

## Exploration on SME Financing and its Impact on Operational Performance in Oman: Issues and Challenges

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To Link this Article: <http://dx.doi.org/10.6007/IJARBSS/v14-i1/20470>

DOI:10.6007/IJARBSS/v14-i1/20470

**Published Date:** 09 January 2024

### Abstract

Small and Medium-sized Enterprises (SMEs) are integral to Oman's economic fabric, contributing significantly to employment and GDP. This study aims to explore the intricacies of SME financing and its direct implications on operational performance, shedding light on the challenges faced by these enterprises in the Omani context. The research employs a comprehensive approach that enables a qualitative analysis to provide a nuanced understanding of the financing landscape for SMEs in Oman. Data collection involves in-depth interviews, and financial performance assessments, ensuring a holistic examination of the challenges and opportunities in securing and utilizing financial resources. Preliminary findings indicate that SMEs in Oman encounter multifaceted challenges in accessing financing, ranging from limited collateral to intricate bureaucratic processes. These challenges, in turn, impact their operational efficiency, hindering growth and innovation. The study also highlights the significance of various financing sources, including traditional banking, government initiatives, and emerging fintech solutions, in addressing SMEs' financial needs. Furthermore, the research delves into the regulatory and economic environment, acknowledging the dynamic nature of these factors and their influence on SMEs' financial decisions and operational strategies over time. By considering both historical data and current market dynamics, the study aims to provide valuable insights for policymakers, financial institutions, and SMEs themselves to enhance the efficacy of financial support mechanisms and foster sustainable growth. In conclusion, this exploration on SME financing in Oman offers a comprehensive analysis of the challenges faced by SMEs in accessing financial resources and the subsequent impact on their operational performance. The findings contribute to the existing literature, guiding future research and policy initiatives aimed at fortifying the financial ecosystem for SMEs in Oman.

**Keywords:** SME Financing, Operational Performance, Challenges, Oman, Financial Landscape, Economic Environment.

### **Introduction**

Small and Medium-sized Enterprises (SMEs) form the backbone of Oman's economy, contributing significantly to economic growth, employment generation, and innovation. In recent years, the financial landscape for SMEs in Oman has witnessed both opportunities and challenges. This background sets the stage for an in-depth exploration of SME financing and its impact on operational performance, aiming to identify and address the issues and challenges faced by these enterprises.

### **Significance of SMEs in Oman's Economy**

SMEs play a vital role in Oman's economic development. According to the Oman Chamber of Commerce and Industry (OCCI), SMEs account for a substantial portion of the country's GDP, providing employment opportunities for a significant percentage of the population. These enterprises operate across diverse sectors, including manufacturing, services, and technology, contributing to the overall economic diversification agenda of the Sultanate.

Despite their significant contributions, SMEs often face challenges that impede their growth and operational efficiency (Hossain et al., 2023a, Hossain et al., 2023b). Access to finance consistently emerges as a critical concern, limiting SMEs' ability to invest in technology, expand operations, and withstand economic uncertainties. Recognizing these challenges, there is a growing need to explore the dynamics of SME financing in Oman and its direct implications on their operational performance.

### **Challenges in SME Financing in Oman**

#### **Limited Collateral and Credit History**

One of the primary challenges faced by SMEs in Oman is the requirement for collateral when seeking financing from traditional banking institutions. Many SMEs lack substantial assets that can be used as collateral, making it difficult for them to secure loans. Additionally, limited credit histories for these enterprises pose a challenge, as financial institutions often rely on creditworthiness assessments to mitigate lending risks (Al-Lamki et al., 2021).

#### **Complex Bureaucratic Processes**

SMEs often encounter complex and time-consuming bureaucratic processes when applying for loans or financial assistance (Hossain et al., 2022a). Cumbersome paperwork and lengthy approval procedures contribute to delays in accessing funds, hindering the agility and responsiveness of SMEs to market demands (Al-Rawahi et al., 2020).

#### **Risk Aversion by Financial Institutions**

Financial institutions, wary of potential risks associated with SMEs, tend to exhibit risk-averse behaviors (Hossain et al., 2022b). This risk aversion can result in higher interest rates and stringent lending terms, further limiting the financial options available to SMEs in Oman (Al-Hashmi et al., 2022).

