Multi-Year Expert Meeting on

Enterprise Development Policies
and Capacity-building in Science, Technology and Innovation (STI)
(Fourth session)

Geneva, 16-18 January 2012

Entrepreneurship in Oman: A Snapshot of the Main Challenges

by

Dhafir Awadh Al-Shanfari
Sultan Qaboos University
Sultanate of Oman

This view expressed are those of the author and do not necessarily reflect the views of UNCTAD.
Entrepreneurship in Oman: A Snapshot of the Main Challenges

Dhafir Awadh Al-Shanfari, MBA, PhD
Sultan Qaboos University
Sultanate of Oman

I. Developing countries lag behind

Debate on the value and importance of entrepreneurship at the national level has almost reached consensus in developed Western societies. Unfortunately, this is not the case in many developing countries. Developed economies produce 10 times more new ventures per adult per year compared to countries in the Middle East (World Bank, 2010). In most of these countries, the problem is not lack of entrepreneurship, but rather a negative macro environment and infrastructure, which channels entrepreneurial activity into unproductive and destructive economic directions instead of wealth creation (Coyne & Leeson, 2004). This is especially visible in three core issues: opportunity to enter, access to capital, and access to skill and knowledge (UNDP, 2004). Furthermore, most of the entrepreneurship activity in these countries is ‘necessity entrepreneurship’ and not opportunity driven (Reynolds et al., 2004). A prevailing high unemployment situation, when combined with low social welfare infrastructure, pushes people in these countries to start a business in order to survive. In addition, many of these businesses are in the informal sector because of the rigid and expensive new business start-up process, thus limiting their ability to expand through formal channels of resources (Reynolds et al., 2004). Based on the recent ‘Doing Business 2010’ report, the last 40 positions in ease of doing business are all occupied by developing countries. The overall lack of entrepreneurship development in many of these countries can be attributed to hostile entrepreneurial environments.

On the positive side, there have been some new entrepreneurship development initiatives, especially in the Arab Gulf region. For example, the Qatar Science and Technology Park, Knowledge Economic City in Saudi Arabia, and Dubai’s Mohamed bin Rashid Al-Maktoum Foundation are all promising initiatives that are much needed. India is also a promising role model for other developing countries, and is one of the oldest countries that has developed successful entrepreneurship development initiatives (Gupta, 1989). However, with approximately 50% of the developing world living below the poverty line and some of the highest population growth rates in the world, these government efforts need to be accelerated and organised. The only way forward in these countries is through emphasising endogenous development rather than depending on external aid or foreign investments alone. Encouraging entrepreneurship will do developing countries more
good, in terms of long-term growth and gains in productivity, than policies aimed at accelerating near-term growth.

II. Entrepreneurship challenges in Oman

The Sultanate of Oman is an Arab country located on the eastern side of the Middle East, bordering the United Arab Emirates, the Kingdom of Saudi Arabia, and Yemen. It has a population of approximately 2.8 million, and covers 309,500 square kilometres. When the current Sultan, Qaboos bin Said, assumed power in 1970, a new era began in the modern history of the country. Pre-1970 Oman was characterised by political turmoil in the South and the interior, national illiteracy, poverty, and widespread diseases. Since then, a renaissance period of infrastructure developments in all sectors, fuelled by oil capital, positioned Oman as one of the most progressive countries in the Middle East. The discovery of oil during the last century was a cornerstone in the development of the infrastructure and economy in the region. For the past 41 years, Oman’s main export has been oil, which is still the backbone of the economy and constitutes around 80% of total government revenue. Although oil has been the source of much of the economic and social prosperity in the past, it has become, to some degree, a curse in relation to developing a strong, diversified, innovative economy. Past attempts to diversify the economy have not been fruitful. However, since it is estimated that Oman has less than 20 years of oil reserves left, today more than ever there is a greater urgency to diversify its economy.

Furthermore, as the population grew faster than the economy could sustain, serious economic challenges have arisen. The growth in population has outstripped the capacity of higher education institutes and the job market. This has created two main challenges for the government - unemployment and provision of opportunities for higher education. These economic and social dilemmas have been key factors in pressurising the government to look at entrepreneurship and self-employment, especially among the young, as key components in tackling these challenges and diversifying the economy (Al Moharby & Khan, 2007).

