The Role of Business Incubators in Creating an Entrepreneurial Ecosystem: A Study of the Sultanate of Oman

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ABSTRACT

A start up entrepreneur faces several hurdles and challenges including sources of funding, rigid labour regulations, finding a market for products and social and cultural issues. These problems are compounded due to the lack of an effective and supportive entrepreneurial ecosystem and lack of support, especially in developing countries like Sultanate of Oman. In this scenario, business incubators can play a crucial role in supporting and helping budding entrepreneurs in setting up their business. Business incubators are facilities that provide shared resources for young businesses, such as office space, consultants and personnel. They function as advisory boards for start ups and may also provide access to financing and technical support. Most incubators are not – for – profit enterprises set up by universities, companies or communities of entrepreneurs. According to the National Business Incubation Association, around 17000 incubators existed around the world in 2017. This paper throws light on how incubators are critical in building an entrepreneurial ecosystem in developing countries like Oman. The researchers conclude that while there is a vibrant start up community in Oman, but a lot remains to be done to encourage business incubators especially in educational institutions. The paper throws light on the present state of the incubation industry in Oman and discusses how the incubators are contributing to the economic development of the nation.

Keywords: Business Incubators, Entrepreneur, Ecosystem, Economic Development, Sultanate of Oman.

Introduction:

New entrepreneurs have to face multiple challenges in starting, growing and sustaining their businesses. In developing countries, these challenges can range from labour and market regulations, finding the right markets for products, finding appropriate sources of funding, education and training of entrepreneurs and a lack of R&D infrastructure (Shanfari, D., 2012). Many small businesses fail in the initial stages as the owners are unable to negotiate and find solutions to these multifarious challenges. In this context, business incubators are a much needed solution to enable SMEs to sustain and grow in the long run.

Business incubation formally began in the US in the 1960s, and later developed in the UK and Europe through various related forms (e.g. Innovation centres, technopoles/science parks). It is recognized as a way of meeting a variety of economic and socio-economic policy needs which can include employment and wealth creation, support for small firms with high growth potential, transfer of technology, promoting innovation, enhancing links between universities, research institutions and the business community, industry cluster development and assessment of a company’s risk profile. In general, an incubator is a physical location that provides a defined set of services to individuals or small companies. This may include specific types of office space, flexible lease terms, access to technology, financing, and technical assistance (such as marketing, legal, finance, HR, and other business development services). By locating similar or complementary entities in proximity to each other, the incubator may also play a critical role in
Aernoudt (2004) describes the term incubator as an umbrella concept which covers a heterogeneous group of institutions. There has been some studies aiming to classify Business Incubators. Business Incubators have been differentiated along various dimensions like; purpose (Bollingtoft & Ulhoi 2005), ownership structure – whether they are privately or publicly owned (Grimaldi & Grandi 2005), service portfolio and management features (Aerts et al, 2007). Accelerators are similar to incubators but they are involved in pushing the growth of already developed enterprises.

The main goal of a business incubator is to foster the growth of new businesses in a local community. By assisting the entrepreneur to start a new business in the area, the community enjoys the benefits in terms of increased employment opportunities and the additional revenue and prosperity that flow into the area due to these new businesses. These communities taken together can help a nation to develop and strengthen its industrial base, in turn leading to increased growth and development which ultimately benefits all citizens. The concept of business incubation has achieved worldwide popularity for its efficaciousness in enabling a conducive environment for development of SMEs. Incubators are considered as a means of providing special business development service through innovations. Business incubation renders operational and strategic help for the prosperity and progress of entrepreneurship. It not only supports companies but also help them to progress at optimum level, socially and economically (Mahmood et al, 2015). According to the National Business Incubation Association (NBIA, 2017), there are nearly 17,000 business incubators all over the world. All developed countries are getting benefits from business incubation system by producing employment opportunities and economic development. Business incubators have shown their significant performance in North America and Western Europe over the past two decades and are now playing an important role to strengthen the entrepreneurship and local economic development throughout the world (Adegbite, 2001). Business incubators have shown their significant importance to accelerate the economic development, job creation, innovations and support for the small and medium scale enterprises. The survival and progress of an economy solely depends upon innovation. An innovative economy can help out its enterprises to maintain survival. Several developing countries, including Oman have adopted the business incubators approach to boost up its economy.

