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# **OMANI JOURNAL OF APPLIED SCIENCES (OJAS)**

## **Annual Refereed Scientific Journal**

### **ISSN 1990-5149**

The Omani Journal of Applied Sciences (OJAS) provides a forum for researchers and practitioners to discuss analyse and shape current issues related to their specialization as well as from a multidisciplinary perspective. The journal has an applied research orientation, and includes both quantitative and qualitative empirical studies on contemporary issues and debates that will encourage and motivate future research as well as providing the foundations for the application of research findings. The journal adopts a region-specific as well as an international orientation with a comparative approach.

#### **Aims of the journal:**

1. Publishing academic research, and scientific studies in the fields of applied science in Communication, Design, Information Technology, International Business, Engineering & English language.
2. Reviewing discussions of new issues related to higher education and scientific research.
3. Developing scientific research and encouraging academic specialists to carry out scientific research.
4. Monitoring important scientific activities such as conferences symposiums, workshops and surveying and commenting on dissertations.
5. Reviewing and commenting on recent publications.

The Omani Journal of Applied Sciences (OJAS) is published annually. Special Issues of the journal devoted to topics in vogue will also be published occasionally. Papers, case studies, etc. are invited for submission by prospective authors.

All papers are internationally refereed and should represent the results of original research that have not previously been published. Contributors should refer to the Instructions to Authors when preparing their manuscripts. It is also the responsibility of the contributors to obtain permission from authors for data or quotations attributed to the latter. Views expressed in the articles are the sole responsibility of the contributors.

# OMANI JOURNAL OF APPLIED SCIENCES (OJAS)

*Annual Refereed scientific Journal*

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## A NOTE FROM THE GUEST EDITORS

Dear Readers and Contributors

Greetings and a warm welcome

It gives us immense pride and pleasure to publish volume 6, Issue 1 of the Omani Journal of Applied Sciences (OJAS).

This is a special issue with its papers selected from the International Conference on Economic Development and Diversification (ICEDD-2017) that was organized by and held at College of Applied Sciences-Salalah in April, 2017.

The Scientific Committee received several high quality papers for ICEDD-2017 conference. All papers received for the conference were peer reviewed by more than two independent reviewers. Eight papers have been chosen to be published in this special issue of OJAS from the researchers across globe. The selected papers covered research topics related to Economic Development Diversification in Oman, Emerging trends in Accounting and Finance, Islamic Banking and Finance, Entrepreneurship and Tourism. We sincerely hope that this issue will provide a fair overview of research topics and that the readers will benefit from reading these papers as much as the entire team of CAS journal did.

The first paper titled "Oman's Economic Diversification Cum Trade Structure" is written by Dr. Zarinah Hamid and Dr.Ruzita Mohd Amin. The paper describes and analyses the progress made in achieving the objectives outlined by Oman's National Programme for Enhancing Economic Diversification 'Tanfeedh'. The government has stepped up measures to diversify the economy by implementing the ninth five-year plan (2016-2020), which calls for decrease of 26 per cent on oil's contribution to GDP. The findings provide guidelines for the formulation of strategies that can help enhance Oman's economic diversification programme "Tanfeedh". The results also indicate whether there is need to realign the existing economic policies in order to promote a more favorable environment and sustainable economic development in Oman.

The second paper titled "*Foreign Direct Investment and Stock Market Development: A Panel Data Analysis: Evidence from Gulf Cooperation Council (GCC)*" is written by Hazem Al Samman & Syed Ahsan Jamil. The authors empirically investigated the relationship between foreign direct investments on stock markets development in Gulf Cooperation Council Countries (GCC). The research sample consists of five countries Bahrain, United Arab Emirates, Qatar, Saudi Arabia and Oman from 2006 until 2015. The empirical results show that foreign direct investment (FDI) and stock market development are integrated at first difference. Moreover, Johansen Fisher Panel Co-integration confirms the long run relationship between FDI and stock market development. On the other hand, the results of Granger causality test show that stock market attracts and promotes the FDI on short run.

The third paper titled “*Adoption of Musharakah Financing Model for the Long Term Development of Small and Medium Sized Enterprises (SMES)*” is authored by Nur Hasnida Abd Rahman and Mustafa Omar Mohamed. The researchers studied the challenges faced by Small and Medium Enterprises (“SMEs”) in getting access to external financing, particularly from the banking institutions. The researchers examined the potential of Musharakah as a viable alternative financing for SMEs. A survey among SMEs firms in Malaysia was conducted to validate the potential of Musharakah financing model for SMEs. The results show that Musharakah financing has potential in providing SMEs' with a greater access to financing than the predominantly debt based financing system.

The fourth paper titled “*Investigating Customers Level of Awareness on Investment Accounts*” was authored by Umar Ahmed, Mustafa Omar Mohammed and Ismail Ahmed Ali. The authors investigated customers' level of awareness on investment accounts. A survey was used where questionnaires were distributed to 250 respondents. Descriptive statistics and T- test were used in data analysis. The findings of the study reveal that there is low level of awareness among the respondents on their contractual rights to impose conditions on restricted Investment Account, risk exposure to investment account holders and Islamic banks profit distribution policy. In addition, the independent t-test results reveal that there are significant differences between gender, race, marital status and customers' insight into Mudharabah investment accounts. Therefore, policy makers and Islamic bank managers should sensitize customers to raise the level of their awareness on all aspects of investment accounts.

The fifth paper titled “*Assessing the entrepreneurship ecosystem of Sultanate of Oman*” is authored by Araby Madbouly. The paper analyzed the pillars of Omani entrepreneurship ecosystem to identify areas of strengths and weaknesses. The author used a time series analysis for each pillar of Omani entrepreneurship ecosystem and the components of these pillars using secondary resources. The researcher carried out a cross sectional analysis between each pillar of Omani entrepreneurship ecosystem with MENA region, World, Saudi Arabia, and Malaysia. According to the author, Omani entrepreneurship ecosystem has strength in eight pillars: Opportunity Perception, Risk Acceptance, Networking, Opportunity Start-up, Human Capital, High Growth, Internationalization, and Risk Capital. The author argues that Omani entrepreneurship has weaknesses in three areas namely start-up, technology absorption or the innovation and competition, which Omani entrepreneurs are likely to face in the market.

The sixth paper titled “*Attitude of Female Students Towards Entrepreneurship in Sultanate of Oman*”, is authored by S.Muthuraman, Sherimon P.C, Mohammed Al-Hazi, K.P. Subramanian. The paper assessed the attitudes and perceptions female students in higher education institutions in Muscat, Sultanate of Oman, towards entrepreneurship which is a key driver in economic development. The results of the study indicate that the respondents have a positive inclination towards entrepreneurship. The respondents also felt that gender is not a constraint in influencing the female students to choose entrepreneurship as their future career pathway.

The seventh paper titled “*Attributes of Destination Competitiveness: A Study on Tourism in Oman*” is authored by M.R. Dileep and Viju Mathew. The researchers evaluated the relative tourist destination competitiveness of Oman in the GCC region. The authors tried to identify factors and attributes that make Oman favorable and less favorable tourist destination so as to take necessary steps to strengthen the favorable aspects more and to minimize the unfavorable aspects in order for Oman to remain competitive in the international market of tourism. The output of the study has significance in terms of policy development, planning, marketing and in making development agendas and programmes related to Tourism Industry in Oman.

The eighth paper titled “*Exploring Consumer Attitudes Towards Halal Tourism in Salalah: Implications For Tourism Marketing*”, is authored by Asad Rehman and Jamila Jaboob. The authors attempted to explore into the awareness and attitude of consumers towards halal form of tourism. Using some very basic tools, this study shows that halal form of tourism may be desirable to a certain market segment but it may not be the essential requirement for all the tourists from Oman.

We would like to acknowledge the support of the Ministry of Higher Education, contributors of the papers, referees, members of the Academic Publications Governing Board, Editorial Board and International Advisory Board in enabling us to produce this issue.

We invite your valuable feedback and constructive suggestions for further improvement of OJAS in the coming years. Finally, we wish you a happy and prosperous New Year to all our esteemed readers, contributors, patrons and well-wishers

With best Regards,

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## Brief Profile of the Contributors

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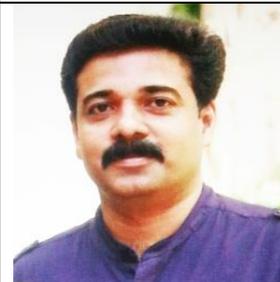
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academics and research. Some of his research papers got published in a few top rated journals, such as Asia Pacific Journal of Tourism Research (APJTR) and Tourism Recreation Research (TRR). Moreover, out of the four books he authored, the one with the title ‘Information Systems in Tourism’ (<http://excelbooks.com/detail.aspx?iid=273> or <http://www.amazon.com/Information-Systems-Tourism-M-Dileep/dp/8174469095>) is widely used in many Academic Institutions and universities in this region. Dr. Dileep is also columnist in a travel trade magazine and in education supplement of a Daily, and writes features on tourism in Dailies/magazines. Furthermore, he is one of the contributors in the ‘Encyclopedia of Tourism’ (the first edition of it is so far the number one in the world), published this year by Springer, New York.



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# Oman's Economic Diversification cum Trade Structure

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## Abstract

In line with Oman's National Programme for Enhancing Economic Diversification "Tanfeedh" which has received the Royal approval and has been endorsed by the Royal Decree 1/2016, this paper attempts to analyze the potential success of economic diversification of Oman by adopting measurements of trade concentration profile as used in Pitigala (2005). Tanfeedh's mandate is to implement the ninth five-year plan (2016-2020), which calls for oil's contribution to GDP to decrease to 26 per cent. The government has chosen five sectors with which it sees its best potential, namely: manufacturing, transport and logistics, tourism, fisheries and mining. This paper investigates whether or not Oman possesses the necessary trade structure by analyzing her dynamic exports between the years 1990 to 2015. In addition, the Herfindahl-Hirschman concentration index is also being employed to measure trade concentration for selected years for Oman and other GCC countries as a comparison. The advantage of using these measurements at the disaggregated level is that they allow for a more in-depth analysis at the product level that could be used to gauge the prospects for the success of economic diversification. The findings of this paper provide useful information for the formulation of strategies that would enhance Oman's economic diversification programme "Tanfeedh". It also serves additional information as to whether it needs to realign the existing policies in order to promote a more favorable environment and sustainable development in Oman.

**Keywords:** *Economic diversification, Oman, Trade concentration, Trade structure, GCC countries*

## 1. Introduction

Oman has been relying on its primary exports of oil and gas representing 62.7% of its total exports and 51% of its GDP to generate income.<sup>1</sup> However, the falling oil prices resulted in export losses in 2015 amounting to approximately \$300bn or 21% of GDP in the Gulf. With 5.5 billion barrels of oil reserves, Oman ranks only seventh in the Middle East and 21st in the world for proved oil reserves but thanks to enhanced oil recovery techniques, it has been producing at a higher level. However, the Omani government plans to cut its reliance on oil exports and has set an ambitious goal of reducing it to 9% of its GDP by 2020 from current 37.2%.<sup>2</sup>

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<sup>1</sup> <http://atlas.media.mit.edu/en/profile/country/omn/>

<sup>2</sup> <http://globalriskinsights.com/2015/02/oman-path-towards-economic-diversification/>

In order to reduce its over-reliance on oil and gas, Oman initiated “Tanfeedh,” a national programme for enhancing economic diversification on 18 September 2016. Tanfeedh is a national initiative, which is part of the 9th Five-Year Development Plan (2016-2020), and has been launched in collaboration with the Malaysian government’s “Performance Management and Delivery Unit (PEMANDU)” in order to build upon the achievements of the previous plans, with a focus on targeted sectors. These sectors as identified by the Royal Decree (1/2016) are manufacturing, tourism, transport and logistics, mining, and fisheries. The programme focuses on raising the contribution of these sectors to the Sultanate’s Gross Domestic Product (GDP), increasing investment in these sectors, and creating more job opportunities.

Tanfeedh, which means ‘implementation’, outlines a detailed roadmap and a working mechanism to achieve the goals of the 9<sup>th</sup> five-year plan, and overcoming the obstacles facing economic diversification. It looks into the necessary amendments to the laws and regulations, identifying priorities, providing tools to secure the necessary project financing, agreement on the deliverables and responsibilities and timelines, and aiming to increase the GDP, private sector investments by 80 per cent, providing job opportunities for Omanis in the targeted sectors. It works on the formulation of a clear mechanism, with specific timetable and indicators to measure performance.

Tanfeedh is unique in the sense that its formulation involves the participation of a diverse group of around 300 people—from the private sector and government, nationals, expatriates—to the public. The discussions took place for six weeks from September 18 to October 26, 2016, in workshops called ‘labs’ that focus on the economy. They are meant to identify challenges from the people involved in the sectors themselves to come up with workable and practical solutions to achieving the targets. Tanfeedh is neither a new plan nor a strategy; rather it is an accelerator to create a climate of ease of doing business in the country. It paves the way towards reduction in bureaucracy and creating a better understanding between the government and private sector, and the civil society.

As mentioned earlier, the government has chosen five sectors with which it sees its best potential, namely: manufacturing, transport and logistics, tourism, fisheries and mining. This paper investigates whether or not Oman possesses the necessary trade structure by analyzing her dynamic exports between the years 1990 to 2015. In addition, the Herfindahl-Hirschman concentration index is also employed to measure trade concentration for selected years for Oman and other GCC countries as a comparison. The advantage of using these measurements at the disaggregated level is that they allow for a more in-depth analysis at the product level that could be used to gauge the prospects for the success of economic diversification. The findings of this paper provide useful information for the formulation of strategies, which would enhance Oman’s economic diversification programme. It also serves additional information as to whether it needs to realign the existing policies in order to promote a more favorable environment and sustainable development in Oman.

This paper consists of five sections. Following a brief introduction, the next section provides a survey of literature between export concentration and income instability of cross-sectional analysis in analyzing intra-trade activities, trade concentration and trade divergence. In section 3, the empirical framework and data used in this study are explained in detail. Section 4 presents the analysis and

discussion of the findings. Lastly, the final section provides a summary of the main results and some concluding remarks.

## **2. Literature Review**

Empirical studies have looked at the relationship between export concentration and income instability of a country. Massell (1964), in a cross section analysis of 36 countries, came up with some interesting findings by concluding that there was a clear relationship between instability of export earnings and concentration of exports. However, he stressed, “Neither diversification nor the degree of industrialization appears to explain much of the variation in export instability”, and elaborated further “diversification may be beneficial in other ways, for example, in providing the economy with greater flexibility in adapting the structure of its production to changes in market conditions” (Massell, 1964, p.62).

Another cross sectional analysis conducted by Soutar (1977) concluded that trade concentration was one of the significant variables in explaining export instability in 48 less developed countries from 1957 to 1969. Other significant explanatory variables that explained export instability were geographic concentration and petroleum product index. In a related work, Yeats (1998) reported that studies have shown that countries with highly concentrated exports may experience a relatively high degree of export earning instability that could reduce a country’s ability to maintain the financial commitment required by regional arrangements. A similar study conducted by Hamid (2010) on Malaysia investigated the magnitude of geographic concentration and commodity concentration over the period of 1970 to 2003. The results indicated that commodity concentration appeared as a significant variable in explaining the export earnings instability for Malaysia during these 34 years. The commonly used method for measuring commodity concentration is based on the calculation of Gini coefficient and the modified version called Gini-Hirschman coefficient of concentration. However, Low, Olarreaga and Suarez (1998) used three different concentration indices namely Herfindal-Hirschman concentration index, Theil-entropy coefficient and Mean Logarithm deviation to investigate if globalization has affected the concentration indices. Their findings indicated, among others, that although world trade has increased overtime, globalization does not affect the concentration indices. According to Kali, Mendez and Reyes (2007), empirical measures of trade characteristics or trade structures are limited. In analyzing trade structure and economic growth, they used trade dispersion among trading partners as one of the measures of trade structure. As in Low, Olarreaga and Suarez (1998), Kali, Mendez and Reyes (2007) constructed a Herfindahl-Hirschman concentration index of trade for all countries to measure trade dispersion among all trading partners. A low value of the index indicates low concentration or high dispersion, and vice versa. The study found trade concentration to be positively correlated with growth for all countries, but the effect is found to be more pronounced for poor countries.

In a separate study, Ishido (2004) used a less rigorous method by applying the coefficient of variation as a proxy to measure manufacturing capability cum trade divergence in selected Asian economies. Ishido found that in these countries export became more divergent when more technology-enhancing economic activities were undertaken within an economy.

### 3. Data Description and Methodology

The statistical analysis uses trade data from Oman for the years 1990, 2003, 2007, 2012, 2013, 2014 and 2015. Due to the unavailability of data for most of the years, this study is only confined to the seven selected years. Values of Oman's exports to the rest of the world (ROW) based on SITC Revision 4 at 4-digit level were extracted from the UNCOMTRADE database. The SITC 4-digit level is selected since it is the highest level of disaggregation for which comparisons can be carried out. This is due to the fact that consistent reporting of data is unattainable at further disaggregated levels, such as the SITC 6- to 8-digit levels (Pitigala, 2005).

In order to investigate the potential success of economic diversification of Oman over the years, the disaggregated individual product at 4-digit level is divided by total exports to the rest of the world. These values are used to calculate the share in the growth of total exports to the rest of the world for two time periods, namely between the intervals of 1990-2003 and 2003-2015. The two periods with intervals of 13 to 14-year gap are chosen to examine whether Oman possesses the characteristics, which are in line with Oman's National Programme for Enhancing Economic Diversification 'Tandfeedh' as envisaged by the Royal Decree 1/2016.

The share in the growth of total exports of each commodity  $i$  for Oman between 1990 and 2003 can be computed as:

$$S_i = \frac{\left( \frac{X_i^{2003} - X_i^{1990}}{\sum_{i=1}^n X_i^{1990}} \right)}{\left( \frac{\sum_{i=1}^n X_i^{2003} - \sum_{i=1}^n X_i^{1990}}{\sum_{i=1}^n X_i^{1990}} \right)} \quad (1)$$

which can be simplified to:

$$S_i = \frac{(X_i^{2003} - X_i^{1990})}{\left( \sum_{i=1}^n X_i^{2003} - \sum_{i=1}^n X_i^{1990} \right)} \quad (2)$$

where  $X_i^{1990}$  and  $X_i^{2003}$  are export of commodity  $i$  of Oman for 1990 and 2003, respectively;  $\sum_{i=1}^n X_i^{1990}$  and  $\sum_{i=1}^n X_i^{2003}$  are total exports of Oman for 1990 and 2003, respectively.

Similarly, the share in the growth of total exports of each commodity  $i$  for Oman between 2003 and 2015 is written as:

$$S_i = \frac{(X_i^{2015} - X_i^{2003})}{\left(\sum_{i=1}^n X_i^{2015} - \sum_{i=1}^n X_i^{2003}\right)} \quad (3)$$

The share in equation (1) is derived based on the commutative property of subtraction. After simplification and division, the shares of growth is be written as:

$$1 = S_1 + S_2 + \dots + S_n, \text{ or } 1 = \sum_{i=1}^n S_i.$$

Collectively, the shares of growth computed are used to identify the dynamic exports of Oman, where dynamic exports are defined as products, which accounted for a significant amount of total export growth to the rest of the world between 1990-2003 and 2003-2015. Pitigala (2005) identifies products that account for 75% of total export growth (which exclude marginal products that might not be reported on regular basis) as dynamic exports. For comparison purposes, apart from using the 75% cut-off point as in Pitigala (2005), this study also employs a cut-off point of 95% to identify dynamic exports. The concentration of exports for Oman at the 75% (or 95%) cut-off point is measured by the number of products accounting for 75% (or 95%) of export growth to the rest of the world between the years 1990-2003 and 2003-2015.

In order to verify the results of export concentration using the above method, the Herfindahl-Hirschman concentration index ( $HHCI$ ) is also employed. The  $HHCI_t$  for Oman's exports to the rest of the world at year  $t$  is computed as follows:

$$HHCI_t = \sum_{i=0}^9 (Z_i)^2, \text{ and } Z_i = \frac{X_i}{\sum_{i=0}^9 X_i}$$

where  $i = 0, \dots, 9$ ;  $i$  is the SITC Revision 4 at 4-digit level of exports, and  $t = 1990, 2003, 2007, 2012, 2013, 2014$  and  $2015$ . The  $HHCI$  increases with the level of concentration, reaching a value of 1 to indicate a maximum level of concentration and a value close to 0 to indicate a low level of concentration.

#### 4. Analysis and Discussion

In order to evaluate whether Oman possesses certain fundamental conditions to be successful in its economic diversification effort, this section first provides a general description of the trade structure of Oman. Based on Hamid et al. (2008), an analysis of product-level trade data in 1990 and 2003 showed a relatively high export shares in minerals and fuels (code 3) of 92.24% and 81.57%, respectively (vide Table 1, page 49).

Table 1: Product composition of GCC Countries to the Rest of the World (2015)

	Food & live animals	Beverages & tobacco	Crude materials	Minerals & fuels	Animal & Vegetable fat
Code	0	1	2	3	4
Oman	3.594%	0.539%	1.771%	61.998%	0.638%
Saudi	1.594%	0.110%	0.533%	78.866%	0.121%
UAE	0.939%	0.130%	0.636%	19.149%	0.089%
Bahrain	2.605%	0.197%	4.431%	50.350%	0.008%
Kuwait	0.848%	0.081%	0.264%	89.094%	0.013%
Qatar	0.203%	0.003%	0.712%	82.767%	0.003%
	Chemicals & materials	Manufactured goods	Machinery & transport equipment	Miscellaneous manufactures	Other commodities
Code	5	6	7	8	9
Oman	8.406%	6.942%	2.250%	0.648%	13.214%
Saudi	15.240%	2.526%	0.546%	0.310%	0.153%
UAE	1.494%	3.603%	0.811%	2.488%	70.660%
Bahrain	7.793%	28.508%	1.964%	4.095%	0.049%
Kuwait	5.041%	0.646%	2.685%	0.933%	0.396%
Qatar	1.227%	0.936%	2.592%	0.358%	11.202%

However based on the recent analysis as displayed in Table 1 suggests that the shares of this category is showing a decreasing trend with 61.998% recorded in 2015. If similar comparison to be made with other GCC countries, we could observe that Oman is the third country that registered a lower share of commodity of code 3 with UAE and Bahrain leading the way with 19.149% and 50.35%, respectively. It is not a surprise to see that minerals and fuels have been found to be the dominating sector in Oman exports share to the rest of the world as Oman is known to be oil-exporting country. Nevertheless, this sector showed a declining share, which indicate there is effort from the Sultanate of Oman to diversify the economy over the years.

Table 2 presents the profile of dynamic exports of Oman at the SITC 4-digit classification level between 1990 and 2003. Oman records almost one-half (49.86 percent) share of its exports from crude petroleum and oils in 2003. As shown in Table 2, only one sector, namely minerals and fuels (SITC 3) is the dominating sector in Oman's exports to the rest of the world with crude petroleum and oils (3330) and petroleum gases and others (3413) contributing to more than 70% of the extra-regional exports. Based on the 75 percent cut-off point, the figures suggest that Oman does not show the likelihood for greater diversification of exports with only two products constitute its dynamic exports to the rest of the world. However, based on the 95 percent cut-off point for dynamic exports, the number of items increased to 34 in total.

Table 2: Profile of Dynamic Exports for Oman (1990-2003) to ROW

Code	Product Description	Exports to the ROW 2003 in \$1000	Share in Total Export 2003	Share of Growth from Total Growth 1990-2003	Cum share of growth
<b>Total</b>		\$11,048,146	100	100	
3330	Crude petroleum and oils obtained from bituminous materials	\$7,762,000	70.26	49.86	49.86
3413	Petroleum gases and other gaseous hydrocarbons, nes, liquefied	\$1,250,419	11.32	21.82	71.69
7810	Passenger motor vehicles (excluding buses)	\$380,757	3.45	5.21	76.89
1222	Cigarettes	\$212,431	1.92	3.69	80.58
7849	Other parts and accessories, for vehicles of headings 722, 781-783	\$121,325	1.10	1.55	82.14
6534	Fabrics, woven, less 85% of discontinuous synthetic fibres	\$82,205	0.74	1.43	83.57
9310	Special transactions, commodity not classified according to class	\$95,583	0.87	1.43	85.00
7821	Motor vehicles for the transport of goods or materials	\$82,597	0.75	1.41	86.41
0341	Fish, fresh or chilled, excluding fillet	\$44,920	0.41	0.78	87.19
7731	Insulated electric wire, cable, bars, etc	\$41,944	0.38	0.72	87.91
6612	Cement	\$38,768	0.35	0.68	88.59
7649	Parts, nes of and accessories for apparatus falling in heading 76	\$38,333	0.35	0.67	89.25
8459	-- other, clothing accessories, non-elastic, knitted or crocheted	\$42,692	0.39	0.53	89.78
8472	Clothing accessories, knitted or crocheted, nes	\$28,446	0.26	0.50	90.28
6732	Bars, rods (not wire rod), from iron or steel; hollow mining drill	\$25,201	0.23	0.44	90.72
0460	Meal and flour of wheat and flour of meslin	\$23,986	0.22	0.42	91.13
6783	Other tubes and pipes, of iron or steel	\$24,333	0.22	0.40	91.53
7831	Public service type passenger motor vehicles	\$22,591	0.20	0.38	91.92
0224	Milk and cream, preserved, concentrated or sweetened	\$22,325	0.20	0.37	92.29
8219	Other furniture and parts thereof, nes	\$20,026	0.18	0.35	92.63
0484	Bakery products	\$18,842	0.17	0.29	92.92
7239	Parts, nes of machinery and equipment of headings 72341 to 72346	\$27,972	0.25	0.29	93.21
6624	Non-refractory ceramic bricks, tiles, pipes and similar products	\$15,375	0.14	0.27	93.48
6353	Builders` carpentry and joinery (including prefabricated)	\$13,938	0.13	0.24	93.72
5833	Polystyrene and its copolymers	\$12,688	0.11	0.22	93.94
7415	Air conditioning machines and parts thereof, nes	\$13,168	0.12	0.21	94.15
0012	Sheep and goats, live	\$13,174	0.12	0.18	94.33
8510	Footwear	\$11,603	0.11	0.18	94.50
2734	Pebbles, gravel, crushed or broken stone, etc	\$10,093	0.09	0.17	94.67
7781	Batteries and electric accumulators, and parts thereof, nes	\$10,327	0.09	0.17	94.84
6613	Building and monumental stone, worked, and articles thereof	\$10,254	0.09	0.17	95.01
6912	Structures and parts of, of aluminium; plates, rods, and the like	\$11,223	0.10	0.16	95.17
0741	Tea	\$10,051	0.09	0.16	95.33
0980	Edible products and preparations, nes	\$9,541	0.09	0.16	95.49

Table 3: Profile of Dynamic Exports for Oman (2003-2015) to ROW

Code	Product Description	Exports to the ROW 2015 in \$1000	Share in Total Export 2015	Share of Growth from Total Growth 2003-2015	Cum share of growth
Total	All Commodities	31926516.34	100	100	
3330	Crude petroleum and oils obtained from bituminous materials	17425800	54.58	46.29	46.29
9310	Special transactions, commodity not classified according to class	4215413.298	13.20	19.73	66.02
3346	Petroleum oils & oils obtained from bituminous materials	2256037.741	7.07	10.81	76.82
5621	Mineral or chemical fertilizers, nitrogenous	683571.481	2.14	3.27	80.10
6841	Aluminium and aluminium alloys, unwrought	621032.845	1.95	2.97	83.07
5121	Acyclic monohydric alcohols	543830.185	1.70	2.60	85.68
5112	Cyclic hydrocarbons	417418.306	1.31	2.00	87.68
7731	Insulated electric wire, cable, bars, etc.	343960.466	1.08	1.45	89.12
0222	Milk and cream, concentrated or sweetened	272441.132	0.85	1.30	90.43
5822	Other plates, sheets, film, foil	256858.277	0.80	1.23	91.66
6726	Semi-finished products of iron or n	244984.447	0.77	1.17	92.83
2816	Iron ore agglomerates (sinters)	237082.746	0.74	1.14	93.97
5751	Polymers of propylene	233547.179	0.73	1.12	95.08

Table 3 presents the profile of dynamic exports of Oman between 2003 and 2015. As expected, crude petroleum and oils (3330) is still dominating Oman's share of exports to the rest of the world in 2015 with 46.3 percent derived from this product. However, this sector shows a small decline of 3.6 percent share in exports to the rest of the world between 2003 and 2015. The findings also show that based on the 75 percent cut-off point, three products constitute its dynamic exports to the rest of the world but the number of items that fall into 95 percent cut-off point reduces from 34 to 13 between 2003 and 2015. These figures suggest that the trend of trade for Oman is moving towards concentrating on a lesser number of products and the existing trade structure may not facilitate the economic diversification programme as envisaged in 'Tanfeedh'.

Table 4: Herfindahl-Hirschman Concentration Index for Exports to ROW

Year	Oman	Bahrain	Kuwait	UAE	Qatar	Saudi
2013	0.69	0.41	0.89	0.41	0.79	0.78
2014	0.71	0.40	0.91	0.39	0.79	0.74
2015	0.42	0.35	0.80	0.54	0.70	0.65

Table 4 provides a summary of the Herfindahl-Hirschman Concentration Index (HHCI) for Oman and other GCC countries for the years 2013, 2014 and 2015. Based on these three years, it could be observed that the HHCI for Oman supports the results for export concentration in Table 2 and 3. Based on the availability of data for Oman for additional two years in 2007 and 2012, it recorded a high HHCI in 2007 with index 0.80 indicating a high level of export concentration but the index fluctuates over the years and shows a declining trend over the years with 0.71 in 2012, 0.69 in 2013, going up slightly with 0.71 in 2014 and finally 0.42 in 2015. Bahrain is found

to have the lowest concentration of exports to the rest of the world with an HHCI value of 0.41 in 2013 and 0.35 in 2015. Except UAE, all other GCC countries, to a certain extent, show a declining trend of HHCI over these three years. UAE on the other hand, initially shows a low concentration of exports of 0.41 in 2013 but exports become slightly concentrated in 2015 with an HHCI of 0.54.

