The strategies used by SMEs to survive during economic crisis in the Sultanate of Oman

Syed Riyadul Mahi
Jalila Khalaf Nasser Awlad
Thani

It is said that 97% of the economy of the earth comes from small and medium sized enterprises (SMEs). Most manpower employed worldwide are by SMEs. SMEs in general, play a very crucial role for the development of a country. In developed nations, SMEs contribute to 60% of the country’s economy while SMEs in Oman contribute only 15%. Oman is classed as a developing country hence the SME scene is still raw. Depreciation in the price of crude oil put a lot of pressure in Oman’s economy for the last couple of years since oil revenue accounts for about 60% of the country’s earnings. During the times of economic crisis, the SME section are the ones who are affected the most. They pass through a gloomy phase that create a negative impact on their business returns. This study delved into various approaches taken by SMEs to survive the economic crisis which is stunting the growth of the country. A qualitative research was conducted among several SMEs in Oman. In-person interviews were administered, and questionnaires were handed out to the SME owners. The results showed that the SME owners had to conduct major layoffs. Using only the core workforce was one of the major strategies utilized by the SMEs. The owners didn’t expand their businesses, rather focused on expanding their products and services to reach a larger target audience. Discounts, offers, extensive external and social media marketing were also critical means of survival. Most of the SMEs are optimistic and are receiving a lot of assistance from the Public Authority for SME Development (Riyada) of Oman to ensure their survival

Introduction

According to a report published by Erlich (2015), low oil prices is causing a huge crisis in the Sultanate of Oman. Due to the neighbors of the Sultanate deliberately decreasing oil prices and increasing production to strike a blow at its competitors. Being one of those countries in the Middle East who are extremely reliant on oil to fund the country, the Sultanate also faced a huge blow to its economy since more than 70% of its annual budget is from oil. Price of oil fell to 60%, to be at par with the global market, from its peak 100% in 2014. Government slashed a lot of extra expenditure from its annual budget. Since then, companies responsible for oil extraction are not searching for new places to dig out oil due to less budget. Back in those days, companies would have their contracts renewed automatically for oil exploration but in recent times, they are not renewed. Once the contract ends, there is no more renewal. This causes layoffs and increase in unemployment. To recover the country’s economy and make it stable, the government cut down the defense budget by a quarter and slashed expenditure for social causes by 50%. The Omani government lavishly granted budgets for social spending, which costed billions of Omani Rials, to prevent any political issues rising during crucial times in the Arab world. (Erlich, 2015). The only way out of a situation like this would be to diversify the economy. Instead of companies waiting for governments to approve contracts to them, it was high time for the citizens to realize the critical situation that Oman is in. The business strategists who are responsible for the country’s economy decided to boost the SME sector of the country.

SMEs is the acronym for the words “Small and Medium Enterprises”. In developing nations, SMEs
have a crucial role in the economic growth of a country. Most of the companies worldwide fall under the SME faction; approximately 90% of companies are SMEs and they employ more than half of the global workforce (World Bank, 2019). SMEs are considered as the foundation of a nation’s growth due to its significant contribution to the nation’s wealth and community. In first world countries, SMEs contribute to 60% of the country’s GDP which include formal and informal SMEs. According to World Bank’s prediction, more than half a billion jobs are required worldwide in the next year to involve the already expanding workforce. This statistic is causing the drive for governments of all countries to encourage entrepreneurship among its citizens.

Governing bodies worldwide are realizing the true potential of SMEs for nationwide advancement and viable economic growth. There is a massive drive all over the world for further advancements of SMEs. Countries are resolving the problems and restraints faced by businesses which is hampering their success. The Sultanate of Oman is not lagging in this scenario. According to an article published by Oxford Business Group (2019) stating the statistic published by Riyada, SMEs contribute to only 15% of The Sultanate of Oman’s GDP which is way below the worldwide average of over 50%. According to Ministry of Commerce and Industry (MoCI) (Khan, 2012), SMEs are categorized as

Small – five to nine workers with yearly turnover of OMR 25000 to OMR 250000

Medium – ten to ninety-nine workers with yearly turnover of OMR 250000 to OMR 1.5 million.