This paper provides evidence which is based on current literature concerning business incubators as an effective and innovative tool of economic developments. The research methodology adopted is desk research. The aim of this paper is to study the role of business incubators in encouraging small and medium businesses in the Sultanate of Oman and thus creating an entrepreneurial ecosystem that is so necessary for sustainable growth. The paper also analyses the present state of the start-up community in the Sultanate and the extent to which business incubators have been successful in promoting the start-up culture in Oman. The article is divided into three parts. In the first part, the types and models of business incubators are discussed. The second part looks at the role of business incubators in fostering local entrepreneurship and its role in economic development. The third part of the paper analyses the state of the incubation industry in Oman and suggests some policy initiatives to further boost business incubation in the Sultanate of Oman.

**Types of Incubators and Services Offered by Them:**

Business incubators support the development of startups by providing them with advisory and administrative support services. According to the National Business Incubation Association, an incubator’s primary objective is to produce successful and financially viable firms that can survive on their own. Incubators aim to assist new entrepreneurs with business start-ups. The business incubator helps to fill a void found in many areas, as everyone does not have the time or resources to attend college or obtain a formal degree in business. Further, few people have access to the kind of resources that can fund a new business until it becomes viable. Incubator programs help to fill the gap by providing basic training to entrepreneurs, a space to launch the business and in some cases create contacts between the new business owner with others who can invest in the future of a company (Burns & Dewhurst, 1996).

Incubators vary greatly in the way they deliver their services, in their organizational structure and in the types of clients they serve. Classical incubators are business incubators oriented towards giving support in starting the business through advice, lease of space and the offer of administrative infrastructure etc. These mostly support start-ups which manufacture products and are also known as ‘Industrial incubators.’ Technological incubators support technology oriented firms mostly as start – up and spin – off firms. Technology business Incubators seek to combine technology, resources and initial knowledge to improve entrepreneurial talent, speed up the development of nascent business, and thus expedite up the commercialization of technology (Hackett & Dilts, 2004). They cooperate closely with universities, research institutions and science and technological parks. Technology business incubators are an initiative to provide a nurturing environment for
technology based business; innovation is brought to the market creating new products and services for the technology industry.

Many incubators do not have a defined office space and are known as ‘virtual incubators’. Virtual clients may be too far from an incubation facility to participate on site and so they receive assistance electronically. This model suits those entrepreneurs who need the advice offered by an entrepreneur but who still want to maintain their own offices, warehouses etc. (Bessant & Tidds, 2009).

The services commonly provided by incubators include shared office space and utilities like internet connections, assistance in marketing products, managerial advice and guidance, access to venture capitalists and angel investors, access to bank loans, links to established businesses, networking opportunities, skill development, and assistance in commercialization of technology. Although facilities and office space are important, but the true worth of an incubator lies in the services that it provides to the fledgling entrepreneurs.

A variety of sponsors support incubators. Some incubators are supported by government and nonprofit bodies. These incubators’ main goals are job creation, tax base expansion, and economic diversification. Other incubators are affiliated with universities and provide faculty, alumni, and related groups with research and business opportunities. In addition, a number of incubators are hybrids combining resources from both government and the private sector. For-profit incubators, meanwhile, surged in popularity during the 1990s. This growth was fed in general by the decade's explosive economic expansion, and specifically by the advent of e-commerce. These incubators are operated by various types of investment groups and maintained to provide returns on funds invested by the group. Their main focus is usually on innovative applications for new technology and the development of commercial real estate. ( NBIA ) . In the GCC, most of the incubators are funded and supported by the government.

Entrepreneurs and start-ups who are a part of an incubator are called tenants. Anyone who wishes to enter a business incubator program has to apply for admission. Each program has a set of criteria that applicants must meet in order to participate in the incubator. In general, only those who have feasible ideas and a strong business plan are admitted. (National Agency for Development of Small and Medium Enterprises in Slovakia, 2009). Most businesses have to move into their own facilities once they are able to sustain themselves and fulfill the exit criteria of the program.

Most incubators in the GCC region are funded by the government, although increasingly there is participation by private companies and venture capital firms in funding incubator programs. In Oman, Zubair Enterprises has established a successful incubation program which has helped several local entrepreneurs to become successful.

