

THE EFFECT OF RISK MANAGEMENT
AWARENESS ON FINANCIAL
PERFORMANCE OF SMALL
AND MEDIUM
ENTERPRISES
IN OMAN

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SULTAN IDRIS EDUCATION UNIVERSITY

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THE EFFECT OF RISK MANAGEMENT AWARENESS ON FINANCIAL
PERFORMANCE OF SMALL AND MEDIUM
ENTERPRISES IN OMAN

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ABSTRACT

Small and Medium Enterprises (SMEs) play an important role across all industries and are the key contributor to the achievements in the national and global economies. The objective of this study is to investigate the effect of risk management awareness on financial performance of Small and Medium Enterprises (SMEs) in Oman by focusing on the relationship between the factors of risk management awareness towards the impact on financial performance in Oman. The study adopts a quantitative research approach using primary survey. Data in this study were collected via questionnaire which was administered to 400 respondents drawn from among Oman-based SMEs. The data analysis was conducted through a quantitative analysis involving descriptive analysis and One-Way Analysis of Variance (ANOVA). The findings of regression analysis showed significant effect of risk management decision on financial performance in Oman. The findings further showed a significant effect of risk management strategies, orientation, and education on financial performance of SMEs in Oman. However, findings showed no significant effect of risk management method on financial performance of SMEs in Oman. The study recommends continuous development of skills and capacity of the workforce in supporting the growth and development of businesses. This can be done through the reformation of health, transport, and ICT sectors with the influences of factors like SMEs' risk management decision, method, strategies, orientation, and education.





KESAN KESEDARAN PENGURUSAN RISIKO TERHADAP KEWANGAN PRESTASI PERUSAHAAN KECIL DAN SEDERHANA DI OMAN

ABSTRAK

Perusahaan Kecil dan Sederhana (PKS) memainkan peranan penting dalam semua industri dan merupakan penyumbang utama kepada pencapaian dalam ekonomi global dan negara. Objektif kajian ini adalah untuk menyiasat kesan kesedaran pengurusan risiko terhadap prestasi kewangan Perusahaan Kecil dan Sederhana (PKS) di Oman dengan menfokuskan kepada hubungan antara faktor kesedaran pengurusan risiko terhadap impak ke atas prestasi kewangan. Kajian ini menggunakan pendekatan kajian kuantitatif menerusi tinjauan primer. Data yang digunakan dalam penyelidikan ini dikumpul melalui soal selidik yang diberikan kepada 400 orang responden yang diambil dalam kalangan PKS yang berpangkalan di Oman. Analisis data dilakukan melalui analisis kuantitatif yang melibatkan analisis deskriptif dan Analisis Varian Sehala (ANOVA). Berdasarkan analisis regresi, terdapat kesan signifikan pengurusan risiko terhadap prestasi kewangan di Oman. Dapatan selanjutnya menunjukkan terdapat kesan signifikan strategi pengurusan risiko, orientasi pengurusan risiko dan pendidikan pengurusan risiko terhadap prestasi kewangan PKS di Oman. Namun begitu, dapatan turut menunjukkan tiada kesan signifikan kaedah pengurusan risiko terhadap prestasi kewangan PKS di Oman. Kajian ini mengesyorkan keperluan dan kepentingan pembangunan kemahiran dan kapasiti tenaga kerja secara berterusan dalam menyokong pertumbuhan dan pembangunan perniagaan di negara ini. Usaha ini dapat dilaksanakan menerusi pembaharuan dalam bidang kesihatan, pengangkutan, dan teknologi maklumat yang dipengaruhi faktor seperti keputusan, kaedah, strategi, orientasi, dan pendidikan pengurusan risiko PKS.



CONTENTS

	Page
DECLARATION OF ORIGINAL WORKS	ii
DECLARATION OF THESIS	iii
ABSTRACT	iv
ABSTRAK	v
CONTENTS	vi
LIST OF FIGURES	x
LIST OF TABLES	xi
LIST OF ABBREVIATIONS	xii
CHAPTER 1 INTRODUCTION	
1.1 Background to the Study	1
1.2 Statement of the Problem	16
1.3 Research Questions	23
1.4 Objectives of the Study	23
1.5 Significance of the Study	24
1.5.1 Theoretical Significance:	25
1.5.2 Practical Significance	26
1.6 Scope of the Study	26
1.7 Operational Definition	27
1.8 Summary of the Chapter	29
CHAPTER 2 THEORETICAL BACKGROUND AND LITERATURE REVIEW	
2.1 Introduction	31
2.2 Overall of Risk Management	31
2.3 Evidence of Risk Management Awareness	37

2.4	The Concept of Risk Awareness	70
2.5	The Concept of Financial Performance	74
2.6	Risk Awareness Factors Influencing Financial Performance	75
2.6.1	Decision	75
2.6.2	Strategies	81
2.6.3	Method	86
2.6.4	Education	87
2.6.5	Orientation	92
2.7	Theoretical Review	96
2.7.1	Institutional Theory	96
2.7.2	Diffusion of Innovation Theory	97
2.7.3	Contingency Theory	98
2.8	Empirical Review	98
2.9	Research Gaps	136

CHAPTER 3 METHODOLOGY

3.1	Introduction	142
3.2	Research Design	143
3.3	Theoretical Framework	145
3.4	Hypotheses	147
3.4.1	Risk Management Decision – Financial Performance Link	147
3.4.2	Risk Management Strategies– Financial Performance Link	149
3.4.3	Risk Management Method – Financial Performance Link	151
3.4.4	Risk Management Orientation– Financial Performance Link	152