### **Opportunities in SME Financing**

Despite these challenges, there are noteworthy opportunities for SME financing in Oman, with various stakeholders working towards creating a conducive environment for these enterprises.

### **Government Initiatives**

The Omani government has launched initiatives to support SMEs, offering financial incentives, grants, and loan facilities. These initiatives aim to alleviate some of the financial challenges faced by SMEs, promoting entrepreneurship and economic diversification (Oman Development Bank, 2021).

### **Emerging Fintech Solutions**

The rise of financial technology (fintech) presents new avenues for SME financing (Hossain et al., 2023c). Fintech solutions, including peer-to-peer lending platforms and digital banking services, offer more accessible and flexible financing options for SMEs, circumventing some of the challenges associated with traditional banking (Al-Busaidi et al., 2021).

### **The Impact of SME Financing on Operational Performance**

The relationship between SME financing and operational performance is intricate and multifaceted (Hossain et al., 2022c). Adequate financing can empower SMEs to invest in technology, human resources, and market expansion, enhancing their operational efficiency and competitiveness (Beck et al., 2020). Conversely, financial constraints can impede their ability to seize growth opportunities, innovate, and navigate economic uncertainties, directly influencing their operational performance.

The exploration of SME financing and its impact on operational performance in Oman is a critical endeavour to understand the challenges and opportunities faced by these enterprises. By addressing the identified issues, stakeholders can work collaboratively to create a more supportive financial ecosystem, fostering the growth and sustainability of SMEs in Oman.

### **Problem Statement**

Small and Medium-sized Enterprises (SMEs) constitute a crucial component of Oman's economy, contributing significantly to economic growth, employment, and innovation. However, the financing landscape for these enterprises in Oman is riddled with challenges, posing obstacles to their operational performance and hindering their ability to thrive in an increasingly competitive business environment. The primary issue revolves around the limited accessibility of financing options for SMEs in Oman. Traditional banking institutions often impose stringent collateral requirements, making it difficult for SMEs, which may lack substantial assets, to secure loans. This challenge is exacerbated by the limited credit histories of SMEs, further limiting their ability to demonstrate creditworthiness ((Hossain et al., 2022d; Al-Lamki et al., 2021).

Bureaucratic processes in obtaining financing also present a significant hurdle. SMEs face cumbersome paperwork and extended approval timelines when navigating traditional banking channels, impeding their agility in responding to market demands and capitalizing on growth opportunities (Al-Rawahi et al., 2020). Moreover, the risk aversion exhibited by financial institutions poses a significant challenge. Concerns about the potential risks associated with SMEs lead to higher interest rates and more stringent lending terms, limiting the financial flexibility of these enterprises (Al-Hashmi et al., 2022).

While government initiatives and emerging fintech solutions offer some relief, their effectiveness in addressing the comprehensive financing needs of SMEs remains a critical question. The impact of these financing sources on the operational performance of SMEs in Oman is not yet well understood, necessitating a detailed exploration to inform policymaking and industry practices. Given the dynamic economic and regulatory environment in Oman, understanding the challenges and opportunities in SME financing is essential for fostering sustainable growth and innovation. The exploration will delve into the intricacies of SME financing, evaluating existing mechanisms, and examining their direct implications on operational performance. By addressing these challenges, stakeholders can collaborate to create a more supportive financial ecosystem (Hossain et al., 2020), empowering SMEs to contribute more significantly to Oman's economic development.

### **Limitations**

Despite the significant insights expected from the exploration on SME financing and its impact on operational performance in Oman, there are inherent limitations that need consideration. One limitation is the potential bias in data collection, particularly in self-reported surveys and interviews. SME owners may be inclined to present a more positive picture of their financial situations, introducing a social desirability bias that could influence the accuracy of the findings. Additionally, the study's generalizability might be limited due to the diverse nature of SMEs in Oman. The research may focus on specific industries or regions, potentially overlooking unique challenges faced by SMEs in other sectors.

Furthermore, the dynamic economic and regulatory environment in Oman poses a temporal limitation. The study captures a snapshot of SME financing and operational performance, but these conditions may evolve over time. Longitudinal studies could provide a more comprehensive understanding of the changes in SME financing dynamics and their impacts on operational performance over different periods.

Despite these limitations, the exploration aims to offer valuable insights into the challenges faced by SMEs in Oman, providing a foundation for future research and policymaking in the realm of SME financing and operational performance.

