



# A Critical Investigation on SME's Opportunities and Challenges in The Construction Industries of Sultanate of Oman

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## Abstract

Small and medium enterprises are small scale companies in terms of size, investment and number of employees, but in the other hands, they contribute significantly to the socio-economic of the country. SME's in the construction industry represent approximately 90% of the firms working in this sector, providing this industry with construction innovations, technology, creating new jobs, and providing a wealth balancing in the society. Oman's government has developed various programmes to elevate the performance and business development of SME's across the country, with the leading authority of SME's development, which has been established in order to provide the required support to this sector. However, there are various challenges faced by SME's in the construction industry that have impacted their performance and business continuity, the significant challenges faced by them are mainly delay in payment for the executed works, contractual issues, access to financial facilities, availability of manpower, regulations and policies, and the management knowledge of their management. The aim of this research paper is to investigate in depth on the available opportunities in the construction industry for SME's to involve in, and secure a successful market place, and to highlight the various challenges faced by SME's in this sector that works as a barrier for their growth. The information will depend on a primary data through questionnaires and direct interview to

business owners, in addition to different published reports by government authorities and institutes. The results will be evaluated and analyzed to identify the real issues in order to provide a set of recommendations that attempt to resolve the problem.

**Keywords:** - Construction industry, SME's, opportunities, Challenges, Access to finance, manpower availability, regulations and policies.

## 1. Introduction

The Medium and Small Enterprises, or what is referred to as SME's, plays a significant role in the national economy for any country, according to (European Commission, 2022), SME's contributes to 90% of the European Union business, and employ millions of people taking account of more than half of the Europe's GDP. In addition, the SME's adding value in all business sectors that forms the country's economy. The construction Sector is considered one of the largest industry especially in the developing counties such as GCC countries, where the contribution of SME's in this sector ranges from supporting construction industry with innovated technology, supplying materials, contracting a specific technical services, and providing logistics and consultancies.

In the Sultanate of Oman, with the road map of Vision 2040, the government plan in economy diversification strategy to reduce the dependency

on Oil based economy by developing other sectors, such as logistics, tourism and manufacturing industries (Bulushi & Bagum, 2017). According to the report by (Mordor-intelligence, 2022) on the Oman construction market anticipated forecast during the Oman Vision 2040 plan, will be driven by the main pillars of the Ninth Five year plan which constitute of the enhancing the contribution of five target sectors that includes, tourism, mining, logistics, fisheries and manufacturing, in addition to the major planned projects.

Taking the tourism sector in the Sultanate of Oman, as an example, which has been identified as a promising opportunity to promote the non-oil revenue and contribution to the GDP for the country's economy, and attracts the international direct investment objectives. According to the report (Mordor-intelligence, 2022), the Ministry of Tourism has announced its strategic plan to develop this sector by adding around 80,000 rooms for accommodations which will generate a great demand for the construction firms in different levels as well as supply of materials, manufacturing of small construction elements which will be an encouragement for the SME's in terms of investment.

According to (Alqassabi, 2020), The government of Oman has developed a recognizable programmes to support SME's business in all sectors, but in the construction sector which considerably the second biggest economic sector in the country, still suffering from various types of challenges and obstacles which haven't yet been addressed and resolved, causing slow rate of growth and development of SME's in this sector. (GUPTA & HODA, 2021), has asserted that, the biggest problem faced by SME's is sustaining business continuity and steady growth in a highly competitive market. There are various issues of success, ranges from access to finance, competitiveness, priority in government awarded contracts, delay of payments for completed works which affects severely the cash flow and internal issues within the firms, such as management skills, marketing capability and availability of resources (Muthuraman et al., 2020).

The aim of this research paper is focusing on the available opportunities in the construction industry for SME's to involve in and secure a successful market place, and to highlight to various challenges faced by SME's in this sector that works as a barrier for their growth. The information will depend on a primary data through questionnaires and direct interview to business owners, in addition to different published reports by government authorities and institutes. The results will be evaluated and analyzed to identify the real issues in order to provide a set of recommendations that attempt to resolve the problem.

## 2. Problem Statement

Construction industry is the second largest industry in terms of investment in the Sultanate of Oman as the country is heading towards economy diversification through the five years development plan and the Oman Vision 2040. Therefore, a tremendous opportunities are involved within this industry for the SME's that will reflect in developing this sector to have a significant contribution of SME's in the economy and employments. Currently, the Construction SME's, in particularly Sub-contractors are facing a number of obstacles and challenges that prevent their growth and performance in the market, and in some cases shut-down of businesses has been reported by Ministry of Commerce especially during the pandemic of COVID 19.

