

# Entrepreneurship Ecosystem: An Appraisal for Sultanate of Oman Using the Ease of Doing Business Index

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## Research

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# Abstract

Today, promoting and nurturing entrepreneurship is a core component of economic development in countries around the world. Fostering entrepreneurship as an economic development strategy necessitates a suitable ecosystem which can be termed as “entrepreneurship ecosystem.” Isenberg’s (2011) model of an entrepreneurship ecosystem contains six domains, namely a conducive culture, enabling policies and leadership, availability of appropriate finance, quality human capital, venture-friendly markets for products, and a range of institutional and infrastructural supports. All of these six domains are composed of fifty specific components. The policies enacted by governments deal with institutions, financial support, regulatory framework incentives, research institutes and venture friendly legislation.

This study in its current form shall assess the regulatory and institutional framework aspect of the entrepreneurship ecosystem in Sultanate of Oman. This assessment shall be done from 2012 to 2019 using the Ease of Doing Business Index as published by the World Bank.

This exercise will help to know the change in ease of doing business in Oman for the years under consideration and thus assess the changes in regulatory and institutional framework aspect of entrepreneurship ecosystem in the country.

## I. Background

The six states of the Gulf Cooperation Council (GCC) have over five million migrant workers – one of the highest concentrations of migrant workers in the world, according to the World Migration Report (2003). This influx of migrant workers began majorly due to discovery of oil in the early 20th century in this region. Moreover, the sudden increase in international oil prices post 1973 led to rapid expansion of Arab economies, resulting to an exodus of expatriate workers from populous countries viz. India, Pakistan, Bangladesh and Sri Lanka. However, in the past ten years the region experienced major overhaul due to financial crisis followed by continuous fall in international crude oil prices. These factors not only influenced the economic aspects in GCC countries, but also influenced their social and political aspects. The fall in oil prices have triggered the possibility of economic slowdown hitting maximum on rise in unemployment in the region. To counter this issue, the governments of the region have adopted nationalization policy.

Sultanate of Oman (hereafter referred as Oman), under the realm of His Majesty Sultan Qaboos has also initiated nationalization policy. Omanization is a policy sanctioned by the government of Oman in 1988 directed at replacing expatriate workers with trained Omani Personnel. Oman sets quotas for various industries to reach in terms of the percentage of Omani to foreign workers. His Majesty himself has proclaimed percentages of Omanization to be met in various areas of the public and private sector. However, it is anticipated that due to development of technology and massive use of alternative fuels, crude oil prices are likely to remain at lower levels for long term. This would affect the income of all the

oil exporting economies including Oman. Hence, with an objective to achieve sustainable economic and social prosperity, Sultanate has recognized the need to reduce the dependency on oil revenues through diversification of economy. The diversification will strengthen private sector and empower the local population to contribute in the development thereby achieving the Omanization goal.

Despite the efforts aimed at Omanization, generating gainful employment has become a mammoth task. Moreover, historically Omanis have extensively travelled for business and trading. The unique geographical location has gainfully supported the business pursuits of citizens of Oman. Today, government of Oman is comprehensively promoting entrepreneurship initiatives among its citizens another way to empower people is to motivate them to be entrepreneur and start their own business. Moreover, entrepreneurship creates jobs and generates economic growth which promotes a stable and civil society. However, to develop a sustainable environment which promotes entrepreneurship within Oman, an effective ecosystem needs to be developed.

### **Entrepreneurship Ecosystem**

The term ecosystem was first used in 1935 in a publication by British ecologist Arthur Tansley (Willis, 1997). Tansley developed the concept to draw attention to the significance of transfers of materials between organisms and their environment. He later refined the term, describing it as "The whole system, including not only the organism-complex, but also the whole complex of physical factors forming what we call the environment" (Tansley, 1935). Later, this concept was diluted and extended to various applied and social sciences, not limiting the discussion up to life sciences. It was also applied in business studies giving rise to business ecosystem, innovation ecosystem, entrepreneur ecosystem, and knowledge ecosystem concepts. These concepts today have implicated significance ascendancy in the business world and numerous studies have been undertaken giving theoretical and empirical justifications.