## 5. Conclusion

This paper attempts to investigate whether or not Oman possesses the prerequisites to enable a successful diversification of trade as envisaged by Oman's National Programme which also known as 'Tanfeedh'. As mentioned earlier, it has been argued that the ability to increase diversification of exports is contingent upon the degree to which Oman's dynamic exports and the range of products she is capable of exporting and importing. Oman's ability to export a wide range of diversified goods is considered a positive factor, while concentration of exports is considered a limiting factor to the prospects of achieving this goal. Hence, this paper attempts to examine the trade of Oman by analyzing her dynamic exports trade profile between 1990-2003 and 2003-2015 as well as trade concentration index for the years 2013, 2014 and 2015.

In general, the findings indicate that the existing trade structure may not facilitate Oman's National Programme for Enhancing Economic Diversification. It does not appear to be encouraging since only a small number of products constitute Oman's dynamic exports to the rest of the world when two intervals of time period are taken, specifically in 1990-2003 and 2003-2015. The share of crude petroleum and oils (Code 3330) contribution to total GDP in 2015 is 54.58%. However, evidence from the Herfindahl-Hirschman Concentration Index shows an encouraging trend with the index decreasing over a 25-year period from 0.85 in 1990 (as calculated by Hamid et al., 2008, vide Table 8, page 66) to 0.42 in 2015.

Nevertheless, based on these findings, Tanfeedh's mandate, which calls for oil's contribution to GDP to decrease to 26 percent by the year 2020, seems to be a tall order. This goal is very unlikely to be achieved unless drastic measures and concerted efforts are undertaken to realign the existing policies by providing more incentives to foreign direct investment and by promoting a more favorable pro-trade environment. Oman's strategic location on the Strait of Hormuz gives her a competitive advantage on establishing itself as a global logistics center. It is in line with the sultanate's selection of five sectors, which it sees has the best potential to flourish, namely: manufacturing, transport and logistics tourism, fisheries and mining. Oman is also promoting private sector participation, which could reduce her public spending with economic diversification efforts to keep growth on a positive trajectory.

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# Foreign Direct Investment and Stock Market Development: A Panel Data Analysis: Evidence from Gulf Cooperation Council (GCC)

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## Abstract

The aim of this study is to empirically investigate relationship between foreign direct investment on stock markets development in Gulf Cooperation Council countries and to examine whether they are related or not. The research sample consists of five countries Bahrain, United Arab Emirates, Qatar, Saudi Arabia and Oman from 2006 until 2015. Panel data analysis techniques were used including panel Phillips-Perron test, panel pairwise Granger causality test and Johansen Fisher Panel Co-integration test. The empirical results show that foreign direct investment and stock market development are integrated at first difference. Moreover, Johansen Fisher Panel Co-integration confirms the long run relationship between FDI and stock market development. On the other hand, the results of Granger causality test show that stock market attracts and promotes the FDI on short run.

**Keywords:** *foreign direct investment, stock market development, Granger causality test, Johansen Fisher Panel Co-integration test, Gulf Cooperation Council countries*

## 1. Introduction

The foreign direct investment FDI plays important role in development the economy of developing countries by many aspects such as transferring the technology, creating the new jobs, increasing the productivity, decreasing the imports and increasing the exports, hence increase the economic growth. Therefore most of the countries around the world work hardly to simplify the investment procedures , grant the tax incentives, liberalize the economy, stabilize the economy and develop the financial system including the financial market in order to encourage the investments which help in the development of the economy overall. Moreover, the positive response of all previous procedures in attracting the FDI must be reflected in the development of the stock market as a mirror that reflect the healthy and strength of the economy.

In addition, stock markets have been playing important role in directing and attracting the personal saving and the investments to raise the necessary capital to finance the new projects or extant existing projects, which lead to improve and grow the economy.

Over the past 10 years, there has been increasing attention in the world to attract FDI and especially in the gulf countries that try to achieve the economic growth away from the dependency on the natural resources. Moreover, the world investment report documented that the foreign direct investment in 2015 increased by 40 % to \$1.8 trillion, the highest level since the global economic and financial crisis of 2008-2009. In addition, the FDI in developing countries reached to 765 billion in 2015 increased by 9 percent comparing with 2014. However, this growth did not translate into an equivalent expansion in productive capacity in all countries.

It is worth mentioning that there is a huge number of research in the literature that investigated the impact of foreign direct investment on the host economic countries but most of studies have been focusing on the relationship between FDI and economic growth. There are limited studies on the link between FDI and financial market development and especially in the gulf countries.

The aim of this study is to measure effect of FDI on financial market development for gulf countries over the period 2006 to 2015 by using the panel data analysis. Therefore, the important of this research comes from two-fold. First, it is providing new and recent evidence about the effect of FDI on financial development in Arab countries. Second, it is helping the policy makers in directing the foreign direct investments to contribute in achieving the economic objectives and increases the optimal uses of FDI in host country.

## **2. Literature Review**

There is an extensive empirical research in the literature that investigated effect of foreign direct investment on host country's economy especially in terms of economic growth, Choe (2003) investigated the effect of foreign direct investment on economic growth by using Granger causality test in 80 developed and developing countries during the period from 1971- 1995 . The results showed that FDI Granger causes economic growth. Also Bidirectional causality relationship between FDI and economic growth has been documented by Al-Iriani (2007) in Bahrain, Kuwait, Oman, Saudi Arabia, and United Arab Emirates .Similar results on positive effect of FD on economic growth have been documented such as Shaikh (2010) , Faras and Ghali (2009) , and Umoh, Jacob and Chuku (2012).

Srinivasan et al. (2011) studied the long and short run effect of FDI and economic growth in five ASEAN economies by using Granger Causality test, Johansen Co-integration technique and Vector Error Correction Model (VECM). Their results proved existence of short run causality between FDI and GDP also provided evidence to long run effect of FDI on economic growth. Most recently, Sothan (2016) studied the effect of FDI on economic growth on long and short run in 21 Asian countries by using the panel co-integration and Granger causality analysis and he found bidirectional causality relationship between FDI and GDP and proved the long run impact of FDI on economic growth. Hansen and Rand (2006) investigate the causal relationship between FDI and economic growth in a sample of 31 developing countries, using the Granger causal analysis. They find bi-directional causality between FDI and economic growth. On the other hand, Null effect of foreign direct investment on economic growth has been documented by many

researchers such as Manuchehr and Ericsson (2001), Chowdhury and Mavrotas (2006), Sarkar (2007). Moreover, Negative effects of FDI on economic growth also have been documented by many researchers such as Kawai (1994), Djankov and Bernard (1999), Mencinger (2003).

Although there is considerable studies in the literature investigated the effect of FDI on host country, there is a little number of studies investigated the direct relationship between FDI and financial market development in the developing countries especially in Arab countries due to the lack of reliable data (Arize et. ala (2003).

Adam and Tweneboah (2009) measured the impact of Foreign Direct Investment (FDI) on the stock market development in Ghana by using co -integration technique, error correction model and their results confirmed existence of long run relationship between FDI, and stock market development concluded that shock to foreign direct investment impacts on stock market development in Ghana.

In similar study, Al Nasser and Soydemmir (2010) examined the relationship between FDI and financial market development 14 Latin American countries from 1978 to 2007. The results show that there is bidirectional relationship between foreign direct investment and stock market development in fourteen Latin American countries and they conclude that FDI enhance and permit the stock market development.

In another recent study, Shahbaz et. (2013) concluded that there is positive effect of FDI on the stock market development in Pakistan. On the other hand, Raza & Jawaid (2014) utilized causality test, co-integration test and error correction model to capture effect of FDI on stock market development in 18 Asian countries by using the panel data from the period of 2000–2010. They found that foreign direct investment effect negatively on long and short run on market capitalization and they concluded that foreign direct investment may mislead the investor in investing. Also in similar study, Musa & Ibrahim (2014) utilized the Johansen co-integration and the error correction mechanism (ECM) techniques to measure the effect of foreign direct investment on Nigerian stock market development over the period 1981-2010. They concluded that there is no any significant role on long run of FDI on Nigerian stock market development. Furthermore, Sahin and Ege (2015) analyzed the causality relationship between stock market development and FDI inflows in Bulgaria, Greece, Macedonia and Turkey during 1996-2012 period utilizing bootstrap causality test and concluded that there was unidirectional causality from FDI inflows to financial development in Bulgaria and Greece and bidirectional causality in Turkey. Gebrehiwot et al. (2016) investigated the relationship between foreign direct investment and stock market development in eight African countries from 1991 to 2013. Using Granger causality test and panel regression and they found that there was bidirectional causality between different indicators representing financial development and FDI inflow.

### **3. Research Methodology**

The research sample consists of five Gulf countries including United Arab Emirates, Saudi Arabia, Bahrain, Qatar, and Oman. We excluded the Kuwait from our

sample due the lack of data. The variables used in this research include the stock market capitalization as a proportion of gross domestic product GDP and net foreign direct investment from the year 2006 to 2015. Which contains of 50 observations for each variable. The data were collected from database of World Bank. The panel data analysis techniques are used to test the effect of foreign direct investments on stock market development including the panel unit root test and panel co-integration test.

### 3.1 Unit root test

We used Phillips-Perron (PP) test to know if the times series is stationary, in other words test whether the mean and variance of the series are constant through time and the auto covariance of the series is not time varying.

The equation of Phillips-Perron test is:

$$\Delta y_t = \alpha y_{t-1} + \beta X_t + \varepsilon_t$$

$$(1) \Delta y_t = \alpha y_{t-1} + \beta X_t + \varepsilon_t \quad (1)$$

### 3.2 Co-integration test

Johansen Fisher Panel Co-integration test is use to investigate the long-run relationship between FDI and stock market. Johansen co-integration test developed two likelihood ratio tests for testing the number of co-integration vectors (r): the trace and the maximum Eigen value test shown in equations

$$J_{trace} = -T \sum_{i=r+1}^n \ln(1 - \lambda_i) \quad (2)$$

$$J_{max} = -T \ln(1 - \lambda_{r+1}) \quad (3)$$

Where T is the sample size and  $\lambda_i$  is the largest canonical correlation. The trace test tests the null hypothesis of r co-integrating vectors against the alternative hypothesis of n co-integrating vectors. The maximum eigenvalue test, on the other hand, tests the null hypothesis of r co-integrating vectors against the alternative hypothesis of r +1 co-integrating vectors.

### 3.3 Hypotheses

The research examined three null hypotheses to investigate the relationship between FDI and stock market development these hypotheses are:

H\_01: There is no co-integration between FDI and stock market development

H\_02: FDI does not Granger cause stock market development.

H\_03: stock market development does not Granger cause the FDI.

## 4. Empirical results

### 4.1 Descriptive analysis

The table provided below shows the Descriptive analysis for research variables used in this study.

Table (1) Descriptive analysis

	<b>FDI</b>	<b>Stock market development</b>
Mean	0.033177	31.02346
Median	0.026990	12.77386
Maximum	0.157506	372.2599
Minimum	-0.045397	0.537562
Std. Dev.	0.031883	58.06379
Observations	50	50

Descriptive analysis shows that during the research period the mean of foreign direct investment in the gulf area is 3.317% from GDP with 3.18% standard deviation, likewise, the mean of stock market capitalization as a proportion of GDP is 31.02% with high value of standard deviation, which is 58.06 %.

### 4.2 Unit root test

Phillips-Peron (PP) is used to test whether the research variables are stationary and be integrated at the same order to know if there is long run relationship between foreign direct investment and stock market development.

Table (2) unit root test by Phillips-Perron test at level

	Method	Statistic	Prob.**
Foreign direct investment	PP - Fisher Chi-square	14.5823	0.1480
	PP - Choi Z-stat	-0.69214	0.2444
Stock market development	PP - Fisher Chi-square	26.7202	0.0029
	PP - Choi Z-stat	-2.09273	0.0182

Table (3) unit root test by Phillips-Perron test at first difference

	Method	Statistic	Prob.**
Foreign direct investment	PP - Fisher Chi-square	32.2551	0.0004
	PP - Choi Z-stat	-3.36223	0.0004
Stock market development	PP - Fisher Chi-square	46.5036	0.0000
	PP - Choi Z-stat	-4.78119	0.0000

The results of unit root test that listed in the table (2) show that we cannot reject the null hypothesis for foreign direct investment at level while we can reject it

for stock market development at 5 % significant level. This means that FDI is not integrated at level while the stock market development is integrated.

Table (3) shows the results of unit root test at first difference, which indicate to reject null hypothesis of unit root test at 1 % significant level for foreign direct investment and stock market development. Therefore, we can conclude that the both variables foreign direct investment and stock market development are integrated at first difference.

### 4.3 Granger Causality Test

The results of short run causality tests present in the table (4) which is conducted by Pairwise Granger Causality Tests

Table (4) Pairwise Granger Causality Tests at lag 2

Null Hypothesis:	Obs	F-Statistic	Prob.
DI does not Granger Cause STOCK	40	0.82593	0.4462
STOCK does not Granger Cause DI		3.86266	0.0305

As shown in the table above, we cannot reject the first null hypothesis therefore; we conclude that foreign direct investment does not cause the stock market development on short run. On the other hand, the results show that we reject the second hypothesis at 5 percent significant level and we can conclude that stock market development cause the foreign direct investment on short run.

### 4.4 Co-integration test

The Johansen co-integration test is used to test existence of long run relationship between foreign direct investment and financial market development in Gulf countries

Table (5) Johansen Fisher Panel Co-integration

Hypothesized	Fisher Stat.*		Fisher Stat.*	
No. of CE(s)	(from trace test)	Prob.	(from max-eigen test)	Prob.
None	97.56	0.0000	81.63	0.0000
At most 1	38.41	0.0000	38.41	0.0000

The results of Johansen test based on trace test and maximum eigenvalue test listed in table 5. The results of trace test indicate to reject at one percent significant

level the null hypothesis of Johansen Fisher Panel Co-integration that says there is no co-integration. In addition, the results of maximum Eigen value test indicate to reject at one percent significant level the null hypothesis of Johansen Fisher Panel Co-integration. This means that there is long- run relationship between foreign direct investment and financial market development in gulf countries.

## 6. Conclusion

This study empirically investigates relationship between foreign direct investment and stock markets development in five countries Bahrain, United Arab Emirates, Qatar, Arab Saudi, and Oman from 2006 until 2015.

Several techniques were utilized to capture the relationship including panel Phillips-Perron test, panel pairwise Granger causality test and Johansen Fisher Panel Co-integration test. The empirical results show that foreign direct investment and stock market are integrated at first difference. On the other hand, Granger causality test shows that stock market attracts the FDI on short run. While Johansen Fisher Panel Co-integration confirms the long run relationship and concludes, that FDI has played important role in developing the stock markets on long run in Gulf Cooperation Council countries

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# **Adoption of Musharakah Financing Model for the Long Term Development of Small and Medium Sized Enterprises (SMES)**

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## **Abstract**

One of the important issues that have been discussed in the study of Small and Medium Enterprise ("SMEs") is their difficulty in getting access to external financing, particularly from the banking institutions. This problem occurs because the banking institutions are predominantly debt based financing system which requires SMEs to fulfill banking requirements of providing adequate collateral and payment of high interest rates. SMEs inability to fulfill these requirements obliges them to rely heavily on internal financing and this limits their long-term growth and development. As financing is crucial to ensure SMEs' long-term growth and development, this study has been conducted to examine the potential of Musharakah as a viable alternative financing for SMEs. Accordingly, the Musharakah financing model was developed and a survey among SMEs firms in Malaysia was conducted to validate the potential of Musharakah financing model for SMEs. The results show that Musharakah financing has potential in providing SMEs' with a greater access to financing. Therefore, the model needs to be given a premier attention so that SMEs will have greater access to financing for their long-term growth and expansion.

**Keywords:** *Musharakah, participation, risk sharing, profit and loss sharing, SMEs*

## **1. Introduction**

Small and Medium Enterprises (SMEs) are the foundation for economic growth for most of the countries around the world. SMEs play an important role in employment creation, producing cheaper substitute products, produce parts for a large firm, poverty reduction, rural development, industrial development and export growth. Thus, the development needs of SMEs must be given a great attention so that they can continue to contribute to the economic development of countries, especially the Muslim countries where SMEs are also measures for poverty alleviation. One of the main factors, which is crucial to facilitate SMEs' long-term growth and development, is the availability of external financing [external to the SMEs]. However, past literature has discussed that SMEs have difficulty in getting access to external financing, particularly from the banking institutions, which are the main source of external financing for SMEs (Shinozaki, 2012; Rajah Rasiah, 2011; Oum, Harvie & Narjoko, 2010 and Normah Aris, 2007). Most of the financing products offered by the banks are in the form of debt that is not easily accessible by most of SMEs, which are unable to fulfill debt financing requirements, particularly the collateral, high interest rate and credit rationing (Shamsubaridah Ramlee and Berma, 2013; Rasiah, 2011; Normah Aris, 2007 and Salleh and Ndubisi, 2006). SMEs, which

operate on small capital and capacity, face difficulties in fulfilling these requirements, especially at the early stage of their growth cycle. They usually do not have many tangible assets that can be pledged as collateral, have a little business history, no profitability record and do not have audited financial statements to convince the banks on their profitability (Berger and Udell, 1998). Due to these reasons, SMEs have difficulty in getting access to bank financing and as a result, they rely heavily on internal financing as their main source of funds. However, SMEs internal financing is usually limited and this constrains their long-term growth and development. Limited access to financing not only curtails SMEs' growth and development, but it also contributes to their failure in many countries (Ladzani and Vuuren, 2002). Thus, the issue of SMEs access to financing need to be addressed by providing a viable alternative financing which is more accessible by SMEs so that they can sustain their development and in turn contribute to the growth of the economy.

The viable alternative financing for SMEs should not emphasize on the hard information of the business such as availability of collateral and ability to pay interest as practiced in the debt financing system, but instead, it should give priorities to the soft information such as SMEs' skills and knowledge about the business as well as the potential and viability of the business (Berger and Udell, 1998). Several scholars such as Chapra (1992), Usmani (1998), Al Harran (1990) and Siddiqui (1981) have highlighted that the soft information features are inherent in the Islamic equity-based financing namely, Musharakah financing, which is not popular in the Islamic banking operations. There is hardly any study that has examined the extent to which the Musharakah model is viable in financing SMEs' long term development. Hence, the present study develops a Musharakah financing model for SME and tests its viability and acceptability for SMEs in Malaysia. The study is organized in six sections. The first section introduces the study and the subsequent section discusses the potential of Musharakah financing for SMEs. Section three explains the research methodology. The results are presented in the fourth section while the discussion of the results is in section five. The final section concludes the study.

## **2. Potential of Musharakah Financing for SMEs**

Musharakah is an Islamic equity-based financing where two or more persons form a partnership, combine either their capital or labor together, share the profits, liabilities, and enjoy similar rights (Al Harran, 1993). Theoretically, equity based financing is supposed to be the main foundation of Islamic banking. In practice, however, the Islamic banking operation is dominated by the debt based financing products and services. As a result, the application of equity based financing especially Musharakah financing remains minimal. The main features of Musharakah are participation in the business operations, risk sharing and, profit and loss sharing. These features are considered suitable in financing business entities such as SMEs (Usmani; 1998, Al-Harran; 1990 and Siddiqui, 1981). The following subsections discuss these features and their relevance for a viable model for financing SMEs.

### **2.1 Participation Financing**

There has hardly been any financing from Islamic banks to SMEs based on the participation financing model. Critics attribute this phenomenon to the two problems of adverse selection and moral hazard, which expose Islamic banks to high financing

risks. These two problems happen as a result of information asymmetry where one party, which in this case is the SMEs, has better access to information than the banks. Thus, minimizing information asymmetry is a prerequisite for the implementation of equity-based financing and this would require banks to have access to business information (Sadr and Iqbal, 2002). In Musharakah financing, the banks hold ownership in the firms and become partners to the business. This provides them with direct access to the business information. Furthermore, as a partner to the business, the banks have a right to actively participate in business matters. Availability of timely information and the right to participate in the business matters will significantly assist the banks in conducting effective monitoring and supervision of the business operations (Ahmed, 2008; Al Jarhi, 2002 and Iqbal, 1997). This makes Musharakah financing distinct from debt financing where banks do not normally involve in the operations of the business they finance. This gives advantages to the banks in terms of access to the business activities, including access to financial information, which is necessary for mitigating the problem of moral hazard. Furthermore, the right to participate in the business operations gives comfort to the banks, as they become insiders of the business they finance, unlike in the case of debt financing where banks are considered as outsiders. Once banks have control over the equity-based business, they will not rely on the collateral requirement as practiced in debt financing. Absence of collateral requirement will provide SMEs with access to financing to assist their growth and expansion. Based on the above discussion, it is therefore hypothesized that: -

H1: Bank's participation in Musharakah financing will positively enhance SMEs' access to financing.

## **2.2 Risk Sharing Financing**

Risk refers to the possible shrinkage, either partial or total, in the value of something due to uncertainties of the future course of events (Hassan, 2014). Business entities, including SMEs that operate in an environment of uncertainty are exposed to various types of business risks. According to the Casualty Actuarial Society (2003), risks faced by SMEs can be categorized into four: (i) financial risk (ii) operational risk (iii) strategic risk and (iv) hazard risks. In debt financing, the banks adopt risk averse attitude where risks are passed solely to SMEs. The banks guarantee their returns through predetermined installment payment or placement of collateral. This practice over burdens SMEs and limit their access to financing. The practice of risk averse in debt financing is obviously different from Musharakah financing, which operates on the basic principles of risk sharing (Al ghurm bi al ghunm), meaning that entitlement to return is associated with the liability of risk. With this principle, all partners in Musharakah must assume the risk associated with the financing in order for them to share the profit of the business. As highlighted by Muhammad Ayub (2007), risk sharing is a precondition for the partners to share the profit of the business. Since risks are things that can be predicted, they can be managed to minimize the occurrence of loss or the financial impact of the losses that do occur (Head, 2009 and Vaughan & Vaughan, 2001). Most SMEs cannot manage risks by themselves as they lack risk management skills, which include the ability to identify, analyze and control risks. This problem can be remedied in Musharakah financing when the banks given their high knowledge of the industry and readily available economic become active partners of the business and share the risks with SMEs. In this case, there is no need

for SMEs to guarantee the banks with predetermined installment or collateral. The banks will rely on the potential and viability of the business. This is more objective for SMEs, which may have a viable business but lack tangible assets to be pledged as collateral. Thus, risk sharing will provide SMEs with a greater access to financing for their growth and expansion (Khan, 1997 and Al-Harran, 1990). Based on the above discussion, it is therefore hypothesized that: -

H2: Risks sharing in Musharakah will positively enhance SMEs' access to financing.

### **2.3 Profit and Loss Sharing**

Musharakah financing operates based on profit and loss sharing ("PLS") principle. Profit is distributed based on an agreed profit sharing ratio (PSR) and losses are based on the capital contribution ratio. Return to the banks as a business partner is based on the actual outcome of the business and is not based on a predetermined interest/ profit payment as is the practice in debt financing. The entitlement to financing in the debt-based financing is determined by the credit worthiness of the borrowers, which include their ability to oblige installment amount promptly. This is done by evaluating the borrowers' financial information such as availability of past records of accomplishment, business plan, and past financial performance. As discussed previously, most SMEs lack record of accomplishment and have difficulty preparing business plans. This disqualifies them for financing from the beginning (Berger and Udell, 1998 and Normah Aris, 2007). These difficulties faced by SMEs in debt financing can potentially be remedied in Musharakah financing. For example, the actual outcome of the business will be shared; the banks will put more emphasis on the viability of the business to maximize their profit instead of relying on the ability of SMEs to pay fixed interest amount. In evaluating the viability of the business, the banks with their sufficient resources and expertise, are able to get access to the information of various industries and will not depend largely on information given by the customers. This will lead to a prudent evaluation and selection process (Ahmed Sekreter, 2011 and Al Suwailem, 1998). With this different approach in evaluation techniques, lack of financial track record and business plan will not prevent SMEs from getting access to financing. Furthermore, PLS gives fair distribution to both partners during the profit and loss period (Usmani, 1998). This is different from debt financing where there is a fixed, predetermined interest or profit payment to the lender regardless of the outcome of the business. In the context of Islamic finance, many Muslim scholars such as Chapra, Siddiqui, Usmani and Al-Harran are of the opinion that Musharakah financing is the true spirit of Islamic financing. It will bring to the contracted parties justice, which is the primary objective of Islam. From the above discussion, it is hypothesized that: -

H3: Profit and loss sharing principle in Musharakah financing will positively enhance SMEs' access to financing.

Based on the above discussion, the authors have developed Musharakah financing model for SMEs. Figure 1 below provides the conceptual framework of the model. There are three independent constructs namely participation, risk sharing and profit and loss sharing while access to financing become dependent construct of the financing model. The proposed model was validated to determine its acceptability to the SMEs. The validation processes is discussed in section 3.0 below.

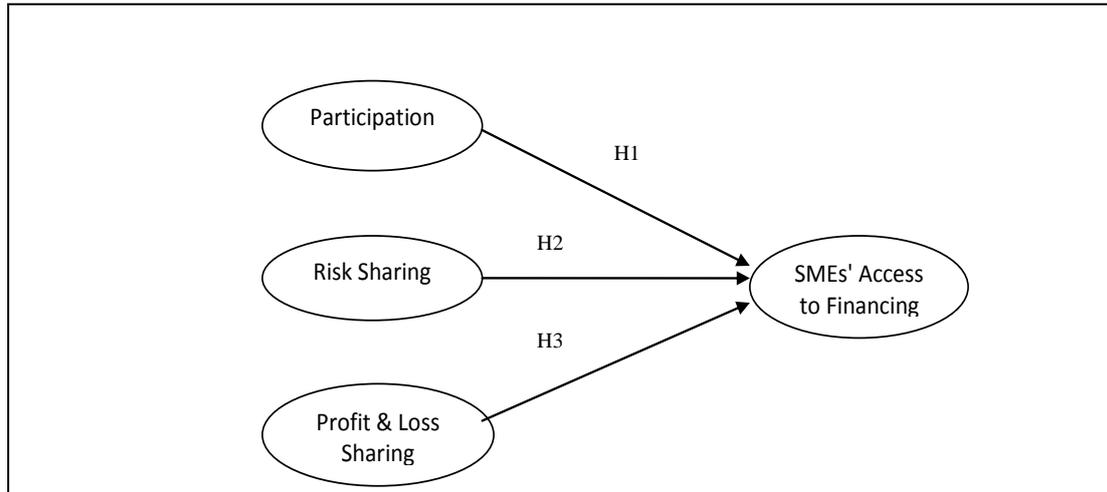


Figure 1 : Conceptual Framework of the Musharakah Financing Model for SMEs  
(Source: Author's Illustration)

### 3. Research Methodology

To validate the Musharakah financing model, data from SMEs in Malaysia were collected by way of survey questionnaires using a five-point Likert scale. The data were collected from 411 SME firms in Malaysia. Data obtained was then analyzed using Statistical Package for Social Sciences (SPSS) version 23 and AMOS software version 16 via structural equation model (SEM). The sample size was deemed adequate for the application of SEM to address the research objectives. According to Schumacker and Lomax (2010), SEM can be used to test the theoretical models that hypothesize how constructs are related to each other. SEM involves a process of developing measurement model and structural model. In performing SEM, this study first assessed the validity of the measurement model, which comprises the discriminant, and convergent validity. The good-fit of the Musharakah financing model was then examined. Finally, the hypothesized models were tested using structural modeling. The results are presented in the following section 4.0.

Based on Table 1 above, the majority of the respondents are business managers whose business have been in operation for less than five years, and their annual sales are less than RM300, 000.00 [Malaysian Ringgit]. The data therefore represent SMEs that are in dire need of financing.

## 4. Results

### 4.1 Demographic Profile

Table 1: Demographic Information

Demographic Information		Frequency	%
Business owner/ manager/ owner and manager	Business Owner	85	20.7
	Business Manager	153	37.2
	Business Owner and Manager	173	42.1
	<b>Total</b>	<b>411</b>	<b>100.0</b>
Sex	Male	187	45.5
	Female	224	54.5
	<b>Total</b>	<b>411</b>	<b>100.0</b>
Business Categories	Sole proprietor	204	49.6
	Partnership	50	12.2
	<b>Total</b>	<b>411</b>	<b>100.0</b>
Years in Operations	< 1 year	56	13.6
	1 - 5 years	150	36.5
	6 - 10 years	85	20.7
	> 10 years	120	29.2
	<b>Total</b>	<b>411</b>	<b>100.0</b>
Annual Sales	< RM300,000	219	53.3
	RM300,001 - RM2,999,999	114	27.7
	RM3,000,000 - RM14,999,999	30	7.3
	RM15,000,000 - RM20,000,000	25	6.1
	RM20,000,001 - RM50,000,000	23	5.6
<b>Total</b>	<b>411</b>	<b>100.0</b>	
Number of employees	< 5 employees	221	53.8
	5 - 29 employees	104	25.3
	30 - 74 employees	69	16.8
	75 - 200 employees	17	4.1
	<b>Total</b>	<b>411</b>	<b>100.0</b>

### 4.2 Measurement Model

Figure 1 above shows the Musharakah financing model for SMEs that comprised three independent constructs and one dependent construct. These constructs need to be validated with the actual data (Hair, 2010). In relation to this, the confirmatory factor analysis (CFA) using the maximum likelihood estimation procedure that provides evidence on the validity of individual measures based on the model's overall fit, discriminant and convergent validity were conducted and the results are discussed below.

#### 4.2.1 The Model's Overall Fit

The result of the measurement model shows that most of the fitness indexes have achieved the required cut-off value (chi-square/ df = 4.921, CFI = 0.901, RMSEA = 0.098).