3.4.5	Risk Management Education– Financial Performance Link	154
3.5	Data Collection Procedure and Instrument	156
3.6	Population and Sample Size of the Study	161
3.7	Method of Data Analysis	166
3.8	Reliability and Validity	171
3.9	Pilot Test	171

CHAPTER 4 DATA ANALYSIS AND FINDINGS

4.1	Introduction	176
4.2	Data Analysis	177
4.2.1	Analysis of Demographic information	177
4.2.1.1	Gender of Participants	177
4.2.1.2	Age of Participants	178
4.2.1.3	Estimated Number of Employees in the Businesses	179
4.2.1.4	Experience in the Company	179
4.2.1.5	The Current Employment Level in the Company	180
4.2.2	Analysis of Structural Questions	181
4.2.2.1	Ratings of financial performance	181
4.2.2.2	Risk Management Decisions	181
4.2.2.3	Risk Management Strategies	187
4.2.2.4	Risk Management Method and Education	192
4.2.2.5	Risk Management Orientation	197
4.3	Test of Hypotheses	202
4.3.1	ANOVA Analysis	203

4.3.2 Regression Coefficients 204

4.3.3 Model diagnosis 207

CHAPTER 5 DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.1 Discussion 209

5.2 Summary 239

5.3 Conclusion 242

5.4 Recommendations and Suggestion for Further Studies 244

REFERENCES 246

APPENDICES 265

LIST OF FIGURES

Figure No.		Page
2.1	ERM framework (Ekwere, 2011).	44
2.2	SME success proficiency requirement ecosystem (Saleem, 2017).	47
2.3	Strategies over the next three years to secure skilled (Oxford Economics, 2019)	68
3.1	Study Framework, 2022	146
4.1	Gender	177
4.2	Age of participants	178
4.3	Estimated number of employees in the businesses	178
4.4	Experience in the company	179
4.5	The current employment level in the company	180
4.6	Ratings of financial performance	181

LIST OF TABLES

Table No.		Page
1.1	Variations in Definition of SMEs across the Globe	5
2.1	Literatures Mapping Summary	112
2.2	Risk Factors for Operational Areas	137
3.1	Pilot Study	174
4.1	Risk Management Decisions	182
4.2	Understanding of risk management strategies	187
4.3	Risk Management Method and Education	192
4.4	Risk management orientation	197
4.5	Regression Model Summary	202
4.6	ANOVA	203
4.7	Regression Coefficients	204
4.8	Correlations	205
4.9	Model Summary	207
4.10	Dependent Variable: Financial performance	208



LIST OF ABBREVIATIONS

ANOVA	Analysis of Variance
AFED	Arab Forum for Environment and Development
AI	Artificial Intelligence
BIE	Business Innovation Environment
CBO	Central Bank of Oman
CEO	Chief Executive Officer
ERM	Enterprise Risk Assessment
EM	Entrepreneurial marketing
EO	Entrepreneurial orientation
EOD	Entrepreneurial orientation dimension
FMCG,	Fast-Moving Consumer Goods
GCC	Gulf Cooperation Council
GDP	gross domestic product
GICS	Global Industry Classification Standard
GEF	Global Environment Facility
GAS	good accounting system
GCF	Green Climate Fund
HRM	Human Resource management
ICT I	information and communication technology
ILO	International Labor Office
ICV	In-Country Value
ICV	In-Country Value
IPR	Intellectual Property Rights
IPR	Intellectual Property Risk





ISO	International Standards Organization
KIE	Knowledge Is Everything
KIEs	Knowledge-Intensive Enterprises
MSB	Mean squares between groups
MSE.	Mean squares of errors
MENA	Middle East/North Africa
MSME	Micro Small and Medium Enterprises
MOCI	Ministry of Commerce and Industries
NCSI	National Centre for Statistics and Information
OECD	The Organization for Economic Cooperation and Development
PDO	Petroleum Development Oman
R&D	Research and development
RBV	Resource-based view
RM	risk management
ROI	Return on Investment
SMFE	Small and Medium Family Enterprises
SME	Small and Medium Enterprises
SRM	Strategic risk management
SDG	Sustainable Development Goals
TQM	Total Quality Management.
WEF	World Economic Forum's





CHAPTER 1

INTRODUCTION



1.1 Background to the Study



The issues and challenges of financial performance of Small and Medium Enterprises (SMEs) both in the developed and developing nations have become serious topic of debate. The success of SMEs has shown direct positive impact on the economic growth and development across countries of the world (Mohammed, 2014). For many decades, SMEs have caught the attention of the world. This is due to the vital role SMEs play in sustaining economic development of many countries in the world (Eniola & Ektebang, 2014).

SMEs contribute immensely to the improvement of economic growth and development, in providing stream engine for the establishment of wealth, employment generation, capacity building as well as development of entrepreneurial





skills which required in economy of the world, as their activities cover all areas of businesses such as manufacturing, services, wholesaling, mining, retailing and many others (Solomon, Urassa & Allan 2016). Hence, SMEs have been recognized as an engine for economic development in many countries' economies (Boachie, Mensah & Acquah, 2015).

The role of SMEs in the economic development of a country is well established as the sector is the bedrock of entrepreneurship and innovation which is normally driven by individual creativity that leads to job creation, poverty reduction, wealth creation, income distribution and reduction in income disparity (Boachie et al 2015).



(Zemberi, 2014). The role of SMEs in the supply chain is influenced by the target consumers that can be other businesses, organizations government or end-consumers (Pantano, 2014).