SMEs are the key to improve the GDP of the Sultanate of Oman. The number of SMEs registered to Riyada turned out to be more than 37,000 by the end of 2018 alone (Al Abri, 2019) while the total SMEs operating in The Sultanate of Oman are over 117,000. Even though the government is supporting the SMEs to grow and develop, there are still loads of issues faced by them.

Literature Review

Al Amri, S., Neelufer, A. and Christina, B. (2014) conducted a study to figure out the main challenges faced by SME owners in Muscat which is the capital city of Oman. The authors conducted the study by collecting data with the help of a questionnaire and then performed further examination of the questionnaires using descriptive analysis. They took a random sampling of around 35 SME owners and asked them about potential challenges. The priority of the challenges faced were to be rated from 1 to 5 when 1 being the lowest priority and 5 being the highest priority. It can be seen from the table that the owners were facing issues with the policies following the registration of SMEs, marketing and the educational background of the SMEs in the respective prioritized order. The authors argue in favor of the respondents that the Ministries responsible for SME development should support the entrepreneurs and consult them for improving the skills by educating the entrepreneurs in the most convenient way possible as not all human beings have access to basic education. Furthermore, many of the respondents had financial issues because of the crisis of cash flow in the market. The authors also found out that SMEs were having problems marketing their products or services.

<table>
<thead>
<tr>
<th>Challenges</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Policy</td>
<td>4.2</td>
<td>.56983</td>
</tr>
<tr>
<td>Financial</td>
<td>3.95</td>
<td>.75923</td>
</tr>
<tr>
<td>Technical</td>
<td>1.89</td>
<td>1.41590</td>
</tr>
<tr>
<td>Marketing</td>
<td>4.17</td>
<td>.58086</td>
</tr>
<tr>
<td>Education</td>
<td>1.94</td>
<td>.59125</td>
</tr>
</tbody>
</table>

Figure 1. Descriptive analysis (Al Amri, Neelufer and Christina, 2014)
There were many other statistics in this study, but this descriptive analysis seemed the most relevant for the current study. Some criticisms could be made of this paper. The study just had 35 participants. Moreover, the SMEs were just considered in the Muscat governate. The Sultanate of Oman has 11 governates. A research conducted by Ramachandran and Yahmadi (2019) showed that finance, training and entrepreneur culture is what the respondents were lacking in. A questionnaire survey was sent out to 110 SME owners and only 102 were considered useful. This study had a broader geographical location with a wider audience than the previous review. The questionnaire asked the respondents to rate some obstacles (gender, age, education, experience, availability of capital and lack of training) on whether they were a major, moderate, less, very less and not an obstacle at all. Figure 2 shows the answers of the respondents. The obstacles which were earned the highest ratings will be considered for the review here. It was found that majority of the SME owners felt that gender was not an obstacle for the SME to run (47%). Around 37% of the respondents felt age was an obstacle because business requires a lot of attention and it is very difficult after a certain age to stress and travel places to make sure the business is running.

Education was not considered an obstacle because the respondents believed experience was more necessary by almost three quarters of the respondents (72.7%). A whopping 82.8% had troubles running their SMEs due to the lack of capital access. Furthermore, 63.7% found lack of training to be a hardship.

<table>
<thead>
<tr>
<th>S. No</th>
<th>Study Factor</th>
<th>Major Obstacle</th>
<th>Moderate Obstacle</th>
<th>Not an obstacle</th>
<th>Less obstacle</th>
<th>Very less obstacle</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Gender</td>
<td>18(17.6)</td>
<td>13(12.7)</td>
<td>48(47.1)</td>
<td>12(11.8)</td>
<td>11(10.8)</td>
</tr>
<tr>
<td>2</td>
<td>Age</td>
<td>38(37.2)</td>
<td>24(23.5)</td>
<td>18(17.6)</td>
<td>14(13.7)</td>
<td>8(7.8)</td>
</tr>
<tr>
<td>3</td>
<td>Education</td>
<td>17(16.7)</td>
<td>27(26.5)</td>
<td>33(32.4)</td>
<td>16(15.7)</td>
<td>9(8.8)</td>
</tr>
<tr>
<td>4</td>
<td>Experience</td>
<td>39(38.2)</td>
<td>25(24.5)</td>
<td>20(19.6)</td>
<td>15(14.7)</td>
<td>3(3)</td>
</tr>
<tr>
<td>5</td>
<td>Availability of Capital</td>
<td>47(46.1)</td>
<td>37(36.3)</td>
<td>8(7.8)</td>
<td>6(5.9)</td>
<td>4(3.9)</td>
</tr>
<tr>
<td>6</td>
<td>Lack of Training</td>
<td>42(41.2)</td>
<td>23(22.5)</td>
<td>13(12.7)</td>
<td>8(7.8)</td>
<td>16(15.7)</td>
</tr>
</tbody>
</table>