There are a number of challenges faced by SME's in the construction industry, which has not been explored and investigated in order to develop a mitigation programmes that minimize its impact on these companies. This research attempt to discover these challenges that have impacted the development of SME's in the construction sector and provide some recommendations for the government authorities that supporting SME's, and for the country's economy commissioners to develop set of programmes that will enhanced the growth of SME's in the construction industry of Oman.

### 3. Literature Review

SME's plays a vital role in any nation's economy, they considered as the engine that drives the industry growth, technology, innovation, and support to larger organizations. In the European countries, the SME's are the backbone of the union's economy, contributing to approximately 85 % of new jobs, (European Commission, User guide to SME Definition, 2020). According to (OECD, 2019), SME's represents of more than 95% of all companies in the organization's member countries, and 60% to 70% of the employment with a larger share in new jobs creation.

#### *Oman's government support to SME*

Oman government has given a remarkable focus on the development of SME's in the country, considering the importance of this sector in the country's objectives of developing economic diversification and creating new jobs and reduce the dependence on oil as the only source of income (Ennis, 2015). The government has launched various support programmes that are dedicated to develop the SME sector, including establishing of authority for development of SME's in 2013, that provides soft loans through its financial section Al Rafed., and training for owners to enhance their business management capability during the startup through different programmes mainly "Intelaaqah" and "SANAD"

#### *Oman's construction Industry*

The second largest contributor to the Oman's GDP is the construction industry, as Oman has ranked one of the top countries with considerable growth in construction industry. (Saleh & Alalouch, 2015), has stated that, Oman's government is giving more attention in investment in non- oil industries which includes the construction industry, which is forecasted to generate an annual growth of 6% between 2019 and 2024 supported by the objectives of the government in Oman's Vision 2040 of economic diversification. The SME's in construction industry are the major players in supporting and providing technical and specialized services and different types of work to the main contractors,

ranges from supplying of construction materials, installation of electrical and drainage system to a very specific works such as design and execution of fire alarm systems. In the Sultanate of Oman, according to the Ministry of Commerce and Industries (MOCI), (Home — Government commercial services, 2022), there are 60,015 companies are registered with the activity of general construction of residential and non-residential buildings, which SME's constitute approximately 90% of these companies.

#### *Opportunities for SME's in construction industry*

With the Oman Vision 2014 and the 10<sup>th</sup> five years plan (2021-2025), the Omani government is very intense in the plan of diversification of economy to enhance the contribution of other economy sectors other than oil in the country's GDP. Therefore, with any sector development, there is a demand for facilities such as infrastructure, buildings and other logistic services which certainly will boost the construction industry. (Pheng & Hou, 2019), stated that, construction sector is one of the top sectors in term of inter-Sectorial linkages, that all other sectors are heavily have inter-relation with construction sector.

#### *Challenges faced by SME's in the construction industry*

Although the SME's play a vital role in construction industry, contributes significantly in the socio-economic development of the country, SME's face significant challenge that influence and impact the sustainability of their business in the construction sector. These challenges and development's barriers are categorized and discussed as following to provide a clarity on its impact on SME's.

**Payment delay/Cash flow issues:** SME's are characterized with their smallness in terms of operation and financial capability, therefore, payment delay has a significant impact on their performance, ability to re-pay their debts, and maintaining competitive advantage in the market. (Al Alawi, 2021), stated that, payment delay is ranked the third out of twenty one factors affects

SME's productivity in construction sector in Oman, and has a negative impact on the financial stability of the SME's compared to the larger firms.

**Contractual Issues:** SME's are involved mainly in the sub-contracting works related to projects, where the upper-hand remains with the main contractor who drafts the terms and conditions of the contract, and accepted by sub-contractors forcibly to secure jobs and market share. Various conditions in the construction contracts that acts as a challenging factors to SME's in the construction industry of Oman, where the main contractor tend to transfer all the work related risks to the sub-contractor. Moreover, risks including the payment receivable from client which delay due to factors not attributed to the sub-contracting works, additional requirements and design changes that encountered during the construction face of the project.

**Access to finance:** SME in construction sector are considered by financial institutions and creditors as firms with high risks than big organizations (Hung, et al., 2020). This perception about the SME usually produced due to their financial performance, uncertainty of amount receivables details, moreover banks and financial institutions determine the eligibility of SME's access to financial support based on different characteristics of the firm, mainly revenue, age of the firm, firm size and type of ownership.

