



## Factors for sustainable economic growth

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### Abstract

Economic development of any country is sparkled largely by its enterprising spirit. Entrepreneurship is an innovative and dynamic process, where by a new enterprise is created and generates employment oppourtunities for others. Economic growth and development of the country is determined by its natural, financial and human resources. An economy can move on to higher levels of growth either by obtaining a larger quantum of the factors of production or through technical advancement. The objective of any planned development is to develop human resources to the overflowing utilisation. Therefore, industrialisation is one of the ways of bringing about socio-economic development in any economy. This paper examines the present condition and potential for the natural, human and technological resources for economic development in Sultanate of Oman and explores the initiatives of the government has sought with the natural-mineral, human and technological resources. It reviews the resources for the scope of entrepreneurship and SMEs in Oman.

**Keywords:** entrepreneurship, entrepreneurship development, economic growth, smes

### 1. Introduction

In the global economy of the 21<sup>st</sup> century, International trade is a key source of economic growth and development. Small and Medium Enterprises (SMEs) are acting as a specialist and soul of economic growth in the world. It plays a foremost role in the economic development of a country. SMEs have been largely recognised as a foundation stone for the industrial development of any country. These enterprises contribute almost 90 percent of the business worldwide and provide employment to more than 50 percent of the world's workforce. A strong positive relationship between entrepreneurship and economic growth agreed upon (Carree, Stel, Thurik and Wennekers, 2002) <sup>[7]</sup>. Entrepreneurship contributes towards creating employment and service provisions. A strong private sector is definitely vital for sustainable economic growth.

Joseph Schumpeter states that the rate of economic growth of a nation depends upon its rate of innovation, which in turn depends upon the distribution of entrepreneurial talent in the population. Technological progress alone cannot lead to economic development unless entrepreneurs put technological developments to economic use. The entrepreneur identifies and utilise the capital, labour, technology in the best possible manner for the setting up of his enterprise.

Policy makers are aware about the entrepreneurship plays a crucial role in economic and social development including job creation, unemployment reduction, social emancipation, personal fulfilment (European Commission, 2006). Oman's Vision 2020 is a 25-year plan (1996-2020) plan for the economic development and for the future, emphasis in the development of SMEs. In the recent years, Government of Oman has taken many exemplary steps to promote small and medium enterprises. It is a growing sector receiving unlimited

support from the government also a key contributor to the economic growth and development of the country.

Economic growth and development is mainly determined by the human, physical and financial resources of any country. An economy can develop and grow on to higher levels either by obtaining a larger quantum of the factors of production or through technical advancement. The objective of any planned development is to develop human resources to the overflowing utilisation. Therefore, industrialisation is one of the ways of bringing about socio-economic development in any economy.

### 2. Review of literature on entrepreneurship and economic growth

Entrepreneurship necessitates the ability to recognise the available resources to perceive their economic potential, the ability and willingness to utilise these resources and to invest in their development deferring immediate rewards in favour of future investment it will bring economic development. Several studies at global level proved the consistent relationship between economic prosperity and the entrepreneurial activity and also stressed the importance of the latter for the young people's participation in the labour market. A well-supported and enhanced small business is likely to continue contributing to the economic development in the same way as large business (Abraham, 2003) <sup>[1]</sup>. SMEs have long been believed to be important in supporting economies development with in a country (Mazzarol, volery, Doss & Thein 1999) <sup>[10]</sup>. The empirical growth literature has proposed a large number of economic and non-economic factors that may influence economic growth (Bleaney and Nishiyama 2002) <sup>[5]</sup>. Davis (1995) described the share of mineral exports in total merchandise exports as one of his natural resource proxies,

evidenced a positive relationship with economic development. Most innovative firms are revealed to make an important contribution to economies in term of external income generation and employment generation (David *et al.*, 2010) <sup>[8]</sup>. Very few firms introduce what are fundamentally new products with in their industry and hardly any introduce new products, which are new to the economy as a whole (Storey and Sykes 1996) <sup>[13]</sup>. Entrepreneurs may introduce innovation by entering markets with new products (Ace and Audretsch, 2003) <sup>[2]</sup>. Many Governments has recognised the importance of SMEs for the economy and implemented various policies, action plans and programs to help hen in difficult situations. To be more effective, they should be combined with another set of policies, government interventions at the national level and significant schemes to build up the technological capacities of SMEs (Albaladejo, 2001) <sup>[3]</sup>. Based on the literature, this paper analyses the present condition and the scope of SMEs for economic growth and development in Oman and analysed based on the secondary data which were collected from websites, Journals and Newspapers.