#### 4.2.2 Discriminant Validity

The results for discriminant validity in Table 2 below shows that out of the three independent constructs [Participation, Risk Sharing and Profit & Loss Sharing], two cases [1 and 3] are moderately correlated, while only one case, no. 2, and show strong correlation [0.83] between Risk Sharing and Profit & Loss Sharing. Therefore, discriminant validity is achieved.

Table 2 - Discriminant Validity

NO	CONSTRUCTS	CORRELATION MEASURE
1	Participation - Risk Sharing	0.45
2	Risks Sharing - Profit & Loss Sharing	0.83
3	Participation - Profit and Loss Sharing	0.50
4	Participation - Access to financing	0.53
5	Access to financing - risk sharing	0.69
6	Access to financing - profit and loss sharing	0.83

#### 4.2.3 Convergent Validity

As suggested by Hair (2010), to conduct convergent validity, several methods namely Cronbach's coefficient alpha ( $\alpha$ ), construct reliability (CR) and average variance extracted (AVE) were performed. As suggested by George & Mallery (2003), the value of alpha must be  $\geq 0.70$ . According to Bagozzi and Yi (1988), the AVE value should be equal or greater than 0.50 while CR should be equal or greater than 0.60. The results of the convergent validity in Table 3 show all items have complied with the minimal requirement and it can be concluded that all items in the model are reliable.

Table 3: Convergent Validity

CONSTRUCTS	CRONBACH ALPHA	CR	AVE
Participation	0.867	0.878	0.603
Risk Sharing	0.866	0.873	0.581
PLS	0.866	0.866	0.567
Access to financing	0.877	0.907	0.766

#### 4.3 Structural Model

The structural model analysis was performed to answer the three hypotheses in the study: H1, H2 and H3 that depict direct relationship between the three independent constructs: participation, risk sharing and profit & loss sharing towards the dependent construct namely, access to financing. The structural model for these constructs is presented in Figure 2 below followed by the interpretation of AMOS output.

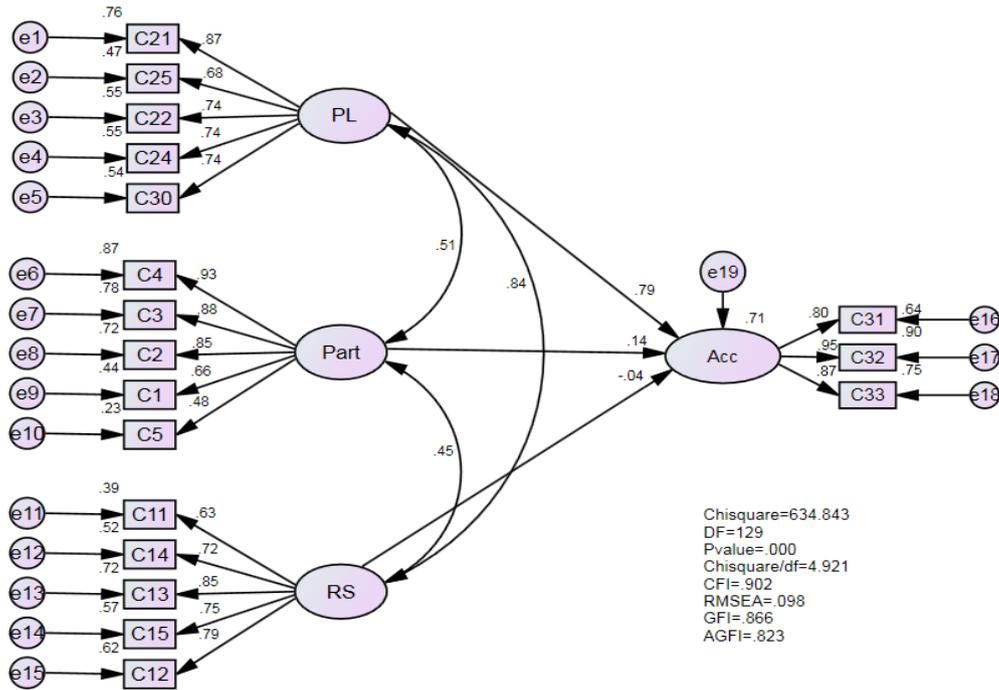


Figure 2: Structural Model

Overall, the model achieved most of the cutoff points of the fit indices indicating the model is fit to the data (chi-square/ df = 4.921, CFI = 0.902, RMSEA = 0.98). In order to confirm the hypotheses, results of standardized estimates are observed. As shown in Table 4 below, the result for H1 which tests the direct effect of banks' participation in SMEs' business operation (independent construct) towards SMEs' access to financing (dependent construct) shows the value of critical ratio (CR) greater than 1.96. This shows that the probability of getting a critical ratio as large as 3.478 in absolute value is less than 0.001 (which is indicated by \*\*\* in the AMOS output). Thus, the covariance between participation (IC) and SMEs' access to financing (DC) is significantly different from zero at the 0.001 level. Hence, it can be concluded that bank's participation has a significant and direct effect on SMEs access to financing and therefore, H1 is supported. However, for H2 (testing the effect of risk sharing towards SMEs access to financing) the value of CR is less than 1.96. This indicates that the probability of getting a critical ratio as large as -0.456 in absolute value is 0.649. This implies that the regression weight for the risk sharing in the prediction of SMEs access to financing is not significantly different from zero at the 0.01 level. Therefore, H2 is rejected, as there is no significant and direct effect of risks sharing towards SMEs access to financing. For H3 (testing the effect of profit and loss sharing towards SMEs' access to financing), the value of CR is greater than 1.96 indicating that the probability of getting a critical ratio as large as 3.478 in absolute value is less than 0.001. PLS in Musharakah financing in the prediction of SMEs access to financing is significantly different from zero at 0.001 level. Thus, it can be concluded that PLS has a significant and direct effect on SMEs access to financing and therefore, H3 is supported. The summary of the results is presented in Table 4 below.

Table 4 - Results of Hypothesis Testing (Standardize Estimates)

Hypothesized Path	Estimate	S.E	C.R	P	Notes
H1 (Part)	.101	.029	3.478	***	The hypothesis is supported
H2 (RS)	-.048	.105	-.456	.649	The hypothesis is not supported
H3 (PL)	.677	.081	8.349	***	The hypothesis is supported

The above results indicate that SMEs' access to financing is significantly influenced by the bank's participation and PLS between the two parties. However, RS is found not to significantly influence SMEs' access to financing. Subsequently, all the three independent constructs were analyzed together and represented by 'Musharakah Financing' as shown in Figure 3 below.

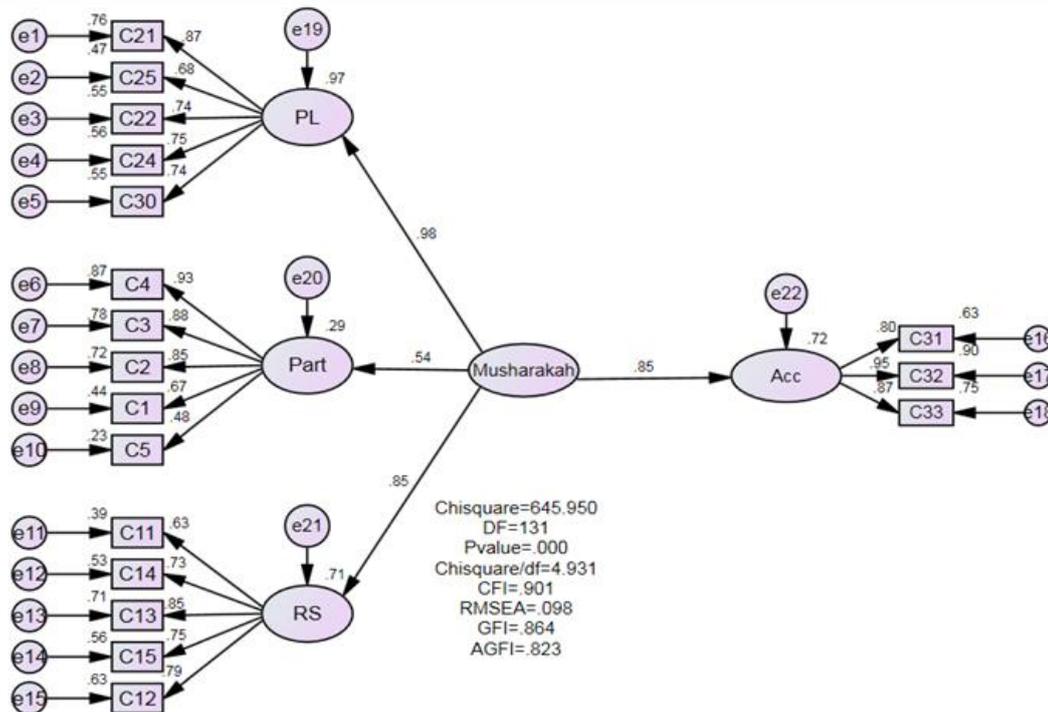


Figure 3 - Structural Model Two (Effect of Musharakah on SMEs Access to Financing)

The above model achieved most of the cutoff points of the fit indices indicating the model is fit to the data (chi-square/ df = 4.931, CFI = 0.901, RMSEA = 0.98). Overall, the results show that the influence of Musharakah financing towards SMEs' access to financing is statistically significant. The result shows that regression weight for all items in Musharakah financing in the prediction of SMEs access to financing is significantly different from zero at 0.001 level. Thus, it can be concluded that Musharakah financing has a significant and direct effect on SMEs access to financing. Furthermore, the standardized regression weights show that when Musharakah financing increases by 1 standard deviation, it will influence the SMEs' access to financing by 0.846 standard deviations. The results are further interpreted using the squared multiple correlation values for the dependent construct (access to financing). The results of R<sup>2</sup> for Access to financing are 0.715, which indicates that 71.5% of SMEs' access to financing can be explained by Musharakah financing. Overall, Musharakah financing, which banks' participation, risk sharing and profit

and loss sharing measure are found to have a significant effect towards SMEs' access to financing.

## 5. Discussion

Results obtained from this study indicate that the proposed Musharakah financing model is supported empirically by data from SMEs firms in Malaysia. When the three independent constructs: (i) participation (ii) risk sharing and (iii) profit and loss sharing in Musharakah financing are analyzed individually, it is found that two constructs: banks' participation in SMEs business operations and profit & loss sharing in Musharakah financing play important roles in enhancing SMEs' access to financing. However, one of the construct, which is risk sharing does not contribute towards enhancing SMEs access to financing which indicates that, from the demand side, risk sharing does not significantly relate to SMEs access to financing. One possible explanation for this could be the correlation between risk sharing and PLS from the perspective of the SMEs, as is evident from the high correlation coefficient of 0.83 between the two [see Table 2 above].

Even though the correlation between the two constructs is high, this study maintains both constructs separately in the proposed model as the correlation is still below the required value of 0.85 signifying that the two constructs, risk sharing and profit and loss sharing are different from each other. Risk sharing in the proposed model mainly explained the importance of banks' role in assisting SMEs to manage risks associated with its business operations. SMEs operate in uncertain environment which expose them to various types of risk, thus, these risk need to be managed carefully to reduce the possibility it happen and subsequently, impact profit and loss of the company. However, they are lack risk management skills, which include the ability to identify, analyse and control those risks. In this circumstances, the banks role as a partner will assist SMEs in managing their risks as the banks have high knowledge about the industry and access to the economic data.

As a result of risk sharing which involves the banks' expert in managing the business risk, potential profit (or loss) of the business to be shared between the banks and SMEs will be maximized (or minimized). Thus, the risk-sharing construct as explained in the above paragraph is different from the construct of PLS as PLS is a result of risk sharing. This is also in line with the principle of *Al ghurm bi al ghum* where the entitlement to the return is associated with the liability of risk, indicates that partners in the business needs to share in managing the risk, then only the actual outcome of the business can be shared together.

With regards to the construct namely participation, which represent the banks' active participation in SMEs business operations, the hypothesis is supported. This finding signifies SMEs acknowledgement and agreement on the important role of banks' participation in Musharakah financing. This finding empirically supports previous studies of Ahmed (2008) and Al Jarhi (2002) which highlighted the importance of bank's participation in the business operations if Musharakah financing is introduced. Even though findings of this study support the banks participation in SMEs business operations, there are few issues with regards to the participation needs to be further explored, for example, the level of banks' participation. To participate in the SMEs business operations, the banks have an option either to involve at a high

level or low-level participation (Sadique M.A, 2008). High level of participation involves banks active role in management, decision-making and business operations. On the other hand, low level participation involves minimal activities such as to appoint the banks' staff in a monitoring capacity without executive power. These implementation issues need to be carefully examined to support the implementation of the proposed Musharakah financing model.

When further analysis was conducted on all the three constructs together as Musharakah financing, it is found that Musharakah has a significant and direct effect on SMEs access to financing. Hence, the results of this study proved that in order for Musharakah to function effectively as a viable financing for SMEs, all the three constructs in the proposed Musharakah financing model need to be implemented simultaneously. Therefore, in offering Musharakah to SMEs, the banks must be ready to actively participate in the SMEs' business operations, share the business risks and subsequently share the profit and loss of the business. With this, SMEs will have a greater access to financing to assist their growth and development. This result, therefore, supports theoretical studies of Chapra (2007), Siddiqui (2006) and Usmani (1998) which emphasize the potential of Musharakah for business or SMEs financing.

## **6. Conclusion**

The main objective of this study is to examine the potential of Musharakah financing as a viable financing model for SMEs. From this study, it is found that Musharakah financing has a potential in providing SMEs with greater access to financing. This validates the viability of the Musharakah financing model for SMEs developed in this study. Nevertheless, there are many challenges for the banks to implement Musharakah financing, especially for SMEs. This is because the current banking system is predominantly debt financing which operates differently from Musharakah financing. Even though in this study these three features have been proven to improve SMEs' access to financing, further studies need to be conducted with regards to each of the element in order to determine how each element can be implemented in the banking operations. Thus, the main features of Musharakah as discussed in this study need to be further examined in depth and adapted to the practices of the banking institution. Moreover, further studies from the supply side, which is the banking institution, also need to be done on the potential of the proposed Musharakah financing model to examine their views on the implementation of the proposed model.

As the findings imply, Islamic banks need to consider structuring Musharakah financing for SMEs based on the three main features of Musharakah as discussed, namely, banks' participation in SMEs business operations, risk sharing as well as profit & loss sharing. With a greater access to financing, SMEs, which is the backbone of the economies of many countries, will have sufficient financing to assist their growth and expansion.

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## **Investigating Customers Level of Awareness on Investment Accounts**

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### **Abstract**

The overall aim of this paper is to investigate customers' level of awareness on investment accounts. The study has used a survey, where questionnaires were distributed to 250 respondents. Descriptive statistics and T- test were used in data analysis. The findings of the study reveal that the majority of the respondents are aware that Mudharabah investment account is a form of partnership where profits are shared between Islamic banks and Investment account holders; and the accounts offer high returns compared to other types of Islamic deposits. Nevertheless, there are low levels of awareness among the respondents on their contractual right to impose conditions on restricted Investment Account, risks exposure to investment account holders and Islamic banks profit distribution policy. In addition, the independent t-test results reveal that there are significant differences between gender, race, marital status and customers' insight into Mudharabah investment accounts. Therefore, policy makers and Islamic bank managers should sensitize customers to raise the level of their awareness on all aspects of investment accounts. Moreover, the Central Bank should issue effective guidelines for Islamic banks to explain to customers the concept, applications and implications of any Islamic financial contract before offering the products to the customers. Bankers should educate their customers on Mudharabah investment accounts and the consequences of opening these accounts. This in turn will enhance transparency and accountability and increase customers' confidence in Islamic banking products and services.

**Keywords:** *Investigating, Customers awareness, Mudharabah, investment accounts*

### **1. Introduction**

Malaysia as an international Islamic financial service hub, has witnessed an annual growth rate of 18 – 20% in its Islamic banking industry. This remarkable growth is due to progressive regulation, favorable tax regimes and, most importantly, supportive authorities within the country (Elizabeth, 2014). The total Islamic banking assets reached RM557 billion (US \$171 billion) at the end of December 2013, which accounted for 25 percent of the Malaysian banking sector's assets. Meanwhile Islamic financing accounted for 27.5 percent of total banking financing in the same period and it is expected to account for 40 percent of total financing by 2020. Likewise, the Islamic banking industry's total deposits also continued to grow and they constituted 26.6 percent of the Malaysian banking sector's deposits in 2013 (Zukri, 2013).

Progress has also been made in the regulatory and supervisory framework. The Islamic Financial Services Act 2013 (IFSA) has been the driver of the new landscape of Islamic banking and Takaful development in Malaysia. IFSA combined several separate laws into a single legislative framework after the Islamic Banking Act 1983; the Takaful Act 1984, the Payment System Act 2003 and the Exchange Control Act 1953 were repealed. The main objective of IFSA is to promote financial stability and compliance with the Shariah principles. For the Islamic banking industry, this move signifies the commitment by the government via the Central Bank to advance Malaysia's position as an Islamic finance hub and centre of reference. IFSA paved the way for the development of an end-to-end Shariah compliant regulatory framework, reinforces the effective application of Shariah rules and principles in all aspects of Islamic financial institutions operations. For instance, the Act distinguishes deposits made for savings and those made for investment, in line with the fundamentals of Islamic finance, which emphasizes risk-sharing (Elizabeth, 2014).

IFSA 2013, classified Islamic deposit products into Islamic deposit accounts and the investment accounts (BIMB, 2013). Islamic deposit products are based on wadiah and al-qardh, which are guaranteed contracts while investment accounts are based on mudharabah or wakalah non-guaranteed contracts. Unlike Islamic deposits, which can be withdrawn on demand and guaranteed by Malaysia Deposit Insurance Corporation (MDIC); Investment Accounts Holders (IAH) funds are nonguaranteed but the clients can enjoy high returns based on the concept of risk sharing with more restrictive withdrawal conditions. The funds sourced from these accounts are directed to diverse forms of financing, investment and viable ventures (BNM, 2014).

These latest developments in the Islamic finance industry create a fertile ground for research, particularly on customers' level of awareness on investment accounts. There are however, few empirical studies that have examined the customers' level of awareness on this new mudharabah application in the investment accounts and its implications to investment account holders' fund. Therefore, this study attempts to fill in this research gap. The paper is organized as follows: The first section reviews the relevant literature leading to the research questions. Section two presents the research method used in the study. The third section discusses the findings of this study and the final section provides the conclusion and suggestions for future research.

## **2. Literature Review**

Islamic banking refers to a banking system that is based on Shariah principles (BNM, 2014). The underlying principles that govern Islamic banking are prohibition of interest (riba), gambling (maisir), speculation (gharar), and the promotion of mutual risk and profit sharing between parties, the assurance of fairness for all and that transactions are based on an underlying business activities or assets (BNM, 2015). These shari'ah principles are derived from the Quran and the Sunnah and other secondary sources of Islamic laws (ISRA, 2012). For instance, Allah says in the al-Qur'an:

"Those who take riba (usury or interest) will not stand but as stands the one whom the demon has driven crazy by his touch. That is because they have said:

"Trading is but like riba." And Allah has permitted trading, and prohibited riba. So, whoever receives an advice from his Lord and stops, he is allowed what has passed, and his matter is up to Allah. Moreover, the ones who revert, those are the people of Fire. There they remain forever" (Al-Baqarah: 275).

The underlying theory of Islamic banking is the assumption that interest, which is strictly forbidden in Islam, is neither a necessary nor a desirable basis for the conduct of banking operations, and that Islamic teachings provide a better foundation for organizing the working of banks (Ziauddin, 1994). The basic postulate that has guided all theoretical work on Islamic banking is that while interest is forbidden in Islam, trade and profit is permissible. Therefore, Muslim scholars developed a radically different model of banking which does not use interest. It relies instead on Islamic financial contracts to perform intermediation functions (Ziauddin, 1994).

The principle of profit and loss sharing (Musharakah and Mudharabah) form the cornerstone of Islamic banking intermediation. For instance, using Mudharabah (profit sharing) Islamic Banks (IBs) accept deposits in investment accounts on the basis of profit sharing and the Investment Account Holders (IAHs) share the profits with the bank. Under this principle, IAHs as capital owners are required to absorb any losses that occur on investment (Hamza, 2015). El Qorci (2005) notes that investment risk is considered the most critical operational risk affecting the activities of Islamic banks. According to Hamza (2015), the fact that IAHs bear losses on the investment deposits raises pertinent issues regarding the relationship between IBs and the IAHs in terms of profit rights and ethical agency issue. From the IBs side, due to loss absorbent characteristic of investment deposits, IBs have incentive to take excessive risk by allocating these deposits into more risky investment, financing and ventures. This excessive risk taking is further explained by the fact that the investment deposits represent a large part of IBs resources, consequently, high deposit growth may lead to moral hazard behavior as Islamic banks have full control to manage depositors' fund (Daher, Masih, & Ibrahim, 2015).

IAHs face the risk of their funds being mismanaged, because they are not able to monitor efficiently investment decisions taken by the bank on their behalf (Hamza & Saadaoui, 2013). In addition, IAHs do not have voting rights to control investment decisions. Moreover, IAHs may not have full access to information on the performance of the assets they finance or on the method by which the rate of return of their deposit is calculated (Kammer et al., 2015). This moral hazard concerns can be minimized if depositors have power to control and discipline the IBs (Aysan, et.al, 2015). To compensate for risk-taking, the IAHs demand for a competitive return, which is not below interest rate. Thus, the IBs have to realize a competitive investment deposit return level to satisfy the IAHs even if the assets under performed as IBs are exposed to displaced commercial risks. The IAHs require compensation otherwise, they may withdraw their fund and choose another bank offering a better competitive return. To cover this displaced commercial risk, some IBs mainly in Bahrain and Malaysia, practice the smoothing of income, as required by the IFSB-1 (2005), where IB allocates part of the profit to compensate its IAHs when there is poor investment performance (Hamza, 2015). Thus, some studies found a link between investment deposit return and interest rate in conventional banks (Chong & Liu, 2009; Zainol & Kassim, 2010; Cevik & Charap, 2011; Anuar et al., 2014). Indeed, the pricing of the Islamic banking product and deposits are benchmarked

based on conventional interest rate (Chong & Liu, 2009; Zainol & Kassim, 2010; Cevik & Charap, 2011; Anuar, Mohamad, & Shah, 2014).

It is interesting to note also that there is no proper mechanism in place to protect rights of IAHs. Islamic banks do not advise or inform IAHs of their contractual rights & risks in the opening of the account. Moreover, there is lack of transparency and accountability in the distribution of profit, despite the fact that the Islamic Financial Service Board (IFSB) requires relevant disclosures to be made in a timely and effective manner on the profit distribution policy between the Islamic bank, the shareholders and the IAHs (Abdul Rahim, 2010).

## **2.1 Research Issues**

In view of the foregoing discussion, this study attempts to answer the following questions:

R1: What is the level of awareness among Islamic banking customers on the concept of Mudharabah contract?

R2: What is the level of awareness among Islamic banking customers on the application of Mudharabah contract in investment accounts?

R3: What is the level of awareness among Islamic banking customers on the implications of investment accounts to IAHs?

R4: Are there differences between gender, race, marital status, and the level of awareness among Islamic banking customers on Investment accounts?

## **3. Research Methodology**

This study adopted descriptive research using a cross-sectional study (sample survey). It is considered the most suitable method to address the above research questions. Survey research is a descriptive approach that is used to collect information from or about people to describe, compare, or explain their knowledge, feelings, values, and behavior (Babbie, 2000). Survey research is one of the best methods available to researchers who are interested in collecting original data for describing a population that is too large to observe directly (Sekaran, 2003). According to Burns and Bush (2000) a survey is a suitable method for collecting data about attitudes and opinions. It also allows quantitative analysis to be conducted in the testing of inferences and permits generalisation of findings (Neuman, 2003). Questionnaires were distributed to a sample of 250 Islamic banks customers in Kedah, a Northern state in Malaysia using random sampling. Respondents were classified by gender, age, marital status and education level. Descriptive statistics and t- test were used in data analysis. Descriptive statistics are used to summarize data, and to describe phenomena of interest (Sekaran & Bougie, 2010).

#### 4. Findings and Analysis

The demographic results reveal that the majority of the respondents were middle-income, Malay, married male and graduates. The Cronbach's Alpha test was used to assess the relationship between different parts of the questionnaire in this study. According to Sekaran (2003), the closer Cronbach's alpha is to 1, the higher the internal consistency and reliability. Huck and Cormier (1996) indicated that 0.70 is an acceptable level of significance for Alpha i.e. the scale has good internal consistency. In our study, the overall reliability result is 0.865 indicating satisfactory level of internal consistency and the scale can be considered reliable with our sample.

In order to measure the level of awareness of the respondents on the concept of Mudarabah, its application in investment accounts and the implication of investment accounts to IAHs, the items were measured on a four-point Likert-type scale and the results are presented in the form of percentage and descriptive statistics. Four options were provided: highly aware; aware; not aware; not aware at all. We combined the percentage of highly aware and aware; not aware and not aware at all as shown in the Table 1 below. Meanwhile for the descriptive statistics, the mean scores range from maximum of 3.566 to a minimum of 1.478 regarding the respondents' levels of awareness on each characteristic. The standard deviation scores range from maximum of 0.916 to a minimum of 0.350, revealing wider views among the respondents.

Table 1: Awareness of *Mudarabah*, its application & Implications on Investment Accounts

Variables	Measurement Items	Aware (%)	Not aware (%)	Mean	Std. Dev.
1. Concept of <i>Mudharabah</i>	Partnership	90	10	1.478	0.535
	Profit sharing	72	28	2.281	0.73
	Loss bearing	47	53	3.212	0.82
2. Application of <i>Mudharabah</i> in Investment Account	General Investment Acc.	61	39	2.489	0.741
	Specific Investment Acc.	42	58	2.632	0.942
3. Implication of <i>Mudarabah</i> to IAHs	Returns on <i>Mudarabah</i>	57	43	2.266	0.774
	Return Distribution	33	67	3.412	0.916
	Risks exposure	22	78	3.566	0.72

The result indicates that the overwhelming majority of the respondents (90%) were aware to somewhat highly aware that Mudarabah is a form of partnership between depositors and the Islamic banks, where IBs act as fund managers and IAHs as capital providers. Seventy two percent (72%) of the respondents were aware to somewhat highly aware that in Mudarabah profit is shared between IB and IAH based

on agreed ratio. Ironically, more than half of the respondents (53%) were not aware at all about the loss bearing aspect of the contract that in case of loss, the depositors bear the loss.

The majority of the respondents (61%) were aware to somewhat highly aware that IBs offer General Investment Account (GIA), where IB is a fund manager and IAHS are investors and the pooled funds are invested in diversified shariah compliant investment portfolio. Nevertheless, more than half of the respondents (58%) were not aware at all that, Specific Investment Account (SIA) has more restrictive investment parameters such as the maturity of a SIA are matched against the tenure of the specified underlying asset, restriction on the ability of IAHS to withdraw their funds before maturity and IAHS can restrict the types and where their funds are invested.

It is interesting to note that although more than half of the respondents (57%) were aware to somewhat highly aware that Islamic investment accounts offer higher returns compared to other deposit accounts, the majority of the respondents (67%) were not aware at all on the profits distribution between IB and IAHS. Moreover, the majority of the respondents (78%) were not aware at all about the risk exposure to IAHS in terms of moral hazard and non-guaranteed deposit.

Furthermore, this study used the independent T-test to examine if there are significant differences between gender, race and marital status and level of awareness among the respondents on the concept of Mudharabah, its application and implications to IAHS. T-test is essential when researchers are testing the differences between two groups' means to detect in case there is a statistical significant difference between the means of different groups (Gorman & Robert, 2014). There are statistically significant difference between male ( $M = 1.10$ ,  $SD = .133$ ) and female ( $M = 1.13$ ,  $SD = .152$ ),  $p \geq .05$ ; Malay ( $M = 1.12$ ,  $SD = .143$ ) and Chinese ( $M = 1.17$ ,  $SD = .188$ ),  $p \geq .05$ ; and married ( $M = 1.21$ ,  $SD = .150$ ) and single ( $M = 1.32$ ,  $SD = .152$ ),  $p \geq .05$ . All the three demographic factors: gender, race and marital status show significant difference at  $p \geq .05$ . Therefore, we can conclude that there are significant difference between gender, race and marital status and level of awareness among the IBs customers on concept of Mudharabah, its implication on investment accounts and the implications of investment accounts to IAHS.

These findings are consistent with previous studies. For instance, according to Abdul Rahim (2010) there is no proper mechanism in place to protect rights of IAHS. Islamic banks do not advice or inform IAHS on their contractual rights & risk exposure in the opening of investment accounts. He adds that moreover, there is a lack of transparency and accountability in the distribution of profit.

Table 2: Significance Differences in level of Awareness between Gender, Race and Marital Status

<b>Variables</b>	<b>Mean</b>	<b>Std. Deviation</b>	<b>t</b>	<b>Sig.</b>
<b>Gender</b>				
Male	1.10	.133	-1.623	0.106
Female	1.13	.152		
<b>Race</b>				
Malay	1.12	.143	-.973	0.332
Chinese	1.17	.188		
<b>Marital Status</b>				
Single	1.32	.152	-1.218	0.225
Married	1.21	.150		

Sig. level 0.05

Mohd Karim (2010) finds that although there is high level of awareness on Islamic banking products and services, the usage of these products and services are low due to lack of understanding among IBs customers on Islamic banking operations. Hassan (2007) study on IBs customers in Pakistan reveals that Islamic banks customers do not have confidence on Shariah-compliant of IBs operation, besides, customers are not fully aware about Islamic banking products and services. According to Ismail (2011), although IBs customers in Indonesia are highly aware about the existence of Islamic banking system, the majority of them still lack knowledge and understanding of IBs principles and operation. Abdullah et.al. (2006) study on IBs customers in Malaysia reveals that the customers are not able to differentiate between Islamic hire purchase and conventional hire purchase. From these findings, it can be stated that the majority of the users of Islamic banking products are mere user of the products without fully understanding the products' mechanisms, differences, risks and benefits.