Figure 2. Obstacles faced by SMEs (Ramachandran and Ali AL Yahmadi, 2019)

According to an article by Al Shaibany (2018), 1/3 of all SMEs in Oman closed their doors because they couldn’t stay afloat. There was a drop of more than 30% in the establishment of new SMEs in 2017. Considering this statistic, the government’s plan to increase GDP (by the input from SMEs) by 30% will be unsuccessful. The Omani government made a ruling that the tender board should allocate 10% of all projects to SMEs so that they can survive and contribute to the nation’s development.

Almost every study conducted by researchers have more or less, the same conclusion. Another research by Al Buraiki and Khan (2018) established that capital invested initially is the biggest hurdle to go through at the early stages or to run the business. Many factors happen to go under this since initial investment is always heavy due to money going behind research and development, getting the permit to setup the business, paying rent and other legalities. The SME owners complained regarding obtaining loans and credit assistance from financial institutions. They criticized that the loans from the institutions were difficult to re pay since they demanded assurance which were way out of the SME owners’ abilities. Hardly any respondent wanted to take loans from banks in the fear of not being able to pay back. The interviewees also insisted that aid and assistance from government led programs must be more augmented, so that the SME owners can get support from the initiation of the business till the business runs full-fledged. Workforce is also another factor which affects the running of SMEs. Good, hardworking team members are crucial to the running of any business. In this study, it was also found that location also mattered for a SME. SMEs in places with less population were only running to meet ends. As the world is moving forward with time, so is technology. The SMEs believe that improving their technological
infrastructure would be beneficial for the company as well its customers, but that required a good amount of capital as well. IT support is also expensive. Almost all SMEs acknowledged that the government is encouraging the development of SMEs, but they are not content with the procedures that follow. New and upcoming SMEs describe it was burdensome to get the basic paperwork done since the government offices were not close to each other. Nearly all SMEs agreed that Omanization affected their businesses because they were dependent on expats. To hire an expat is way less than a local.

**Figure 3. Entrepreneurial ecosystem for SMEs in Oman (Al-Abri, Rahim and Hussain, 2018)**

Al-Abri, Rahim and Hussain (2018) conducted a research to find out how the SME environment is having problems in running and to create an ecosystem framework that the SMEs could adopt. The study found out the problems faced by SME owners which were as usual, finance, policies, workforce, experience to name a few. The researchers also developed an entrepreneurial ecosystem that would keep SMEs sustainable. “Entrepreneurial ecosystem” is the collaboration of different components and collaborative entrepreneurial actors to develop a business (Igi-global.com, 2019). Figure 3 is the ecosystem created which gives an idea about how human beings as capital, support from governing bodies of Oman, finance and up to date technology could be unified to run a sustainable business. On the other hand, the limitation with this research was that it just had 10 interviewees. Having more interviewees could have brought in more factors, which affects SME owners, into notice.

**Problem Statement**

The Government of the Sultanate of Oman has been showing a lot of interest to develop SMEs but there has been less study as to what strategies the SMEs are already using to not fall prey to the economic crisis and stay running. SMEs do admit that they lack experience in certain sectors and have no idea how to conquer the problem. The main of this study was to collect information regarding the strategies undertaken by the SMEs during the current economic crisis that the Sultanate of Oman is in. A study which shows and explains the methods used by SMEs that are functioning decently during this crisis would help and give ideas to other SMEs that are facing problems to perform well. This research could assist SMEs with developing new strategies that could benefit them.