Models of Business Incubators:

The incubation model given by Campbell, Kendrick and Samuelson is a simple and effective model which has been widely replicated with varying degrees of success all over the world. The model focuses on how a private incubator diagnoses the needs of the tenants and helps them to develop a viable business proposal. The tenants are selected based on previously set criteria and their progress is continuously monitored. Capital is infused into the tenants from various private sources like angel investors, start-up funds and venture capital firms. This model does not include financing by the government. The tenant is also given exposure to experts in the industry who provide advice, consultancy and managerial guidance to the incubates. Finally, the tenants are nurtured and help is provided to market their products.

This model has been fairly successful in advanced countries like USA and European countries where there is no dearth of venture capital and angel investors. However, in a region like the GCC where Oman is located, finding and raising capital is an extremely difficult proposition. This is mainly due to an underdeveloped financial market and lack of sources of venture capital. Dedicated angel or venture capital funds are rare (Oman has only one VC fund named Ethmar). In this scenario, government funding and support becomes a dire necessity. The Sultanate of Oman has recognized entrepreneurship, alongside logistics and tourism, as key sectors to be developed in pursuance of the stated national goal of moving away from an oil dependent economy. The government has taken several initiatives to encourage and support entrepreneurs in various fields.

Role of Business Incubators in Economic Development:

Many researchers and scholars confirmed the positive impact of business incubators on job creation. Wagner (2006) conducted study to examine nine incubator
programs with a total of 175 incubated businesses in the state of Missouri in USA revealed evidence that these businesses had created 502 jobs in total, or an average of 60.5 jobs each. Within the developing world, a late 1990s analysis of data available on 77 Chinese incubators sponsored under the Torch program (Lalkaka, 2002) indicated that these incubators were providing a good financial return, with the investment for the year of 1998 likely to be covered by tax receipts alone in the following five years. Mahmood et al (2015) in their study on business incubators and their impact on economic development in Pakistan found that business incubators played a crucial role in creating, nurturing and sustaining SMEs. Deborah Markley and Kevin McNamara (1995) describe the economic and fiscal impacts of one business incubator to illustrate how an incubator can encourage jobs and income in a local community. According to them Incubators generate jobs and income and create linkages with firms inside and outside the local economy over the long run. The cost of creating these jobs is competitive with those costs associated with attracting manufacturing investment into a local community. Incubators can have an impact on communities that are not well positioned to attract such external investments.

A study by Meru et al. (2011) to establish entrepreneurs’ perception on business incubators importance in Kenya, reported a significant relationship although there was a disconnect between the actual services delivered and the expectations of the tenant.

In a study in Spain on the influence of training and gender in entrepreneurship through business incubators in Galicia, established a positive relationship on incubators assisting incubates to start business, noting that majority of the citizens prefer civil service jobs to entrepreneurship (Seoane, 2014). Studies in Brazil reveal that Incubators in Brazil have been relatively successful due to bench marking for excellence with focus to specific industries, strong monitoring and Evaluation of tenants’ progress and lastly move towards financial viability and sustainability after 3 years post establishment. The infrastructure is further linked to access to finance, export orientation and employment creation (Lalkaka, 1997; Jorge & Rivera, 2007).

There have been studies on Incubation in South Africa. Incubation started in South Africa in the 1990’s with “hives of Industry” model. Experience in South Africa shows that incubation needs Management, Market and money to succeed. Where management mean having business incubator managers with strong business management skills in book keeping, business plan development, marketing skills, networking linkages able to link tenant firms with markets, venture capital as well as business development trainings (Masutha, 2014).

(Ogutu and Kihonge, 2016) in their study on business incubators studied the relationship between number of start-ups, the number of incubators and the growth in GDP of a few countries in the Americas and Europe. Incubators in North America have added 19,000 companies and create more than 245,000 jobs to support the economy. The numbers of incubators are growing at a very high rate around the globe. There were 200 at the beginning of the 1990s and now they are more than 7000 today. In 1980, there were only 12 incubators & now more than 1250 incubators in the United States alone (NBIA).