Initial development stage – research first contributed the evolution of entrepreneurial ecosystem concept. *"The market-based ecosystem allows private sector and social actors, often with different traditions and motivations, ad of different sizes and areas of influence, to act together and create wealth in symbiotic relationship. Such an ecosystem consists of wide variety of institutions coexisting and complementing each other."* (Prahalad, 2005, p. 65). He was first to apply this concept to entrepreneurship and further stressed on building economic wealth and prosperity of future generation. *"The entrepreneurship ecosystem consists of a set of individual elements—such as leadership, culture, capital markets, and open-minded customers—that combine in complex ways"* (Isenberg, 2010, p. 4). Isenberg focused in his findings on government's efforts in building a sustainable entrepreneurship and related environment through direct or indirect policy interventions. Moreover, he stressed further that in spite of dynamic challenges, viz legal framework or cultural biases, entrepreneurial ecosystem has contributed phenomenally in developing and emerging economies. In these economies, the poorest socioeconomic section has been the most active in developing innovative business models and starting new ventures – bottom of pyramid (BoP) (Prahalad & Ramaswamy, 2004).

It can be further inferred from the above definitions that an entrepreneurial ecosystem is a unique type of ecosystem which combines various stakeholders, individuals, firms and supporting organizations which in spite of their fundamental differences in their objectives collectively contribute to economic growth (Suresh & Ramraj, 2012). Significant research has been undertaken in contribution and expansion of the ecosystem concept in business studies. Today there are four ecosystems particularly influencing entire ecosystem taxonomy viz, Business Ecosystem (Moore, 1996), Innovation Ecosystem (Adner, 2006), Entrepreneurial Ecosystem (Prahalad, 2005) and Knowledge Ecosystem (Clarysse et al., 2014). As there are multiple ecosystems, it becomes important to classify the invariant characteristics influencing particularly entrepreneurship ecosystem. The following diagram will help in better understanding of factors influencing and the outcome derived through effective implementation of entrepreneurship ecosystem in any economy.

It is an ecosystem that is purposeful in collaborating network of dynamic interacting systems and subsystems that have an ever-changing set of dependencies within a given context (Matthews CH, 2015). Nascent entrepreneurs who are individuals in the process of launching a new venture, are at the heart of this system. These entrepreneurs represent a sub-set of the adult population in a given country. The attitudes that prevail within the wider population influence who chooses to become an entrepreneur. The nascent entrepreneurs are characterized by varying degrees of ability and entrepreneurial aspirations. These entrepreneurs usually start their entrepreneurial ventures as Small and Medium Enterprises (SMEs) and the success in their initial ventures, motivate them to move further.

In recent years, many models have been developed to gain a better understanding of development of entrepreneurship ecosystems, notable among them are Isenberg (2011) and Stam (2015) framework. This study shall concentrate towards Isenberg's model of entrepreneurship ecosystem as represented in figure 2.

As can be seen from the above figure, the Isenberg (2011) framework, suggests that the entrepreneurship ecosystem must include six key dimensions with twelve elements incorporated together. These are:

- Policy (leadership, government);
- Finance (financial capital);
- Culture (success stories, societal norms);
- Supports (infrastructure, support professions);
- Human capital (labour, educational institutions); and
- Markets (early customers, networks) (Isenberg 2011)

Governments have the enormous task of fostering an enabling environment for entrepreneurs and SMEs. Government's role is not restricted to provision of credit for the SMEs but also to provide policy directive measures that resonate with the multiple stakeholders who nurture and promote the growth of entrepreneurship ecosystems. The policies enacted by governments deal with institutions, financial support, regulatory framework incentives, research institutes and venture friendly legislation.

The government in its institutional role strives to develop, foster and monitor regulatory framework which influences the development of new businesses and expand the existing business.

In this study, an assessment with regards to policy framework which results into regulatory framework for the SMEs shall be undertaken with regards to Oman.