The ILO (International Labour Organization) identifies that there are 22 major industries and sectors that are operational across the globe with minor industries and businesses within these major sectors (ILO, 2019), while the Global Industry Classification Standard (GICS, 2019) highlighted 11 business sectors that include energy, materials, industries, consumer discretionary, consumer staples, health care, financial information technology, communication services, utilities, and real estate. Among these 11 sectors, the GICS has identified 24 industry groups, 69 industries, and 158 sub-industries, which all offer opportunities for SMEs.





Oman is in very geographically located in critical location a where Oman is positioned at the centre of the markets of the Gulf Cooperation Council (GCC) 's countries, the southeast corner of the Arabian Peninsula at the junction of Africa, Asia and the Middle East. Due to this, Oman can be a hub place for all surrounded countries to export and import business. Hence, SMEs can be playing a major player in Omani's economic contribution. SMEs has a high opportunity to bring word business in Oman.

In Oman, SMEs are placed into three groups. Firms with less than 10 employees are categorized as Micro – SMEs (MSME), those above 10 employees and not more than 250 are classified as SMEs and those with above 250 employees are Macro-enterprises as identified by ILO (2015). These three groups are advocate are advocates of the sustainability of SMEs for their contributions to employment generation globally. SMEs bring about creativity to entrepreneurs for utilization of natural resources of a nation industrial specifically in development and economic growth circle (Eniola & Ektebang, 2014). SMEs contribute to innovation by providing various entrepreneurial enhancement which leads to the economic improvement (Mahmood & Hanafi 2013). Profit making has been recognized as the main motive of SMEs theoretically and in practice (Adeyanju, 2012).

SME varies from country to country, but it is usually based on employment, assets or a combination of the two (Kumar, 2012). Different criteria are used in defining SMEs, depending on each country's view Not only different countries use different definitions to identify SMEs, even within countries, different institutions adopt varying definitions (Gamage, 2013). As posited by the World Bank (2013),





total numbers of employees and assets values of an enterprise are used in defining SMEs. Therefore, using these criteria, it is easy to differentiate between SMEs and large firms. However, as stated by Bouriet al. (2011) and World Bank (2013), the combination of the criteria mentioned above formed the basis of SMEs definition.



Table 1.1

Variations in Definition of SMEs across the Globe

Organization	Definition	Explanation
World Bank	Small – up to 50 employees, total asset and total sales of up to \$3 million.	It is one of the most widely used definitions in internationalization studies for the purpose of comparability. It was defined in 2002.
Asian development Bank	Medium – up to 300 employees, total asset and total sales of up to \$15 million. No official definition	Adopts the country definition
European Union	Small – less than 50 employees, annual turnover of less than Euro 10 million or balance sheet total less than Euro 10 million.	The EU officially defines micro enterprises as well. The definition was introduced in 2005.
USA	Medium – up to 300 employees, total asset and total sales of up to \$15 million. Definition depends on the type of economic activity or industry – Usually SMEs are defined as less than 500 employees.	Defined in the North American Industry Classification System. Published in Small Business Administration website
UK	Similar criteria as EU definition. But expressed in Companies Act of 2006 as Pound values.	
Japan	Small – less than 20 employees in manufacturing sector and less than 5 in commerce and service sector. Medium – less than 300 employees and less than 300 million yen capital (For manufacturing sector).	Defined by SME basic law (Amended 1999) Different definitions are available for wholesale, retail and services sectors.

(continue)

Table 1.1 (continue)

Organization	Definition	Explanation
India	<p>Small – Investment in plant and machinery is more than Rs. 25 lakh but does not exceed Rs. 5 core.</p> <p>Medium – Investment in plant and machinery is more than Rs.5 core but does not exceed Rs. 10 core.</p>	<p>Defined by the Reserve Bank of India in 2006. Widely used in Indian context as well-agreed definition. A different definition.</p>
Malaysia	<p>Manufacturing – Full-time employees not exceeding 150 or with annual sales turnover not exceeding RM25 million.</p>	<p>Defined by National SME Development Council (NSDC) in 2008 and used as a single accepted definition in Malaysia.</p>
Oman	<p>Service and agriculture - Full-time employees not exceeding 50 or with annual sales turnover not exceeding RM5 million.</p> <p>Micro Enterprises – These are businesses that have less than five (5) employees and annual sales of less than O.R 25,000</p> <p>Small Enterprises – These are business that employ five to nine workers and have an annual sale of between O.R 25,000 to O.R 250,000</p> <p>Medium Enterprises – These are business with ten to ninety-nine employees (10 – 99) and annual sale of between O.R 250,000 to O.R 1.5 million.</p>	

Source: National MSME Survey Report, 2019



The Sultanate of Oman is impressive by the level of development in attempting to limit the overreliance on oil revenues. These changes are positive evidence that indicate the growth of SMEs contribution to the economy. This has been through employment, diversification of the economy and reduction in the reliance on oil revenues (Al-Badi, 2022). SMEs are expected to play a critical role in the country's GDP (Gross Domestic Product) with the increase focus by both the public and private sectors to improve their contribution to the economy. According to (Al-Badi, 2022) Omani SMEs saw revenues earned through the In-Country Value (ICV) programme grow by around 14 per cent of total spending last year, according to the Ministry of Energy and Minerals.