However, fostering indigenous entrepreneurship is not going to be easy for a country that has a small private sector and low national entrepreneurial activity. ‘Oman’s economy is suffering from an underlying entrepreneurial malaise, which without action, will hinder economic growth’ (Porter, 2003, p. 51). For instance, in 2003, fewer than 2 in 100 were starting a new business, compared to 1 in 10 in the US (MOM, 2005). In the last ten years there has not been a single IPO issued for a new high-growth venture in the Muscat Securities Market (MSM). In addition, the majority of actual entrepreneurs are non-resident expatriate entrepreneurs, mostly from the Indian subcontinent region. After the exploitation of oil in the 1970’s, the increases in market needs and purchasing power were capitalised on by many expatriate entrepreneurs from poor backgrounds who came to the country to improve their standard of living.

In summary, any person who has monitored Oman’s development over the last 41 years will definitely understand the significant transformations in all aspects of Omani life. One
cannot discount the large efforts that have been exerted in developing this small nation from a very primitive society to a modern state. However, many economic and social challenges continue to exist, for which honest critique and less reminiscing about past achievements is required in order for Oman to achieve sustainable development in the future. There is a need to identify, objectively, weak areas in the Omani macro environment that are hindering entrepreneurship development. Therefore, a brief illustration of some of the prevailing entrepreneurial environment challenges will be presented next.

i. Regulatory and administrative issues

Overall, administrative and licensing procedures involve many restrictions, complexity, and bureaucracy. Inefficient government and bureaucracy was one of the top problems raised in a survey of Omani respondents about the most problematic factors for doing business (Blanke et al., 2009). Further, Oman was ranked 65 out of 183 in ease of doing business in 2010 (World Bank, 2010). This rank is just above Namibia and Rwanda and last among GCC countries. Agency overlap does exist in dealing with the different new venture creation initiatives started recently. There are, currently, at least three different government Ministries involved through different programmes in small business development which are poorly co-ordinated (the Ministry of Manpower, Ministry of Commerce, and Ministry of Social Development). Although the government has emphasised the importance of self-employment and entrepreneurship on many public occasions, there is still no focused policy framework for typical small businesses, let alone entrepreneurship.

ii. Macro economic and market conditions

From a GDP of only US$110 million and US$1,760 per capita income in 1970, to a GDP of US$60.3 billion and US$18,013 per capita in 2009, is a huge leap attributed to the increase in oil production and prices during that period. Although the government, since 1970, has adopted an open market policy encouraging local and foreign investment in all sectors, other than natural resources, there are no clear or developed non-oil industrial clusters. Oman is still not an active exporting nation. Non-oil exports comprised only 13.5 percent of total exports in 2008 (MNE, 2009). Various government efforts have tried to increase the manufacturing sector’s contribution to the economy. For instance, Sohar industrial estate currently hosts new, large, semi-government-initiated petrochemical projects, methanol, polypropylene, fertilizer plant, steel, and an aluminium smelter. There is also good potential to contribute to this sector, after completion of the Salalah free trade zone infrastructure, which has a strategic large container port five minutes from the location, and a package of incentives to attract domestic and international investors. However, there are many challenges, such as having a small local market, low market purchasing power, competitive imported products, and weak connections to export markets, which restrict new business start-ups (Porter, 2004).

iii. Labour regulation and market

The Omani government has been very active in its labour market intervention through its controversial job nationalisation program (Omanization). The Omanization program is, basically, a government initiative that aims to integrate local labour and reduce foreign
labour in the public and private sector, through setting nationalisation targets for each
government entity and business sector. Oman has a problem similar to many
neighbouring Arab Gulf countries, which is an abnormal balance of expatriate labour in
the workforce. The labour market and mobility is distorted and characterised as rigid due
to Omanization plans (Porter, 2004). In hiring and firing practices, Oman ranked 89 out

It is very challenging for new start-ups to bear the cost of current Omanization targets
when they have to replace less expensive and more skilled foreign labour with sometimes
less-committed Omani-national labour. According to the Arab Human Capital Challenge
Report (2009) 62 percent of Arab CEOs believe that there is a poor supply of qualified
national workers. In addition, poor work ethics in the national labour force was ranked
the third most problematic factor for doing business in Oman in the 2009 Global
Competitiveness Report. A study by Kuehn and Al-Busaidi (2000) on work values
among Omani and expatriate employees found that locals have less work commitment.

iv. Education and training
Almost half of the Arab CEO’s believe that the education system produces an unqualified
national cadre (Arab human capital challenge, 2009). The educational system, in Oman,
has been accused of not encouraging innovation and creativity, but rather promoting
memorising and imitating. There is also no clear strategy for encouraging creative
methods of teaching among teachers. Currently, there is no business-related knowledge in
the school curriculum, only an optional basic maths and economics course for the final
secondary school year. Sultan Qaboos University is the top academic organisation and
the only public university in the country. It currently offers two courses in
entrepreneurship for undergraduate students and one course in its MBA programme.
There is currently no small business or entrepreneurship development centre in any of the
public or private colleges.