**Methodology**

Many researchers have published statistical researches of the challenges faced by SMEs in Oman most notable the paper by Al Buraiki and Khan (2018). But there were hardly any which portrayed the strategies undertaken by SMEs in the current crisis. To find out how SMEs survived, a qualitative research was done. A qualitative study or research is a research which is done by observing human actions, considering human assumptions, inspirations and interests (Shuttleworth and T Wilson, 2019). The different types of successful SMEs included tourism companies, grocery stores, local app startups, restaurants, design and marketing agencies, construction companies, vehicle maintenance shops, social service companies to name a few. Such SMEs were chosen so that a wide variety of reasons of how different SMEs in Oman survived could be found out. It was made sure that all the provinces of Oman were covered in this study so that the research had its geographical factor covered. Also, different SMEs in different locations will have different strategies due to their geographical circumstance. Well-constructed questionnaires were handed out to SME owners and in-person interviews were also conducted. The SMEs were reached through email, social media and in-person visits. 50 respondents had answered the questionnaire properly. They included of men, women, Omanis and non-Omanis. The questionnaire mainly consisted of open-ended questions asking SMEs about the strategies they use to succeed in terms of the following...
sectors –

- Finance
- Marketing
- Customer service
- Workforce
- Business Plan

Open ended questions give out more practical answers. The questionnaires also asked the SMEs to rank certain strategic factors from very important to not important at all and to comment on why they rated the factor as such. The SMEs were also requested to give suggestions on how other SMEs could run smoothly. After receiving the questionnaires, the answers were interpreted and organized for convenient references.

**Research findings**

**Finance**

| Did you ever take financial assistance from any bank or financial institution? If yes, please state how did you receive it. If no, please state why did you not take it. |
|---|---|
| Yes | 72% (36) |
| No | 28% (14) |

Table 1. Question on financial sector (source- questionnaire)

From the questionnaire it was found that 72% of the respondents had taken financial assistance from external sources. External sources include banks & financial institutions. The respondents who replied with yes, stated that they approached SME development organizations such as SMEF, Sharakah, Al Raffd fund and other banks who have good schemes for SME developments such as National Bank of Oman, Oman Arab Bank, Bank Nizwa & Bank Dhofar. SMEF, Sharakah and Al Raffd fund aimed to create and promote entrepreneurship among residents. The respondents who received finance from them also stated that these organizations were very helpful and assisted them through a long part of the journey through training, consultations, solutions to problems and helping the SMEs to get contracts for their business. The banks had simple paperwork, easy repayment methods and great schemes which lured the owners to approach them. The SME owners suggested that to get financial assistance, one must reach out to the relevant authorities with a solid business idea, adequate planning and a decent business performance. The respondents also suggested to budding entrepreneurs to study the market well and to not open a business just for the sake of opening a business. Experience and knowledge are two very crucial things for growth.

On the other hand, the respondents who replied that they did no take any financial assistance from organizations stated that they had investors investing for them and all they did was run the show. They wouldn't have had to repay the money that they took since the investor also had a percentage of partnership in the business. A few respondents stated that they took money from their family members. One would have to constantly update and report to the organizations. Also, there would be a thought at the back of the head of being indebted to somebody. The respondents who denied taking financial assistance believe that one must be brave enough to take loans. In this crisis which has a lack of cash flow, it is difficult to promise monthly profit. So, if one must take loan, he or she should be confident about their business plan.
Marketing

“Did you focus on marketing during this recession period? If yes, what marketing strategy did you practice? If no, please justify.”