Various programs such as Public Establishment for SMEs Development in Riyadh, coupled with initiative by the Petroleum Development Oman (PDO), have raised the awareness on developing SMEs in the country and other entities in the country have also contributed immensely in the development of SMEs in the recent years. For instance, Haya Water has supported SMEs development program by offering a large percentage of its projects to the SMEs. This is reflected in the effort by the company to award more than RO1 (Return on Investment) million in closed tenders and more than half a million Omani Rials in open tenders for SMEs in 2017 (Kthaneth, 2018). Muscat Daily (2013) reported that there were about 160,000 to 170,000 SMEs operating in the country, but the active ones are less than 70,000. Furthermore, only a few of these active businesses are operated by Omanis. In addition, SMEs contribute about 13 - 14 percent of the Oman GDP. Since 2013, there have been efforts to increase this contribution to about 20 percent. In addition, this





is attributed to the fact that SMEs in country offer quality products despite challenges emerging in the quality of designs and packaging.

SMEs form a critical part of the strategic development that was first initiated in Oman in 1995 by establishing Vision 2020 as a means of steering the country towards a sustainable and diversified economy (Al Badi, 2019). According to Nusair (2016), the government planned to use the revenue from oil to boost investments in other sectors, which is reflected in PDO's strategy in promoting SMEs in the country. The government focused on ten key sectors that are related to SMEs, which are manufacturing, transport and logistic, services, tourism, fisheries and mining, ICT, education, health, agriculture, and environment (Callen et al., 2014). The country has also focused on Omanizing the SMEs sector, which promotes the role of Omani citizens in the economy by reducing the number of foreign workers considering that many businesses among SMEs are still owned and operated by foreigners. (Ashrafi & Murtaza, 2013).

To achieve these objectives, there has been growing support for SMEs in Oman. The country has also set Vision 2040, and the preliminary reports are focused on supporting SMEs by establishing strategic relationships with large organizations (Pria, 2018). Since 2017, the country has a five-year plan that focuses on boosting SMEs through technical support (Al-Abri, Rahim, & Hussain, 2018). Government projections show that the initiative will lead to the growth of 1878 jobs and contribute about \$35.1M of the GDP in 2020 (Times News Service, 2017). Further support has been offered through the allocation of land to SMEs across the country and policy changes that require the national projects to procure 10% of supplies and tenders





directly to SMEs. SMEs account for about 15% of the GDP, and this is set to double in the medium term with increased opportunities (AlMaimani & Johari, 2015). In 2017, the contribution from SME has increased to Oman's GDP about 23% (Kutty, 2017).

Despite government effort, the success of SMEs largely depends on the availability of credit facility to businesses. In 2018, the Central Bank of Oman (CBO) showed that access to credit for the private sector rose by 4.9% to \$57.2 (Alshubiri, 2015). Although credit is increasing, it remains a challenge for SMEs to access adequate funding. For instance, the National Program for Enhancing Economic Diversification reported that in July 2017, SMEs only had access to 13% of the total credit (AlMaimani & Johari, 2015). Additionally, the perceived high risks in the SMEs businesses serve as a deterrent for investors, hence, limiting the funding access to businesses (Demirbas, Hussain & Matlay, 2011). With the numerous risks experienced by SMEs, including threats emerging from the adoption of new technologies, financial risks, changes in regulation, and lack of resources and professionals show that there is a need to understand the environment in which the businesses operate and the measures that will support their development (Babicci & Wongsurawat, 2018).

SMEs are perceived to be drivers of economic development which drives to development contributes to competitiveness and economic growth of the countries. The risks faced by SMEs require an understanding of the economic, law, psychology, and other factors that have impact on the business and the stakeholders involved. Large organizations often have strategic practices in the management of risks, which





is associated with the impact of uncertainties on the company value and performance (Hoyt & Liebenberg, 2011). But, Verbano and Venturini (2013) and Liao and Barnes (2015) suggested that the lack of knowledge and scarce resources limit the need for effective risk management measures among SMEs.

Education and environment present favourable conditions for internet-based communication and marketing strategies that led to the integration of marketing and entrepreneurial orientations on how SMEs reach the target population (Mazzarol, 2015). In this context, businesses need to be more creative and innovative to grab the attention of internet users as well as use the right channels to maximize the number of people reached by the information (El-Gohary, 2010).



The integration of marketing and entrepreneurial orientations influences how

the SMEs develop and deliver marketing information. These undertakings present numerous risks, coupled with those associated with the use of internet services such as cyber-attacks (Mazzarol, 2015). E-commerce is a relatively new approach to how business is conducted in Oman, which implies that SMEs and entrepreneurs often lack insights on the risks that exist in the marketing process (Dlodlo & Dhurup, 2010). According to Rajasekar and Al Raei (2013), with the increased internet penetration in Oman, there is no doubt that SMEs will continue to exploit internet-based communication channels for marketing purposes.

Addressing the risks that emerge in the e-marketing process can substantially contribute to the achievements gained by SMEs in Oman. Although e-marketing is prominent among SMEs, there are other strategies used by entrepreneurs, including





traditional television, radio, and newspaper marketing (Mazzarol, 2015). For the MSMEs that lack the financial capacity to pay for marketing services, they rely on word-of-mouth, which is facilitated by satisfied customers, employees, and business owners (Gyanwali & Bunchapattanasakda, 2019).