### **Ease of Doing Business**

Ease of Doing Business (hereafter referred as Doing Business (DB) is a measure of the regulatory framework existing for SMEs in a country. This index developed by the World Bank measures the following areas pertaining to SMEs in a country, right from starting a business to resolving insolvency. The following figure depicts the areas measured by DB

The details of these eleven areas of business regulation as measured by DB are as shown in the following Table 1:

Table 1  
Indicator sets and Areas measured by DB

<b>Indicator Set</b>	<b>Areas measured</b>
Starting a business	Procedures, time, cost and paid-in minimum capital to start a limited liability company for men and women
Dealing with construction permits	Procedures, time and cost to complete all formalities to build a warehouse and the quality control and safety mechanisms in the construction permitting system
Getting electricity	Procedures, time and cost to get connected to the electrical grid, the reliability of the electricity supply and the transparency of tariffs
Registering property	Procedures, time and cost to transfer a property and the quality of the land administration system for men and women
Getting credit	Movable collateral laws and credit information systems
Protecting minority investors	Minority shareholders' rights in related-party transactions and in corporate governance
Paying taxes	Payments, time and total tax and contribution rate for a firm to comply with all tax regulations as well as post filing processes
Trading across borders	Time and cost to export the product of comparative advantage and import auto parts
Enforcing contracts	Time and cost to resolve a commercial dispute and the quality of judicial processes for men and women
Resolving insolvency	Time, cost, outcome and recovery rate for a commercial insolvency and the strength of the legal framework for insolvency
Labor market regulation	Flexibility in employment regulation and aspects of job quality
Source: Report on Doing Business 2019: Training for Reform	

At present, DB provides quantitative indicators on regulating business related to only the first ten areas. The last area of labour market regulation, though studied under DB is not included while quantifying the ease of DB.

Since its inception in 2003, this index assesses regulatory and institutional framework for SMEs of a country which leads to its inclusive and sustainable economic growth. These variables represent the various factors important for the functioning of SMEs that lead to their success. DB comprises of two measures – score and rank. The ease of DB score reflects the gap of each economy from the best regulatory performance observed on each of the indicators across all economies in the sample since 2005. This score is reflected on a scale from Zero to One Hundred, where Zero represents the lowest and One Hundred represents the best performance. Similarly, the ease of DB ranking ranges from One to One Hundred and Ninety (Doing Business, 2019).

## **li. Methods**

This study in its current form shall assess the regulatory aspect of entrepreneurship ecosystem in Oman. This assessment shall be done from 2012 to 2019 using the Ease of DB Index as published by the World Bank.

This exercise will help to know the change in ease of doing business in Oman for the years under consideration and thus review the regulatory aspect of entrepreneurship ecosystem for SMEs in the country.

The methodology used for the calculations of the scores have undergone change three times in 2015, 2016 and 2017. Some of the indicators used for calculating the DB have also undergone changes. For the purpose of maintaining uniformity, equivalent scores have been taken for the years when there was a change in methodology. As such the scores used for all the areas of DB in this exercise reflects the DB 17-19 methodology.

## **lii. Results**

With a score of 67.19, today Oman holds a rank of 78 in the ease of DB among 190 countries of the world. Changes in the rank and score for Oman in 2019 as compared to 2012 are presented in the following Table 2.

Table 2  
Ease of DB rank and score for Oman for 2012 and 2019

Indicator Set	Rank (2019)*	Score (2019)	Rank (2012)**	Score (2012)
Ease of doing business	78	67.19	47	66.79
Starting a business	37	92.89	73	72.53
Dealing with construction permits	66	72.05	59	72.12
Getting electricity	66	79.34	54	76.70
Registering property	52	74.03	18	88.16
Getting credit	134	35.00	83	50.00
Protecting minority investors	125	46.67	100	50.00
Paying taxes	12	90.16	10	92.66
Trading across borders	72	79.39	49	77.29
Enforcing contract	73	60.02	107	50.07
Resolving insolvency	100	42.34	77	38.42
Source: Various DB reports				
*Ranks and scores for DB 2019 includes 190 countries				
** Ranks and scores for DB 2012 includes 183 countries				

Areas measured by DB for Oman as shown in the above table, reveal the following:

**Starting a business:** Oman stands at a ranking of 37 , which is higher as compared to its ranking of 73 in 2012. The score for this parameter indicates a change from 72.53 to 92.89. However, as compared to MENA's 2019 score of 82 and rank of 113, Oman's performance is better than its counterparts in the region.