There are 17000 incubators world wide and 21 incubators across Middle East (NBIA, 2017). Furthermore, the benefits of incubators in developing countries including Oman are development of the local economy, technology transfer, creation of new enterprises and positive impact on job creation (Mubaraki & Busler, 2014). The SMEs who have graduated from incubators in Oman have generated over 5 million Omani rials of revenue so far and have provided jobs to more than 600 Omani nationals.

Thus, there is ample literature available which point to the fact that incubators have been playing a significant role in regional and national economic development in countries around the world. Oman too can reap significant benefits by encouraging the growth and development of incubators in the country.

**Present Scenario of SMEs in Oman:**

Oman has identified SMEs as a crucial area for development of the economy in pursuance of the policy of economic diversification. As per the norms in Oman, SMEs are enterprises which employ workforce up to 99 and turnover not exceeding RO1.50mn. SMEs in Oman account for more than 90% of economic activities in the country and contribute around 16% to the nation’s economy. The sector employs more than 2,00,000 people (around 40% of the workforce) including more than 10,000 Omanis. The key point to note here is that in developed markets, SME workforce ranges between 50-60 per cent and on an average GDP contribution from this segment is 50-55 per cent. Hence it is important to expedite growth of the SME sector in Oman considering...
the limited employment opportunities for citizens in Government sector and also to scale down the country’s reliance on hydrocarbon sector. Youth constitute more than 50 per cent of the Sultanate’s population. At the current level of population growth, the Sultanate needs to create at least 50,000 jobs annually to reduce unemployment, which is estimated at 15 per cent. Thus, it has become imperative that employment opportunities are created to enable young Omanis to establish their own businesses. The government’s focus on developing SMEs has a potential for improving economic diversification and creating employment. The government has initiated a number of measures to give this segment a boost, including tying up soft loans and extending financial guarantees through the Oman Development Bank (ODB), allocating a share of public tenders and sourcing a share of procurement by large contractors of government projects to SMEs, providing mentorship and assistance to entrepreneurs and setting up a development fund to target college and university students entering the job market. Initiatives such as the Al Raffd Fund, funding through Oman Development Bank (ODB) as well as other financial institutions, five per cent minimum lending target imposed on Banks by the Central Bank of Oman (CBO), the creation of the Public Authority for SMEs (Riyada) and the planned launch of the SME Exchange among others augur well for the growth of SME sector. The Fund for Development of Youth Projects, known as ‘Sharakah,’ established by a Royal Decree in 1998 shows the on-going commitment and support of the government to entrepreneurs. While these efforts are laudable, there are certain issues that still need to be addressed. Questions like – whether SME initiatives are in sync with the needs of entrepreneurs and are they promoting job creation, growth and development? – still remain unanswered. Considering the government’s keenness to bring down unemployment rates, it has become imperative to encourage the job-seekers to either join the private sector or start their own enterprises. (Oman Economic Review, 2015).

Inspire of all these initiatives, there has been a dramatic drop in the number of SMEs in Oman in 2017. According to data from the National Centre for Statistics and Information (NSCI), the number of SMEs in the Sultanate declined by 31.2 percent year-on-year in the first quarter of 2017. By the end of 2016, there had been as many as 23,221 SMEs operating in the country. The Governorate of Muscat has the highest number of SMEs at 930, but marked a 9.4 percent decline in the number of SMEs in the first quarter of last year, which stood at 1,026. Dhofar governorate registered a significant 43.6 percent drop in SMEs to 167, as against 296 small units during the same period of 2016, while Musandam maintained its number at 12. Al Buraimi too witnessed a drastic 45.7 percent drop in the number of SMEs, which declined to 44, from last year’s 81. The trend continued in the governorates of Adhakhiliyah and Al Batinah North, with the number of SMEs shrinking by 55.4 percent and 48.9 percent, respectively, to reach 379 and 399 SMEs by March-end. (NSCI data). These statistics point to an alarming decrease in the number of SMEs in the Sultanate in the past one year, partly driven by the downturn in the economy due to the prevailing low prices of oil, which remains the main revenue earner for the country. This also highlights the importance of business incubators and the stressing need to establish more business incubators in order to promote growth of small businesses in the country.