Watson, McCarthy and Rowley (2013) highlighted those risks associated with marketing largely emerge in the content of the message and how it is delivered to consumers. The entrepreneurial marketing approaches that tend to minimize the cost of the process can be detrimental due to the lack of formal processes that ensure the information and delivery channels reflect the cultural aspects of the business and communicate the value the products and services extend to the consumers. Additionally, the lack of effective market intelligence can result in the delivery of information that does not appeal to the customers (Storm, Vendel & Bredican, 2014). This is reflected in the pricing strategies used by SMEs. Prices are important in how businesses gain a competitive advantage based on the value of products and services. It can also be a source of risk where low prices are likely to attract customers, while higher prices tend to make the products and services unattractive. Communicating the right price requires an in-depth analysis of the costs and objectives as well as the industry trends (Yan, 2010). Resultantly, the SMEs' marketing strategies must project a desirable mix of prices that are justifiable in the value of products or services.

Considering that SMEs often use different channels to communicate the prices, there is a need for consistency in the information consumed by the target audience (Kucuk, 2011). For instance, the information posted on Facebook should





be consistent with that posted on Twitter. Inconsistencies in the messages can lead to loss of reputation and trust among the consumers. By adopting appropriate marketing strategies, the SMEs are expected to have improved financial performance (Dlodlo & Dhurup, 2010).

Education and strategies indicated to the processes and resources that facilitate the development of products and services that a business market to the consumer. In a dynamic and highly competitive business environment, the production process is a key source of competitive advantage (Boivin, Durif& Roy, 2011). Its effectiveness and efficiency influence the costs incurred and the profits gained. The strategies employed in the production process determine the quality and quantity of items offered by the business. The production processes across different businesses are affected by various aspects of the free market economy, rapid technological advancements, and the changing consumer demands (Kumar, Srivastava, Jain& Patel, 2015).

Minimizing challenges faced in the strategies process is inherent in the achievements made by SMEs in reducing costs, creating competitive advantage, meeting customer demands, and developing the potential for expansion. For the SMEs to cope with the current business trends, there is a need to develop flexibility, improve quality standards, and remain innovative in production processes (Verbano & Venturini, 2013). To achieve this, businesses focus on attaining overall system reliability. According to Haddara and Zach (2012), this includes reliability in all human aspects, machines and equipment, handling of raw resources, and value addition in different processes and management functions. Improved national





infrastructure and foreign relations in Oman has been a key factor contributing to the enhanced productivity of businesses in the country. The availability of raw materials, technologies, and raw materials has contributed to the increased capacity for businesses to perform competitively. Nevertheless, the lack of balance in how different businesses access the inputs makes it difficult for them to compete in an effective manner. Foreign Direct Investment Regulation (2019)

Entrepreneurs set up SMEs with a strong vision, but they often face financial challenges to address the goals and mission. Cash flow management is imperative for the success and sustainability of SMEs (Al-Abri, Rahim & Hussain, 2018). Proper cash flow in the business is the key contributor to the growth and development of SMEs. Effective financial management activities are achieved through the implementation of appropriate strategies that balance the costs, investments, and dividends offered to the stakeholders. SMEs develop strategic plans on how production or procurement of goods is conducted, how they are sold, and in which markets (Invernizzi et al., 2017).

The integration of these processes influences how financial management is conducted to ensure profits are realized and the business achieves sustainability. Additionally, SMEs often seek financing from different sources to accelerate the growth and expansion of business operations (Muhammad, Char & bin Yaso 2010). The realization that financial management skills are impediment in SMEs within Oman has led to the development of initiatives that offer training and coaching to SMEs for them to achieve business goals. Furthermore, Williams (2014) stated that business failure among SMEs is often associated with the lack of knowledge,





overconfidence, lack of planning, and lack of financial performance. With finance as a constrained resource for most SMEs, it is imperative to employ effective financial management strategies. Financial factors such as profits or sales are the key determinant of SMEs' success. Invernizzi et al. (2017) showed that many studies focusing on risks and challenges experienced by entrepreneurs largely focus on the financial aspects, which highlights the significance of financial risks among these businesses.

Notably, it is evident that many people running SMEs in Oman lack substantial knowledge on financial management practices. Financial risks in business are experienced in different forms that are influenced by the strategies taken in response to the experiences in the business environment. Caouette, Altman, Narayananand Nimmo (2011) suggested that financial risks in organizations are caused by changes in the financial markets and attitudes towards particular financial tools used in each transaction. In this light, financial risks can be influenced by external factors such as financial markets and internal factors that emerge from the company's internal operations (Williams, 2014). In the Oman context, this can be due to shifts experienced in the oil and gas industry.

Financial risks contribute to the possibility that the SME's cash flows lack the capacity to pay creditors and meet other financial obligations (Kozubíková, Beltas, Bilan& Bartoš, 2015). Additionally, the level of financial risk is influenced by business operations, as well as the debt incurred in facilitating the operations. The higher the debt, the more likely the business will face challenges in meeting its financial obligations, which implies a high level of experiencing financial risks.





SMEs face many challenges in accessing equity capital markets, which makes banks an imperative source of financing. Accumulating debts from different banks increases financial risks (Verbano & Venturini, 2013).

Nevertheless, this might be limited in Oman, with the increased banking practices that are based on Islamic laws and principles. The financial risks are aggravated by the business environment that the SMEs operate in, which is characterized by a high intensity of information asymmetry and low cash flows. This implies that SMEs are likely to face substantial challenges or even complete failure in periods of economic crisis or technological failure (Varotto, 2011).

The absence of a single individual can cripple the business if the person's role is central to how the business operations (Malhotra & Temponi, 2010). For instance, a business that relies on the creativity of an individual, such as an artist to deliver, can be compromised if the individual does not show up or is unable to contribute to production. SMEs in Oman rely substantially on the international labor market to acquire the best talents that can contribute to improved business performance. One of the challenges faced by SMEs is the lack of qualified workers who can contribute to the business objectives. Taking financial performance of SMEs as the key determinant of success makes it the dependent variable, while the risk management decision, method, strategies, orientation and education are dimensions of risk management awareness as independent variables. These factors influence financial performance of SMEs (Yiannaki, 2012). Thus, this study investigates the effect of risk management awareness on financial performance of SMEs in Oman.