This was an open-ended question that was asked to the respondents. 88%(44) of the respondents had enforced unique marketing strategies to acquire customers. The rest 12% were content with their simple marketing strategies. In the era of technology where there is a cellphone in the hands of almost everyone in the world, the SME owners relied heavily on social media for their marketing campaigns. Reasons being social media is reached out to a wide audience in extremely less money. Many SME owners reported how their products and services boomed after creating sponsored ads in the form of videos or photos and showcasing them on social media platforms such as Instagram and Facebook. The SME owners believe no body can live without their cellphones and gadgets, so it is best to reach out to customers in their audience. Some SME owners do online gift giveaways to gain followers. This includes posting a photo on Instagram, Facebook, and asking followers to tag their friends. Since human beings as general are attracted to things which are given away for free, they follow instinctively. The company later posts offers of their stuff in the period of the giveaway so that any new follower can know what the company is providing. This social media marketing strategy is being practiced by prominent companies too. Creating a captivating “Hashtag #” (hashtag is a symbol used on social media for getting attention on a specific topic) does bring more audience as people are always curious. Marketing is one function that can impact a customer’s journey right before purchasing the product, to then purchasing the product and so on and so forth.

The SME owners also said that the contents that should be shared should inform, educate, entertain and inspire the audience. The food industry is the only industry that is affected much less than other industries since food is essential for humans and people do not stop eating. Restaurant owners did inform that the turnout of customers is much less that what it used to be a couple of years ago. People are tending to spend less due to increase in the price of fuel and taxes on luxury items. To make things affordable, restaurant owners cut down the prices of the food that was there in the menus. The restaurants also advertised offers on the special food items on their menus and discounts on group reservations. The restaurant owners encouraged their employees to treat the customers with the utmost love and respect that the employees could offer. The employees got to keep their tips so that they would be motivated to work harder at pleasing the guests with their services. Restaurants also posed their offers on social media and roadside ads to make their presence known. SMEs also use social media influencers to promote their business. By paying a certain amount, these influencers would promote the business just like an ad, SMEs avoid using the traditional billboards since they are expensive. These are the suggestions that SME owners would suggest to struggling.

The SMEs which responded that they didn’t focus on marketing during the recession is because they didn’t want to spend on marketing as they had other sectors to spend money on that would get them more customers.

Customer service

“How would you rate your customer service? To what lengths would you go to serve your customers?”

100%(50) of the respondent report that customer service and customer loyalty is one of the major factors that their business is not going downhill. Successful SMEs are successful because they build marketing strategies that help them deliver a great customer experience. Since the internet turned
from a novelty to a commodity, customers have more visibility to data points, they are more confident in making decisions hence it becomes compulsory for businesses to listen to what their customers demand. Large enterprises who have contracts with SMEs, postpone their payments from 3 to 6 months. SMEs fear to take legal action against large companies because they feel that they would be upsetting their clients. In an already critical economic condition of Oman, threatening potential long-term customers would seem like a bad idea. The respondents suggest patience is the key here. They believe something is better than nothing. SME owners went to extents where they exactly tailored their products and services to what their customers wanted just to keep a good customer network. Certain SMEs use Customer relationship management (CRM) to build their database. CRM helps to handle a business’ co-operation with current and future clients. It examines data and the customer’s involvement with the company previously to enhance the bonding of the customer and the company. CRM helps businesses to retain their clients so that sale go up. Preserving devoted customers was also a big priority during economic crisis.

### Workforce

<table>
<thead>
<tr>
<th>Did you conduct any layoffs during the economic crisis? If yes, please state why.</th>
<th>94% (47)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>94% (47)</td>
</tr>
<tr>
<td>No</td>
<td>6% (3)</td>
</tr>
</tbody>
</table>

Table 2. Question on workforce (source - questionnaire)