### 3. Present scenario of smes in oman

SMEs contribute to economic development by virtue of their sheer numbers and increasing share in employment and gross domestic product. SMEs have a propensity to develop more labour-intensive production processes than the large enterprises. SMEs are complementary to large enterprises as ancillary units and this sector immensely contribute to the socio-economic development of the country. Small businesses are more flexible and better to adapt to changing market conditions. In other developed countries both in east and west like Germany and Japan, it could be seen SMEs have great prospective to be the engine of the economic growth (Samad, 2007) <sup>[12]</sup>. Many countries in the world have been paying more attention to the development of SMEs to strengthen their economy (eg., Chaston, 1992; Mulhern, 1996; Patrianila, 2003). Recently SMEs are facing constant challenge due to the economic downturn and in Oman SMEs started facing the heat due to the economic reforms to make up for a huge budget deficit. In 2016, SMEs faced very challenging environment. According to a recent report issued by the National Centre for Statistics and Information (NCSI) in Oman the number of SMEs declined by 31.2 percent year-on-year in the first quarter of the current year. In Oman Only 2,759 SMEs registered between January and March 2017, down from 4,013 as of March-end last year. Since Oman largely depends on imported goods, the government of Oman is working towards establishing policies that would encourage foreign investors to come invest in Oman. If new foreign capital investment law brought with cautions develop many SMEs leads economic growth. Foreign investment law would provide conducive environment for investments.

### 4. Factors influence entrepreneurship in Oman

SME is a multi-dimensional phenomenon; many environmental factors affect the performance. Entrepreneurship is an innovative and dynamic process, where by a new enterprise is created. Entrepreneur is a catalytic agent of change which generates employment oppourtunities for others. Economic growth and development of the country

is determined by human, natural and technological resources. An economy can move on to higher levels of growth either by obtaining a larger quantum of the factors of production or through technical advancement. The objective of any planned development is to develop human resources to the overflowing utilisation. Therefore, industrialisation is one of the ways of bringing about socio-economic development in any country. A country may be rich in natural, human and financial resources but if entrepreneurship is lacking, the utilisation of these resources would not be as expected. The entrepreneurs are a part of industrial society and as such, he/she should be considered as an asset. The entrepreneur is responsible for not only earning his/her own livelihood but also for creating employment oppourtunities for others and also for contributing to the economic development of the country.

SMEs contribute significantly in creating employment oppourtunities and value addition to the economy. Oman's recent data specifies that 40 percent of the work force is employed in SME firms whereas less than 5 percent only consisting of Omanis while the contribution to the GDP ranges between 15 and 20 percent. The contribution of SMEs to Oman's GDP is considerably low compared to their role in the developed economies. As per the statistics from the International Monetary fund's world economic database, Oman's GDP amounted to \$173.1 bn in 2016 (on a purchasing power parity basis), thus the exports accounted for about 14 percent of total economic output. Oman is the 53<sup>rd</sup> largest exporter in the world, in the past five years exports were decreased from \$44.76 bn in 2011 to \$21.18 bn in 2016, at the same time Oman is the 55<sup>th</sup> largest importer in the world, the imports decreased at an annualised rate of \$24.9 bn in 2011 to \$20.6 bn in 2016. The top imports of Oman in 2016 were vehicles \$2.6 bn, Electrical equipment's \$1.7bn (7.4%), Iron and Steel products \$1.2 bn (5.1%), Iron & Steel \$938.6 m (4%), Plastics \$707.1 m (3%) and Salt, Sulphur, Stone and Cement \$494.8m (2.1%). One of the fastest growing imports were salt, sulphur, stone and cement up by 97.4 percent. Exports were \$21.1 bn and imports \$20.6 bn resulted positive trade balance of \$ 439m in net exports. To secure Oman's economy, the country has to reduce its dependence on its oil resources (Magh & McCoy, 2014) <sup>[9]</sup> and the efficient deployment or exploitation of its natural resources depends on the human resources skills and abilities, technology used and financial resources. A country with its rich natural resources viz., copper, limestone, chromium, gypsum etc and having skilled and educated workforce takes the economy on the development path.