1.2 Statement of the Problem

The Oman government has shown substantial concern for the development and growth of SMEs in recent years but the government is still facing many challenges. The government is not able to determine the successful of the SMEs, if these SMEs are profitable companies and these companies are involved in growth of Omani's economics. So, in order to determine SMEs performance, the financial performance of SMEs as the key determinant of success every nation but has lack the risk management decision, method, strategies, orientation and education that promote or influence financial performance of SMEs (Yiannaki, 2012).

This is reflected in the progressive diversification of the economy and reduction in the number of expatriates, following achievements experienced in Omanization (AlMaimani & Johari, 2015). The government had projected that the success of SMEs can contribute to the economic and societal transformation with support from government resources and large companies (Ayoob & Balakrishnan, 2012). Many programs have been established in Oman to support the development of SMEs, but these businesses contribute 15% to the GDP which is substantially lower compared to the global rates of above 50% to the GDP (AlMaimani & Johari, 2015).

Beside about 47% of SMEs in Oman have the potential to grow and expand operations, but there are limitations due to lack of effective management and leadership skills and persistent financial challenges. Bilal and Al Mqbali (2015) highlighted that the lack of enough resources to address the increasing customer





demand among SMEs emerges from the numerous risks associated with the businesses. Researches show that SMEs in Oman lack efficiency in management practices, which highlights the internal factors that increase the impact of risks. Additionally, lack of SME's management aspects which are: method, strategy, Education, orientation and decision makes it imperative to understand risk awareness in the Oman SMEs.

The financial performance of any business is the primary indicator of success or failure. Researchers suggest that risk awareness and management results in high financial performance. One of those researchers, Ariffin and Kassim (2011) collected primary data through questionnaires in their examination of the relationship between risk management practices and financial performance of eight Islamic banks in Malaysia. The result shows that the better risk management has positive and highest income.

Therefore, lack of risk awareness in Oman-based businesses have had an impact on financial performance, which has limited the achievements made in the growth and development of SMEs. Furthermore, the financial failure of many businesses have discouraged investors to invest more capital promote growth and expansion (Demirbas, Hussain& Matlay, 2011). Even in situations where there are skills and manpower and a large customer base, financial resources remain a major constraint for improved performance.

Risks are inherent with the current level of the regulatory framework in the country as is in the global markets, and they need to be managed in the context of





issues within the ecosystem of SMEs and the international trade arena (Bilal & Al Mqbali, 2015). This can help firms to improve quality in all spheres of business and have scope for playing a greater role in regulatory decision making in global trade. The slow response by the government in developing legal provisions that can accommodate the emerging forms of business among SMEs shows the inherent need for high levels of risk awareness.

Apart from the Lack of reliable financial sources being a major issue, other concerns emerge in the adoption of new technologies, venturing in new markets, competition, management and leadership skills (Williams, 2014). The issues emerging in the Oman economic and social factors that reflect on risk awareness and challenges associated with the financial performance of the SMEs.



The globalized and liberalized markets have become complex and tend to be more dynamic than ever due to increased competition. The volatility of markets is due to the increasing dynamic nature of the environment, where more and more players are constantly disrupting the markets (Ocloo, Akaba & Worwui-Brown, 2014). This makes it imperative for businesses across all sectors to have risk awareness capabilities that can contribute to effective competition practices. Adapting to change can always lead to profit but if managed well, it can also result in several key advantages to the markets, firms, and all other stakeholders.

Mentioning the first aspect method of SMEs management, the lack of effective management and leadership qualities among some of the Oman SMEs has increased constraints faced in the management of change and the risks it presents





(Ayoob & Balakrishnan, 2012). This has offered an opportunity for foreign businesses to venture into the country, increasing competition in different markets, limiting the capacity of the local SMEs to venture into the markets. The domination of some markets by foreign businesses has also discouraged investment in some sectors such as logistic, hospitality, aviation, telecom and power & energy sectors.

Other lack in the methodology part is the lack of effective innovation, research and development have also limited the competitiveness of Oman SMEs. Notably, research and development which focus on innovative products and services can create a competitive advantage for the businesses. On the other hand, these are compromised by the lack of adequate funds or commitment of resources for product development and marketing (AlMaimani & Johari, 2015). While many economies have adopted effective legal strategies to boost the growth of local SMEs, the Oman legal structure is yet to take root and apply effectively to the process of Omanization.

The adoption of new technologies offers an opportunity for increased efficiency, increased productivity, and improved financial performance. The use of ICT in business has offered an opportunity for SMEs to expand in the virtual space through the capabilities of e-commerce. Nevertheless, SMEs that lack technological savviness faces numerous risks in the use of ICT as the driver of the business or as a supporting tool for the businesses (Pentina, Koh & Le, 2012). SMEs gather large volumes of data through computerized systems, which include customer and employee information that should remain confidential. For instance, SMEs in the health sector gather sensitive information about patients, including financial





information, medical history, and identity. These digital records can be subject to cyber-attacks as well as physical theft.