#### **Dealing with construction permits**

Oman stands at a ranking of 66 which is below the rank of 59 in 2012. The score for this parameter has changed marginally from 72.12 to 72.05. When compared to the ranking of 98 for MENA region with a score of 59.17, it is evident that Oman stands to fare better.

#### **Getting electricity**

The score for Oman for this area has improved from 76.70 to 79.34 in a span of seven years. However, ranking of Oman has fallen from 54 to 66 during this time period. Compared to the regional MENA

average ranking of 94 at a score 69.45, Oman stands above its counterparts of the region.

### **Registering property**

The score of Oman for this area has shown a decrease from 88.16 in 2012 to 74.03 in 2019. This decrease in score is reflected in a sharp decline in rank of Oman from 18 to 54. However, the position of Oman is better than the regional average ranking of 90 for MENA with a score of 62.11.

### **Getting credit**

Oman stands at a ranking of 134, which is lower when compared to its ranking of 83 in 2012. This decline in ranking is reflected in a decrease of score for this parameter from 50 to 35 during this time period. When compared to MENA's 2019 score of 30 and rank of 126, Oman's performance score is better but ranking is lower than its counterparts in the region.

### **Protecting minority investors**

The ranking of Oman in this area has fallen from 100 to 125, which is reflected by a downfall in the score from 50 in 2012 to 46.67 in 2019. When compared to MENA's score of 51.83 and ranking of 101, it is seen that Oman lags behind its regional counterparts.

### **Paying taxes**

Oman's ranking for this area has marginally slipped down from 10 to 12 and this is reflected in a marginal decline in its score from 92.66 in 2012 to 90.16 in 2019. However, the rank and score of Oman is better than the regional average rank of 83 which is earned by a score of 74.52.

### **Trading across borders**

Though Oman's ranking in this area has slipped from 49 in 2012 to 72 in 2019, the scores show a marginal improvement from 77.29 to 79.39 for the same time frame. When compared to the regional average score of 60.17 and a rank 121, Oman stands at a better position than its counterparts.

### **Enforcing contracts**

Oman's ranking has improved from 107 in 2012 to 73 for 2019. This improvement in ranking is reflected in the increase in score from 50.07 to 60.02 for the same time frame. However, Oman's position is better than the average rank of 105 for MENA with a score of 55.04.

### **Resolving insolvency**

Though the score was this area has improved from 38.42 for 2012 to 42.34 for 2019, the rank shows a sharp decline from 77 to 100 during the same time period. For 2019, Oman stands ahead of the MENA regional average rank of 121 and score of 32.69.

## IV. Discussion

The analysis undertaken indicates that Oman has improved on majority of indicators since 2012. The improvement in the scores among the indicators gives an evidence that the government is successfully contributing in fostering conducive entrepreneurship ecosystem. These changes in the ranks and score of Oman for ease of DB has been possible due to a number of initiatives undertaken by the government and other regulatory and institutional bodies of the country. The following exhibit 1 provides a list of reforms undertaken by Oman to ease the DB for SMEs in Oman.

### Exhibit 1: Business Reforms in Oman from 2012 to 2019

#### DB 2019

Oman made paying taxes more costly by increasing the corporate income tax rate and by eliminating the tax exemption on the first 30,000 Omani rials (\$78,000) of taxable profits.

#### DB2018

Oman made exporting and importing easier by enhancing its online single window system for exports and imports, reducing the time required for documentary compliance.

#### DB2017

Oman made starting a business easier by removing the requirement to pay the minimum capital within three months of incorporation and streamlining the registration of employees.

Oman reduced the time for border and documentary compliance by introducing a new online single window/one-stop service that allows for fast electronic clearance of goods.

#### DB2016

Oman improved the regulation of outages by beginning to record data for the annual system average interruption duration index (SAIDI) and system average interruption frequency index (SAIFI).

Oman reduced the time for border compliance for both exporting and importing by transferring cargo operations from Sultan Qaboos Port to Sohar Port.

#### DB2013

Oman improved access to credit information by guaranteeing borrowers' right to inspect their personal data.

Oman reduced the maximum number of working days per week and increased the paid annual leave applicable for employees with one year of service.

#### DB2012

The one-stop shop in Oman introduced online company registration and sped up the process to register a business from 7 days to 3 days.