**Business Incubators in Oman:**

The business incubation industry is still in its infancy in Oman. The Public Enterprise for Industrial Estates (PEIE), which is responsible for creating and maintaining industrial estates and technology parks set up the first industrial estate at Rusayl in 1983 and established the first technology park in Oman, Knowledge Oasis Muscat (KOM) in 2003. Businesses located in KOM operate in areas that include: digital and mobile media; environmental science; telecommunications; hi-tech engineering; software development; call centres and Internet services. Existing tenants include: Information Technology Authority; Microsoft; Oracle; Hewlett Packard Arabia; Qatar Airways, Oman Air, Info line, Gemalto ME. Wipro Gulf; Huawei; and NCR as well as over 100 small and medium-sized companies and start-ups. In brief, the park boasts of a unique mix of multinationals, SMEs, start-ups and technical colleges. There are only five business incubators in Oman, out of which three are run by the government and two are supported by the private sector.

**Government Incubators:**

**Riyada (Public Authority for SMEs):**

The Public Authority for Small & Medium Enterprises Development (Riyada) is the Sultanate of Oman’s arm...
for the development of small and medium enterprises and the strengthening of their contribution to the local economy through a wide range of business advisory services and training programs. IT was established in 2013 by a royal decree.

Some of the main objectives of Riyada are as follows:
1. Develop small and medium enterprises, plan, coordinate and promote their deployment, and enable them receive the finances and services required in coordination with the government and private agencies concerned.
2. Instill a culture of entrepreneurship and self-employment among emerging and young people.
3. Strengthen the role of institutions by providing multiple renewable Omani youth employment opportunities.
4. Assist pioneers and entrepreneurs in the initiative with the establishment and implementation of their own projects and leadership in both management and development.
5. Enhance the competitiveness of existing institutions.
6. Increase the capacity of institutions to bring added value to the national economy, contribute to economic diversification, and support both innovation and the use of modern technologies.

Riyada has an incubation centre located at its headquarters in Muscat. The incubator seeks to support entrepreneurs and owners of small and micro enterprises, with innovative and promising ideas and sound economic studies, and essential resources to achieve their ambitions, so as to provide them with a suitable working environment during the critical early years of the project and increase the chance of success by offering technical and administrative aspects at a minimal cost, and assist the project owner to focus on the work for a specific period of one to three years. (www.Riyada.om). The Riyada business incubator offers strategic services (like consulting services), procedural services (letters of recommendations, assistance in market research) and infrastructural services (Office spaces and meeting rooms, FAX and telephone lines, internet, electricity and water) to start-ups.

Riyada also coordinates with business centers and educational institutions to find marketing channels for owners of small and micro enterprises at discounted prices.

**National Business Centre (NBC):**
The NBC, which offers pre-incubation and incubation opportunities for Omani startups, is an initiative developed and launched by the PEIE at the Knowledge Oasis Muscat (KOM) aiming to provide Omani entrepreneurs with a platform to develop their business ideas and advance them into growing ventures.

The centre provides Omani entrepreneurs business development support and guidance, financial and legal advice, administrative and marketing assistance, facilities support and growth development guidance, ranging from branding exercises to in-house, as well as training and mentoring, access to markets and industry experts, and state-of-the-art and fully equipped office space, meeting rooms and presentation facilities. More than 30 companies have been incubated by NBC so far in fields such as jewellery design, management consultancy, interior designing, architectural solutions, investment services etc, with revenues crossing 1.5 million Omani riyals in 2017.

**SAS for Entrepreneurship:**
SAS for entrepreneurship is a business incubator set up under the umbrella of the Information Technology Authority (ITA). It caters to technology driven businesses and is thus a technology incubator. SAS aims at providing the foundation and widening the horizons for the entrepreneurs to enrich the Sultanate by establishing IT projects that foster an entrepreneurial spirit in the ICT sector in Oman.

The main objectives of SAS Entrepreneurship program are:
1. Managing the establishment of the small and medium businesses in ICT industry in Oman.
2. Facilitate the growth of ICT industry in the Sultanate to be internationally competitive.
3. Attracting more local and international ICT investments.
4. Creating new jobs throughout establishing ICT competitive companies in the Omani market.
5. Encourage Omani youth to self-employ and to create innovative technological products.

So far, SAS has incubated 17 companies since its inception in 2013. 14 companies are currently under incubation. These companies are involved in making mobile applications, software solutions, website development and management services, IT infrastructure services, graphic design, advertising, training services etc.