## 5. Conclusion

Indeed the findings of this study are compelling. Despite the fact that IFSA 2013 is now operational, there are still low levels of customers' awareness on key aspects of Mudharabah investment accounts. Overwhelming majority of the respondents is unaware that in restricted investment accounts they have right to know specifically where their funds will be invested and IBs have restrictive clause as well. The majority of the respondents are not aware that they are exposed to moral hazard and that their deposits are not protected by Deposit insurance Corporation. Moreover, despite this risk exposure, the majority of the respondents are not aware about IBs profit distribution policy. It seems there is lack of transparency and accountability in many aspects of investment accounts and IBs have no proper mechanism in place to protect the right of IAHs. IFSB and AAOIFI require relevant disclosures to be made

in a timely and effective manner on the profit distribution policy between the Islamic bank, the shareholders and the Mudharabah investors. Islamic banks should acknowledge the right of Mudharabah investors to monitor the performance of their funds and the associated risks, and put in place adequate means to ensure these rights are observed and exercised. Moreover, Islamic banks need to advise or inform investment account holders on their contractual rights and risks in the opening of the account. This will enhance transparency and accountability and increase customers' confidence in Islamic banking products and services.

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# Assessing the Entrepreneurship Ecosystem of Sultanate of Oman

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## Abstract

Sultanate of Oman, recently, is going towards reduction in her dependence on oil and gas in order to stabilize the economy and to achieve sustainable economic development. This implies increasing the share of non-hydrocarbon sector in Omani GDP, which can be achieved through diversifying the economy. Furthermore, Oman government has paid more attention to increase the role of private sector investments through different means as a tool to increase the private sector contribution in GDP. In this context, stimulating private sector drew the attention towards the importance of Entrepreneurship in developing the private sector. Entrepreneurship stimulation requires a well-developed entrepreneurship ecosystem. This ecosystem captures various determinants of entrepreneurship activities on microeconomics and macroeconomics levels. The purpose of this paper is to analyse pillars of Omani entrepreneurship ecosystem to identify the areas of strength and weaknesses, which address the following research question. "What are the strengths and weaknesses in the pillars of Omani entrepreneurship ecosystem?" A time series analysis for each pillar of Omani entrepreneurship ecosystem and the components of these pillars using secondary resources was adopted to answer the research question and fulfill the research objective. Moreover, A cross sectional analysis was carried out between each pillar of Omani entrepreneurship ecosystem with MENA region, World, Saudi Arabia, and Malaysia. Omani entrepreneurship ecosystem has strengths in 8 pillars: Opportunity Perception, Risk Acceptance, Networking, Opportunity Start-up, Human Capital, High Growth, Internationalization, and Risk Capital. Culture Support is a medium level pillar in Omani entrepreneurship ecosystem. There are 5 pillars that have weaknesses in Omani entrepreneurship ecosystem namely Startup Skills, Technology Absorption, Competition, Product Innovation, and Process Innovation.

**Keywords:** *Entrepreneurship, Oman economy, Entrepreneurship ecosystem*

## 1. Introduction

Sultanate of Oman, as one of GCC, is endowed by oil and gas. Omani economy is highly dependent on oil and gas extraction activities, which has made its economy to be vulnerable to economic fluctuation due to uncertainty in oil and gas prices. Recently the Omani government started to implement policies that support economic diversification in order to strengthen the business environment and increase the share of non-hydrocarbon sector in Omani GDP. Furthermore, Oman government paid more attention to the role of private sector investments as a tool to increase the private sector contribution to GDP. In this context, stimulating private sector drew the

attention towards the importance of Entrepreneurship in developing Omani private sector.

Entrepreneurship stimulation requires a well-developed entrepreneurship ecosystem. This ecosystem captures various determinants of entrepreneurship activities on both macroeconomics and microeconomics levels. In this regard, the first step is to assess the existing entrepreneurial ecosystem and the potential challenges and opportunities that need to be addressed through specific interventions.

The research in entrepreneurship ecosystem has received considerable attention from researchers who have developed many approaches for assessment. Some approaches are comprehensive and use large number of individual indicators; others are conceptual and focus mainly on some key domains and specific actors.

The purpose of this paper is to analyse pillars of Omani entrepreneurship ecosystem in order to identify the areas of strengths and weaknesses, which address the following research question. “What are the strengths and weaknesses pillars in Omani entrepreneurship ecosystem?”

To answer the research question, the researcher used data from the “Global Entrepreneurship and Development Institute” (GEDI) index sometimes known as “Global Entrepreneurship Index” (GEI) on Oman to assess the different pillars of Oman entrepreneurship ecosystem and determine the strong pillars and the weak ones.

The paper started by reviewing the literature on entrepreneurship ecosystem followed by the research methodology. Then analyses and assessment for the Omani entrepreneurship ecosystem was carried out. Finally, the paper draws conclusions and proposes recommendations to improve the entrepreneurship ecosystem in the Sultanate of Oman.

## **2. Literature review**

Entrepreneurship ecosystem has received considerable attention from many researchers and institutions that created many approaches for assessment. There is a wide variety between these approaches. (Aspen Network of Development Entrepreneurs, 2013).

One of the common approaches in assessing entrepreneurship ecosystem is “Global Entrepreneurship and Development Institute” (GEDI), which defined entrepreneurship ecosystem, as “A system of organized set of interacting and interdependent subsystems that function together as a whole to achieve a purpose”. (Mathews and Brueggemann, 2015) argued that the “ecosystem is a purposeful collaborating network of dynamic interacting systems and subsystems that have an ever-changing set of dependencies within a given context”

As per GEDI, Entrepreneurial ecosystems are composed of sub-systems (pillars) that are aggregated into systems (sub-indices) that can be optimized for system performance at the ecosystem level. GEDI issued an index named “Global Entrepreneurship Index” (GEI). The index consists of fourteen pillars of entrepreneurship ecosystem. (Zoltán J., et al., 2017).

Table (1): The structure of Global Entrepreneurship Index

Global Entrepreneurship Index													
Attitudes Sub-Index					Abilities Sub-Index				Aspiration Sub-Index				
Opportunity perception	Start-up Skills	Risk Acceptance	Networking	Cultural Support	Opportunity Start-up	Technology Absorption	Human Capital	Competition	Product Innovation	Process Innovation	High Growth	Internationalization	Risk Capital

Source: Zoltán J., et al., (2017), "The Global Entrepreneurship Index", USA: *Global Entrepreneurship and Development Institute*, P:1.

One of the most important approaches in assessing entrepreneurship ecosystem is OECD approach. The OECD uses a unique definition of entrepreneurship, it considers three components: Entrepreneurs, Entrepreneurial Activity and Entrepreneurship. (Ahmad N., and Hoffmann A.).

The OECD conceptualizes the ecosystem of entrepreneurship as the combination of three factors: opportunities, skilled people and resources. These three factors are influenced by two important themes: culture and regulatory framework. These factors and themes can be simplified into six key determinants: regulatory framework, market conditions, access to finance, R&D and technology, entrepreneurial capabilities and culture.

Another approach in assessing entrepreneurship ecosystem is the World Bank's approach. The World Bank's Enterprise Surveys are the most comprehensive, and wide-ranging datasets available. Key data points include firm characteristics, sales, finances, R&D, entrepreneur/top manager, government relations, quality of infrastructure, competition and workforce, employee characteristics, impact on communities, and entrepreneurial motivation/culture. The World Bank project for collecting data on entrepreneurship was completed in June 2015. The project created understanding for the different aspect of entrepreneurship. (World Bank, 2016)

The World Economic Forum (WEF) developed comprehensive diagnostic tools for assessing and tracking the development of the ecosystem. The WEF believes that entrepreneurs rely on four enablers of support: Personal Enablers (such as mentors and education); financial enablers (such as banks investors and microfinance); businesses enablers (such as incubators and networking associations); and environmental enablers (such as regulatory framework, infrastructure and culture). By examining an entrepreneurial ecosystem through this framework, the WEF is able to identify strengths and weaknesses in the ecosystem and recommend policy to fill gaps (World economic forum).

Babson College Entrepreneurship Ecosystem Project (BEEP) stems from the observation that in all societies in which entrepreneurship occurs with any regularity or is self-sustaining, there is a unique and complex environment or ecosystem.

The BEEP categorizes their framework into six domains: i) Policy (government regulations and support for entrepreneurship); ii) Finance (the financial services which are provided to entrepreneurs); iii) Culture (societal norms and the presence of success stories in entrepreneurship); iv) Support (physical infrastructure, non-governmental institutions, and the presence of supporting professions); v) Human Capital (the quality of higher education system and the skill level of the work force); Finally, vi) Markets (entrepreneurial networks and the presence of early customers). (Daniel Isenberg and Vincent Onyemah, 2016).

### **3. Methodology**

*Research Design:* This study uses a combination of two well-known approaches, namely; qualitative based on multiple case studies approach and quantitative approach. The former approach relied mainly on analyzing different case studies related to entrepreneurial eco-system at multinational level. A quantitative analysis was utilized, specifically non-hypothetical relationship, in other words, a descriptive study with statistics indicators was performed, in order to understand the progress of eco-system in Oman.

*Unit of analysis:* This study considers the country as the unit of analysis. Different countries were under analysis for the eco-system.

*Data types and sources:* The data was collected from secondary sources. The data was collected from the databases, reports, and websites of World Bank, GEDI, OECD, World Economic Forum, Al Raffad fund (Sultanate of Oman) and other former relevant studies. These reports and previous studies related to the different pillars of entrepreneurship ecosystem in Oman, world, MENA region, Saudi Arabia, and Malaysia. To gain more in depth of analysis, the secondary data was collected for every sub-indices of each pillar of Omani entrepreneurship ecosystem.

*Data presentation:* The collected data was organized in tables and then presented in charts. This allowed the researcher to analyze the data, come to a conclusion, and provide recommendations.

*Data analysis:* With reference to research design approaches. A comparative narrative analysis was undertaken on the aforementioned countries with particular emphasis on entrepreneurship ecosystem. This method is suitable for case study analysis at multiple levels. The comparison analysis allows the researcher to compare the progress and provide justification per case, with strong tie to economic and financial performances, as part of entrepreneurship ecosystem adoption at different countries under consideration. Furthermore, a descriptive analysis for each pillar of Omani entrepreneurship ecosystem and the components of these pillars was implemented. This analysis provides indication about the progress on each pillar in Omani entrepreneurship ecosystem and to assess its level in comparison with its value in these levels. Similarly, such analysis was carried out and compared with each pillar

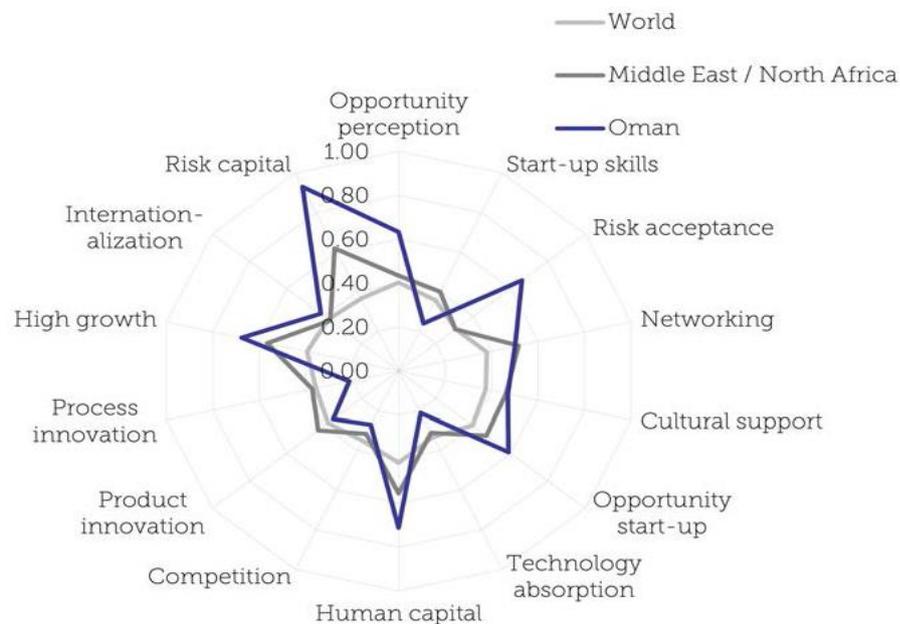
of Omani entrepreneurship ecosystem against Saudi Arabia and Malaysia. For instance, a comparison with the average level of each pillar on the world and MENA region provides good indicators about the level of the strengths of the pillar in Oman. Furthermore, a comparison with other economies as a benchmark was made in order to have accurate assessment for Omani entrepreneurship ecosystem that is why a comparison with both Saudi Arabian and Malaysian entrepreneurship ecosystems is carried out.

#### 4. Entrepreneurship Ecosystem of Sultanate of Oman

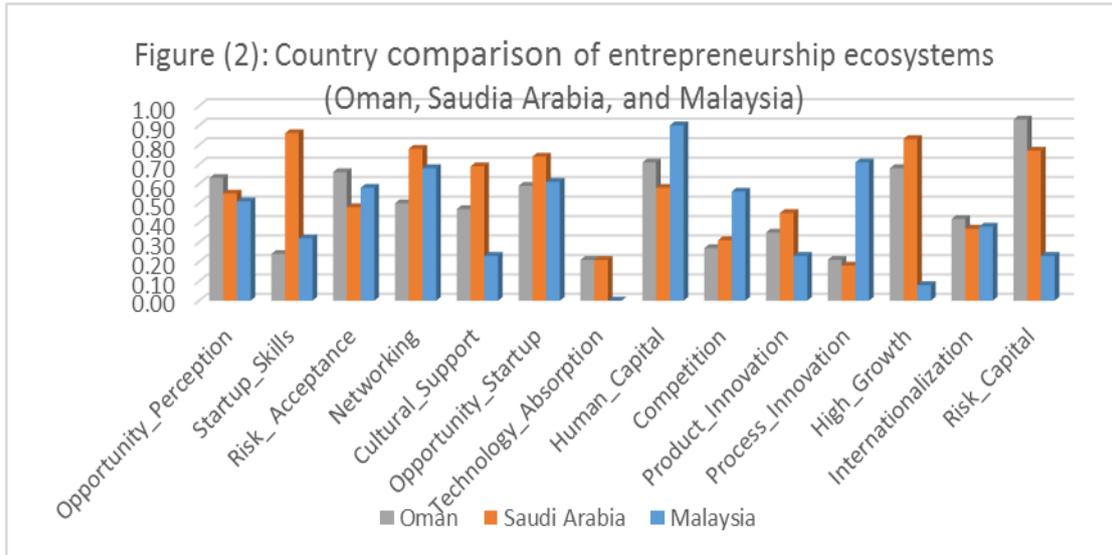
This section includes implementing GEDI approach on Oman economy to assess each pillar of entrepreneurship ecosystem of Sultanate of Oman. As per GEDI approach, the entrepreneurship ecosystem is assessed via Global entrepreneurship Index (GEI). GEI consists of three sub-indices. First is Attitudes sub-index, its pillars are: Opportunity perception; Start-up Skills; Risk Acceptance; Networking; and Cultural Support. Second component is Abilities Sub-Index, which consists of the following four pillars; they are Opportunity Start-up; Technology Absorption; Human Capital; and Competition. Third sub-index is Aspiration Sub-Index, it has five pillars: Product Innovation; Process Innovation; High Growth; Internationalization; and Risk Capital.

A comparison between GEI Omani indices 2017 with world and MENA indices are shown in figure (1), while figure (2) represents a comparison between GEI 2017 for Oman, Saudi Arabia, and Malaysia.

Figure (1): Omani entrepreneurship ecosystem: A comparison with world and MENA indices (2017)



Source: Zoltán J., et al., (2017), “The Global Entrepreneurship Index”, USA: Global Entrepreneurship and Development Institute.

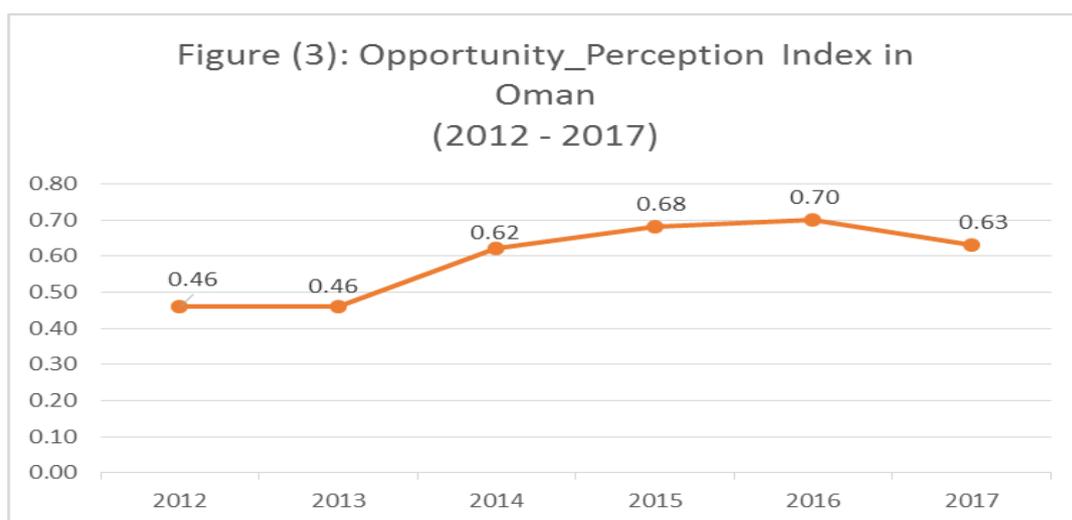


Source: Zoltán J., et al., (2017), “The Global Entrepreneurship Index”, USA: *Global Entrepreneurship and Development Institute*.

#### 4.1 Entrepreneurial Attitudes Pillars in Oman

##### Pillar 1: Opportunity Perception

This pillar captures the potential “opportunity perception” of a population by considering the state of property rights and the regulatory burden that could limit the real exploitation of the recognized entrepreneurial opportunity. (Zoltán J., et al., 2017). The opportunity perception index for Oman increased from 0.46 in 2012 to reach its peak (0.70) in 2016, then it dropped to be 0.63 in 2017 (Figure 4). The level of opportunity perception in Oman is higher than the world average level and the MENA level as well (Figure 1). Moreover, it is higher than its level in both Saudi Arabia and Malaysia (Figure 2).



Source: Zoltán J., et al., (various issues), The Global Entrepreneurship Index, USA: *Global Entrepreneurship and Development Institute*.

This increase in opportunity perception index is resulted from increase in the components of this index (opportunity recognition, economic freedom and property rights).

Opportunity recognition is measured by the percentage of the population that can identify good opportunities to start a business in the area where they live; the value of these opportunities also depends on the size of the market. Market size is the sum of gross domestic product plus value of imports of goods and services, minus value of exports of goods and services. (Zoltán J., et al., 2017)

Table no (2) Domestic market size index for Oman (2011 – 2015)

year	Rank	Index value (out of 7)
2015	68	3.8
2014	73	3.6
2013	78	3.3
2012	78	3.2
2011	75	3.2

Source: World Economic Forum, *The Global Competitiveness Report*, various issues.

The market size index for Oman increased from 3.2 in 2011 to 3.8 (out of 7) in 2015. The rank of Oman market size improved from 75 in 2011 to 68 in 2015. This reflects expansion in Oman market size, which improves the opportunity perception for Oman.

Freedom is vital for individuals to become entrepreneurs. Economic freedom captures the overall burden of regulation and the government’s regulatory efficiency in influencing businesses startups and operations. Business freedom is a quantitative measure of the ability to start, operate, and close a business. That represents the overall burden of regulation and the efficiency of government in the regulatory process. (Bjørnskov, C., & Foss, N., 2010). The value of Omani business freedom index is around 70, which reflects high level of economic freedom (Table 3).

Table (3) Business freedom index in Oman (2011-2016)

index year	business freedom index
2016	70.1
2015	68.4
2014	68.3
2013	68.1
2012	68.2
2011	69.4

Source: World Bank. (n.d.). Retrieved from: <http://www.heritage.org/index/explore?view=by-region-country-year#top>

Property rights: “enforced property rights guarantee that individuals have the right to harvest the fruits of successful opportunity exploitation and no one is confiscating or stealing their property or business”. (Bhola, R. et. al., 2006).

The property rights component is an assessment of the ability of individuals to accumulate private property, secured by clear laws that are fully enforced by the state. It measures the degree to which a country's laws protect private property rights and the degree to which its government enforces those laws.

Oman implements its obligations under those treaties through a number of Royal Decrees made in 2000 on patents, copyrights and neighbouring rights, trademarks and unfair competition, industrial designs, geographical indications and semiconductor topographies. Royal Decree No. 65/2008 Promulgating the Law on Copyright and Related Rights and its law on industrial property rights by Royal Decree No 67/2008 has supplemented the Sultanate's copyright law. (NIPC Gulf) Moreover, Oman signed many Treaties related to intellectual property rights (TRIPs, Intellectual Property Law in Kuwait, the GCC Patent Regulation and Implementing Bylaws, Oman is also party to the Paris and Berne Conventions, the WIPO Copyright and Performances and Phonograms Treaties, the Patent and Trademark Law Treaties, the UPOV Convention and the Patent Co-operation Treaty, Madrid Protocol and Hague]. Hence, the level of property rights in Oman is high.

Table (4) property rights index for Oman (2011-2016)

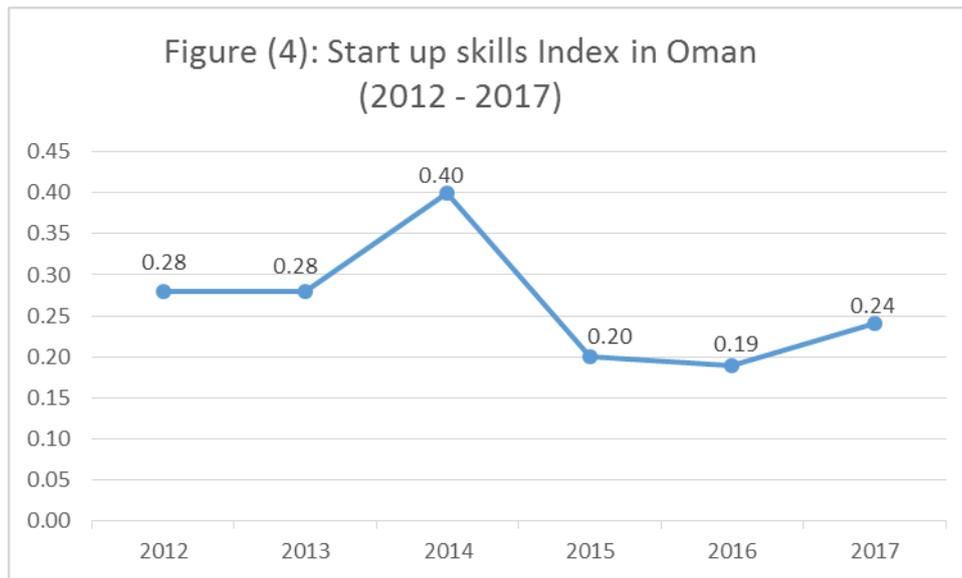
index year	property rights
2016	55
2015	55
2014	50
2013	50
2012	50
2011	50

Source: World Bank. (n.d.). Retrieved from: <http://www.heritage.org/index/explore?view=by-region-country-year#top>

Omani property rights index increased to be 55 since 2015 instead of 50 in the prior years.

## **Pillar 2: Startup Skills**

Business formation, operation, and management, require skills which are acquired through education and training. Hence, education, especially postsecondary education, plays a vital role in teaching and developing entrepreneurial skills. (Zoltán J., et al., 2017)



Source: Zoltán J., et al., (various issues), The Global Entrepreneurship Index, USA: *Global Entrepreneurship and Development Institute*.

Although that start-up skills index in Oman increased from 0.28 in 2012 to 0.40 in 2014, it dropped to be 0.20 in 2015 and increased slightly to be 0.24 in 2017.

Start-up skills index for Oman is lower than the average of MENA and lower than the average of the world as well (Figure 1). Moreover, Start-up skills index for Oman 2017 is lower than the same index for Saudi Arabia, and lower than the same index for Malaysia (Figure 2).

Table no (5) Quality of education Indicators of Oman (2011 – 2015)

Indicator	Tertiary education enrollment rate (gross)		Quality of the education system		Quality of math and science education	
	Indicator value	Rank	Indicator value (out of 7)	Rank	Indicator value (out of 7)	Rank
2015	28.6%	87	3.6	80	3.7	89
2014	28.1%	82	3.1	106	3.3	102
2013	28.1%	83	3.5	81	3.6	95
2012	28.7%	80	4.0	53	3.9	87
2011	24.5%	83	3.9	60	3.7	86

Source: World Economic Forum, *The Global Competitiveness Report*, various issues.

Table no (5) represents the Tertiary education enrollment rate gross, Quality of the education system, and Quality of math and science education. The Tertiary education enrollment rate gross increased from 24.5% in 2011 to 28.7% in 2012 and still at the same level until 2015. Quality of the education system index fluctuated between 3.1 and 4.0 (out of 7.0) through 2011 – 2015. Quality of math and science education fluctuated between 3.3 and 3.9 (out of 7.0) through the same period.

Furthermore, the higher education does not include –up until now- awareness for students about entrepreneurship. In this regard, The Ministry of Higher Education decided to offer entrepreneurship course as one of university/college requirements,

which will start in implementation by the beginning of (2017-2018) academic year. This may increase students' awareness about entrepreneurship, which, in turn will increase the level of start-up skills from Omani population.

On the other hand, although that many higher education programmes in Oman are business programmes, only one of them is a bachelor degree in entrepreneurship and it is a new offered programme.

The start-up skills are influenced by the efforts of institutions, which stimulate entrepreneurs and support them while managing their businesses. The effort of these institutions is still limited, for example, Al Raffd Fund, which was founded in 2013 as a financial organization aimed to support, encourage and promote the entrepreneurial growth and advancement among the citizens of Sultanate of Oman, has only 65 beneficiaries. Table no. (5) Shows the number of beneficiaries from Al Raffad classified by sector.

Table no (6) Beneficiaries of Al Raffad Fund per sectors

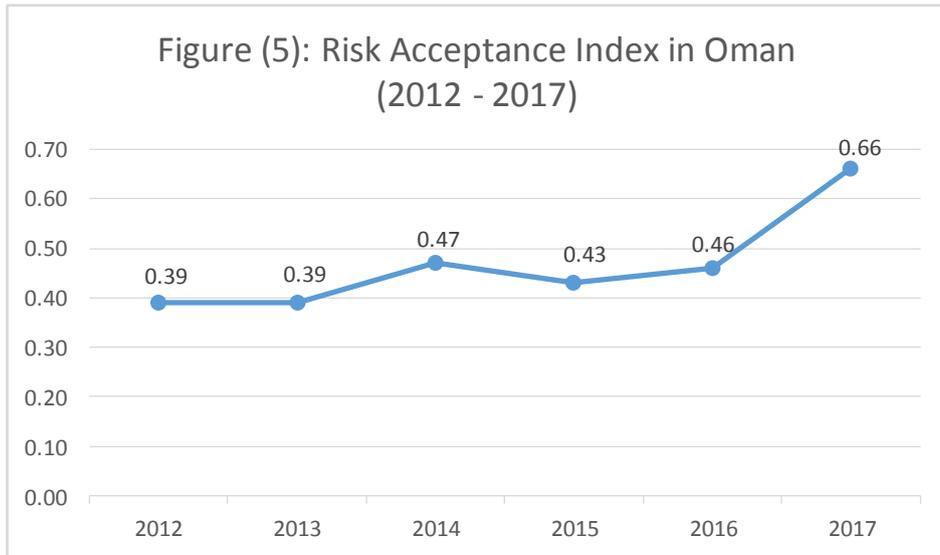
S/N	Sector	Number of beneficiaries	Percentage (%)
1	Agriculture and Fisheries Sector	1	1.5
2	Commercial	14	21.5
3	Health	2	3.0
4	Industrial	12	18.5
5	Logistic service	1	1.5
6	Selling and distribution	1	1.5
7	Services sector	21	32.3
8	Telecommunications	1	1.5
9	Tourism Sector	1	1.5
10	Trade Sector	11	16.9
Total		65	100.0

Source: By the researched, using the data of Al Raffad fund. Al Raffad. (n.d.). Retrieved from <https://www.alraffd.gov.om/Beneficiary.aspx?ID=5&PID=0>

Another authority is “The Public Authority for Small & Medium Enterprises Development” (Riyada) was established as the Public Authority for Small & Medium Enterprises Development as per Royal Decree No. 36/2013 has 100 beneficiaries.

### **Pillar 3: Risk Acceptance**

Fear of failure is one of the most important obstacles in a startup. Risk acceptance is defined, as the percentage of the population who do not believe that fear of failure would prevent them from starting a business. (Vieider et al., 2015)



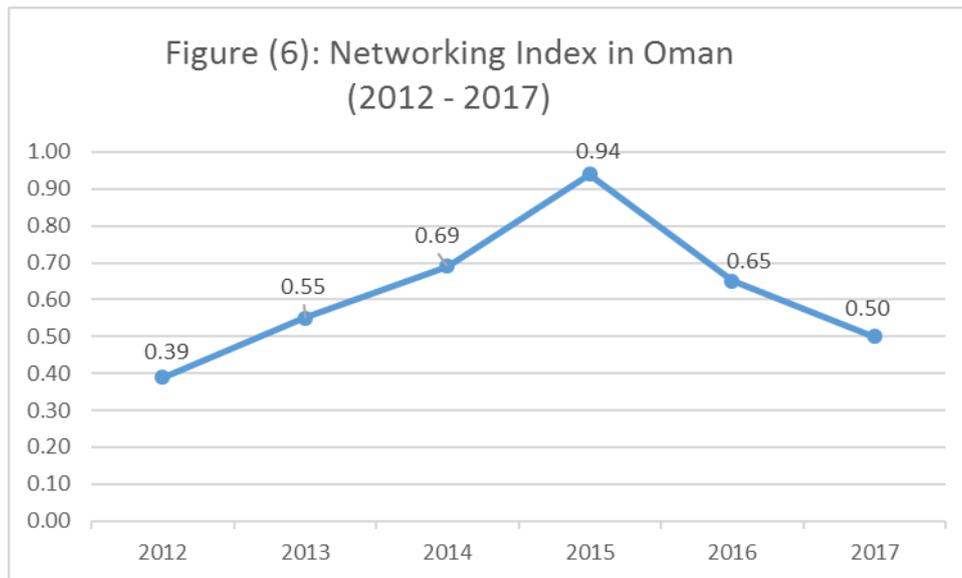
Source: Zoltán J., et al., (various issues), The Global Entrepreneurship Index, USA: *Global Entrepreneurship and Development Institute*.