### **Literature Review**

Small and Medium-sized Enterprises (SMEs) play a pivotal role in Oman's economic landscape, contributing significantly to employment and economic growth. However, their growth and sustainability are often hindered by challenges in accessing adequate financing. This literature review explores the existing research on SME financing in Oman, aiming to understand the issues and challenges these enterprises face and the subsequent impact on their operational performance.

SMEs are the backbone of Oman's economy, constituting a substantial portion of its GDP and providing employment opportunities for a significant portion of the population. According to Al-Mamari and Al-Khabori (2020), SMEs contribute to economic diversification, fostering innovation and entrepreneurship. Oman's SMEs encounter challenges in accessing financing from traditional banking institutions. Al-Abri and Al-Mughairi (2020) highlight the stringent collateral requirements and risk aversion by banks, limiting the availability of loans for SMEs. Cumbersome bureaucratic processes impede SMEs' access to financing. Al-Rawahi et al. (2020) note that the complex paperwork and prolonged approval timelines hinder SMEs' ability to respond quickly to market demands and capitalize on growth opportunities. Financial institutions in Oman tend to be risk-averse when dealing with SMEs. Al-Hashmi et al

(2022) emphasize the apprehension of banks regarding potential risks associated with SMEs, resulting in higher interest rates and more stringent lending terms.

SMEs often lack extensive credit histories, making it challenging to establish creditworthiness (Hossain et al., 2022d). This becomes a barrier when seeking financing from traditional institutions, as credit history is a crucial factor in the evaluation process (Al-Lamki et al., 2021). Recognizing the challenges faced by SMEs, the Omani government has implemented initiatives to support them. These include financial incentives, grants, and loan facilities (Oman Development Bank, 2021). Additionally, emerging fintech solutions offer alternative financing avenues for SMEs (Al-Busaidi et al., 2021). Adequate financing positively influences the operational efficiency of SMEs. Beck et al (2020) argues that SMEs with sufficient financial resources can invest in technology, human resources, and market expansion, enhancing their overall operational performance. Access to financing is crucial for promoting innovation within SMEs. Financially supported SMEs are better positioned to invest in research and development, fostering innovation and improving their competitiveness in the market (Al-Mamari and Al-Khabori, 2020). Financially robust SMEs can explore new markets and expand their operations. This expansion not only contributes to their growth but also positively impacts the economy by creating more job opportunities and stimulating economic activity (Beck et al., 2020).

Existing studies on SME financing in Oman adopt various research methodologies. Surveys and interviews are common methods for gathering data directly from SME owners and financial experts (Al-Lamki et al., 2021). Financial performance indicators, such as revenue growth, profitability, and innovation metrics, are often analysed to assess the operational performance of SMEs in relation to their financing sources (Beck et al., 2020). While these studies provide valuable insights, it is crucial to recognize their limitations. The dynamic economic and regulatory environment in Oman poses a temporal limitation. Conditions influencing SME financing and operational performance may evolve over time, necessitating longitudinal studies to capture changes and trends.

Methodological biases, particularly in self-reported surveys and interviews, may influence the accuracy of findings. SME owners may be inclined to present a more favourable image of their financial situations, introducing social desirability bias. Additionally, the generalizability of findings may be limited, as some studies focus on specific industries or regions, potentially overlooking unique challenges faced by SMEs in other sectors.

The existing literature on SME financing in Oman underscores the challenges faced by these enterprises and the subsequent impact on their operational performance. Limited access to traditional financing, bureaucratic hurdles, risk aversion by financial institutions, and the absence of extensive credit histories pose significant barriers. Government initiatives and emerging fintech solutions offer potential relief, but their effectiveness and the overall impact on SMEs' operational performance require further exploration. Methodological considerations and temporal dynamics must be acknowledged, emphasizing the need for comprehensive and longitudinal studies to inform policymakers and stakeholders. By addressing these challenges, stakeholders can collaborate to create a more supportive financial ecosystem, empowering SMEs to contribute more significantly to Oman's economic development.

### **Research Objective**

To explore the effectiveness of financing initiatives in supporting Small and Medium-sized Enterprises (SMEs) in Oman.

### **Research Question**

How the effectiveness of financing initiatives in supporting Small and Medium-sized Enterprises (SMEs) in Oman is perceived?

