامس

(طرق التمويل الإسلامية)

35 - إذا احتجت ان تبدأ مشروع جديد او تنمي رأس المال المتوفر لديك او توسع مشروعك الحالي الذي لديك، وعرضت على التمويل في شكل مشاركة مقابل حصة من الربح او الخسائر وادارة المشروع، هل ستقبل العرض؟

☐ نعم ☐ لا

أذا كان الجواب لا ما هو السبب

- إنشاء المشروع كان نتيجة مجهوداتك واردت ان يبقى تحت ادارتك و اسمك
- اتوقع أن الشريك الجديد سوف يتدخل في ادارة المشروع
- أخرى (رجاء حدد): ....

أذا كان الجواب بنعم، أي من هؤلاء المستثمرين تفضل:

☑ أقارب
☐ أصدقاء
☐ بنك تجاري
☐ بنك اسلامي (إذا وجد)
☐ شركة وطنية

37 - إذا احتجت ان تبدأ مشروع جديد او تنمي رأس المال المتوفر لديك او توسع مشروعك الحالي الذي لديك، وعرضت على التمويل مقابل حصة من الربح، فإذا حدثت خسائر في المشروع وتحملها الممول بينما انت (القائم بالعمل وادارة المشروع والخبرة) ستكون خاسرا لجهدك ووقتك.

هل سوف تقبل هذا العرض؟

☐ نعم ☐ لا

أذا كان الجواب لا فهل كان الرفض لأي من الأسباب الأتية:

- لا تريد ان يطلع اي شخص على حجم الربح
- تتوقع من الممول لرأس المال التدخل في ادارة المشروع مستقبلا
تعتقد أن الممول سوف ينسحب من المشروع مستقبلاً. وبعد فترة سوف ينشأ مشروع مشابه له مما يؤدي إلى المنافسة وضعف المبيعات لديكم.

إذا كان الجواب بنعم، أي من المستثمرين الوارد ذكرهم في سؤال رقم 32 تفضل مشاركتك في المشروع؟

☐ أقارب
☐ أصدقاء
☐ بنك تجاري
☐ بنك إسلامي (إذا وجد)
☐ شركة وطنية

إذا كانت هناك أي ملاحظات أخرى لتمويل المشاريع الصغيرة في سلطنة عمان وارتدت أن تعلق عليها، من فضلك قم بمليء المكان المخصص أدناه:

شكرًا لتعاونكم