Risk acceptance index for Oman increased from 0.39 in 2012 to reach 0.66 (in average 14% annual growth rate). The risk acceptance index 2017 in Oman is higher than the average of MENA and higher than the average of the world as well (Figure 1). Moreover, the value of the same index for Oman is higher than its value in Saudi Arabia and Malaysia in 2017 (Figure 1).

Risk acceptance is related to a country's risk. Country risk index is composed of transfer and convertibility risk (i.e. the risk a government imposes capital or exchange controls that prevent an entity from converting local currency into foreign currency and/or transferring funds to creditors located outside the country) and cases of force majeure (e.g. war, expropriation, revolution, civil disturbance, floods, earthquakes). As per OECD risk classification for countries, Oman is classified as a country with a lower country risk. (OECD)

#### **Pillar 4: Networking**

Networking combines an entrepreneur's personal knowledge with their ability to connect to others in a country and the whole world. Entrepreneurs who have better networks are more successful, can identify more viable opportunities, and can access more and better resources.



Source: Zoltán J., et al., (various issues), The Global Entrepreneurship Index, USA: *Global Entrepreneurship and Development Institute*.

Networking index for Oman increased from 0.39 in 2012 to reach its maximum (0.94) in 2015, then it decreased to reach 0.50 in 2017.

The networking index 2017 for Oman is close to the average of MENA and higher than its value for the world (Figure 1). The value of the same index for Oman is lower than its value in Saudi Arabia and Malaysia in 2017 (Figure 2).

A possible entrepreneur defines the basic networking potential by the percentage of the population who personally know an entrepreneur who started a business within two years. The connectivity variable has two components: Urbanization, which measures the urbanization of the nation, and the Infrastructure, which measure the quality of the transport infrastructure. (Audretsch et al., 2015)

Table no. (7) Shows that the level of urbanization index in Oman is high, its value is 75.7 in 2011 and increased slightly to be 77.7 in 2015.

Table (7) Urbanization index of Oman (2011 – 2015)

Year \ Indicator	Urbanization index
2015	77.7
2014	77.2
2013	77.0
2012	76.2
2011	75.7

Source: World Bank. Retrieved from <http://databank.worldbank.org/data/reports.aspx?source=2&series=SP.URB.TOTL.IN.ZS&country=#>

Data about the quality of transport infrastructure in Oman is not available. However, there is an improvement in air transportation in Oman result from

establishing new airports and new Omani economy airlines (Al Salam airlines) as well.

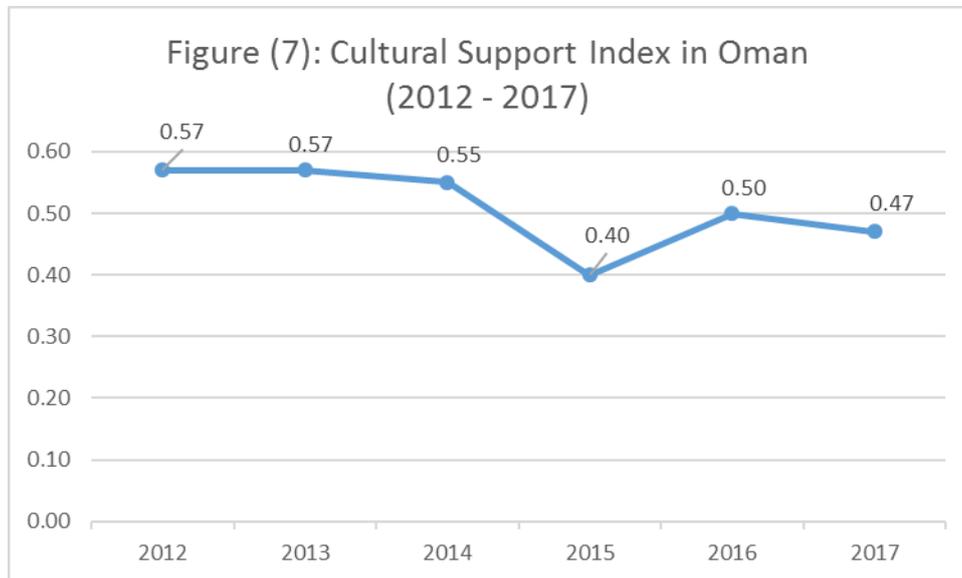
Muscat International and Salalah International Airport including three regional airports are under development. The new Muscat International Airport will have capacity to handle 12 million passengers per annum and the new Salalah International will able to handle one million passengers per annum. Both of them will be completed in the coming few years. (OAMC)

Salam Air has proposed low-cost carrier. Oman's Public Authority for Civil Aviation granted ASAAS a new air services operator license in Jan-2016 to establish the country's first LCC. The carrier would support Oman's air traffic demand, which is expected to increase by 40% by 2019. (CAPA)

It is expected that these two factors will improve the level of networking for Oman.

### Pillar 5: Cultural Support

Cultural support is an essential element in motivating people to be entrepreneurs. Without it, the best and brightest do not want to be responsible entrepreneurs, and they decide to enter a traditional profession. This pillar is a combined measure of how a country's inhabitants view entrepreneurs in terms of status and career choice, and how the level of corruption in that country affects this view.



Source: Zoltán J., et al., (various issues), The Global Entrepreneurship Index, USA: *Global Entrepreneurship and Development Institute*.

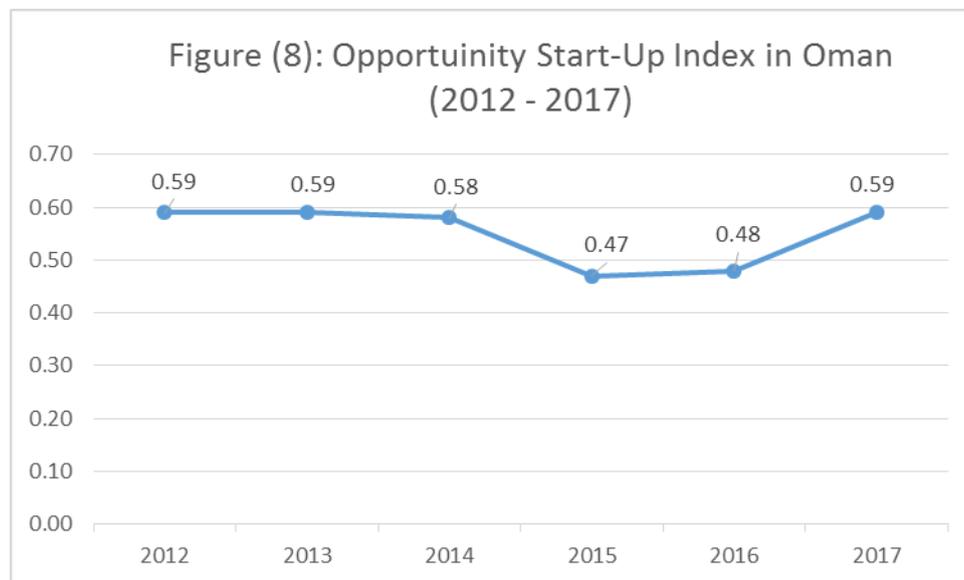
Culture Support index for Oman fluctuated between 0.40 and 0.57 through 2012 – 2017. The 2017 index is close to the average of MENA and higher than the world index (Figure 1). The value of the same index for Oman is lower than its value in Saudi Arabia and higher than Malaysia in 2017 (Figure 2).

## 4.2 Entrepreneurial Abilities Pillars

### Pillar 6: Opportunity Startup

This is a measure of startups by people who are motivated by opportunity but face red tape and tax payment. An entrepreneur's motivation for starting a business is an important signal of quality. Opportunity entrepreneurs are believed to be better prepared, to have superior skills, and to earn more than what we call necessity entrepreneurs.

Opportunity Motivation is defined as the percentage of the Total Entrepreneurial Activity (TEA) businesses started to exploit a good opportunity. The overall effectiveness of the government services is measured by the Good Governance variable and the cost of the governance is by the level of overall. The variable is a combination of these two components, government service quality and costs. (Asoni, A., & Sanandaji, T. 2014)



Source: Zoltán J., et al., (various issues), The Global Entrepreneurship Index, USA: *Global Entrepreneurship and Development Institute*.

Opportunity Start-up index of Oman is almost fixed through 2012–2017. The 2017 index is higher than the average of MENA and higher than the world index as well (Figure 1). The value of the same index for Oman is lower than the index's value in Malaysia (0.61) and also lower than its value in Saudi Arabia (0.74) (Figure 1).

The Governance index consists of sub-indices: Political Stability and Absence of Violence/Terrorism; Government Effectiveness; Regulatory Quality; Rule of Law; and Control of Corruption.

Table (8) Governance sub-indices for Oman (2011 – 2015)\*

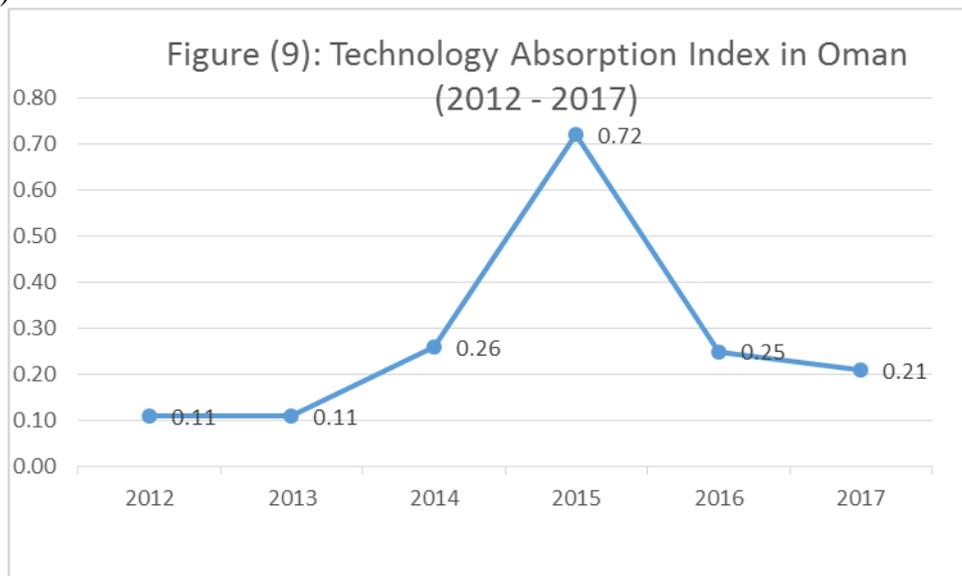
Year	Political Stability	Government Effectiveness	Regulatory Quality	Rule of Law	Control of Corruption
2015	0.69	0.09	0.58	0.46	0.20
2014	0.71	0.29	0.69	0.58	0.25
2013	0.45	0.22	0.48	0.57	0.08
2012	0.45	0.27	0.48	0.59	0.08
2011	0.42	0.27	0.34	0.54	0.00

Source: World Bank. (n.d.). Retrieved from <http://info.worldbank.org/governance/wgi/#home>  
 \* Estimate of governance (ranges from approximately -2.5 (weak) to 2.5 (strong) governance performance)

Table (8) shows that all the sub-indices of governance for Oman are strong for 2015 (All of them are higher than zero), the strongest sub-index Political Stability, the second strongest one is Regulatory Quality, the third sub-index is Rule of Law, the fourth sub-index is Control of Corruption, the fifth sub-index is Government Effectiveness.

### Pillar 7: Technology Absorption

In the modern knowledge economy, information and communication technologies play a major role in economic development. The Technology Level variable is a measure of the businesses that are in technology sectors. The institutional variable, Tech Absorption, is a measure of a country's capacity for firm-level technology absorption. The diffusion of new technology, and the capability to absorb it, is vital for innovative firms with high growth potential. (Garcia-Morales, et. al., 2014)



Source: Zoltán J., et al., (various issues), The Global Entrepreneurship Index, USA: *Global Entrepreneurship and Development Institute*.

Technology absorption index for Oman was 0.11 in 2012 and 2013. It increased until reach 0.72 in 2015 and dropped to be 0.21 in 2017.

Technology absorption index 2017 for Oman index is lower than the average of MENA and lower than the world index (Figure 1). The value of the same index for Oman in 2017 equals the value of the index for Saudi Arabia (Figure 2). (The data for the same index for Malaysia is not available).

Technology absorption is a part of technology readiness. Table no (9) represents some indicators of technology readiness in Oman (2011 – 2015)

Table no (9): Some indices of technology readiness in Oman (2011 – 2015)

	Availability of latest technologies		Firm-level technology absorption		FDI and technology transfer	
	Rank	Index value (out of 7)	Rank	Index value (out of 7)	Rank	Index value (out of 7)
2015	66	4.9	57	4.7	85	4.1
2014	65	4.8	56	4.8	84	4.2
2013	56	5.1	58	4.8	52	4.8
2012	56	5.2	53	5.0	48	4.9
2011	46	5.4	52	5.0	45	4.9

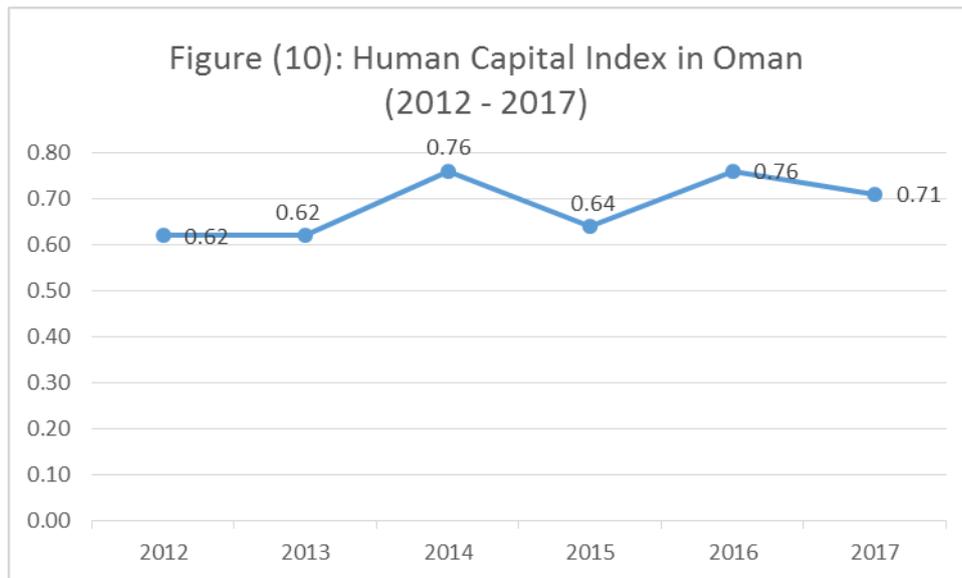
Source: World Economic Forum, *The Global Competitiveness Report*, various issues.

Table (9) shows that the Availability of latest technologies index for Oman dropped from 5.4 in 2011 to be 4.9 in 2015 (The rank also dropped from 46 to 66 for the same years). Firm-level technology absorption index also dropped from 5.0 in 2011 to 4.7 in 2011 (The rank of Oman dropped from 52 to 57 for the same years). FDI and technology transfer index for Oman dropped from 4.9 in 2011 to 4.1 in 2015 (the rank of Oman dropped from 45 to 85 for the same years).

### **Pillar 8: Human Capital**

The prevalence of high-quality human capital is important for ventures that are highly innovative and require an educated, experienced, and healthy workforce to continue to grow.

An important feature of a venture with high growth potential is the entrepreneur's level of education (discussed in star-up skills pillar) and the labor market possibilities which can be illustrate by the institutional variable Labour (Labour freedom and staff training). Labour Freedom measures the freedom of the labour from the regulatory perspective. Staff training is a country's level of investment in business training and employee development. It can be expected that heavy investment in employees pays off and that training increases employee quality. (Qian, 2016)



Source: Zoltán J., et al., (various issues), The Global Entrepreneurship Index, USA: *Global Entrepreneurship and Development Institute*.

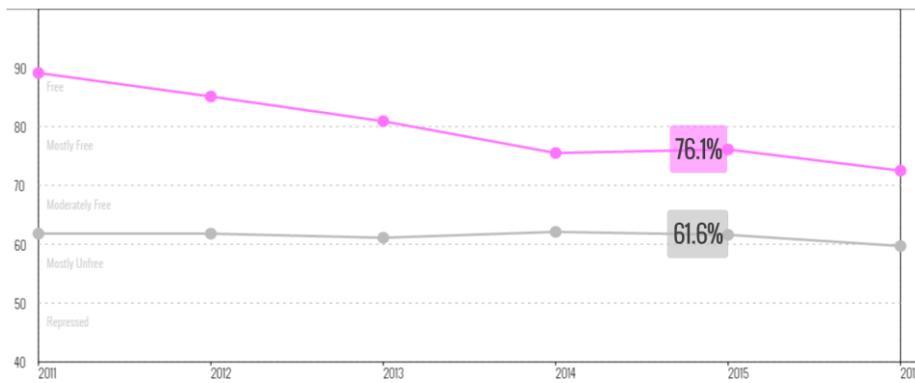
Human Capital index for Oman fluctuated between 0.62 and 0.71 through 2012- 2017. The 2017 index for Oman is higher than the average of MENA and higher than the average of the world as well (Figure 1). The value of the same index for Oman is higher than its value in Saudi Arabia while it is lower than the value of the index for Malaysia (Figure 2).

Table (10) Labour freedom index for Oman (2011-2016)

index year	labor freedom index
2016	72.5
2015	76.1
2014	75.5
2013	80.9
2012	85.1
2011	89.1

Source: World Bank. Retrieved from <http://www.heritage.org/index/explore?view=by-region-country-year>

Figure (11) Labour freedom for Oman vs. the world (2011 – 2016)



Source: World Bank. Retrieved from <http://www.heritage.org/index/visualize?cnts=oman/&src=country>

Although that labour freedom index for Oman dropped from 89.1 in 2011 to 76.1 in 2016, it still classified as a “Mostly free” market as shown in figure (11), which means high level of labour freedom from the regulatory perspective the legal and regulatory framework of a the labor market, including regulations concerning minimum wages, laws inhibiting layoffs, severance requirements, and measurable regulatory restraints on hiring and hours worked.

Table no (11) Staff Training index for Oman (2011 – 2015)

year	Rank	Index value (out of 7)
2015	49	4.2
2014	68	4.0
2013	49	4.3
2012	33	4.5
2011	34	4.4

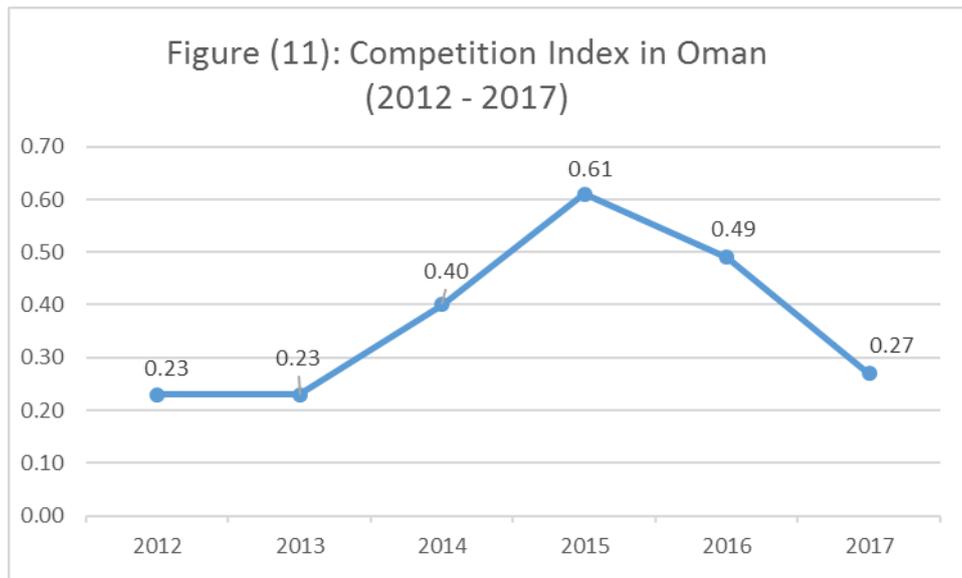
Source: World Economic Forum, *The Global Competitiveness Report*, various issues.

Staff Training index for Oman fluctuates between 4.0 and 4.5 through 2011-2015. This reflects stability in the level of Omani investment in training and employee development.

## Pillar 9: Competition

Competition is a measure of a business’s product or market uniqueness, combined with the market power of existing businesses and business groups and the effectiveness of anti-monopoly regulation.

The Competition institutional variable is the combination of Regulation and Market Dominance. The extent of market dominance by a few business groups is measured by the variable Market Dominance while the effectiveness of the regulatory bodies (Regulation) could also influence the level of competition in a country. (Calcagno & Sobel, 2014)



Source: Zoltán J., et al., (various issues), *The Global Entrepreneurship Index*, USA: *Global Entrepreneurship and Development Institute*.

Competition index for Oman increased from 0.23 in 2012 to reach its maximum (0.61) in 2015, and then it decreased to reach 0.27 in 2017.

Competition index for Oman is lower than the average of MENA and lower than the average of the world as well (Figure 1). Moreover, competition index for Oman 2017 is lower than the same index for Saudi Arabia, and lower than the same index for Malaysia (Figure 2).

Market regulation is measured by the effectiveness of anti-monopoly policy index. Table (12) shows the value of this index for Oman dropped from 4.7 in 2011 to 3.7 in 2015.

Table no (12) Effectiveness of anti-monopoly policy index for Oman (2011 – 2015)

year	Rank	Index value (out of 7)
2015	61	3.7
2014	90	3.6
2013	49	4.3
2012	19	4.9
2011	28	4.7

Source: World Economic Forum, *The Global Competitiveness Report*, various issues.

Table no (13) Market Dominance index for Oman (2011 – 2015)

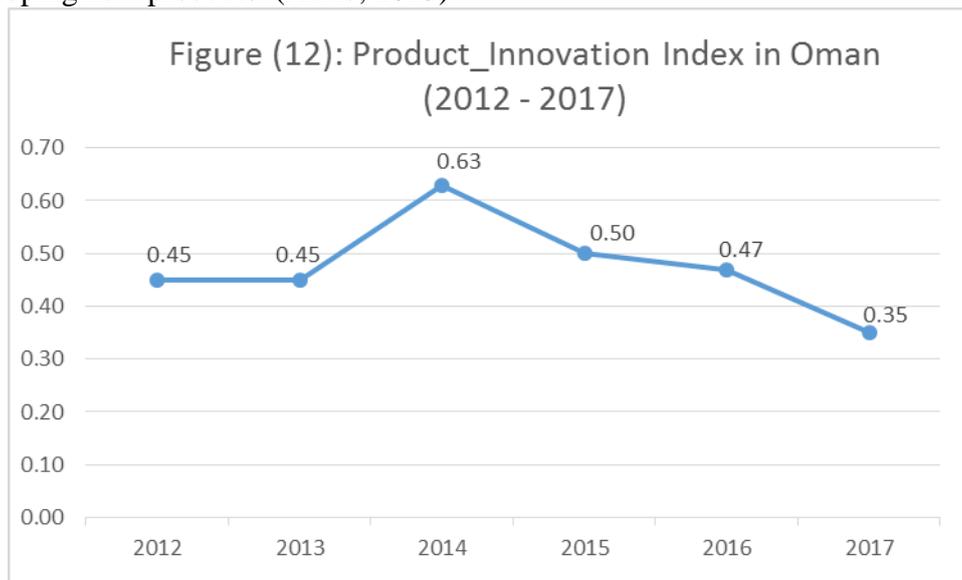
year	Rank	Index value (out of 7)
2015	110	3.2
2014	123	3.0
2013	80	3.6
2012	45	4.1
2011	61	3.8

Source: World Economic Forum, *The Global Competitiveness Report*, various issues.

### 4.3 Entrepreneurial Aspirations Pillars

#### Pillar 10: Product Innovation

Product Innovation is a measure of a country is potential to generate new products and to adopt or imitate existing products. In order to quantify the potential for new product innovation, an institutional variable related to technology and innovation transfer seems to be relevant. Technology Transfer is a complex measure of whether a business environment allows the application of innovations for developing new products. (Autio, 2015)



Source: Zoltán J., et al., (various issues), *The Global Entrepreneurship Index*, USA: *Global Entrepreneurship and Development Institute*.

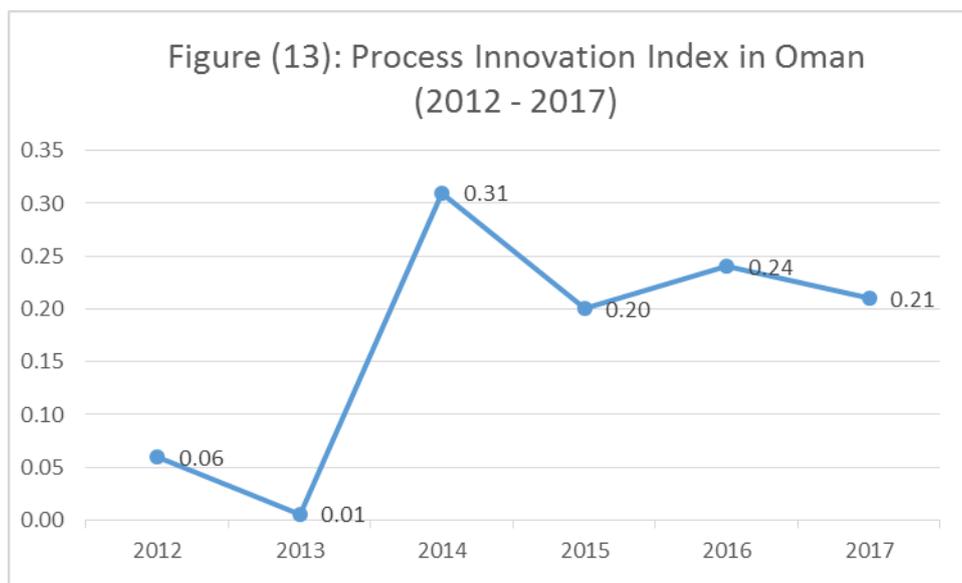
Product Innovation index for Oman increased from 0.45 in 2012 to reach its maximum (0.63) in 2014, and then it decreased to reach 0.35 in 2017.

Product Innovation index for Oman is lower than the average of MENA and lower than the average of the world as well (Figure 1). The index for Oman 2017 is lower than the same index for Saudi Arabia, and higher than the same index for Malaysia (Figure 2).

Table (8) shows that the FDI and technology transfer index for Oman dropped from 4.9 in 2011 to 4.1 in 2015. Moreover, the rank of Oman for this index dropped from 45 to 85 for the same years.

**Pillar 11: Process Innovation**

Applying and/or creating new technology is an important feature of businesses with high-growth potential. Many businesses in developing countries may apply the latest technology through buying or copying it. The process innovation index is a combination of research and development (R&D), the quality of scientific institutions in a country (Scientific Institutions) and the availability of scientists and engineers (Availability of Scientist). (Audretsch. et al., 2014).



Source: Zoltán J., et al., (various issues), The Global Entrepreneurship Index, USA: *Global Entrepreneurship and Development Institute*.

Process Innovation index increased from 0.01 in 2013 to 0.31 in 2014. Then it fluctuated between 0.20 and 0.24 through 2015 – 2017. Process Innovation index 2017 for Oman is lower than the average of MENA and lower than the average of the world as well (Figure 1). Process Innovation index 2017 for Oman is higher than the index for Saudi Arabia. The value of the index for Malaysia is 340% higher than its value for Oman (Figure 2).

Table (14) Gross Domestic Expenditure on Research and Development in Oman (2011 – 2013)

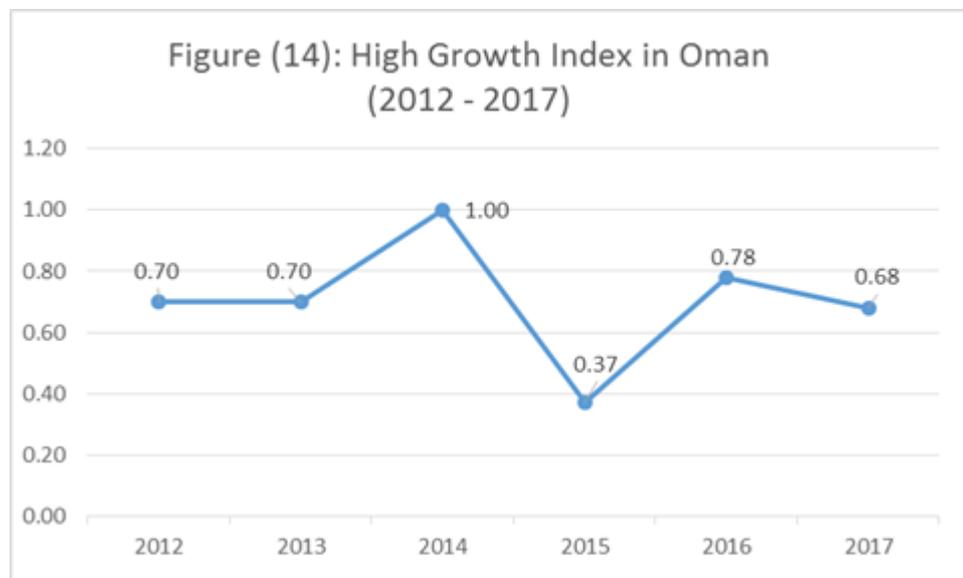
year	Oman % of GDP	Arab States % of GDP	World % of GDP
2013	0.171	0.3	1.7
2012	0.209	0.27	1.68
2011	0.136	0.27	1.65

Source: UNESCO. (n.d.). Retrieved from <http://data.uis.unesco.org/?ReportId=2656>

Table (14) shows that the percentage of Gross Domestic Expenditure on Research and Development in Oman is about 10% of the average percentage for the world and lower the average percentage for the Arab states.