**Regulation and policies:** Regulatory conditions and policy implementations are considered among the most factors affecting the nature of SME's business, they face a bigger challenge of dealing with regulatory environment than larger firms. (OECD, Improving the business environment for SMEs through effective regulation, 2018), stated that, the complexity of the regulatory procedures, tax policies, and other government regulations, are challenges that acts as a burden to SME's business environment.

**Manpower Availability:** The Omani labor market experience a shortage of locally available skilled and trained professionals with the new technologies that required by the construction sector to enhance productivity. According to (Ali & Alani, 2017), construction sector in Oman is the highest employer of expatriate labor which constitute 46% of the total expats employed by

the private sector, this due to the requirement of skilled professionals as well as non-skilled labors.

**Management Capability:** Research by (Fatoki, 2014), on the cause of failure of SME's indicated that, owner's lack of management knowledge and functional skills such as planning, controlling and leading technical teams, contributes significantly in the preventing growth and sustainable development of the business. (AL-Zakwani & Mondal, 2019), pointed out in their research, that lack of management skills within SME's in Oman has a severe impact on the survival of the firms ,their business productivity, and competitiveness in the sector's market.

#### 4. Methodology

This research is deemed to be an exploratory that investigates the challenges faced by SME's in the construction industry, through a mixed of qualitative data collected by distributing questionnaire, and quantitative data by direct interview with SME's owners. Quantitative data is useful tool to generate charts and graphs that facilitate the analyzing of raw data and make it easier for the researcher to understand and explain , it is an objective approach that can be used to find correlation between two variables, and the effects is simply measured. Qualitative approach, unlike the quantitative method, is a subjective approach that provides in-depth understanding of human behaviors, attitudes, experience, and motivations for the researcher's intent of exploration and interpretation. In addition, in order to have a consistency on the data collected to answer the research questions and provide adequate information that can be analyzed, it is mandatory to define the targeted population from all the set of cases that the researcher has drawn his samples. Moreover, a sampling technique to be selected in which that eliminate as possible the errors which determine the accuracy of the results, (Taherdoost, 2016).

Data analysis is the process that consists of collecting data and evaluating measurable and variable, it involves a statistical mechanism to analyze and assess quantitative data for the purpose of interpretation to resolve the research problem, (Górecki, et al, .2018). This study

adopts data analysis process which is based on collecting quantitative data through distribution of structured questionnaire to a number of SME owners in the construction industry using Google forms to create the survey and distribute it via emails and WhatsApp messages. The collected data will be tabulated using MS-Excel as a tool for the calculating the various statistical methods.

## 5. Result Analysis

The survey questionnaire which was distributed to the respondents was structured in a way to gather information related to the research problem statement and research questions. Therefore, the questions were categorized in six groups related the challenges faced by SME's in the construction industry of Oman that were discussed in the literature review. The finding are discussed as follows:

- The payment delay as a challenge faced by SME's in the construction industry was discussed in question 6, it has been observed that 25 % of the respondents confirmed that their payment for the completed works received within 61 to 90 days, and 34% of participants they receive payment after 90 days, which represent a long lead time for amount receivables that impacts the firm's cash flow.
- Contracts are consider the written agreement between parties involved in the certain work, and due to high competition in the construction industry, the SME's face a challenge to accept terms and conditions set in the contract agreement by the clients to secure jobs. In question 10, the participants opinions on the contract's agreement with clients in construction industry, if it is fairly structured to saves all parties rights, 37.5 % disagree with the statement and 31.3 % were neutral.
- Access to finance is the main challenge faced by SME's in construction sector in Oman, the participants were asked their opinion regarding the collaterals and guarantees required by the bank, the administration process to obtain financial support, and the interest rate applied on commercial loans. The respondents demonstrated high concern

and un-satisfaction of the services provided by the financial institutions and banks in Oman to support the SME's in construction industry.

- The finding from the survey questionnaire shows that the SME's owners face real challenges with the regulations and policies that are associated with their business. Where 62,5 % of the participants demonstrate their concern about the support programmes from the government authorities provided to SME in construction industry, and 81.3 % of the respondents rejected the statement that states the legal commercial claims process are simple and fast.
- Another challenge that have impacted the SME's business in the construction industry, which is the non-availability of skilled manpower in the local market, this was confirmed by 75% of the respondents. In addition, 62.6 % demonstrated high concern on the complications of the regulations and policies set by government authorities supports SME's in obtaining expatriate manpower clearance.
- It is observed from the responses of question 16, regarding the importance of management knowledge and skills in the top management level for the success of the business and growth, that the majority of participants with 78.1 % confirmed the importance of management knowledge.