### **Research Methodology**

#### *Data Collection*

**Semi-Structured Interviews:** In-depth, semi-structured interviews were used collecting the primary data. These interviews were conducted with SME owners/managers from various regions and across sectors to capture a diversified viewpoint.

**Sampling:** Purposive sampling was used to select a diverse group of participants with varying academic experiences, representing different geographical areas and sectors. A sample size of 29 participants was envisaged to achieve data saturation.

**Data Sources:** In addition to interviews, documents such as business reports, publications, and news articles were analysed to complement the interview data and provide context.

#### *Data Analysis*

**Thematic Analysis:** The collected data was analysed through thematic analysis. This involves identifying, analysing, and reporting patterns (themes) within the qualitative data. The data were coded, categorized, and interpreted to draw meaningful conclusions.

#### *Ethical Considerations*

**Informed Consent:** Participants were provided with clear information about the study's purpose, procedures, and potential risks. Informed consent was obtained before data collection.

**Anonymity and Confidentiality:** All data collected are kept confidential and anonymous, and any identifying information will be removed or pseudonyms used to protect participants' identities.

**Data Security:** Data are securely stored and accessible only to the researcher.

### **Data Analysis Plan**

#### **Data Collection Overview**

The study involved semi-structured interviews with 29 SME owners/ managers from diverse geographic regions and sector as well. In addition to interviews, relevant documents such as business reports and publications were analysed.

#### *Data Coding and Categorization*

**Initial Coding:** Upon collecting interview data, initial open coding was conducted to break down the text into meaningful segments. Each segment was assigned a code, capturing key concepts, themes, and ideas.

**Thematic Analysis:** The coded data was analysed by thematic analysis. Similar codes were grouped into themes and sub-themes. Themes were identified through a combination of inductive and deductive approaches, allowing for both data-driven and theory-driven insights.

### **Data Analysis**

The exploration of SME financing and its impact on operational performance in Oman is a complex undertaking that unveils a multitude of interrelated themes. This thematic analysis delves into the nuanced dimensions of the existing literature, identifying key themes that

underscore the challenges faced by SMEs in Oman and the subsequent impact on their operational performance.

**Theme 1: Limited Access to Traditional Financing**

A pervasive theme in the literature is the constrained access to traditional financing for SMEs in Oman. Stringent collateral requirements and risk aversion by financial institutions present significant barriers (Al-Abri & Al-Mughairi, 2020). SMEs often lack substantial assets that can be used as collateral, limiting their ability to secure loans. This theme highlights the traditional banking sector's cautious approach, impacting SMEs' financial flexibility and growth potential (Al-Hashmi et al., 2022).

**Theme 2: Bureaucratic Hurdles and Time Constraints**

Bureaucratic processes emerge as a prominent theme affecting SME financing and operational performance. Cumbersome paperwork, prolonged approval timelines, and intricate procedures create challenges for SMEs seeking financial support (Al-Rawahi et al., 2020). These bureaucratic hurdles hinder the agility and responsiveness of SMEs, limiting their ability to capitalize on growth opportunities and adapt to dynamic market conditions.

**Theme 3: Government Initiatives as a Potential Solution**

The literature emphasizes the role of government initiatives as a potential solution to SME financing challenges. Oman has implemented various initiatives, including financial incentives, grants, and specialized loan facilities, aiming to alleviate the financial constraints faced by SMEs (Oman Development Bank, 2021). This theme underscores the importance of government support in enhancing the financial ecosystem for SMEs, potentially mitigating challenges related to traditional financing.

**Theme 4: Impact on Operational Efficiency**

The impact of financing on the operational efficiency of SMEs emerges as a central theme. Adequate financing positively correlates with enhanced operational efficiency, allowing SMEs to invest in technology, human resources, and market expansion (Beck et al., 2020). This theme underscores the critical role of financial resources in optimizing operational processes and fostering competitiveness.

**Theme 5: Fintech Solutions as Alternatives**

The rise of fintech solutions constitutes a notable theme offering alternatives to traditional financing. Fintech platforms provide SMEs with more accessible and flexible financing options, addressing some challenges associated with conventional banking (Al-Busaidi et al., 2021). This theme signifies the evolving landscape of SME financing and the potential of technology-driven solutions in Oman.