**Pillar 12: High Growth**

High Growth is a combined measure of the percentage of high-growth businesses that intend to employ at least 10 people and plan to grow more than 50 percent in five years (Gazelle variable) with business strategy sophistication (Business Strategy variable) and venture capital financing possibility (Venture Capital). It might be argued that a shortcoming of the Gazelle variable is that growth is not an actual but an expected rate. Business Strategy refers to “the ability of companies to pursue distinctive strategies, which involves differentiated positioning and innovative means of production and service delivery.” High Growth combines high growth potential with a sophisticated strategy and growth specific venture capital finance. (Wright & Stigliani, 2013).



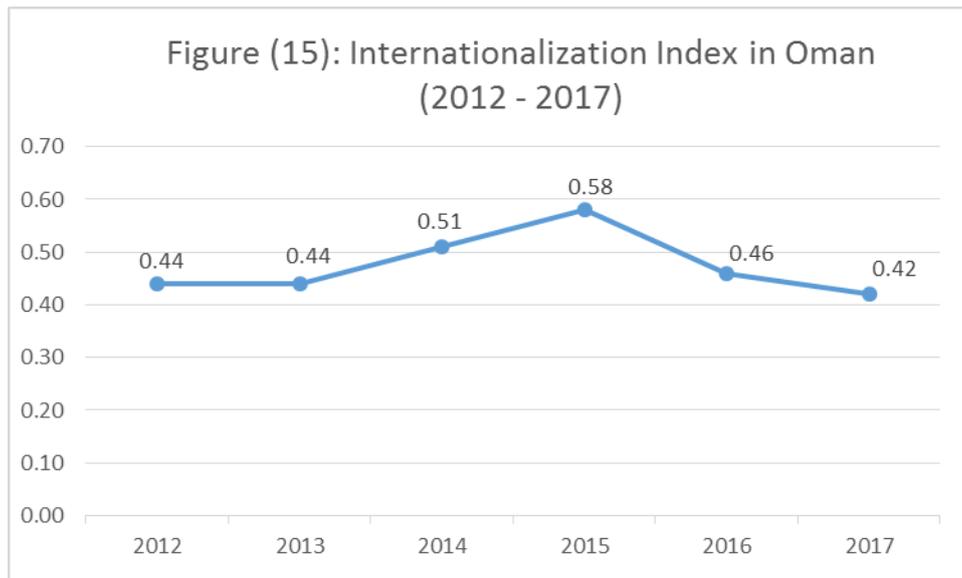
Source: Zoltán J., et al., (various issues), The Global Entrepreneurship Index, USA: *Global Entrepreneurship and Development Institute*.

High Growth index for Oman increased from 0.70 in 2012 to reach its maximum in 2014, and then it fluctuated until reach 0.68 in 2017.

High Growth index 2017 for Oman is higher than the average of MENA and higher than the average of the world as well (Figure 1). High Growth index for Oman 2017 is lower than the same index for Saudi Arabia, and higher than the same index for Malaysia (Figure 2).

**Pillar 13: Internationalization**

The internationalization pillar is designed to capture the degree to which a country’s entrepreneurs are internationalized, as measured by the exporting potential of businesses, controlling for the extent to which the country is able to produce complex products.



Source: Zoltán J., et al., (various issues), *The Global Entrepreneurship Index*, USA: *Global Entrepreneurship and Development Institute*.

Internationalization index for Oman increased from 0.44 in 2012 to reach its maximum (0.58) in 2015, and then it decreased to reach 0.42 in 2017.

Internationalization index for Oman 2017 is higher than the average of MENA and higher than the average of the world as well (Figure 1). The Internationalization index for Oman 2017 is higher than the same index for Saudi Arabia, and higher than the same index for Malaysia as well (Figure 2).

Oman is the 57th largest export economy in the world and the 68th most complex economy according to the Economic Complexity Index (ECI). In 2014, Oman exported \$49.9B and imported \$31.1B, resulting in a positive trade balance of \$18.8B. In 2014, the GDP of Oman was \$81.8B and its GDP per capita was \$38.6k.

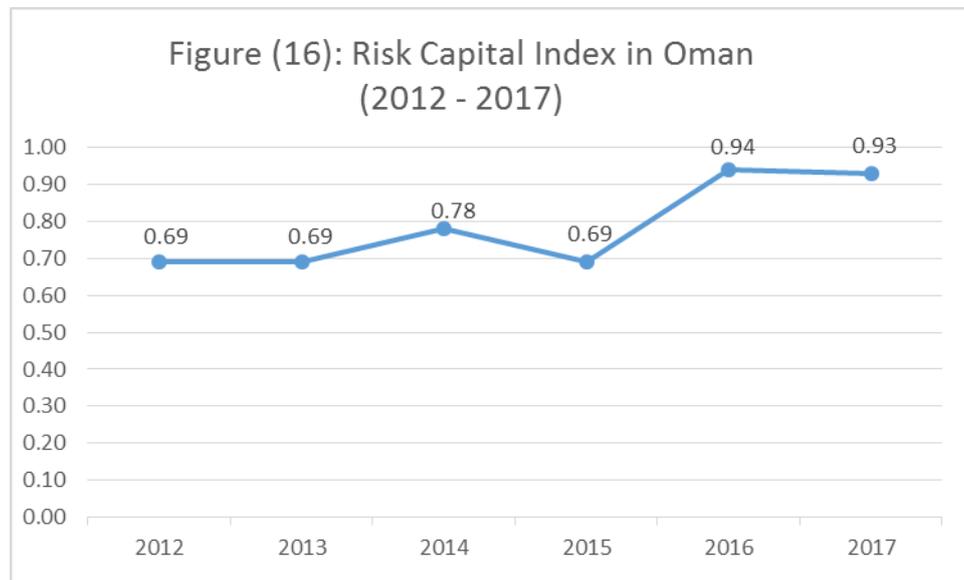
The top exports of Oman are Crude Petroleum (\$31.3B), Petroleum Gas (\$5.77B), Refined Petroleum (\$2.72B), Cyclic Hydrocarbons (\$1.21B) and Nitrogenous Fertilizers (\$745M). Oman top imports are Cars (\$4.34B), Refined Petroleum (\$1.63B), Delivery Trucks (\$950M), Iron Ore (\$932M) and Vehicle Parts (\$555M).

The top export destinations of Oman are China (\$23.2B), South Korea (\$4.51B), Other Asia (\$3.81B), Japan (\$3.71B) and the United Arab Emirates (\$2.02B). The top import origins are the United Arab Emirates (\$9.4B), Japan (\$3.59B), China (\$1.62B), the United States (\$1.49B) and India (\$1.36B). (Observatory of Economic Complexity).

#### **Pillar 14: Risk Capital**

The availability of risk finance, particularly equity rather than debt, is an essential precondition for fulfilling entrepreneurial aspirations that are beyond an

individual entrepreneur’s personal financial resources. This index is a combine of two sub-indices: informal investment and the institutional depth of capital market (DCM).



Source: Zoltán J., et al., (various issues), The Global Entrepreneurship Index, USA: *Global Entrepreneurship and Development Institute*.

Risk capital index for Oman increased from 0.69 in 2012 to reach 0.93 in 2017. Internationalization index for Oman 2017 is higher than the average of MENA and higher than the average of the world as well (Figure 1). Moreover, The Internationalization index for Oman 2017 is higher than the same index for Saudi Arabia, and higher than the same index for Malaysia (Figure 2).

## 5. Discussion

The Omani entrepreneurship ecosystem pillars are analysed Using Global Entrepreneurship index (GEI) to explore the strengths and weakness pillars in the system. GEI for Oman from 0.37 in 2012 to be 0.44 in 2017, which reflect improvement in Omani entrepreneurship ecosystem as a whole. This improvement is generated from the improvement in many pillars (Sub-systems) in Omani entrepreneurship ecosystem, although some pillars worsened.

### Opportunity Perception:

Opportunity Perception is one of strengths pillars in Omani entrepreneurship ecosystem. This strengthen is resulted from the high level of: Opportunity recognition and market size, freedom, and implementing more regulations and laws, which increase the property rights in Oman.

### Start-up:

Start-up pillar in Oman is one of weaknesses pillars. This is resulted from the low position of Oman in the international rank for Tertiary education enrollment rate, Quality of the education system, and Quality of math and science education.

The main reason of the low level of start-up pillar is that the efforts, which are taken to push this pillar up, are recently taken. The entrepreneurship course in the universities and colleges will be applied by (2017-2018) academic year and the Bachelor degree in entrepreneurship is only one degree for the whole Sultanate and newly offered. Furthermore, the institutions, which are responsible for stimulating entrepreneurs to start their own businesses, have started few years ago (since 2013), so their influence in the entrepreneurship ecosystem will be seen by time.

### **Risk Acceptance**

Risk acceptance is one of strengths pillars in Omani entrepreneurship ecosystem. Moreover, the value of GEI Risk acceptance index growth rate was 14% in average through 2012 to 2017. This reflects a lower level of business constraints in Oman, as there are no capital or exchange controls, which prevent an entity from converting local currency into foreign currency and/or transferring funds to creditors located outside, and there are no cases of force majeure. Moreover, the risk classification for Oman is at a lower level.

**Networking:** Although that networking indicator in Oman dropped from 2015 to 2017. This reduction is resulted from data unavailability about the quality of transport infrastructure.

By analysing the individual data of urbanization in Oman, the networking level is high and stable which reflects that Omani governances and willayate become larger as more people begin living and working in central area.

Although that the data about the quality of transport infrastructure is not available. The Omani networking will significantly improve as a result of establishing new airports and new Omani economy airlines (Al Salam airlines) as well.

**Cultural Support** is related mainly to the society view to entrepreneurs. The level of this pillar is in the middle level, it can be improved via dissemination of entrepreneurship for the population through the educational institutions and the media.

**Opportunity Start-up** in Oman is one of the strengths pillars. This is resulted from high level of governance in Oman. All the sub-indices of governance for Oman are strong for 2015. The strongest sub-index Political Stability, the second strongest one is Regulatory Quality, the third sub-index is Rule of Law, the fourth sub-index is Control of Corruption, and the fifth sub-index is Government Effectiveness.

The high level of these sub-indicators reflects a higher level of opportunity, which stimulates for population to start-up their own business.

### **Technology Absorption**

Technology absorption pillar is one of weaknesses pillars in Omani entrepreneurship ecosystem. This low level of technology absorption is generated from the low level of technology readiness (Availability of latest technologies, Firm-level technology absorption, and FDI and technology transfer).

## **Human Capital**

Human Capital pillar is one of strengths pillars for Oman. This reflects High level education, mostly freedom of the labour market from the regulatory perspective the legal and regulatory framework of a the labor market, including regulations concerning minimum wages, laws inhibiting layoffs, severance requirements, and measurable regulatory restraints on hiring and hours worked, and a stability in the level of Omani investment in training and employee development.

## **Competition**

Competition pillar is one of weaknesses of Oman entrepreneurship ecosystem. The main reason of this is mainly that the market is controlled by a low number of business groups and in turn, low level of market dominance index for Oman.

## **Product Innovation**

Product Innovation pillar is one of weaknesses pillars of Oman entrepreneurship ecosystem. This reflects a lower potential of Oman to generate new products and to adopt or imitate existing products. The main reason of this is the lower level of technology transfer to Oman.

## **Process Innovation**

Process Innovation pillar is one of weaknesses pillars of Oman entrepreneurship ecosystem. This is resulted from lower expenditure on R&D and lower availability of scientists and engineers.

## **High Growth**

High Growth is one of strengths pillars in Oman. This reflects the high ability of Omani companies to pursue distinctive strategies, which involves differentiated positioning and innovative means of production and service delivery.

## **Internationalization**

Internationalization is one of strengths pillars in Oman. This reflects that exporting potential for Omani businesses is high.

## **Risk Capital**

Risk capital is one of strengths pillars in Oman. The capital risk index for Oman increased strongly between 2012 and 2017. This reflects an increase in: i) percentage of informal investors in the population age 18-64, ii) the size and liquidity of the stock market, and iii) the level of debt and credit market activity.

## 6. Conclusion

The purpose of this paper was to analyse pillars of Omani entrepreneurship ecosystem to identify the areas of strengths and weaknesses, which address the following research question “What are the strengths and weaknesses pillars in Omani entrepreneurship ecosystems?”

Omani entrepreneurship ecosystem has strengths in eight pillars: Opportunity Perception, Risk Acceptance, Networking, Opportunity Start-up, Human Capital, High Growth, Internationalization, and Risk Capital. Culture Support is a medium level pillar in Omani entrepreneurship ecosystem. There are 5 pillars that represent weaknesses in Omani entrepreneurship ecosystem namely Startup Skills, Technology Absorption, Competition, Product Innovation, and Process Innovation. Table no. (12) shows the level of strengths for each pillar in Omani entrepreneurship ecosystem.

Omani entrepreneurship has weaknesses in three areas: The first area is related to the entrepreneurs’ start-up, the second area is related to the technological aspects even related to technology absorption or the innovation, the third area is the competition, which Omani entrepreneurs may face in the markets.

Table (12) the level of strengths level for each pillar in Omani entrepreneurship ecosystem

Global Entrepreneurship Index													
Attitudes Sub-Index				Abilities Sub-Index				Aspiration Sub-Index					
Opportunity perception	Start-up Skills	Risk Acceptance	Networking	Cultural Support	Opportunity Start-up	Technology Absorption	Human Capital	Competition	Product Innovation	Process Innovation	High Growth	Internationalization	Risk Capital

	Strong Pillar
	Medium Pillar
	Weak Pillar

More research can be carried out in the same field through implementing survey techniques to collect data from Omani entrepreneurs and assess the Omani entrepreneurship ecosystem pillars from the entrepreneurs’ perspective.

## RECOMMENDATIONS

- The implementation of entrepreneurship course as one of university/college requirements to increase students' awareness about entrepreneurship.
- Offer more higher education programmes in entrepreneurship specialization.
- Disseminate the awareness for entrepreneurship for the Oman population through the media institutions.
- Improve the level of technology readiness for Oman ventures.
- Decrease the high market dominance in Oman.
- Improve the technology transfer process to Omani firms.
- Increase the expenditure on R&D in Oman and increase the availability of scientists and engineers.

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## Attitude of Female Students Towards Entrepreneurship in Sultanate of Oman

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### Abstract

Entrepreneurship is a burgeoning area of research worldwide. Entrepreneurship development today has assumed great significance as it is a key to economic development. While the Global Entrepreneurship Monitor (GEM) project shows that women in most countries are starting ventures at a lower rate than men. Entrepreneurship is considered as engine of economic growth that plays a great role in the economic growth and development of the country, more so in a rapidly developing country like Sultanate of Oman. The objectives of the study are to assess the attitudes and perceptions towards women entrepreneurship among students in higher education institutions in Muscat, Sultanate of Oman and make suggestions on how to strengthen entrepreneurship amongst women. The data for this research was collected through questionnaires distributed to 120 female students enrolled in various courses in Colleges and Universities in the Muscat city, Sultanate of Oman. Generally, the results of the study indicate that the respondents have a positive inclination towards entrepreneurship. Furthermore, female students felt that the gender is not a constraint in influencing the students to choose entrepreneurship as their future career pathway.

**Keywords:** *entrepreneur, student's attitude, women entrepreneurship*

### 1. Introduction

Entrepreneurship plays an important role in economic prosperity and social stability in many developed countries. Entrepreneurship activities also contribute towards the revitalization of the economy of developed countries and act as the engine of economic progress and job creation in developing countries (Yusof, Sandhu and Jain, 2007)., Women are nearly one-third more likely to start businesses out of necessity than men. (GEM Global Report 2015-16). Research advocates that the success of entrepreneurship as a process can be highly attributed to attitudes towards this process. But little is known about the influence of entrepreneurship education in Oman. Further to it, not much is known about the aptitude of Omani women students in taking entrepreneurship as their career (Panikar & Washington 2011). As per the Higher Education Admission statistics, Oman 2015-16, 55.7% of all students in

Higher Education is Female. There is general trend starting from 2011; women outnumbering men in terms of higher education enrolment in Oman. Hence, this study becomes more significant.

## 1.1 Study Objective

The primary objective of this study was to assess the attitudes and perceptions towards women entrepreneurship among female students in a higher education institution in Muscat, Sultanate of Oman.

## 2. Literature Review

Entrepreneurship enjoys a rich literature, examining its nature, the driving motivations and predictors, personality of the entrepreneur, the influence exerted by the economic environment, supportive policies etc. Regarding the critical role of education for a valuable entrepreneurship, researchers tend to focus more on adult entrepreneur, and ignore the case of young people, especially students and graduates. (Badulescu & Vancea, 2013). Several studies have been made to analyze the entrepreneurial aptitudes, skills and characteristics of students towards making entrepreneurship as a career choice. Studies have also thrown light on the impact of entrepreneurship courses on students in choosing entrepreneurship as a career. However, "Few empirical studies have examined the entrepreneurial propensity of university students as a source of future entrepreneurs" (Wang & Wong, 2004).

Entrepreneurship is not the exclusively dominated by men, as in recent times numerous women have taken into entrepreneurship across the globe for various reasons - complementing the income of their husbands, to achieve economic independence, and introduce new product into markets (Rohana et al., 2013; Rutashobya & Nchimbi, 1999). A woman entrepreneur is woman that established her own a private business based on her creativity i.e. introducing a new product into the market, getting the necessary funds, establishing the necessary business structures, risk taking and managing businesses on day to day basis not only for profit making but for the survival of the business as a "going concern" (Moore, 1997).

Ang and Hong (2000) compared entrepreneurial spirits of students in Hong Kong and Singapore universities. They focused on the importance of personality characteristics, e.g. risk taking propensity, internal locus of control, innovativeness, independence or motivational factors in entrepreneurial process. Henderson and Robertson (2000) explain entrepreneurial interest of students through their personal traits and background (gender, family, experience, educational level, innate characteristics etc.), conditioned by the existence of external favorable factors. Attitudes play a vital role in the life of a successful entrepreneur. As they build their new ventures, they are bound to overcome hurdles, solve problems, and complete the job. They are disciplined, tenacious, and persistent, they can commit and recommit quickly, and they are not intimidated by challenges (Timmons & Spinelli, 2009: 49).

### **3. Research Instrument and its Reliability**

The major instrument for collecting data is the questionnaire. The questionnaire was developed to assess the attitude of women students to start new venture through motive to start, ambition for freedom, self-realization, personality traits, business relation and career opportunity. Few questions on demographic variable, attributes of entrepreneur and anticipated challenges for the women entrepreneur. In this research, the respondents were required to indicate their opinion on each statement on a five point Likert type scale: 1=strongly agree to 5=strongly disagree.

The questionnaire was submitted to the experts in the field of Entrepreneurship for getting feedback. Based on their feedback minor changes has been made on the questionnaire and distributed to few sample population for the pilot study and the reliability was calculated with the help of cronbach alpha (Hair et al., 1998). Cronbach Alpha value was calculated and it was found to be 0.732 and the total numbers of questions were 33. The values were found to be in the range of 0.60 and 0.90, hence it might be suggested that all the scales met the reliability condition (Hair et al., 1998, p.118).

#### **3.1 Methodology**

The focus of this research is to assess the attitudes and perceptions towards women entrepreneurship among students in relation to its factors. The posttest survey questionnaires were developed in conjunction with the literature review aimed at understanding respondents' perception and attitude towards entrepreneurship. The study adopted the survey research design using structured questionnaire that collects demographic data, to examine the relationship of demographic factors on the attitude of the women students in higher institutions in Muscat, Sultanate of Oman. The questionnaire also collects data on the various factors such as motive to start, ambition for freedom, self-realization, personality traits, business relation and career opportunity, which will assess the attitude and perception of the women students towards entrepreneurship. This study surveyed a random sample of women students enrolled in various courses in colleges and universities in Sultanate of Oman.

#### **3.2 Sampling**

The survey population of this study consists of various women students enrolled in various courses in Colleges and Universities in Sultanate of Oman. Convenience sampling method was used to draw 120 samples from various higher education institutions in Muscat City. The respondents were clearly explained about the purpose of this research before collecting data. At the final stage, 120 questionnaires, which consist of the measurement, was distributed among women students enrolled in various courses in colleges and universities in Sultanate of Oman. 103 completed questionnaires were returned. Due to some limitations, the sample size was 103 female students, but accuracy is not compromised, all the samples were thoroughly evaluated and on the other hand, it was found that there were few errors in 15 samples; they were not valid, so the samples were removed and finally 88 samples were taken for the final analysis.

## 4. Discussion & Results

The data that was collected for this study was processed manually through coding and then entered electronically. The Microsoft Excel and Statistical package for Social Sciences (SPSS) were used for the analysis. The use of statistical distributions such as tables showing frequencies and percentages were adopted in the study. Descriptive analyses were used to compare the demographic data of the study participants. The weighted average method was adopted for all the factors of motive to start, ambition for freedom, self-realization, personality traits, business relation and career opportunity. The hypotheses stated in the study were analyzed with the help of Chi Square, Correlation and Multiple Regression.

### 4.1 Demographic Analysis

Table 1 presents the demographics data based on age, education of respondents with their description range and frequency.

	<b>Description</b>	<b>Frequency</b>	<b>Percentage</b>
<b>Age</b>	21 – 25	68	77
	26 – 30	15	17
	31 – 35	05	06
	36 – 40	00	00
<b>Education</b>	Masters	20	23
	Bachelors	55	62
	Diploma	13	15

The analysis reveals that majority of the respondents 63% were in the age group of 21 – 25, 15% fall between the age bar of 26 – 30 and the remaining 5% fall between the age bars of 31 - 35. In respect to the education of the respondents, 62% of them undergoing bachelors program, 13% of them undergoing diploma and the remaining 20% were studying Master’s program in various colleges and universities.

Table 2 Background for starting business

	<b>Description</b>	<b>Frequency</b>	<b>Percentage</b>
<b>Parents owning a business</b>	Yes	26	30
	No	62	70
<b>Influenced the opinion of entrepreneur</b>	Parents	29	33
	Relations	16	18
	Friends	31	35
	University/professors	12	14
<b>Purpose to start your own business</b>	profit / making money	36	41
	did not want to work for others	15	17
	social status	18	20
	self – achievement	19	22

The women students were asked to provide their responses about the background for starting business on three parameters. The descriptive analysis has been done on these parameters and presented in the table 2.

In the first parameter, it was found that 70% of the respondent's parents do not own a business and the remaining 30% of the respondents have business background.

In the second parameter, the respondents were asked to provide responses on people who influenced their opinion of entrepreneurship; it was found that Friends 35% and Parents 34% were the major responses when compared with the other options.

In the third parameter, the respondents were asked to present their purpose to start their own business, from the analysis it was found that 41% of the respondent wants to make more money and profit out of the business followed by self-achievement 22% and social status 20%.

Table 3 Attributes would you being an entrepreneur

<b>Attributes</b>	<b>Frequency</b>	<b>Percentage</b>
Willing to take risks	13	15
Ethical	09	10
Socially minded	12	14
Need for Independence	14	16
Using money and other resources carefully	12	14
Innovative	12	14
Intelligent	11	12
Energetic	03	03
Self-critical	02	02
<b>Total</b>	<b>88</b>	<b>100</b>

From the descriptive analysis of identifying the attributes would students being an entrepreneur, it was found from the above table 3 that 16% of the students felt that need for independence is one of the factors, 15% of the students felt that they are willing to take risk in starting a new business followed by they are socially minded, using money and other resources carefully and innovation with 14% all. Overall, the women students felt that there are many attributes are important for starting the new business.

#### **4.2 Weighted Average Analysis**

The weighted average analysis was conducted for all the variable of attitude of students to start with Business such as motive to start, ambition for freedom, self-realization, personality traits, business relation and career opportunity. In each stimulant, the researcher was trying to list out the important factor in rank order.

Table 4 - Motive to start

S.No	Opinion	SA 5	A 4	N 3	DA 2	SDA 1	Score	Avg	Rank
1.	Starting my own business sounds attractive to me	27	18	30	13	00	323	3.67	3
2.	To start my own company would probably be the best way for me to take advantage of my education	26	17	31	14	00	319	3.63	4
3.	I excel at identifying opportunities	31	27	21	09	00	344	3.91	1
4.	I am confident that I would succeed if I started my own business	35	17	22	14	00	337	3.83	2

From the weighted average analysis (Table 4) it was found that there is a motive to identifying opportunities by the students to start a new business and the students have confident that they would succeed if they started their own business followed by starting my own business sounds attractive to me.

Table 5 - Ambition for freedom

S.No	Opinion	SA 5	A 4	N 3	SDA 2	DA 1	Score	Avg	Rank
1.	More freedom of activity	36	24	24	04	00	356	4.05	1
2.	Be one's own master	28	24	28	08	00	336	3.82	4
3.	Be more respected in my firm	32	28	28	00	00	356	4.05	1
4.	I want to develop my hobby in business	32	24	24	08	00	344	3.91	3

From the weighted average analysis (Table 5) it was found that there is more freedom of activity is the ambition by the students and ambition to be more respected in my firm followed by develop my hobby in business.

Table 6 - Self-Realization

S.No	Opinion	SA 5	A 4	N 3	SDA 2	DA 1	Score	Avg	Rank
1.	I wanted to gain a better position in society	35	18	26	09	00	343	3.90	4
2.	I want to command and motivate others	30	27	27	04	00	347	3.94	3
3.	I want to implement an idea or innovation	40	22	21	05	00	361	4.10	1
4.	I want to earn good income	34	22	27	05	00	349	3.96	2

From the weighted average analysis (Table 6) it was found that the students need to implement an idea or innovation in their business and then want to earn good income followed by develop command and motive others in business.

Table 7 - Personality Trait

S.No	Opinion	SA 5	A 4	N 3	SDA 2	DA 1	Score	Avg	Rank
1.	Likes hard working	40	26	18	04	00	366	4.16	2
2.	I have faith in myself and confidence	44	18	26	00	00	370	4.20	1
3.	I want to be successful	35	28	22	03	00	359	4.08	3
4.	I can take decisions and stand for them	30	27	27	04	00	347	3.94	4

From the weighted average analysis (Table 7) it was found that there is a faith in self and confidence by students, the students like hard working followed by want to be successful in their business.

Table 8 - Business Relation

S.No	Opinion	SA 5	A 4	N 3	SDA 2	DA 1	Score	Avg	Rank
1.	I am a sociable person and love to associate	40	24	20	04	00	362	4.11	1
2.	I am regarded as a good negotiating and selling person	36	24	20	08	00	352	4.00	2
3.	I am willing to co-operate with different people	36	20	20	12	00	344	3.91	4
4.	I like challenges that many think are risky	40	20	16	12	00	352	4.00	2

From the weighted average analysis (Table 8) it was found that the students felt that they are sociable person and love to associate with others for doing business, like challenges that many thinks are risky which is one of the important for the business and they felt that they are good in negotiation and selling.

Table 9 - Career Opportunity

S.No	Opinion	SA 5	A 4	N 3	SDA 2	DA 1	Score	Avg	Rank
1.	I personally consider entrepreneurship to be a highly desirable career alternative for people with my education	42	21	21	04	00	374	4.25	1
2.	It would be easy for me to start my own business	33	25	17	13	00	342	3.89	2
3.	Nothing is more exciting than seeing my ideas turn into reality	25	17	22	16	08	299	3.40	4
4.	I would rather found a new company than being the manager of an existing one	29	25	25	09	00	338	3.84	3

From the weighted average analysis (Table 9) it was found that the student personally consider entrepreneurship to be a highly desirable career alternative for people with my education is one of the important career opportunity for them, they felt that it would be easy for me to start my own business followed by they would rather found a new company than being the manager of an existing one.

Table 10 – Obstacles anticipated in starting a business

Obstacles	Frequency	Percentage
No obstacles	05	06
A question of self-confidence (believing in your abilities)	04	04
Startup finance	04	04
Lack of information / advice on how to start an enterprise	07	08
Finding the right contacts for your business venture	08	09
Awareness/Access to business support	08	09
Management skills	06	07
Entrepreneurial skills	12	14
Lack of intercultural and language skills for foreign markets	06	07
Combining family and work life	16	18
Being a woman/Gender discrimination	12	14
<b>Total</b>	<b>88</b>	<b>100</b>

The women students who are willing to start their own business were asked to present their views and expected obstacles if they start their own business, a descriptive analysis has been done and presented in the table 10. It was found that the women students felt that they will faces all the obstacles which is listed in the table, still they felt combining family and work life will be one of the important obstacle 18% followed by Gender discrimination and entrepreneurial skills equally 14% both. The remaining other obstacle are rated very less, still surprisingly 6% of the respondents felt that they will not face any obstacles in their new business.

### 4.3 Chi-Square Test

Table 11 - The Chi Square Test was conducted to find the significant association between parents currently owning a business and made you starts your own business.

	<b>Value</b>	<b>df</b>	<b>Asymp. Sig. (2-sided)</b>
Pearson Chi-Square	.969(a)	3	.809
Likelihood Ratio	1.015	3	.798
N of Valid Cases	88		

The P Value is .809. Since the P Value is  $> 0.05$  Reject H1. Accept Ho. There is no significant relationship between parents currently owning a business and made you start your own business.