The lack of technological expertise in the Oman labor market makes it difficult for SMEs to take advantage of the innovations which impact their decision. Businesses that are able to acquire the technologies have a higher competitive advantage, which makes it hard for new entrants to engage in the market. The risks emerging from the use of technologies can destroy the reputation of the business and lead to a loss of customers. From another perspective, the lack of efficiency in taking a decision to transitioning to new technologies can easily lead to loss of competitive advantage leading to loss of market share, profitability, and sustainability.



effective legal framework to guide the use of different technologies in Oman has also made it difficult for SMEs to remain competitive or gain a market share in sectors dominated by large organizations (Ongori & Migiro, 2010). In this context, large companies leverage data that might be illegally collected from the people to strategize on how they can venture into certain markets. This includes marketing strategies and data-driven decision making, which can be a challenge for SMEs with limited resources. This highlights the need for risk awareness as SMEs emerge and utilize technologies in their expansion.

Oman has adopted the Sustainable Development Goals (SDG) objectives offered by the UN as guiding principles in employment, the standard of living, and economic development. These goals require strategic and reliable investment in





different sectors of the economy. Although firms in the top 10% have the risk of falling and bottom ones have the opportunity of expanding and developing but due to failure to leverage opportunities or capability to take risks and manage strategically, a lot of the firms fall in the missing middle of the spectrum of firms. This missing middle of spectrum is of great importance and is crucial to sustaining the growth and economic stability of the country.

The SDG helps to ascertain the firm's direction towards increased sustainability, but there is a lack of clear direction in terms of regulation and firm-level operations practices that can help achieve these goals (Scheyvens, Banks & Hughes, 2016). Resultantly, there is a need for SMEs to manage risks associated with the focus on strategic development in Oman.



Another lack in orientation is the Policies part which need to help firms align their practices of management, especially operations, human resource, financial and risk management to achieve goals. Moreover, policy changes influenced by the government can either support or be detrimental to the SMEs. With the markets witnessing greater competition and changes in recent times, with the trend continuing in the future owing to more socio-political, environmental issues and challenges, there is the need for SMEs to develop effective management strategies to address issues on a continuous basis and update their policies aligning with the latest update of Oman government policies. Otherwise, this impact negatively the operational processes and business continuity. This calls for innovative solutions to align the business operations with the SDGs.





Quality practices for sustainability, risk management, and human resource management are imperative in guaranteeing the financial success of SMEs. Managing risks is essential for growth, and it is imperative that SMEs emphasize on implementing best practices to manage risks (Brustbauer, 2016; Cardona, 2013). Strategic management as a management tool can be useful as it helps to identify, profile, and manage risks for growth and profitability. This can reduce the risk of failure to improve sustainability. It can also help to improve quality in business in the four major operations functions.

Drawing from this perspective, these management aspects are only achievable by developing risk awareness capabilities within the businesses. Despite this, there is less research on the extent and methods of risk management in SMEs. This is crucial as most operate in informal trade, and others engage actively for growth and sustainability (Cardona, 2013).

The role of strategies, method, education, entrepreneurial orientation, and networking in increasing risk-taking propensity in SMEs can be crucial for growth and sustenance. This draws attention to the fact that there is an immediate need to identify the extent of the risk-taking propensity of SMEs in Oman and how it relates to financial performance. Taking financial performance of SMEs as the key determinant of success makes it the dependent variable, while the risk management decision, method, strategies, orientation and education are dimensions of risk management awareness as independent variables. These factors tend to influence financial performance of SMEs (Yiannaki, 2012). Hence this study investigates the effect of risk management awareness on financial performance of SMEs in Oman.





1.3 Research Questions

Based on the problems highlighted above, study raises the following questions:

- 1) To what extent does risk management decision influence financial performance of SMEs in Oman?
- 2) How does risk management method influence financial performance of SMEs in Oman?
- 3) What influence does risk management strategies have on financial performance of SMEs in Oman?
- 4) To what extent does risk management orientation influence financial performance of SMEs in Oman?
- 5) What influence does risk management education have on financial performance of SMEs in Oman?



1.4 Objectives of the Study

The broad objective of this research is to investigate the effect of risk management awareness on financial performance of SMEs in Oman. The primary goal of the present research is to investigate the factors that influence the financial performance or decisions of the Omani employees who are working in the SMEs industrial sector in Saltant of Oman. It also should be kept in mind that main sets of factors have been hypothesized to influence employees' risk awareness to be enhanced and then achieving the business objectives". The present research attempts to link the dependent variable (financial performance), and the independent variable (risk management aspects) which



discover the impact of these aspects on the financial performance of the Small medium enterprises in Oman Thus, the present study attempts to achieve the following objectives:

The specific objectives of the study are:

- 1) To evaluate the effect of risk management decision on financial performance of SMEs in Oman.
- 2) To determine the effect of risk management method on financial performance of SMEs in Oman.
- 3) To examine the effect of risk management strategies on financial performance of SMEs in Oman.
- 4) To determine the effect of risk management orientation on financial performance of SMEs in Oman.
- 5) To evaluate the effect of risk management education on financial performance of SMEs in Oman.

1.5 Significance of the Study

It has been suggested that SMEs will play a significant role in the future of Oman. Currently, there are limitations that impeded business substantial growth in the SMEs . The focus of this research is to understand how SMEs operate in the context of risk management. This is imperative to understand how the business environment affects SMEs and how strategic measures can be taken to improve the SME's business growth. This is essential as the SME business demand is increasingly becoming diverse and



complex, while it still has a critical role to play in the development of the country. As SME is set to contribute significantly to the country's economic development in future and also drive major regulatory changes both within the country and MENA region through avoiding overly restrictive licensing requirements and allows international and regional SME with better lending tools to enter the market. Also, this study helps the policymakers, decision makers and CEOs (Chief Executive Officer) of the companies to define the main core aspects to drive their business with respect of financial performance.