With regard to availability and access to quality formal pre-start-up entrepreneurship
training programmes, there is only one government initiative under the supervision of the
Ministry of Manpower - called ‘SANAD’ (which translates to ‘Support’ in English) aims
to train young unemployed nationals in starting and running a micro-business. This
programme is closely associated with the Omanization programme, restricting specific
business areas to only nationals such as foodstuffs or mobile phone selling. SANAD also
helps them obtain a soft micro loan from the Development Bank of Oman. SANAD
mostly promotes necessity ventures operating as a result of a push factor. Therefore, it is
not an ideal programme for training aspiring, high-potential entrepreneurs because these
micro business usually have high failure rates and make a low contribution to a nation’s
economy.

v. Financial infrastructure
Oman also lacks diversity in seed capital financing sources. There is no venture capital
industry; only two funds in the country and an almost non-existent public channel for
angel financing. The main one is the “Fund for Development of Youth Projects” a closed
joint stock company, which was the first venture capital fund created in 1998. Applicants
have to be citizens, 20 to 40 years of age, and can get a maximum of 49 percent of required seed capital (RO 200,000 limit). This fund halted operation for a couple of years. The causes of the fund’s freeze have not been documented, but it is believed that a combination of ill-experienced management, management’s lack of understanding of entrepreneurial needs, and accumulating failed sponsored projects called for a reshuffle of the funds structure and business model. In 2008 the fund went through a restructuring process, as a new board and director took over to reposition the role of the fund.

vi. R & D and Technological infrastructure
Generally, Oman’s scientific and technology research base is in its infancy. According to the 2009 Global Competitiveness Report, Oman ranked 66 in innovation. More specifically, it was 103 in quality of scientific research institutions, 86 in private sector R&D spending, 86 in industry-research collaboration, and 76 in availability of scientists and engineers. There is a very slow improvement in research and development activity at the national level. The culture of research and development is new to the country, whether it is at the individual, industry, or government level. There are some unorganized efforts scattered around the few universities and very modest research centres across different government agencies like the Ministry of Commerce and Ministry of Agriculture. Sultan Qaboos University produced 88 research papers in 2008 (SQU, 2008). There are no university technology transfer offices. There is only one US-registered patent by an Omani company and it was in 1993 (Porter, 2004).

There is no technological innovation, whether in academia or industry, in most Arab countries, including Oman. Oman was ranked 61 out of 128 countries in technological readiness, 68 in internet usage, and 50 in technology absorption by firms, according to the 2009 Global Competitiveness Report. Furthermore, a small 2.8 percent of the population has internet connectivity, that is, approximately 80,000 (MNE, 2009). However, in 2006, a government body called Information Technology Authority (ITA) was established to lead the transformation process to a knowledge-based society, by overseeing the implementation of the country’s eOman programmes. It is too early to judge their progress.

vii. Society’s culture and social norms
Having said this, entrepreneurship is still more of a past than a present phenomenon in Oman. According to Porter (2004), cultural factors have closed and may be continuing to close the door for new business in Oman. The culture is characterised as risk-averse and highly-dependent. A high government post or high military rank is perceived more favourably by society than being a successful entrepreneur. There is scarcity in successful and self-made entrepreneur role models in the Omani society, and even the few have not received much media celebration. There has not been a study using Hofstede’s index to measure Oman’s culture. However, Arab countries in general were found by Hosftede (1980) to be high power distance, high uncertainty avoidance, low in individualism, and high on masculinity. Oman’s culture and social norms are quite similar to many Arab countries, especially the Arabian Gulf states that have overlapping historical and social characteristics. Although these intangible factors are very complex and require time to change, they should not be a stumbling block for developing countries’ entrepreneurial
development and are not impossible to change. For instance, the US culture in the 1950’s was not pro-entrepreneurial and was biased to career ladders in large firms (Schramm, 2005). Cultures and social views are known to change as society becomes more pro-entrepreneurship.

viii. Limited entrepreneurship support programs (Post start-up stage)
In terms of science parks, the Ministry of Commerce & Industry initiated in 2003 the first and only IT Park, called ‘Knowledge Oasis Muscat’ (KOM). KOM is situated in the capital area just a few kilometres from Sultan Qaboos University. The park currently hosts around 60 local and international established businesses such as Microsoft and Motorola. It also accommodates two new private colleges that are specialised in the field of IT and ICT. KOM has the only business incubator programme called ‘The Knowledge Mine’ (TKM). The programme offers subsidised office space and other support services for nascent entrepreneurs in technology-dependent businesses. However, the capacity of this programme is limited to 15 new firms and, currently, all spaces are occupied. Although many of these government and non-government projects have great ambitions and good intentions, there is doubt about the effectiveness and quality of many of the services currently provided.