Oman improved its credit information system by launching the Bank Credit and Statistical Bureau System, which collects historical information on performing and nonperforming loans for both firms and individuals.

Source: Report on Business reforms in Middle East and North Africa (MENA) for 2019

As is evident from the above exhibit, Omani government and institutions have taken numerous steps to create a supportive entrepreneurship ecosystem for SMEs in the country. These initiatives have resulted in an overall better DB score of 67.19 for 2019 as compared to 66.79 for 2012. Though this a marginal enhancement of score, it reflects the combined changes in different areas of the index. To know the comprehensive change for Oman in the ease of DB score, it is essential to know the change in the area wise scores from 2012 to 2019. These changes for all areas of DB are presented in the figure 4.

As can be seen from the above figure, Oman has achieved a notable increase of 28.07% in the scores for starting a business over a time frame of 7 years. This substantial increase in score of starting a business is reflected in an enhancement in rank from 73 in 2012 to 37 in 2019. On the other hand, getting credit is an area which has failed to show an improvement. In fact, the results depict that for this area, the scores have fallen by 30% over the years and so has the ranking. Areas like enforcing contract, resolving insolvency, getting electricity and trading across borders have shown positive improvement in ease of DB scores. However, areas related to dealing with construction permits, paying taxes and registering property need attention of the policy makers, as they have not shown improvement to keep up with the requirements of the SMEs.

## V. Conclusion

Entrepreneurship ecosystems have been instrumental in promoting and nurturing entrepreneurs in any country. The governments play a paramount role in developing these ecosystems to achieve sustainable developments for their citizens. The regulatory framework of countries not only help to monitor but also eases development of business.

Ease of DB index accords scores to countries assessing their regulatory framework. Currently countries like New Zealand, Singapore and Denmark leads the tally among one hundred ninety countries included in the Ease of DB index. Oman with a score of 67.19 for 2019 exhibits an improvement over its score of 66.79 in 2012. Nevertheless, the DB ranking has slipped from 47 in 2012 to 78 in 2019. The fall in ranking may not be attributable towards lack of government initiatives to improve the regulatory framework. However, the rate of improvement in regulatory framework among other countries has outweighed the initiatives introduced by government of Oman.

To promote entrepreneurship in Oman, the government will have to initiate policy measures aimed at further strengthening and improving the legal framework. This initiative on part of the government coupled with similar initiatives from support institutions, private sector and other stakeholders will promote, nurture and foster entrepreneurship and thereby augment the entrepreneurship ecosystem in Oman.

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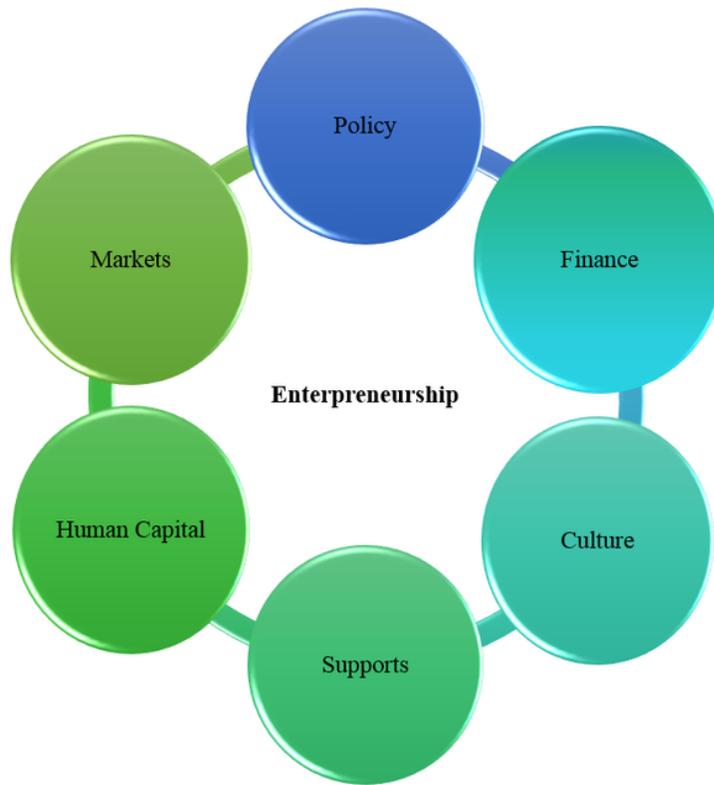
## Figures