1.5.1 Theoretical Significance:

This study is significant to aid risk management methods for performance and improvement in SMEs sector in Oman and adds to the literature on SMEs performance in general and particularly to SMEs in Oman. This study does not only focus on the current SME sector in Oman but also offers valuable information that can aid for performance of businesses in general that can aid to the economic development of many countries in the world. This study helps in setting the foundation towards building a more secure and profitable future for the SME sector, operating environment of large firms in the different sectors or industries, and international trade.





1.5.2 Practical Significance

This research is significant on how firms address issues related to risk management methods, risk awareness and SMEs performance. Furthermore, the outcome of the study helps the stakeholders in providing solutions to problems that affect SMEs in Oman. The finding of this research is useful to regulatory bodies and other governmental policy-making agencies in the country, region, and internationally as it identifies key constructs of the SME sector, the risks they present and the subsequent growth and sustainability of the businesses. The insights gained in this research can be used to promote the growth of local SMEs and support the strategic development initiatives by the government. This will lead to increased employment opportunities and the contribution of the sector to the economy. Also, improved risk management practices can lead to increased prosperity in the SMEs, which can improve investments in the sector. Increasing the number of SMEs can help to level the competition among businesses by increasing diversity in prices, products, and services.

1.6 Scope of the Study

The study focus on the effect of risk management awareness on financial performance of SMEs in Oman since the Sultanate of Oman is experiencing impressive development as it attempts to limit overreliance on oil revenues. These constructive changes are evident in the growth experienced in SMEs and their contribution to the economy since there is a huge opportunity of SMEs to contribute to Sultanate of Oman GDP. This has





been through employment, diversification of the economy, and reduction in the reliance on oil revenues.

The SMEs are expected to play a critical role in the country's GDP with the increased focus by both the public and private sectors to improve their contribution to the economy. According to the statistics issued by the National Centre for Statistics and Information (NCSI), The number of SMEs registered with the Authority for Small and Medium Enterprises Development rose by 46.8 percent to reach 81,460 at the end of July 2022 compared to 55,491 during the same period in 2021 (ONA, 2022). Various programs, such as the Public Establishment for SMEs Development in Riyadh, coupled with initiatives by the Petroleum Development Oman (PDO), have contributed to the increased focus on developing SMEs in the



1.7 Operational Definition

- i. **Risk Management:** Risk management is upheld as the processes and activities that are focused on eliminating, mitigating, and controlling risks with the intent of enhancing benefits and avoiding negative outcomes. It entails the different business undertakings that are meant to maximize the potential of success and minimize losses that might emerge following a particular course of action (Nadeem & Khalil, 2014).
- ii. **Risk Management Awareness:** "Risk awareness is the raising of understanding within the population of what risks exist, their potential



impacts, and how they are managed.” Risk management encompasses the identification, analysis, and response to a business with a basis upon which it can undertake sound decision-making.

- iii. **Risk Management Strategies:** A risk management strategy is a key part of the risk management lifecycle. After identifying risks and assessing the likelihood of them happening, as well as the impact they could have, you will need to decide how to treat them. The approach you decide to take is your risk management strategy. This is also sometimes referred to as risk treatment.
- iv. **Risk Management Decision:** This is concerned with selecting the best alternatives or ranking the alternatives for a specific risk management goal. Choosing the best method to identify risk with the aim to expedite the risk management process is risk management decision making. Risk management decision-making relies on risk determinations produced through the supporting processes of risk identification and assessment.
- v. **Risk Management Method:** Choosing the right method will mean the difference between managing each potential risk effectively and facing serious consequences that could damage your business. Let’s take an example of these four approaches involve and could use them as basic Risk management Methods: avoidance, retention, sharing, transferring, and loss prevention and reduction. These different approaches as standard method used for maintaining and managing risks in an organization.
- vi. **Risk Management Education:** In simple term, it is a measure of the inherent risk a person is likely to accept. It is encompassing of knowledge on identification, analysis, and response to risk factors how knowledgeable is that form part of the life of a business. It is also defined as teaching

professionals process in how to manage corporate risk which includes providing an understanding of how to deal with different types of work-related injuries, cybersecurity concerns, privacy violations and preventative measures that can help reduce exposure risks. Risk managers often complete this type of training before working in a professional environment in such a role.

- vii. **Risk management** education assists individuals to gain confidence and make better business decisions through a broad understanding of the relevant and emerging concepts in risk management including today's insurance landscape. It also helps in driving results and enhance people's credibility through strong knowledge of coverage applications, various risk transfer tools, data analysis, and more.

- viii. **Financial Performance**: Subjective measure of how the business utilizes its assets to generate revenues. Financial performance is also used as the general measure the financial position regarding variables such as assets, liabilities, equity, expenses and revenues (Cantele & Zardini, 2018).

1.8 Summary of the Chapter

This chapter explained the SMEs the major play and importance role of SMEs across all industries and are key contributors of economic development in sultanate of Oman. In this chapter, background of SMEs involvement has highlighted as benchmarking and shows the contribution of the SMEs in the economical starting. The chapter also highlighted the main objective of the study which is defining the relationship of risk



management awareness on financial performance of Small and Medium Enterprises (SMEs) in Oman through important aspects. The main problem is also showed in chapter one that the SMEs are not able to measure their business performance and how successes the company contribute into the country's economic GDP.