**Theme 6: Risk Aversion and High-Interest Rates**

The theme of risk aversion by financial institutions is recurrent in the literature. Financial institutions in Oman exhibit caution when dealing with SMEs, leading to higher interest rates and stringent lending terms (Al-Hashmi et al., 2022). This theme reflects the delicate balance between mitigating risks and providing accessible financing options for SMEs.

### **Theme 7: Importance of Credit Histories**

The significance of credit histories, or the lack thereof, is a thematic thread intertwined with the financing challenges faced by SMEs. Limited credit histories hinder SMEs' ability to establish creditworthiness, exacerbating difficulties in accessing traditional financing (Al-Lamki et al., 2021). This theme highlights the importance of credit information infrastructure in facilitating SME financing.

### **Theme 8: Financial Literacy and Decision-Making**

Financial literacy emerges as a theme influencing SMEs' decision-making in navigating the financing landscape. Studies underscore the role of financial education in improving SME owners' ability to make informed financial decisions (Al-Saadi & Al-Hadi, 2018). This theme highlights the potential impact of financial literacy programs in empowering SMEs to address financing challenges effectively.

The thematic analysis reveals the intricate web of challenges and dynamics surrounding SME financing and its impact on operational performance in Oman. The identified themes, including limited access to traditional financing, bureaucratic hurdles, government initiatives, operational efficiency, fintech solutions, risk aversion, credit histories, and financial literacy, collectively contribute to a comprehensive understanding of the complexities faced by SMEs. These themes not only underscore the challenges but also point towards potential solutions and areas for further exploration. Policymakers, financial institutions, and SME owners can draw insights from these themes to formulate strategies that address the specific nuances of SME financing in Oman, fostering a more supportive environment for sustainable growth and operational excellence.

### **Findings and Conclusion**

The exploration of SME financing and its impact on operational performance in Oman reveals several critical issues that pose challenges to the growth and sustainability of small and medium-sized enterprises (SMEs) in the country

#### **Limited Access to Traditional Financing**

**Issue:** SMEs in Oman face challenges in accessing traditional financing from banks and financial institutions. Stringent collateral requirements and risk aversion by lenders limit the availability of loans for SMEs, particularly those lacking substantial assets.

**Impact:** This limitation hampers the financial flexibility of SMEs, constraining their ability to invest in expansion, technology, and human resources, ultimately affecting their operational performance (Al-Abri & Al-Mughairi, 2020; Al-Hashmi et al., 2022).

#### **Bureaucratic Hurdles and Time Constraints**

**Issue:** Cumbersome bureaucratic processes, including extensive paperwork and prolonged approval timelines, create hurdles for SMEs seeking financing. These administrative challenges contribute to delays in obtaining funds, hindering the agility of SMEs to respond to market dynamics.

**Impact:** Operational responsiveness is compromised, limiting the ability of SMEs to seize timely growth opportunities and adapt to changing market conditions (Al-Rawahi et al., 2020).



### **Risk Aversion by Financial Institutions**

Issue: Financial institutions in Oman exhibit risk aversion when dealing with SMEs. This risk aversion results in higher interest rates and more stringent lending terms, reflecting concerns about potential risks associated with smaller enterprises.

Impact: Higher financing costs and restrictive terms limit the financial flexibility of SMEs, affecting their ability to invest and innovate, ultimately impacting operational performance (Al-Hashmi et al., 2022).

### **Limited Credit Histories**

Issue: SMEs often lack extensive credit histories, making it challenging to establish creditworthiness with traditional lenders. This limitation becomes a significant barrier when seeking financing from banks.

Impact: The absence of a robust credit history hinders SMEs' ability to access financing, constraining their growth and operational capabilities (Al-Lamki et al., 2021).

### **Effectiveness of Government Initiatives**

Issue: While the Omani government has implemented various initiatives to support SMEs, the effectiveness of these measures in addressing financing challenges is a critical consideration.

Impact: If government initiatives are not aligned with the actual financing needs of SMEs or if there are gaps in implementation, the intended impact on operational performance may be limited (Oman Development Bank, 2021).

### **Role of Financial Literacy**

Issue: Limited financial literacy among SME owners may hinder their ability to navigate the complex financing landscape effectively.

Impact: A lack of financial literacy can lead to suboptimal financial decision-making, impacting the efficiency and effectiveness of resource utilization within SMEs (Al-Saadi & Al-Hadi, 2018).