III. Setting the platform for Omani policy makers
The preceding brief description of the extant Omani entrepreneurial environment leads me to diagnose it as one that suffers from a combination of opportunity barriers - low capacity, low propensity and insufficient complementary factors. In short, it is an environment which is detrimental to high-potential, new-venture creation. Although the environment has some positive factors such as political stability, quality living standards, and a young population, the negative factors are much more in evidence. For instance, continuance of poor research and development conditions and lack of an entrepreneurial education infrastructure would mean that Oman will struggle to produce enough entrepreneurial capacity at a national level. Like many developing countries, Oman is still in the building process and, therefore, environmental deficiencies are to be expected. However, what is now needed is not complacency or excuses but action.

Given the space constraints of this paper, and the modesty that recognises that wiser and more experienced policy-makers must perform the task in greater detail and with stronger insights than I can muster, I will make some broad-brush recommendations that can hopefully set the platform for a national entrepreneurship policy.

- Oman’s entrepreneurship policy objectives need to be focused upon creating a conducive entrepreneurial macro environment for wealth creation through innovation, produced via high impact new venture creation and not, as is currently the case, upon low potential “copycat” ventures. Policy-makers should not spend time and money on encouraging so-called ‘regular’ ventures, but instead allocate resources and policy focus to those new businesses with future growth potential. However, this cannot be achieved through minor, spontaneous policy adjustments and uncoordinated entrepreneurship initiatives, but rather requires a comprehensive policy agenda which pulls together all uncoordinated efforts into a coherent and strategy-driven
entrepreneurship policy that can have a real and sustainable impact on the country’s entrepreneurial activity. Oman needs to follow a holistic entrepreneurship policy approach, such as the more developed countries are now adopting.

- Furthermore, this entrepreneurship policy has to be carefully customised to integrate all the contextual uniqueness of Oman. Borrowing successful policies from other countries and implementing them blindly is not the right approach. The economic stage of a country, government resources, its people’s culture and value systems, and the overall environment surrounding potential entrepreneurs, all need to be integrated when formulating an entrepreneurship policy.

- In addition, public policy alone cannot shape an entrepreneurial environment due to the complexity and nature of the entrepreneurship phenomenon. However, it is one active force among others that can contribute significantly in creating an entrepreneurially conducive environment. It is a joint partnership between many actors - public policy, private sector, community, and other constituents - that overall influence the entrepreneurial context. Some of the many environment factors can be directly influenced by public policy, whereas others may be influenced to a smaller extent and need other interventions and longer time. Nevertheless, I believe government should lead these joint efforts and play a bigger role in developing and implementing this policy agenda, especially in a developing country context. This is mainly because the private sector and civil society organisations in Oman are not mature yet and do not have the capacity. The country is heavily dependent on government initiatives in all sectors. Good policy, effectively applied can provide results faster than waiting for the immature market to learn and to correct itself.

- The Omani government needs to accept that becoming an entrepreneurial society is a long-term commitment. It has to be patient before reaping the fruit of entrepreneurship policy.

- There is a need to create a dedicated government entity with ministerial cabinet power that has the sole responsibility of advocating entrepreneurship issues, not just SME, and can be the vehicle for driving policies and implementing this agenda, and that works horizontally with various ministries and agencies relevant to the policy. This single authority acts as an advocate of entrepreneurship and high-potential new start-ups and can ease and facilitate co-ordination between government initiatives programs and agencies concerned with fostering entrepreneurship (e.g., technology parks, incubators, business development centers). It can bridge the entrepreneurship understanding gap in government, strengthen inner agency collaboration and co-ordination, provide data, resources, and support for entrepreneurs.

- Omani government needs to accept and stress that quality and not quantity is what matters at all levels, whether it is government services, education and training, or entrepreneurship support programmes.

Finally, the entrepreneurship process, from the macro contextual levels to the micro aspects of individuals pursuing the entrepreneurial process, is so complex and interconnected that no single study can provide full solutions. Nevertheless, I hope that this brief report can at least scratch the surface and guide policy-makers, in Oman, one step closer to creating an entrepreneurial environment that is conducive for high-potential new venturing.
Reference