### Statistical Analysis

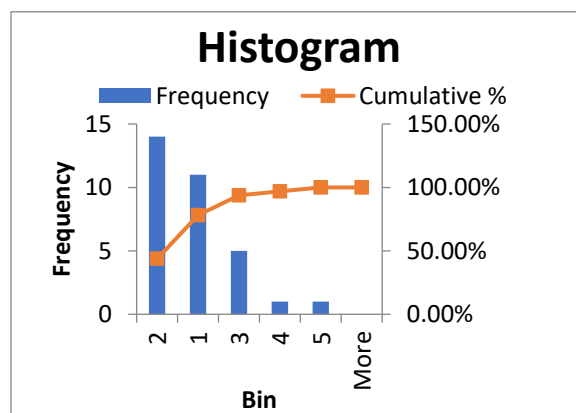


Figure 5. 1, Histogram Distribution

Bin	Frequency	Cumulative %	Bin	Frequency	Cumulative %
1	11	34.38%	2	14	43.75%
2	14	78.13%	1	11	78.13%
3	5	93.75%	3	5	93.75%
4	1	96.88%	4	1	96.88%
5	1	100.00%	5	1	100.00%
More	0	100.00%	More	0	100.00%

Table 5. 1, Histogram Analysis

The above histogram graph and table indicates the results of applying histogram analysis to question 15 which is set to obtain the opinion of the participants if the interest rate required by financial institutions/Banks, for commercial financial support is reasonable and affordable. It shows that nearly half (11 out of 32) respondents strongly disagree with the statement and (14 out of 32) disagree, which constitute a percentage of 42.4 % and 36.4 % respectively.

	Male	Female
Mean	2.034482759	2
Variance	1.391625616	1
Observations	29	3
Hypothesized Mean Difference	0	
df	3	
t Stat	0.055841486	
P(T<=t) one-tail	0.479489526	
t Critical one-tail	2.353363435	
P(T<=t) two-tail	0.958979052	
t Critical two-tail	3.182446305	

Table 5. 2, t-Test: Two-Sample Assuming Unequal Variances

The *t* Test was conducted on the different opinion of male and female on question 11 which states that, the required skilled manpower to execute the company's business is available locally and easy for recruitment. From the result we observe that the P value (two-tail) is 0.95 which is  $> 0.05$ , therefore, it indicates that there is no significant differences of opinion observed for question 11 for both male and female, where both are whether strongly disagree or disagree with the statement.

	Q13	Q14
Q13	1	
Q14	0.795137073	1

Table 5. 3, Correlation Analysis (Q13 vs Q14) High positive Correlation

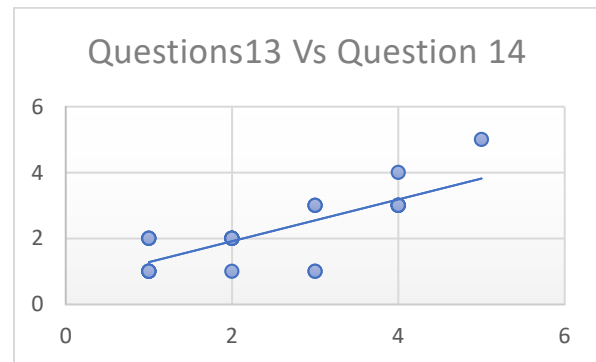


Figure 5. 2, Correlation Analysis Chart

Question 13 and 14 were tested using the correlation analysis and the result shown a strong positive linear correlation between the participant's answers regarding their opinion if the collaterals and guarantees required by the banks and financial institutions are affordable and reasonable and the administrative process for obtaining financial facilities from financial institutions are fast and easy. The majority of the participants whether strongly disagree or disagree with both statements giving a percentage of 60.6 % and 66.7 % respectively.

## 6. Conclusion and Future Research

This study has explored various opportunities for development and growth for SME's in the construction industry, ranging from small material supplying, logistics, maintenance work, innovative construction solutions, and many other construction related activities. The major challenges lies in main six factors, the delay on payment, access to finance, manpower availability locally, contractual issues, regulations and policies, and the SME's owner's management capability, which has to be undertaken seriously by the concerned authorities in Oman to develop this sector.

Further studies can be carried out to investigate specific opportunities and challenges faced by the SME's in the construction industry of Oman. Implementation of technology in the construction Industry of Oman, the use of Building Information Modeling, various opportunities on the small manufacturing industries for building materials in Oman to minimize imported materials and enhance economy, and investigate the impact of payment delay on the firm's cash flow and how it disturbs their operation activities can be considered as further studies to understand in depth the business environment of SME's in construction industry.

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