Table 12 - The Chi Square Test was conducted to find the significant association between influenced your opinion of entrepreneur and made you start your own business.

	<b>Value</b>	<b>df</b>	<b>Asymp. Sig. (2-sided)</b>
Pearson Chi-Square	8.622(a)	9	.473
Likelihood Ratio	10.789	9	.290
N of Valid Cases	88		

The P Value is 0.473. Since the P Value is  $> 0.05$  Reject H1. Accept Ho. There is no significant relationship between influenced your opinion of entrepreneur and made you start your own business.

Table 13 - The Chi Square Test was conducted to find the significant association between starting the own business and Education.

	<b>Value</b>	<b>df</b>	<b>Asymp. Sig. (2-sided)</b>
Pearson Chi-Square	1.654(a)	6	.949
Likelihood Ratio	1.587	6	.953
N of Valid Cases	88		

The P Value is 0.949. Since the P Value is  $> 0.05$  Reject H1. Accept Ho. There is no significant relationship between starting the own business and education.

### 4.4 Correlation

To determine the relationship between made to starting the own business and characteristic features of the entrepreneur. A Spearman's rank-order correlation was run.

Table 14 - Correlations

			<b>What made you to start business</b>	<b>Characteristic features</b>
<b>Spearman's rho</b>	<b>What made you to start business</b>	<b>Correlation Coefficient</b>	1.000	.164
		<b>Sig. (2-tailed)</b>	.	.127
		<b>N</b>	88	88
	<b>Characteristic features</b>	<b>Correlation Coefficient</b>	.164	1.000
		<b>Sig. (2-tailed)</b>	.127	.
		<b>N</b>	88	88

Spearman's correlation coefficient,  $r_s$ , is 0.164, and that this is statistically significant ( $p = .127$ ). It is positively correlated. So, it is concluded that the characteristics of the entrepreneur and starting the own business have highly correlated.

#### 4.5 Multiple Regression

In this study the researcher tried to explain the variation to intention to start own business based on the variation in parents currently owning a business, influenced your opinion of entrepreneur, characteristic features of an entrepreneur and assessing self to be an entrepreneur dimensions. (Refer Table 15, 16 & 17).

Table 15 - Multiple Regression - Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.690(a)	.252	.111	1.132

a Predictors: (Constant), right person to be entrep, Characteristic features, Parents owning business, Who influenced your opinion

Table 16 - Multiple Regression – ANOVA(b)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	19.058	4	4.765	3.717	.001(a)
	Residual	106.396	83	1.282		
	Total	125.455	87			

a Predictors: (Constant), right person to be entrep, Characteristic features, Parents owning business, Who influenced your opinion

b Dependent Variable: What made to start business

Table 17 - Multiple Regression – Coefficients (a)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	-.671	.893		-.752	.454	-2.447	1.105
	Parents owning business	.025	.266	.010	.093	.926	-.505	.555
	influenced your opinion	.018	.118	.061	.574	.568	-.168	.303
	Characteristic features	.019	.057	.162	1.555	.124	-.025	.203
	right person to be entrepreneurship	.002	.158	.351	3.419	.001	.226	.857

a Dependent Variable: What made to start business

The variables are explained below:

Dependent Variable : **Intention to start own business**

Independent Variable :

**Parents currently owning a business** X1  
**Influenced the opinion of entrepreneur** X2  
**Characteristic features of an entrepreneur** X3  
**Assessing self to be an entrepreneur** X4

R Square Value : 0.252

F Value : 3.717

P Value : 0.001\*\*

The sample co-efficient of determination R Square or  $R^2$  ( $r^2$  is commonly used in simple regression analysis while R Square is approximately reserved for multiple regression analysis). It measures the goodness – of – fit of the estimated SRP in terms of the proportion of the variation in the dependent variable explained by the fitted sample regression equation or SRP. Thus, the value of R Square is 0.252 that independent variables explain 25.2% of the variability of dependent variable, Intention to start own business is explained or accounted for by the estimated SRP that uses Parents currently owning a business (X1), Influenced your opinion of entrepreneur (X2), Characteristic features of an entrepreneur (X3) and Assessing self to be an entrepreneur (X4) as the independent variable. The information is quite useful in assessing the overall accuracy of the model. This model is significant at 5% level. The estimated SRP or Sample Regression Equation can be written as:

$$Y = 0.671 + 0.025 x_1 + 0.018 x_2 + 0.019 x_3 + 0.002 x_4$$

It was inferred that the independent variables such as  $x_1$ ,  $x_2$ ,  $x_3$ ,  $x_4$  (Parents currently owning a business (X1), Influenced your opinion of entrepreneur (X2), Characteristic features of an entrepreneur (X3) and Assessing self to be an entrepreneur (X4) represent the partial effect on increase in Intention to start own business, holding other dimensions of independent variable constant.

Result: A multiple regression was run to predict Intention to start own business from Parents currently owning a business (X1), Influenced your opinion of entrepreneur (X2), Characteristic features of an entrepreneur (X3) and Assessing self to be an entrepreneur (X4). All the four variables Parents currently owning a business (X1), Influenced your opinion of entrepreneur (X2), Characteristic features of an entrepreneur (X3) and Assessing self to be an entrepreneur (X4) added statistically significantly to the prediction,  $p < .05$ . All the four variables added statistically significantly to the prediction,  $p < .05$ .

The "R" column represents the value of R, the multiple correlation coefficients. R can be one measure of the quality of the prediction of the dependent variable; attitude towards the entrepreneurship. Based on the R value 0.690, 69% can be predicted. It is determined that Model fits with the predictor variable. The overall regression model is a good fit for the data. The table shows that the independent variables statistically significantly predict the dependent variable (i.e.)  $p < .0005$  (i.e., the regression model is a good fit of the data).

#### **4.6 Implications**

The attitude and level of interest towards entrepreneurship is also high and this clearly shows that they have the motivation to become entrepreneurs, are open to learn the business etiquettes and eager to work on new ideas and projects (Panikar, P, & Washington, A 2011), The present research findings & results highlighted above. The study establishes the factors that are found to be interlinked with many literatures in the past. However, this study attempts to provide a practical scenario in higher educational institutions in Sultanate of Oman, this will help the educational institutions and future researchers and scholars in various aspects and helping them to try an intensive study in Oman context. Inculcating entrepreneurship education and developing entrepreneurial skills among students have become an essential component in college and university curriculum. An increasing number of colleges and educational institutions around the globe have taken the issue seriously, as it has been realized that career is more than merely making money and entrepreneurship is more than just business. (Panikar & Washington 2011)

Encouraging students to choose entrepreneurship as a career is another way to influence their intention. Through aggressive promotions and campaigns by the Ministry of Higher Education, a positive attitude towards entrepreneurship can be developed. (Mohd Ariff, et al., 2010). Entrepreneurship education needs to be introduced at the high school level and curricula at universities needs to be revised in line with global trends and the needs of the marketplace. (Mehtap, 2014). An emphasis on skills development and practical applications that compliment theoretical knowledge is needed, if universities are to serve as catalysts for start-ups in Sultanate of Oman.

#### **5. Limitations**

The present study has several limitations. The first limitation for this research is that it is mainly conducted (survey) in the Muscat City. The location is chosen

because the most of the educational institution are in the Muscat city and the area has the largest number of diversified women students in terms of different specialization in their field of study those who enrolled in various courses in colleges and universities in Sultanate of Oman. The second limitation is that this research employed convenience sampling to accomplish the research objectives. The limitations associated with the convenience sampling are applicable for this study. The sample size is yet another limitation to this study; the sample size is not enough to represent all the colleges and universities. Maybe in future there is a possibility of going an intensive research in specific specialization of study.

## 6. Conclusion

Women Entrepreneurship as a new branch of Entrepreneurship is in greater need of a comprehensive review of strategies, methods and techniques used in this sub-field (Tomos et al, 2015). Considering the present research findings presented earlier, several implications are considered. From the theoretical perspective, the present research has enriched the literature. This study contributed to the literature on entrepreneurship by investigating the attitude of women students towards entrepreneurship the in Sultanate of Oman. Existing entrepreneurs and their success stories can be used to help inspire students to become entrepreneurs in the future. This study is the modest attempt to understand the women students' attitude towards entrepreneurship.

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# Attributes of Destination Competitiveness: A Study on Tourism in Oman

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## Abstract

Indeed, tourism is one of the fastest growing economic sectors in the world and countries from world over, particularly attracted by its inspiring economic potentials, are in a hurry to develop tourism further. Eventually, international tourism sector is featured with hyper competitiveness, as stiff competition is existing among the destination countries at world level as well as at regional levels. GCC has become a major tourism region and almost all the countries in it are in a race to attract more and more tourists. Subsequently, countries are bracing up all the strategies to gain competitive advantage. Destination competitiveness is a concept in wide discussion. In that context, many countries, particularly the developed ones, are undergoing its evaluation to often strengthen the attributes, and factors associated with competitiveness. Sultanate of Oman has already become an International tourist destination and is poised for further development and growth in tourism. Along with the developmental strides, it seems inevitable to evaluate the destination competitiveness of Oman as a tourist destination in order to compete better in the international tourism market. Here, an attempt is being done to evaluate the relative destination competitiveness of Oman in the GCC region, particularly, and to identify factors and attributes which are favorable and unfavorable so as to take necessary steps to strengthen the favorable aspects and to minimize the unfavorable aspects so that Oman remains competitive in the international market, while growing strategically. As per the study, Sultanate of Oman is competing internationally with its attributing factors associated with Core resources and attractions; Qualifying and Amplifying Determinants; and Supporting factors and resources. Whereas, the factors associated with destination policy, planning, development, marketing etc. do need increased focus to make the country more competitive. The output of the study has significance in terms of policy development, planning, marketing and in making development agendas and programmes.

**Keywords:** *Tourism, Destination, Competitiveness, Diversification, GCC, Oman*

## 1. Introduction

The lure of the economic potentials of tourism caused the countries world over to compete against one another in order to attract more tourists. This led to the emergence of hyper competition in tourism sector, both at global as well as at regional levels (Cooper, et.al, 2003). The ever increasing competition and globalization of the tourist sector, of late, has been affecting the destination competitiveness, and consequently it has become inevitable for the countries with tourism potential to often evaluate and invigorate destination competitiveness. Lately, tourism research is giving

increasing emphasis on the concept of competitiveness and its link to the economic development. Tourist destination competitiveness is a growing research area, (Botti & Peypoch, 2013) and has been connected to a number of factors and attributes, including nature and ecosystems, service quality, travel and tours, and the socio-economic significance of tourism (Mika, Krzesiwo 2011; Rogers 2009). In tourism literature, there are a number of attempts to comprehend the concept “tourist destination” and “destination competitiveness” (Żemła 2008). From a demand-side perspective, the prevailing view remains associated with a specific geographic area and its competitive and comparative advantage over other neighboring countries attracting the tourist by its market offering to generate revenue to the economy. Destination competitiveness has multifaceted characteristics based on various factors like infrastructure, accessibility, marketing, service quality, auditing, location, carrying capacity, growth, safety and security, political situation and many more. The developed countries give due weightage in measuring the destination competitiveness.

Middle East has been a major tourist region for a very long time and the GCC, one of its sub regions, has gained prominence in tourism in the recent decades. The significance of tourism in the GCC countries was heightened, of late, particularly in the wake of turbulence in oil prices. That has created a situation for those countries to diversify their economy. Hence tourism became a priority for most of them. Countries in the GCC like UAE have already gained a top position in the list of international tourist arrivals and receipt (UNWTO, 2016). Other countries are also striving hard to become leading tourist destinations. Sultanate of Oman is an emerging tourist destination and has already become a prominent one in the GCC region. Having ample natural and cultural resources, Sultanate of Oman is poised for further development and growth in tourism. Along with the developmental strides, it seems inevitable to evaluate the destination competitiveness of Oman as a tourist destination in order to compete better in the international tourism market. Against this backdrop, an attempt is being done to evaluate the relative destination competitiveness of Oman and to identify its factors and attributes, which are favorable to make the destination a successful one. The factors and attributes of destination competitiveness of Oman, which are unfavorable, comparatively to other countries in the GCC, are also being identified. The results of the study would be beneficial particularly for the planners, developers and the tourism authorities while making policies, plans, marketing and development agendas, in order to strengthen the favorable aspects more and to enhance the unfavorable aspects to remain competitive in the international market and to grow strategically.

## **2. Literature review**

With the growing pace compared to other industries, tourism sector is outshining to achieve its growth and becoming the largest industry globally. It is expected that tourism is likely to be the largest industry globally by 2020 (UNWTO, 2001). According to World Travel & Tourism Council (2015), more than 1 billion cross border travel has been made during 2014. Travel and tourism industry is becoming the major source of national income and categorized as the leading sector that having high market potential. Tourism and travel industry boost the supporting industry like food, furniture, transport, lifestyle etc. as they are linked to its backward and forward integration supporting the overall growth and development to the

economy (Middleton & Clarke, 2001). While the conventional industries like manufacturing, construction, etc. have sluggish growth in the last decade due to many reasons, tourism industry continues to grow globally. Tourism also harnesses the potential for accelerating economic growth and development by generating employment, poverty alleviation, technological advancements, etc. (Kotler, et al., 2009). Most of the developing countries have huge potential to explore the opportunities that lie in the tourism sector by enhancing their attractiveness.

Table 01  
Tourist Arrivals and Receipts in GCC Countries

Sl. No.	Countries	International Tourist Arrivals (1000)				International Tourism Receipts (US\$.Million)			
		2010	2013	2014	2015	2010	2013	2014	2015
1	Bahrain	995	1,069	838	....	1,362	1,165	1,197	.....
2	Kuwait	207	307	198	...	290	298	369	499
3	Oman	1,441	1,392	1,519	....	780	1,295	1,376	1,540
4	Qatar	1,700	2,611	2,826	2,930	584	3,456	4,591	5,035
5	Saudi Arabia	10,850	15,772	18,260	17,994	6,712	7,651	8,238	10,130
6	UAE	7,432	9,990	....	.....	8,577	12,389	13,969	16,038

Source: UNWTO, 2016

The success of any tourism destination can be measured by determining the relative competitiveness in comparison to the others in an area or in different areas. The competitive advantage of a destination can be determined by the attractiveness it provides while choosing the destination by the tourist (Dwyer, Kim, 2003). According to Cracolici and Nijkamp (2009), competitiveness of the tourist destination is not restricted to socio-cultural, natural, or environmental resources available over there, rather it depends on the overall appeal of the destination to attract the tourists. To provide attractiveness and achieve a favorable position in the tourism market, the destination resources need to be managed carefully (Teece, et al., 1997) and develop a destination with creative activities capable of gaining a high level of tourist satisfaction and maintaining competitive advantages. Before advancing to enhance the destination competitiveness and estimating the tourist destination attractiveness, the management needs to inquire into certain aspects by asking questions such as ‘What factors affect the competitiveness?’, ‘How can the destination competitiveness be achieved?’, ‘What available resources do the destinations have to develop the competitiveness?’, and ‘How to measure and evaluate the effectiveness of each activity in enhancing competitiveness?’. Competitiveness is a multi-dimensional (Spence & Hazard, 1988) and multifaceted concept having extensive perspectives across various sectors and functions. Various researchers focus on different areas like price competitiveness perspective (Porter, 1990; Rugman & D’Cruz, 1993); socio-cultural perspective (Porter et al., 2001); strategy and management perspective (D’Cruz & Rugman, 1993), etc. Different authors have conceptualized destination competitiveness, gaining attention in the area. Few well-known models on tourism destination competitiveness, being represented as Ritchie and Crouch (1993); theoretical model (Dwyer et al. 2004; Heath 2002); “flexible specialization” model by Poon’s (1993); many other models have developed a theoretical and conceptual basis for creating competitive advantage for a tourism destination. Destinations also need to make competitive advantage objective, which tells about how the company’s position compares to

others – especially to competitors. Indeed superior performance is a prime objective and if the destination can achieve hegemony over its nearest competitors, then the objective would have been considered accomplished (Evans, et.al, 2003). Destinations also have to think of Competences, which comprehend the attribute or collection of attributes possessed by all or most of the organizations in a sector. Technology, Skills and ‘Know How’ are all part of competence of a business (Evans, et.al, 2003). Competitive advantage is more of a relative rather than an absolute notion and can be viewed in several. It is relative to other suppliers in the same market, other firms in the same industry or other competitors in the same strategic grouping (Evans, et.al, 2003). While aiming at competitive advantage, it is inevitable to that activities are correctly matched up to the organization’s capabilities.

Table 02  
 WEF Travel & Tourism Competitiveness Index 2015 Ranking: GCC Countries

Sl.No.	Country	Value	Global Rank
1	United Arab Emirates	4.43	24
2	Qatar	4.09	43
3	Bahrain	3.85	60
4	Saudi Arabia	3.80	64
5	Oman	3.79	65
6	Kuwait	3.26	103

Source: WEF, 2015.

## 2.1 Models of Destination Competitiveness

A number of studies were done to assess the competitiveness, particularly the competitive positions of various destinations (Crouch, 2007). More and more countries are now undertaking destination competitiveness studies. There were other focuses also there like destination positioning, price competitiveness, and quality management. Another significant focus was on to developing theory, concepts and models of destination competitiveness. For instance, Crouch and Ritchie began to study the nature and structure of destination competitiveness in 1992 (Crouch & Ritchie 1994), from the specific backgrounds of comparative advantage and competitive advantage, which were developed early by other experts in the area. Ultimately, they developed a conceptual model that is tailored to the distinctive characteristics of destination competition. Their model has the following aspects inherent in it.

- The base of destination competitiveness is destination’s resource endowments (comparative advantage) as well as its capacity to utilize resources (competitive advantage).
- Global macro-environmental forces and competitive micro-environmental circumstances can have implication on the functioning of a destination’s tourism system associated with the destination.
- There are 36 destination competitive attributes that are grouped into five major groups (Crouch, 2007; Ritchie and Crouch, 2003)

Another model is of Dwyer Mellor, Livaic, Edwards and Kim (2004) which comprehends the national and firm competitiveness theory along with ‘the main

elements of destination competitiveness as proposed by tourism researchers ... and some of the other variables as mentioned above (Dwyer, et. al. 2004). Heath's model is considered as a frame of reference to enhance South Africa's tourism competitiveness' (Heath, 2002:124).

## 2.2 The Ritchie & Crouch's Conceptual Model of Destination Competitiveness

The concept of destination competitiveness was well explained by the Crouch and Ritchie (1999) and later redefined with great addition by Ritchie & Crouch (2003) explaining 36 attributes of competitiveness in five key factors. The model is based on comparative advantage and competitive advantage theories explained in different scenario having peculiar characteristics of destinations based on competition. Ritchie and Crouch (2003) used Porter's (1990) diamond model of competitive advantage to develop a distinct model. The Comparative advantage include components like human and physical resources, knowledge resources, availability of know-how, capital resources, tourism infrastructure, size of the economy and historical and cultural assets. The Competitive advantage components include audits and inventories, maintenance, growth and development, efficiency and effectiveness. The two environments – micro and macro environment impacted by four different domains - qualifying and amplifying determinants; destination policy, planning and development; core resources and attractors; and supporting factors and resources which impart to fulfill the requirement of conceptual model for destination competitiveness and sustainability.

Figure 1.1. The Ritchie & Crouch's Conceptual Model of Destination Competitiveness



Source: Ritchie & Crouch, 2003.

The fourth domain includes the “core resources and attractors” explained as the main foundation of destination attraction. The resources and attractors include physiography, climatic condition, culture and history of destination, mix of activities being carried out, special events, superstructures, and market ties. The core resources and attractions are the key motivators that are considered the primary or fundamental

factor that the prospective visitors take into consideration while selecting the destination to visit. The core resources and attractions establish major motivation for inbound tourism and support activities and act as a success factor for any tourism destination, which need to be considered very carefully for destination competitiveness. The supporting factors and resources act as a backline for the core resources and attract or provide infrastructure, accessibility, resources, hospitality enterprise, and political will which constitute major components that provide a foundation for a destination upon which a successful competitive destination tourism industry can be established during the period of time. The next components include “destination policy, planning and development” comprising policy and planning framework established under the major which build-up the quality and effectiveness of the supporting factors and resources, enhances the overall appeal of the core resources and attractors, provide the best possible way to overcome major challenges, enhances opportunities and provide standards that determine the competitiveness. This component adds greater scope to developing the competitiveness of the destination including system, vision, programs and processes which are highly sensitive and managed by cooperative action from various factors. The “destination management” factors indicate the daily implementation and execution of strategy which are considered to be vital for the organization like operation, HR, Marketing enhancing and adding value to the core components and support the achievement of effectiveness. The most crucial factor includes the marketing of the destination achieving the desired position in the minds of the consumers. In general, the marketing tends to be more oriented for promoting, positioning, branding and selling destination. Application of several major components of marketing is rarely used in true sense. Service experience dimension of destination management has also been recognized within for developing relationship management. Finally, the qualifiers and amplifiers expand destination competitiveness by influencing other factors. These groups of determinants add scope for improving potential competitiveness of a destination direction and structure of tourism development. These components include the location, security, interdependencies, carrying capacity provide guidance to the planning and development of the destination.

### **2.3 Tourism in Oman**

Located in the southeast coast of Arabian Peninsula, the Sultanate of Oman that is bordered with Saudi Arabia, Yemen and UAE has been experiencing tremendous growth in all spheres, and it has recorded remarkable growth in Tourism over the last several years. Both tourist arrivals and 'tourism receipts' have been increased significantly over the last few years in the country. Based on Global Competitiveness Index 2015-16 by World Economic Forum, Oman ranked at 62nd position with continuously reap the benefits of its economic resources and potential sectors like tourism, logistics, telecommunication, banking and others for the contribution to the national economy (WEF, 2016). Additionally, the country benefits from its natural resources and strategic location to attract business in all sectors. The highly competitive market for goods and services well developed infrastructure, low level of corruption, stable political condition, high efficiency of the government, well-developed judicial system and a secure environment, which add to gain the competitiveness among other countries. The annual research by World Travel and Tourism Council (2016) forecasts that visitor exports to grow by 7.1% pa, from 2015-2025, to OMR1,565.0 million in 2025 (5.6% of total). Travel and Tourism investment

in 2014 was OMR267.0mn, or 3.6% of total investment. It should rise by 10.3% in 2015, and rise by 6.3% pa over the next ten years to OMR541.0mn in 2025 (3.9% of total). The direct contribution of Travel & Tourism to Oman GDP is expected to grow by 6.1% pa to OMR 1,453.5mn (3.3% of GDP) by 2025 (World travel and tourism economic affect 2016) (WTTC, 2016).

The total contribution of Travel & Tourism to employment was 90,500 jobs in 2014 (5.7% of total employment). By 2025, Travel & Tourism is forecast to support 143,000 jobs (7.5% of total employment), an increase of 3.8% pa over the period. Leisure travel spending (inbound and domestic) generated 71.3% of direct Travel & Tourism GDP in 2014 (OMR874.0mn) compared with 28.7% for business travel spending (OMR351.4mn). Leisure travel spending is expected to rise by 6.3% pa to OMR1,771.1mn in 2025. Business travel spending is expected to rise by 4.9% pa to OMR563.0mn in 2025. Domestic travel spending is expected to grow by 3.9% pa to OMR769.0mn in 2025 (WTTC, 2016). According to Tourism index report, published by National center for statistics and information, Oman during Oct. 2016 clearly indicates the growth in tourism sector, which enables the competitive structure of Tourism when compared to other GCC countries. As per the report regarding the Oman air travel, the total number of visitors arriving to the Sultanate till the month of Oct 2016 reaches to 2.5 Million visitors majority from G.C.C (1,248,387) Indian (244,292), British (133,706), Germany (98,061), Philippines (93,970); while total number of visitors departing the Sultanate in the same month reaches to 4.9 Million visitors creating a the country to have advantage over other destination. The total number of cruise ships visitors reaches to 144 Thousand with Germany (42,304 visitors) on the top followed by United Kingdom (23,434) Italy (18,846) Spain (5,491) USA (5,100). The total hotel revenues generated until Oct. 2016 reaches to 141 Million Omani Rials, which include only 3-5 stars hotels. The added income was expected to be generated from the apartment rooms and other accommodating agencies, which are not included in this revenue (NCSI, 2016)

Till Oct. 2016, In comparison to the totaling of 215 thousand visitors, the 10.7 percentage of decrease of in the number of visitors arriving to 192 thousand visitors to the Sultanate. The visitors from other GCC countries during the 2015 were 96,691, which drastically reduces to 73612 during 2016 until the same month. The visitors from other Arab countries in 2016 to Sultanate were negligibly changed in number without any substantial growth compared to the last year. The Sultanate receives the majority of tourist during the Khareef months starting from July to September, which can be easily seen that the visitor's number reached to approx. 450 thousand, which simultaneously decreases in the coming months of the year. According to the statistics, the revenues of 3-5 stars hotels reach to 16.7 million Omani Rials compared to 18.7 million Omani Rials during 2015 with a decrease of 10.5% during the Oct. 2016. Total number of guests in the hotels during reaches to 141,045 compared to 2015 at 122,186 guests during 2015 with an Increase of 15.4% during Oct. 2016. The majority of accommodation was occupies by the citizens followed by Europeans, Asians, nationals of other GCC countries, then by national of other Arab countries. Total occupancy rate in hotels reached 63.5% compared to 63.9% in 2015, with a decrease of 0.7 percentages during Oct. 2016 (NCSI, 2016).

### 3. Methodology

This study is utilizing the Ritchie & Crouch's Conceptual Model of Destination Competitiveness. After an extensive literature review, the study ultimately focused on primary data collected from experts in the area, and necessary secondary data has been used to substantiate the inferences deduced from the results of the survey. Based on the objectives of the study, such as, to assess the competitiveness of Oman as a tourist destination; identify the factors and attributes of destination competitiveness that are favourable; and to identify the unfavourable destination competitiveness factors and attributes of Oman, a questionnaire (appendix 1) has been used to collect the data from the field. There were 41 variables included in the questionnaire, other than 7 questions connected to the profile of the respondents. All the 41 variables are prepared based on the model said above. Among those 41 variables, five of them are the primary factors of destination competitiveness, such as Qualifying and Amplifying Determinants; Destination Policy, Planning and Development; Destination Management; Core Resources and Attractions; and Supporting Factors and Resources. Each of these have attributes totaling to 36. The first factor, Qualifying and Amplifying Determinants, includes attributes such as Location, Interdependencies, Safety/Security, Cost and good Value, Awareness, and Carrying Capacity. The second factor- Destination Policy, Planning and Development- consists of attributes like System Definition, Philosophy/Value, Vision statement, Positioning/Branding, Development activities, Competitive/Collaborative Analysis, Monitoring & Evaluation, and Audit. Professional Organization, Marketing, Quality of Service/Experience, Information gathering and Research, HR Management, Finance, Professional Visitor Management, Resource Stewardship, and Crisis Management plan are the attributes of the factor Destination Management. Core Resources and Attractions are the next group of factors and that includes Physiography and Climate, Cultural & Historical resources, Tourism Activities, Special Events, Entertainment, Superstructure, and Market Ties. The last factor, Supporting Factors and Resources, includes attributes such as Infrastructure, Accessibility, Facilitating Resources, Hospitality, Entrepreneurship, and Government support. All these variables have been modified into understandable sentences and included in the questionnaire. The opinion was asked to mark on a five point scale ranging from strongly agree to strongly disagree (Likert Scale). In order to verify the reliability/validity of the questionnaire, it was tested with a small group of respondents and modified accordingly before finalizing it for the survey.

The population of the survey including the experts on tourism in the country, including destination marketers, ministry officials, tourism academicians, researchers, industry professionals and tourism entrepreneurs. Being experts in this specific area, a sample of 50 has been chosen for the survey. Since, the number of experts is limited in this area; snow ball sampling has been used. Care has been given to include representation from all groups of experts as mentioned in the said population. After circulating the questionnaires electronically, particularly through emails, and by person, 48 usable questionnaires have been chosen for the analysis. Once the survey was over, the data has been tabulated and descriptive statistics (mean and standard deviation) have been found out using SPSS software. The values given for strongly agree is 5, agree 4, no opinion 3, disagree 2 and strongly disagree is 1. Percentage values of all the scale points against each variable are also taken to compare the values further. Mean value is primarily considered for agreement of the respondents

and a value of 3 is chosen for the same. Those variables with mean value above 3 are taken for consent. Higher the mean values are more significant factors for Oman in terms of its competitiveness. Oman's competitiveness has been compared with two other countries (as per the model suggested above) in GCC such as UAE (most successful destination in GCC) and Saudi Arabia (another prominent one and an emerging destination with quick development strategies), as GCC is the region which is given emphasis in the study. Though competitiveness is compared, opinion of the respondents may be with the liberty of independent opinion about Oman as well.

#### **4. Analysis and findings**

Among the 50 questionnaires, 48 were used. 79 percentage of the respondents are male and the rest are female. All are educated, of which 35 percentage are at diploma level, 25 percent are at degree level and 27 percentage are at master degree and above. Simple majority (53%) is of age group above 30, and around 40 percentage are above 40 years of age. All the respondents are aware of destination competitiveness attributes of the chosen destinations for the study. The analysis of the opinion of respondents is following. The five major determining factors of competitiveness of a tourist destination, as per the said model, are Qualifying and Amplifying Determinants; Destination Policy, Planning and Development; Destination Management; Core Resources and Attractions; and Supporting Factors and Resources. Among those five factors, the study point out that 'Core Resources and Attractions', with highest mean value, are the most significant determinant of Oman tourism. It is followed by factors such as Qualifying and Amplifying Determinants; Supporting factors and resources; Destination policy, planning and development; and Destination Management. Each of them, along with their complimenting attributes is discussed below.