**Figure 1**

Factors influencing and outcome of entrepreneurship ecosystem

Source: Authors' representation



**Figure 2**

Isenberg's Model of Entrepreneurship Ecosystem

Source: Author's representation based on Isenberg (2011)

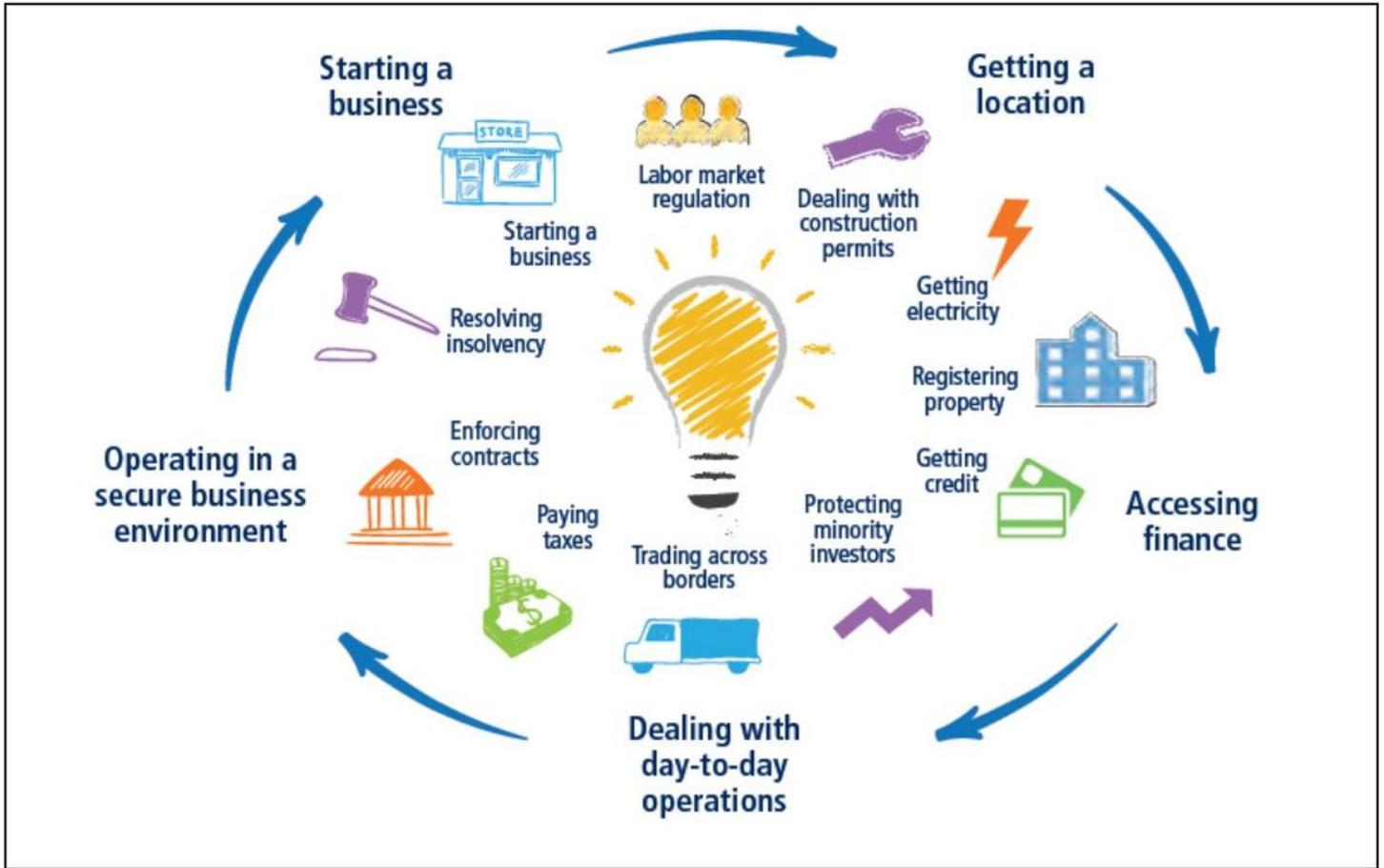
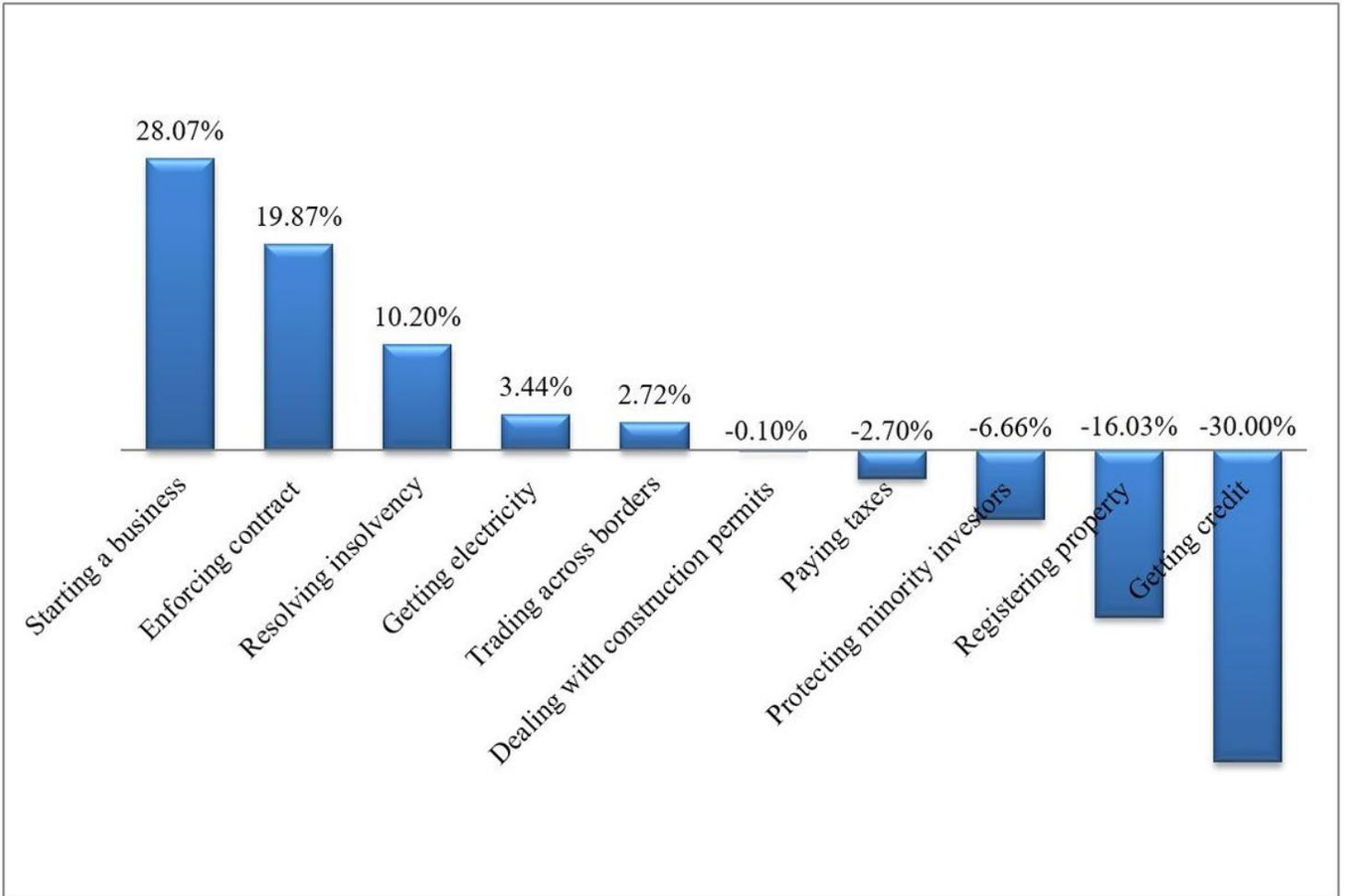


Figure 3

Areas measured by DB

Source: Doing Business database



**Figure 4**

Change in scores of Ease of DB from 2012 to 2019