94% (47) of the SMEs conducted layoffs. They decided to operate with only employees who played vital roles in the company. This was crucial for SME survival during the initial stages of the crisis because it was getting difficult to pay the workers with less clients. Omanization was also a factor in laying off employees. All SMEs were left with core employees. Employee satisfaction is also an important factor of a business running well. The owners would give benefits to the employees. Some SMEs used the strategy of commissioning the employees. Employees were given commissions from every customer that they brought to the company. During special occasions, the owners would gift their employees as a token of appreciation for their service to the company. SME owners encourage their workers to work hard, and at the same time, provided them with incentives and holidays. The owners regard employee satisfaction very highly. A motivated workforce is very crucial during tough times. The employers would not put extreme pressure on their employees to not upset. Creativity was welcomed so that the employees had opportunities to explore and have a drive to strive during work. Employers believed that staff turnover could not be an option since training someone new would be expensive for the company. The respondents also said that they noticed better productivity in their employees due to their contentment in their work life. SME owners said acknowledgement of a worker and crediting his or her abilities is one of the ways to help an employee grow spiritually in their work life. A few of the SMEs considered improving workforce contentment to such extent that they renovated their offices in such a way that all workers were in the same level. The old “fortress walls” structured offices which separated employees were all gone. In its replacement was an open office structure where all the employees could bond with each other and develop great work relationships. Everyone was at the same level with no one having more privilege than the other. This is a great way to discard and avoid employee-employee disputes too. A motivated work force is fundamental to any business’ survival in hard economic times. SME owners were always optimistic about their work. Optimism is another crucial element which plays a pivotal role for the operation of a company. Optimism is a psychological trait, and nothing related to the revenues of a company.

### Business Plan

“What was your business plan during the crisis?”
100% (50) of the respondents stated that they had to change their initial business plan when they started so that they could cope with the critical situation of the country. The prices of the products and services were cut down significantly to survive in the market. All the SMEs even admitted diversifying their businesses so that they didn’t have income from just one path. Diversification helps in developing a broader audience, hence a larger target market. For example, tourism companies who would take tourists for day tours around the country also began including camping tours with minimal investment. Manpower service companies who would only supply cleaners to offices and other institutions, began pesticide and rodent control services to have more revenue with minimal expenditure. The SME owners stated that expansion of the business would not be a good idea in this crisis. Design and marketing companies also diversified their services. Instead of just creating posters and banners, they also offered to create video advertisement of their clients. The social media accounts of the clients would also be handled by the SMEs so that the clients would not worry about their marketing department. This would help the client in reducing costs by not hiring marketing specialists for their companies and help the marketing agency maintain a long relationship with the client.

**Conclusion and recommendation**

According to Al Shaibany (2018), 1/3 of all SMEs in Oman closed their doors because they couldn’t stay afloat. There was a drop of more than 30% in the establishment of new SMEs in 2017. Considering this statistic, the government’s plan to increase GDP (by the input from SMEs) by 30% will be unsuccessful. The Omani government made a ruling that the tender board should allocate 10% of all projects to SMEs so that they can survive and contribute to the nation’s development. The Omani government should organize more seminars and training opportunities so that the SMEs can know where they are going wrong. The Omani government must make it convenient for prospective business owners to setup their business. The hassle that an entrepreneur must go through to obtain his or her licenses and permits is a major turnoff for young people. By this research several game plans were obtained by successful SME owners who have been stable during SME crisis. This research will help SME owners who are struggling in the market by suggesting them some techniques for survival and assisting them from not making any bad decisions. The strategies and suggestions include –

- One must have a solid business plan. That is, one should study the market and educate themselves of the market before entering the market
- One should get enough experience of a certain business type that they want to open their business in
- If someone wants to take loan, they must be sure of their business returns or else they will be indebted and the thought of being indebted discourages anyone to take any risk to move forward.
- SME owners should take and enroll in seminars and training courses that educate and enlighten entrepreneurs to stay afloat in this crisis
- SMEs should consult Riyada for their problems as it is a government backed institution aimed to help and promote entrepreneurs
- SMEs who are having trouble showcasing their products and services should shift their focus to social media for marketing
- SMEs should keep offers and discounts to attract customers
- SMEs should follow the ideology “The customer is always right”
• SMEs should layoff extra workers from their workforce and work with their core employees, it would help them save a lot of capital

• SME owners should motivate their employees for higher levels of productivity

• SMEs should try to diversify their business

• SME owners must stay optimistic and strive for success.

Limitations

This study just had 50 respondents. A larger sample of respondents would provide more ideas and suggestions. Further research study could include a broader geographical study, such as surveying SMEs all over the GCC.

Acknowledgment

The researchers would like to extend their sincere gratitude to their supervisor and Middle East College for supporting them.

References