##### **4.1 Core resources and attractions**

The study explicitly reveals that Sultanate of Oman has ample core resources for tourism development. Compared to the competing destinations in the study, such as UAE and Saudi Arabia, Oman has been opined strong by the respondents. Majority of the attributes of competitiveness are also having higher mean values (Table 03). The same is the case in the World Economic Forum report as well (Table 04). According to it, Oman has a value (2.59) for natural resources, which is higher than all the GCC countries, except Saudi Arabia. In the same, in terms of cultural resources also, the value is significant, but the value seems less as the attributes cultural resources are clubbed with business travel.

Table 03  
Core resources and attractions

Sl.No	Variables	SA* %	Agree %	N.O %	D.A %	S.D. %	Mean	Standard Deviation
	Core resources and attractions	31	44	8	12	4	3.8542	1.12967
1	<i>Physiography and Climate</i>	21	38	10	21	10	3.3750	1.31481
2	<i>Cultural &amp; Historical resources</i>	38	46	4	8	4	4.1042	.97281
3	<i>Tourism Activities</i>	19	52	4	17	8	3.5625	1.21876
4	<i>Special Events</i>	10	46	17	13	13	3.1250	1.12278
5	<i>Entertainment</i>	4	31	10	42	13	2.7292	1.16216
6	<i>Superstructure</i>	8	33	17	38	4	2.9967	1.05857
7	<i>Market Ties</i>	17	40	6	25	12	3.0208	1.19377

Source: Field Survey. \* SA-Strongly Agree, N.O-No Opinion, D.A.-Disagree, S.D-Strongly Disagree

As furnished in the above table (03), let us examine each attributes in the principal factor-Core resources and attractions. Among the attributes, cultural and historical resources have acquired the highest mean value (4.1042). Percentage values are also matching with the same. As per WEF report, Oman, in terms of two of its attributes, is much above the competing countries in the GCC. In terms of cultural World Heritage cultural sites, Oman has a global rank of 51, and in terms of number of oral and intangible cultural expressions, Oman's position is 25th in the world. No other GCC countries have better ranking in these parameters. The second highest attribute is Tourist activities. The variable given was that Oman has ample scope for tourist activities. Good majority of the respondents agreed to it. Each region in Oman has unique tourist attractions and most of them can be supplemented by activities. For instance, in Dhofar itself, a range of activities can be added, like, fishing, water sports, Dolphin shows, animal rides, frankincense trekking, etc. This is followed by the attribute Physiography and Climate. Compared to Saudi Arabia and UAE, certainly Oman has favourable climate for tourism. In the north Oman, tourism can be possible throughout except on a few months during summer. At the same time, in Dhofar, yearlong tourism season can be there. Moreover, rainy season, in the name of Khareef, gives much enthusiasm for tourists to visit over there. Apart from climate, the topography is also finer. Along with scenic mountains, beaches and similar natural attractions, Oman is featured with natural reserves, hill stations, wadis (rivers), etc. Other attributes, the respondents agreed are the special events and market ties. Regarding special events, Oman organizes a few special events for tourism. Muscat Festival and Salalah festival are examples. Yet, the values are lower comparatively, including the percentage values. It denotes than Oman has to focus more on to this area. Adequate market ties are there for tourism, particularly with GCC countries and a few western countries. There is also ample scope for further improvement.

Table 04  
Travel and Tourism Competitiveness: Contributing Factors-A

Sl.No	Country/Economy	Prioritization of Tourism	International Openness	Price Competitiveness	Environmental Sustainability	Air Transport Infrastructure	Ground and Port Infrastructure	Tourist Service Infrastructure	Natural Resources	Cultural Resources & Business Travel
1	United Arab Emirates	4.97	2.77	4.95	4.39	5.91	5.06	5.46	2.51	1.97
2	Qatar	4.89	1.93	5.33	4.32	4.17	4.79	4.81	2.12	1.48
3	Bahrain	4.14	2.34	5.33	3.73	3.52	5.53	4.74	1.92	1.33
4	Saudi Arabia	4.50	1.49	5.49	3.41	3.79	3.66	4.44	2.68	1.91
5	Oman	4.51	2.07	5.33	4.07	2.98	4.25	4.53	2.59	1.45
6	Kuwait	3.03	1.75	5.04	2.95	2.51	3.61	3.84	1.87	1.17

Source: WEF, 2015

According to the survey, the two attributes the respondents did not give consent are entertainment and super structure. The percentage and mean values are lower. According to the study, from a tourism perspective, Oman is still lacking adequate superstructure for tourism, including hospitality industry provisions, shopping provisions and so on. The same is the case with entertainment options too. Tourism related entertainment options are limited, and the majority is within the Malls for shopping.

#### 4.2 Qualifying and Amplifying Determinants

These factors make a destination fundamentally suitable for tourism. As per our survey, this has the second highest score. Simple majority of the respondents also agree to this. Let us go through each of the attribute variables in this factor. Among all the attribute variables, safety and security got the highest values (4.3750). In terms of Safety and security, as per WEF report also, Oman has high rank internationally. In the WEF report, Oman has 9<sup>th</sup> rank globally in this aspect. The second highest attribute is location. Oman is blessed to be located ideally between Middle East and Asian countries. Travel time from countries like India, other GCC countries, China, etc. are less that make it easy for travellers. The third attribute that was given consent by the respondents is Carrying Capacity. There are many fragile destinations in the country. Yet less fragile places and urban areas with tourist attractions are also there. Carrying capacity of these places vary, still accommodating double or triple amount of tourists visiting now may not be that much difficult.

Table 05  
Qualifying and Amplifying Determinants

Sl.No	Variables	SA %	Agree %	N. O %	D.A %	S.D. %	Mean	S.D.
	Qualifying and Amplifying Determinants	10	48	10	21	10	3.2708	1.21585
1	<i>Location</i>	21	46	4	19	10	3.4792	1.30449
2	<i>Interdependencies</i>	4	21	17	44	15	2.6042	1.06670
3	<i>Safety/Security</i>	52	38	6	4	0	4.3750	.78889
4	<i>Cost and good Value</i>	8	17	10	42	23	2.4792	1.23753
5	<i>Awareness</i>	13	21	15	38	15	2.8125	1.26586
6	<i>'Carrying Capacity'</i>	22	36	13	19	10	3.1792	1.26038

Source: Field Survey. \* SA-Strongly Agree, N.O-No Opinion, D.A.-Disagree, S.D-Strongly Disagree

Nevertheless, the respondents did not give consent to the rest of the determinants such as interdependencies, cost and good value and awareness. Industry interdependencies is still less. Air transport sector, hospitality sector, intermediaries and food and beverage sector are less associated each other as in major tourist destinations and like UAE particularly. Cost and value rate is also not up to the mark. Still the cost of tourism products is higher comparatively, which becomes a barrier in attracting economy tourists particularly. Another major bottleneck is less awareness about Oman as a tourist destination. While UAE is globally known as an ideal family visiting location as well as a destination for all ages, and Saudi Arabia is more known from a religious point of view, Oman is limited by awareness generation.

### 4.3 Supporting factors and resources

Majority of the respondents are of the opinion that Oman, relatively, has necessary supporting factors and resources for promoting tourism internationally (table 06). Among the attributes of it, five out of seven have been consented by them. Hospitality has the highest value. The people of Oman, in general, are highly hospitable. It makes an ideal background for providing quality tourist experience and satisfaction. Infrastructure in Oman is also comparable internationally. According to WEF report also, except air transport infrastructure, Oman has significantly quality infrastructure for tourism development (Table 04). In the same global rankings are also good. Those include Quality of roads (8), Quality of port infrastructure (33), Quality of air transport infrastructure (42), and Tourist Service Infrastructure (62). The next attribute is government support. Government's prioritization of T&T industry, in the world, as per WEF report is 18, which means the government is now really interested in developing tourism. Accessibility of tourist attractions in Oman is also good as per the opinion of respondents. Most of the tourist attractions in Oman are accessible mainly by road.

Two factors got negative response from the respondents. Entrepreneurship is still not up to the mark comparatively for tourism. This is more relevant for local entrepreneurship. Innovation is lacking and that is vital for tourism dynamism. Another relevant aspect, which was not given consent by the respondents, is facilitating resources.

Table 06  
Supporting factors and resources

Sl.No	Variables	SA %	Agree %	N. O %	D.A %	S.D. %	Mean	S.D.
	Supporting factors and resources	17	46	8	19	10	3.2292	1.30856
1	<i>Infrastructure</i>	29	46	8	21	0	3.9375	.99800
2	<i>Accessibility</i>	22	37	2	21	17	3.1875	1.45363
3	<i>Facilitating Resources</i>	6	27	15	42	10	2.8542	1.11068
4	<i>Hospitality</i>	38	50	4	8	0	4.1250	.93683
5	<i>Entrepreneurship</i>	2	35	4	48	6	2.7708	1.11545
6	<i>Government support</i>	17	48	8	21	6	3.4792	1.18483

Source: Field Survey. \* SA-Strongly Agree, N.O-No Opinion, D.A.-Disagree, S.D-Strongly Disagree

#### 4.4 Destination policy, planning and development

Destination policy, planning and development constitute the next group of factors. There are eight attributes under this group of factors. Of those eight, five have not been given consent by the respondents. Only three are being considered by them. Oman tourism is with a proper vision statement, comparable with other countries in the region. This got the highest score (3.5208). The same is the case with tourism philosophy/value. Moreover, system definition is also done clearly as per the respondents.

Table 07  
Destination policy, planning and development

Sl.No.	Variables	SA %	Agree %	N. O %	D.A %	S.D. %	Mean	S.D.
	Destination policy, planning and development	10	39	15	24	12	3.0600	1.17600
1	<i>System Definition</i>	9	46	11	31	4	3.1875	1.02431
2	<i>Philosophy/Value</i>	13	50	21	10	6	3.5208	1.05164
3	<i>Vision statement</i>	17	48	13	17	6	3.5208	1.14835
4	<i>Positioning/Branding</i>	4	33	8	36	19	2.9167	1.12672
5	<i>Development activities</i>	0	17	17	52	15	2.3542	.93375
6	<i>Competitive/Collaborative Analysis</i>	2	19	19	44	17	2.4583	1.05100
7	<i>Monitoring &amp; Evaluation</i>	1	25	15	44	15	2.6667	.95279
8	<i>Audit</i>	7	28	9	33	22	2.7500	1.15777

Source: Field Survey. \* SA-Strongly Agree, N.O-No Opinion, D.A.-Disagree, S.D-Strongly Disagree

But the survey results in the table 07 clearly reveal that branding and positioning is not comparable with competing countries. There are multiple options for Oman to position in the market. Nature tourism is one. Cultural and anthropological tourism options are also there. Halal Tourism is another significant which Oman can utilize maximum. Business tourism options are not being tapped. Being one of the safest countries in the world, Oman is ideal for family visits as well. Hence, the result points out that there is much more scope for positioning and

branding of Oman tourism. Tourism development activities are also not comparable with the competing countries. There are a number of developmental projects are going on the country, that are discussed in the literature review. Yet, the competing countries are developing faster, as deduced from the survey. Moreover, the national level competitive analysis/collaborative analysis are less, as per the survey. The same is the case with tourism monitoring and evaluation, as well as audit in all respects.

Table 08  
Travel and Tourism Competitiveness: Contributing Factors-B

Sl.No	Country / Economy	Middle East Regional rank	Business Environment	Safety and Security	Health and Hygiene	Human Resources and Labour Market	ICT Readiness
1	United Arab Emirates	1	5.90	6.60	5.28	5.15	5.76
2	Qatar	2	6.05	6.61	5.97	5.23	5.44
3	Bahrain	3	5.53	5.33	5.17	4.71	5.76
4	Saudi Arabia	5	5.21	5.99	5.10	4.46	5.29
5	Oman	6	5.29	6.38	5.37	4.27	4.83
6	Kuwait	13	4.69	5.76	5.43	4.26	5.01

Source: WEF, 2015.

#### 4.5 Destination Management

This is the lowest rated factor as per the survey. The attributes in this factor are Professional Organization, Marketing, Quality of Service/Experience, Information gathering and Research, HR Management, Finance, Professional Visitor Management, Resource Stewardship, and Crisis Management plan. Of these nine attributes, only four got consent (Table 09). The four of them, according to the rank are Finance options for tourism development, crisis management plan in the case of any crisis, and quality of service/experience.

Of the attributes not given consent by the respondents, the most significant is marketing. That is with the lowest score in this survey. It points to the fact that Marketing is an area need to be strengthened further greatly. Inadequate information gathering and research is also there as per the survey. Other attributes that did not get consensus are HR Management issues, Resource Stewardship and professional visitor management. These areas also need to be strengthened further for competing internationally.

Table 09  
Destination Management

Sl.No.	Variables	SA %	Agree %	N. O %	D.A %	S.D. %	Mean	S.D.
	DESTINATION MANAGEMENT	8	38	17	25	13	3.0417	1.21967
1	<i>Professional Organization</i>	15	40	4	29	13	3.1250	1.37802
2	<i>Marketing</i>	0	25	8	42	25	2.3542	1.10106
3	<i>Quality of Service/Experience</i>	13	42	6	27	13	3.2083	1.27092
4	<i>Information gathering and Research</i>	4.	29	4	42	21	2.5417	1.23699
5	<i>HR Management</i>	6	35	21	25	13	2.9375	1.21000
6	<i>Finance</i>	19	48	2	21	10	3.4375	1.30313
7	<i>Professional Visitor Management</i>	2	31	21	42	4	2.8542	.98908
8	<i>Resource Stewardship</i>	8	38	8	33	13	2.9583	1.23699
9	<i>Crisis Management plan</i>	10	44	25	17	4	3.2917	1.11008

Source: Field Survey. \* SA-Strongly Agree, N.O-No Opinion, D.A.-Disagree, S.D-Strongly Disagree

## 5. Conclusion

The elaborate discussion on various factors and their attributes with regard to the competitiveness of sultanate of Oman as a tourist destination brings out the following findings. The most significant factors of its competitiveness are its Core resources and attractions; Qualifying and Amplifying Determinants; and Supporting factors and resources. The factors associated with destination policy, planning, development, marketing etc. could gain lesser significance only which infers that there is ample scope for further improvement in those areas. With regard to each of the attributes of competitiveness determining factors, the following are those, which Oman is strong enough compared to other GCC countries that are mentioned in the study.

- Safety/Security
- Hospitality
- Cultural & Historical resources
- Infrastructure
- Tourism Activities
- Vision statement and Philosophy/Value
- Government support
- Finance
- Physiography and Climate
- Crisis Management plan
- Quality of Service/Experience
- Accessibility
- Carrying Capacity'

This shows that Oman is very safe and secure for tourism and with ample cultural and historical resources. Infrastructure is good enough for further development of tourism and there is a lot of scope for promoting tourism activities aimed at the tourists. The Omani population is highly hospitable and that gives a good host-tourist relationship for tourism. The government support for tourism and the vision and philosophy of tourism development (sustainable tourism) is also good enough for becoming a competitive destination. In terms of finance also, Oman is strong enough. The physiography and the natural resources are better than the competing countries and the case is same with climate as well. The quality of the services provided as part of tourism, along with tourist experience is also comparatively good. The tourist places inside Oman are accessible enough for tourists to reach and they possess enough carrying capacity to accommodate tourists and tourism developmental activities, though some of the destinations are bit fragile. But, the study brings forward the following aspects to be taken care with much more seriousness to make Oman as an internationally competing destination and to diversify the economy.

- Entertainment
- Superstructure
- Interdependencies
- Cost and good Value
- Awareness
- Facilitating Resources
- Entrepreneurship
- Marketing
- Positioning/Branding
- Development activities
- Competitive/Collaborative Analysis
- Monitoring & Evaluation
- Audit
- Information gathering and Research
- Professional Visitor Management

The above attributes infer that entertainment options for tourists are less and there is much scope for further superstructure in tourism. Industry interdependencies need to be heightened and cost factor of the products and services need to be taken care of. Facilitating resources like local trained HR has to be harnessed more along with enhancing local entrepreneurship. Marketing is a major area needs much more significance, along with suitable positioning and branding strategies. Other factors need to be taken care are tourism development activities, professional analysis and monitoring of tourism development, research into various aspects of tourism and ensuring professional visitor management measures.

The study is limited with a small sample, though it constitutes experts in the relevant fields, and the findings are based on opinions of the respondents. Moreover, there is limitation in terms of opinion as they may possess limited knowledge about each attributes of competing destinations in GCC that are used in the study. Hence there is scope for further research into each area of attribute of competitiveness of a tourist destination which can unfurl empirical evidences so as how much to be

strengthened further for making Oman as a successful tourist destination without creating much impacts on nature, culture and society. The national tourism authorities, developers and planners can consider each attributes more seriously, particularly those, which have low scores in the study.

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# Exploring Consumer Attitudes Towards Halal Tourism in Salalah: Implications for Tourism Marketing

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## Abstract

Demographic factors like age, gender, education and worldview have an influence on consumer behavior. In addition to these individual characteristics, religion and beliefs also have an impact on consumer behavior. For instance, in the context of Islam the notion of “halal” or what is permissible shows its influence in the field of marketing. Covering many sectors such as food, fashion, transport, finance and tourism “halal industry” has grown fast. Because of expectations such as Islamic lifestyle, hygiene, security and the services, the concept of “halal tourism” has gained currency in the tourism sector. Therefore, companies in the halal market segment give particular importance to religious indicators and sensitivity of the consumers the main purpose of this study is to examine and define the concept of “halal tourism”. The present study is a maiden attempt to explore into the awareness and attitude of consumers towards halal form of tourism. Using some very basic tools, this study shows that halal form of tourism may be desirable to a certain market segment but it may not be the essential requirement for all the tourists from Oman.

*Keywords: Halal, Tourism, consumer attitude.*

## 1. Introduction

Traveling is one effective way to see the world, experience new cultures and meet new people at the same time. In addition to this, tourists have different motivations to visit a place. That is why there are many different types of tourism that explain why tourists choose a particular destination and the things that they expect to do when they go there. Some of the popular types of tourism are:

### 1.1. Recreation tourism

This is when people go to a place that is very different from their regular day-to-day life to relax and have fun. Beaches, theme parks and camping grounds are often the most common places visited by such tourists.

### 1.2. Cultural tourism

If the objective of one's visit to a particular place is to get to know its history and culture. Tourists may visit different landmarks of a particular country or they may attend festivals and ceremonies in order to gain a better understanding of the people, their beliefs and their practices.

### **1.3. Religious tourism**

Another type of tourism where people go to a religious location or locations to follow the footsteps of their founder or to attend a religious ceremony. Hajj or Umrah are appropriate examples of religious tourism.

### **1.4. Medical or health tourism**

A relatively new type of tourist activity where the focus of the travel is improving one's health, or fitness. For instance, certain countries like Thailand, India, Singapore, etc. promote the expertise of their doctors and surgeons in the field of cosmetic surgery and invite foreigners to have their liposuction, facelift, rhinoplasty and other forms of cosmetic procedures to be done there. Medical tourism also incorporates aspects of recreation tourism where the patient goes to a relaxing getaway to recuperate from the procedure.

### **1.5. Adventure tourism**

It involves challenging activities like rock climbing, mountain climbing and wild water rafting. For tourists who want to see wildlife or bask in the joy of just being in the midst of nature, nature tourism is the answer.

Traveling is one effective way to see the world, experience new cultures and meet new people at the same time. For many tourists, however, traveling accomplishes many other purposes that do not even have anything to do with the joy of visiting a new place. This is why there are many different types of tourism that explain why tourists choose a particular destination and the things that they expect to do when they are there (Frankseco, 2013).

### **1.6. Halal tourism**

A subcategory of tourism, which is primarily oriented towards Muslim families who abide by rules of Islam. The hotels in such destinations do not serve alcohol and have separate swimming pools and spa facilities for men and women. Malaysia, Turkey and many more countries are trying to attract Muslim tourists from all over the world offering facilities in accordance with the religious beliefs of Muslim tourists. The Halal tourism industry also provides flights where no alcohol or pork products are served, prayer timings are announced, and religious programs are broadcast as a part of entertainment offered on board (Wikipedia.org, 2016).

Halal tourism is not only about halal food, as is the larger belief of some people, but is also about the overall experience, which is compliant with the Islamic Sharia culture. Halal tourism is tailored around the travel needs of Muslim tourists, who seek a family friendly environment and destination. It is about halal food, halal finance, prayer breaks, etc. in addition to the routine tourism activities (Hasan, 2016).

## 2. Background and Previous Research

The so-called “halal tourism” market was once seen as a niche revenue stream, limited to pilgrimages like the multi-billion dollar-a-year revenue stream generated by Muslim travelers to Mecca. But now there is a movement in the tourism industry to widen the “halal tourism” market to cater to Muslim travelers worldwide, particularly those from wealthy Gulf Arab states (voanews.com, 2015).

Muslim tourist gain high attention as the large niche market for tourism industry. Due to the fact that, among the top 20 countries that have had the greatest growth in international tourism expenditure 2005-2010, 25% of that growth in expenditure is from OIC member countries. Thus, the significance of this growing source of international tourism from Muslim market is a key consideration for economies that have significant tourism revenues (Dinar standard, 2012).

According to a 2014 study for the travel tech company Amadeus, travelers from Saudi Arabia, Kuwait, Qatar, the United Arab Emirates, Bahrain and Oman are expected to spend \$216 billion travelling by 2030. The study found that, on average, a traveler from these countries spends around \$9,900 per trip outside the Gulf. For Emiratis, the figure reaches \$10,400 (Tribune.com, 2015).

The global value of the halal travel industry is estimated to grow to \$233 billion by 2020, with the UAE the second most attractive nation for halal travel. Currently estimated at \$143 billion, the inaugural World Halal Travel Summit and Exhibition in Abu Dhabi on Monday heard that the halal tourism sector is expected to grow at an average of five per cent every year. Almost 37 percent of that spend will come from the GCC, according to research from US-based firm Dinar Standard, which specialises in Islamic sectors. Reem Al Shafaki, senior associate, Dinar Standard, said that the biggest spending market in halal tourism comes from the Middle East. The UAE comes second to Malaysia, followed by Singapore as the third preferred destination for places that cater to halal tourists, added Al Shafaki.

Elnur Seyidli, the chairman of Halalbooking.com, said that 78 per cent of spending comes from Muslim-majority countries, but the other 22 per cent comes from countries with Muslim minorities. The major source market outside of the GCC is UK, Germany and France.

“Saudi Arabia leads the market spending with \$17.8 billion, followed by UAE at \$12.6 billion and Kuwait spending \$9.7 billion USD on halal tourism,” said Al Shafaki (Mannan, 2015).

Ritz-Carlton hotels in Dallas and New York hired the Dinar Standard advisory firm to help those better serve Muslim guests, including Arab royalty. Now the two hotels serve halal meals upon request, have Middle Eastern chefs on staff, offer rooms with spaces that allow for gender-segregated settings and have trained frontline staff on other cultural norms (Magazin.com, 2015).

## **2.1 Halal Tourism**

Various factors influence tourist behavior; religion is one of them, such as the choice of destinations and tourism product preferences (Weidenfeld & Ron, 2008). Muslim life is directed by the holy book of the Quran and the Sunnah or Hadith, containing the sayings and deeds of the Prophet Muhammad (SAW) recalled by his companions and family (Zamni-Farahani & Henderson, 2010). Based on the Islamic worldview of God, man and nature, tourism is part of the religion and travel is fundamental to Islam (Hasharina et al., 2006). Even during traveling, Muslims are expected to respect fundamental Islamic principles. Halal tourism seeks to integrate religious motivations, with the Western type of tourism practices, which presently lead the modern tourism industry. Basically, it means that a tourist may enjoy his or her excursion without having to compromise on the religious obligations.

On the face of it halal tourism may appear to be having Islamic overtones but it may be equally applicable to the people of other religions who are more conscious about their privacy and food habits. Halal-friendly tourism is not limited to Muslim travelers only, since the concept is family-oriented, the market can expand to the non-Muslim population. The concept is in its infancy and wide marketing is not being done. Theoretically, the concept can be good for other family-oriented tourism as well, especially for tourists from relatively traditional or conservative regions.

## **3. Methodology**

This research has adopted an exploratory research design intended to elicit responses from respondents in Salalah. A structured questionnaire was developed for this purpose. Salalah is a tourist destination, which is appropriate for such a study. Out of the 75 questionnaires distributed to the respondents, 52 were found to be fit for the purpose of analysis. The sample comprised of 73% Omani nationals and 27% expatriates. 76% of them were within the age bracket of 20 to 40 years. Of the total respondents, 85% were employed while the remaining were students. 44% were males and 56% were females. The main objective of the study was to gauge the awareness levels and willingness of the respondents with respect to halal tourism. For the sake of analysis very primary tools such as the calculation of percentages and mean values were used. This study has a few limitations. The first one is that the sample size is not large enough to generalize the findings. The second one is that the study is done only in Salalah. But this study does pave way for undertaking descriptive research in this field in Oman based on a large sample size across different cities of Oman in the near future.

## **4. Analysis and findings**

Although, there was unanimity about liking the concept of halal form of tourism but the respondents showed a definite preference for shopping and other forms of tourism over Halal tourism. Medical tourism was the least preferred option. Medical tourism is not undertaken voluntarily and is done only when a person is compelled to go for medical treatment outside one's own country.

Table 4.1: Favorite Form of Tourism

Which one is your favorite tourism?		
Category	Frequency	Percent
Treatment tourism	4	7.7%
Shopping tourism	17	32.7%
Islamic tourism	10	19.2%
Other tourism	21	40.4%
<b>Total</b>	<b>52</b>	<b>100.0%</b>

In response to their future travel plans 52% of them showed willingness to consider halal tourism as their preference. The respondents are aware of halal tourism and are willing to undertake halal tour packages in the future. This appears to be encouraging for halal tourism.

The respondents were found divided on the scope of halal tourism in Salalah. This may be attributed to the fact that in Salalah one does not hear much about halal tourism. Tourism is managed by the government and saying anything in this regard would be premature.

Table 4.2: Scope of Halal Tourism

In your opinion the scope for halal Tourism in Salalah is:		
Category	Frequency	Percent
High	13	25.0%
Cannot say	16	30.8%
Low	12	23.1%
<b>Total</b>	<b>52</b>	<b>100.0%</b>

The most important factors in favour of Halal tourism came out as: Privacy for the family (73%) followed by alcohol free experience (62%) followed by halal food (34.6%) followed by punctuality for prayers (33%). Nowadays it is a common observation that most of the tourist destinations are overcrowded and one has to be really on a constant guard for the family.

Just like the concern of vegetarians, the concern of Muslims is genuine about halal food. The concern for offering prayers at their time comes at the third place is mainly because not all the Muslims are steadfast in their prayers.

The respondents also gave their opinion about the factors not in favour of halal tourism, which are as follows: Halal tourism appears to be too conservative (48%), Religion and tourism should be kept separated (41%); there is limited scope for enjoyment (27%) and not getting to mix with and know other people (18%). These are very interesting findings because a majority of the respondents feel that mixing tourism with religion would lead to the end of fun. Such perceptions need to be explored at a deeper level of consumer aspirations.

The findings regarding consumer willingness about halal tourism suggest that despite having a somewhat skeptical outlook towards halal tourism, people are ready to give it a chance. This may be purely for the sake of trying it.

Based on the findings showcased in table 4.3, it may be inferred that the respondents are having a positive predisposition towards halal tourism. They consider it secure and relationship oriented form of tourism. They have expressed their willingness to pay a premium for availing halal tourism services. It appears that they are hopeful and sure that halal tourism holds many promises for them as well as for their city Salalah.

Table 4.3: Findings of Consumer willingness regarding Halal Tourism

	Average	Standard Deviation
I would prefer to travel only in those countries that have Halal Tourism.	4.0	1.2
Halal Tourism packages would attract more tourism in salalah.	3.9	1.2
I would prefer Halal Tourism even if I have to pay more prices.	3.9	1.3
I think, "Halal Tourism" is gaining importance.	3.8	1.2
I wish there was "Halal Tourism" in Salalah.	3.4	1.2
I choose hotel if it has "Halal " certification.	3.4	1.0
Halal Tourism is likely to result in greater customer loyalty.	2.6	1.2
I feel secure with " Halal Tourism."	2.6	1.0
I would like to encourage Halal Tourism" in Oman.	2.5	1.1

## 5. Discussion and conclusion

The results from this study provide the elementary and significant information for policy makers and business sectors to effectively develop, promote and deliver products and services that meet the unique demand of this nascent market. In conformance to the previous studies (Hasan, 2016; Hasharina et al., 2006) the present research does highlight the need for halal food, privacy for the family and opportunity to offer the prayers. It is imperative to accommodate these needs in the tourism package in order to rope in the tourists who are somewhat more adhering to the Islamic way of life.

At the same time, there is a need to separate halal tourism from its religious affiliations, as this would limit its appeal and scope only to the followers of Islam. In fact, there is a need to demystify the concept of halal. A facility being halal-friendly, is likely to cater to non-Muslim customers equally well. This would mean that while there are sufficient choices for halal travelers, be it in terms of spirituality, food, accommodation, entertainment, financial institutions, code of conduct and dress code, there are options for consumers belonging to faiths other than Islam as well. This widens the appeal of a destination diversifying its source markets.

Aspects such as halal food, prayer spaces, and other aspects of accommodating Muslim needs should come secondary in the marketing

communications. Muslim travelers, like others want to visit places that have something exceptional to offer, and when their needs are being met, it makes them comfortable and allows them to enjoy their stay.

Therefore, while marketing a destination as halal, the focus should be on what the location has to offer to travelers, such as natural beauty, sightseeing, adventures and shopping opportunities.

In fact, Halal does not restrict the scope to Muslim consumers only it rather widens the scope beyond the boundaries of religion. Halal is wholesome, hygienic, ethical and it is for all.

Oman has natural beauty and many places of interest for all types of tourists. It is one of the most secure and peaceful countries in the world. It needs to capitalize upon the opportunity thrown open by the concept of Halal tourism. However, there is a strong need to look deeper into the issues like preference of European, American, non-Muslim tourists, etc., willingness of investors to invest in dry (alcohol free) hotels. Halal tourism being a niche segment, it may somewhat be expensive as it is likely to increase the operational costs.

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