At present the population of Oman is almost 3.4 mn people, whereby 50 percent of the population constitute youth. Based on the present level of population growth the government should generate at least 50000 jobs annually to reduce unemployment rate. Oman's projected unemployment rate was 7.5 percent as of April 2017 according to trading economies. This is imperative that employment oppourtunities are created to enable young Omanis to start their own enterprises. Human resources of the country needs to utilised for development by employing themselves. Recently Oman's economy is composed for a flourishing entrepreneurial activity. It is also known that a healthy business environment

is an indispensable requirement of entrepreneurial growth of the country. If supported by relevant infrastructure and accessibility to financing in addition to the development of required skills and promotion of entrepreneurship culture. an increased investment in physical capital such as factories, machinery and roads will lower the cost of economic activity, Increase in agricultural production accompanied by a rise in productivity is important from the point of view of the development of a country.

### 5. Scope of entrepreneurship in Oman

Similar to the MNCs, SMEs are proven to play a significant role in the economic stability and growth of a nation. Most SMEs require support or assistance from the government especially to be more competitive in the global business environment. The role of government is to encourage companies to move to higher levels and gain competitive advantage in the globalise space environment (Samad, 2007) <sup>[12]</sup>.

An entrepreneur is a dynamic agent of change, who is instrumental in transforming physical, natural and human resources in to value added products and services. For the entrepreneur to be successful the environment must be conducive and the individual must have an interesting initiative and drive in grasping the essential facts. Entrepreneurship scholars have identified a variety of factors that affect the tendency of people to engage in entrepreneurial activity (Shane, 2003) The role of SMEs in the development of the country is significant (Bayati & Taghavi, 2007) <sup>[4]</sup>. A lot of factors increase their influence and causing a huge effect on the success of SMEs (Cacciotti & Hayton, 2015) <sup>[6]</sup>. It is obvious that hurdles in the SME success are far more than it was previously. The environments, as well as some factors, are very complex and dynamic.

Besides assisting in curbing the high level of unemployment, SMEs can be used as a means of transforming the country, by redistributing the productive assets, amongst the previously disadvantaged. SMEs due likely to be less financially stable and hence more likely to fail. Though there are several schemes introduced by the government to encourage entrepreneurs, it should not reach the entrepreneurs still they are facing problem in getting the finance from banks. The problems or difficulties confronted by the entrepreneurs should be taken care of in course of time. Large amount of potential remain untapped due to lack of supportive means and management. Better financial systems improve the probability of successful innovation and thereby quicken economic growth. Similarly, financial sector distortions reduce the rate of economic growth by reducing the rate of innovation. A broad battery of evidence suggests that financial systems are important for productivity growth and economic development. SMEs are getting unlimited support from government to make leading sectors in Oman in the recent years. The government can give more attention on the top imports of the country such as Iron and steel, Plastic, Electrical equipment, Salt, Sulphur, Stone and cement can be reduced by utilising the local resources to bring favourable GDP in turn creates employment oppourtunities for citizens to reduce the unemployment which leads to utilisation of natural and human resources of the country brings economic growth for the nation.

### 6. Conclusion

SMEs play an imperative role in the development of any country. In the recent years government of Oman is giving much attention to the development of SMEs to reduce its dependence on oil. This paper sets out to investigate the influence of natural, human and technological resources available to the entrepreneurship development in Oman. Satisfactory government support has been shown to be important for small firm success in the developing areas (Yusuf 1995). Government support has help to foster SMEs development in order to ensure future of SMEs. The government can motivate the people to produce the natural resources available and technology products eg., cement, iron and steel, electrical equipment's, plastics where not required climatic conditions to utilise skilled manpower and to reduce in imports bring favourable conditions to the economy. A major implication for the findings is that these findings will able to give better understanding for entrepreneurs in addressing the factors, which influence the SMEs. The results of this study can also be used as reference for anyone who is interested to start their own business which will provide insights into decision making in starring a business where there is a lack of SMEs with technological and innovative products and also for any companies which are interested to continue to sustain and grow. Further research can be conducted to identify and analyse the role of business environmental factors which influence the performance of SMEs in Oman.

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