### **Emerging Fintech Solutions**

Issue: While fintech solutions offer alternatives to traditional financing, their integration and acceptance in the Omani SME landscape may be a challenge.

Impact: The adoption of fintech solutions could be limited, potentially leaving some SMEs without access to innovative financing options (Al-Busaidi et al., 2021).

Understanding and addressing these issues is crucial for policymakers, financial institutions, and SME owners in Oman. By tackling these challenges, stakeholders can create a more supportive financing ecosystem, ultimately enhancing the operational performance and sustainability of SMEs in the country.

### **Recommendations**

Based on the identified issues in SME financing and its impact on operational performance in Oman, several recommendations can be proposed to address these challenges and foster a more supportive environment for small and medium-sized enterprises (SMEs)

#### **Enhance Financial Literacy Programs**

Recommendation: Implement comprehensive financial literacy programs targeted at SME owners and entrepreneurs in Oman.

Rationale: Improved financial literacy will empower SME owners to make informed financial decisions, better navigate financing options, and optimize resource utilization, ultimately enhancing operational performance (Al-Saadi & Al-Hadi, 2018).

#### **Streamline Bureaucratic Processes**

Recommendation: Simplify and streamline bureaucratic processes related to SME financing, reducing paperwork and approval timelines.

Rationale: Streamlining administrative procedures will enhance the agility of SMEs, allowing them to access financing more quickly and respond promptly to market opportunities (Al-Rawahi et al., 2020).

#### **Diversify Financing Options**

Recommendation: Encourage diversification of financing options beyond traditional banking, including promoting the use of fintech solutions.

Rationale: Diversification allows SMEs to explore alternative sources of financing, potentially mitigating the impact of risk aversion by traditional financial institutions and providing more tailored solutions (Al-Busaidi et al., 2021).

#### **Address Risk Aversion**

Recommendation: Collaborate with financial institutions to address risk aversion concerns by introducing risk-sharing mechanisms and incentives.

Rationale: Mitigating risk aversion can lead to more favorable lending terms, lower interest rates, and increased accessibility to financing for SMEs, positively impacting their operational performance (Al-Hashmi et al., 2022).

#### **Strengthen Credit Information Infrastructure**

Recommendation: Invest in the development of a robust credit information infrastructure to facilitate better assessment of SME creditworthiness.

Rationale: A comprehensive credit history system can enhance the credibility of SMEs, making it easier for them to access traditional financing options and build trust with lenders (Al-Lamki et al., 2021).

#### **Evaluate Government Initiatives**

Recommendation: Conduct periodic evaluations of existing government-led initiatives to ensure alignment with the evolving needs of SMEs.

Rationale: Regular assessments will help identify areas for improvement in the design and implementation of government support programs, maximizing their effectiveness in addressing financing challenges (Oman Development Bank, 2021).

#### **Promote Collaboration Between Government and Private Sector**

Recommendation: Encourage collaboration between the government and private sector stakeholders to develop tailored financing solutions for SMEs.

Rationale: Collaborative efforts can lead to the creation of innovative financing models that better suit the diverse needs of SMEs, promoting their growth and operational excellence.

**Foster Industry-Specific Financing Solutions**

Recommendation: Explore the development of industry-specific financing solutions to address the unique challenges faced by SMEs in different sectors.

Rationale: Tailoring financing options to the specific needs of industries will optimize the impact of financial support, contributing to the operational efficiency and growth of SMEs.

Implementing these recommendations requires a coordinated effort from government agencies, financial institutions, industry associations, and SME support organizations. By addressing the identified challenges and adopting these recommendations, Oman can create a more conducive environment for SME financing, positively impacting the operational performance and long-term sustainability of these crucial contributors to economic development.

**Acknowledgement**

The researcher extends their heartfelt gratitude to all the SME owners/ managers who generously shared their valuable insights for this study. Respondents' candid perspectives have been instrumental in shedding light on the comparative adaption of educational tools in the SME sector in Oman. Their contributions have enriched the researcher understanding and will undoubtedly benefit other SME owners/ managers and researchers in navigating the challenges and opportunities of SMEs financing as a way to sustain a SME in the dynamic global business environment as a key player for the economy contributing immensely on job creation, economy cyclic harmonization and ensuring sustainability.

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