**Private sector incubators:**

**The CELL Incubator:**
The CELL is an incubator established by the Oman India Fertilizer Company (OMIFCO) as a part of its CSR initiatives in 2012. This incubator was set up in collaboration with two firms, Al Jazeera Training Solutions and Inspired Solutions, USA. This incubator selects a few entrepreneurs from the applications it receives and these entrepreneurs have to go through an intensive eight-week “Boot Camp” training program at the OMIFCO headquarters in Sur. Those who successfully graduate from the intense “Boot Camp”
training could then make applications for a non-repayable seed grant. This process is repeated every year and almost 25 entrepreneurs apply for the grant.

The CELL then does the following:
1. Accelerates entrepreneurs in training via assistance with business registrations, business model development, financial projections, etc.
2. Assists entrepreneurs with the completion of the grant applications.
3. Structures the grant making committee and implement approval process.
4. Oversees the grant disbursement process.
5. Mentors and monitor grantees, post disbursement.

**Zubair SEC:**

The Zubair Small Enterprises Centre (SEC) was founded by the Zubair Corporation, one of Oman’s leading business houses as a cornerstone of its Social Responsibility initiatives to support small enterprises in enhancing the national economy and contributing to sustainable socioeconomic development. Established in 2013, the SEC a professional body that capitalises on its high professionalism diversified offered knowledge, wide range of accumulated expertise, and its own global and local network and strategic partners.

The Zubair SEC incubator provides many services to Omani entrepreneurs such as Direct access to the Centre’s experts for business advisory services and the opportunity to connect with the respective staff in person or through various other channels; management tools such as business plan templates, organisational structure options, and feasibility studies; professional, educational and social programmes and events held regularly for small enterprises, including seminars, training workshops, and networking engagements; advisory services by specialised advisors and serviced offices.

The activities at Zubair SEC are supported by a dynamic ecosystem as shown in the diagram below:

Zubair SEC has also signed memoranda of agreement with many organizations like Bank Sohar, Oman Arab Bank, Riyada, Innovation Park Muscat and Al Raffid Fund to collaborate in supporting small enterprises and entrepreneurs in Oman. (www.zubairsec.org).

Since June 2013 the Centre has welcomed 240 members, attracted 22 mentors, and built 12 strategic partnerships.

**Conclusion:**

The Sultanate of Oman has recognized the importance of SMEs in contributing to sustainable economic development in its pursuit of economic diversification. The ‘Vision 2020’ document, which is being implemented through the ninth Five Year Plan envisages reduction of dependence of the nation’s economy on oil exports and aims to bring down the contribution of oil to the national GDP to 20 % of the GDP from around 46 % at present. At the same time, the state aims to increase the contributions of manufacturing, tourism and logistics to its GDP from 4.9 billion Omani riyals ($12.7 billion) in 2015 to 6.6 billion by the end of 2020, while creating at least 30,000 new job opportunities for Omani. Increased investments in the private sector and a rapid growth in the SME sector are crucial factors in ensuring the achievement of these objectives.

Given the fact that there are several challenges facing new entrepreneurs in the country including lack of technical skills and education, infrastructure and facilities and a poor support system, it is hardly surprising that a majority of small businesses do not survive beyond a few years. In this scenario, business incubators can play a crucial role in ensuring sustainable growth and development of small businesses in the country. Several studies done around the world clearly point out the key role played by business incubators in economic growth and development. The government has taken several initiatives to support entrepreneurs by setting up institutions like the Public Authority for SME Development, National Business Centre and SAS for Entrepreneurship which are doing a great job in incubating and handholding start-ups. However, a lot needs to done to develop a sustainable entrepreneurial ecosystem. Private organizations have to come forward and actively act as incubators for start-ups. There is also an urgent need for public – private initiatives in this sector.

The government has to look at setting up a single window for managing business incubators around the country and to coordinate the activities of all institutions and companies who are in the process of incubating new businesses. Also, there is a need to set up industrial incubators to boost manufacturing, as most of the present start-ups are have a service based business model. Industries such as logistics, tourism, food processing and fisheries present huge...
opportunities for small entrepreneurs in the country and there should be incubators specializing in these fields.

With the right kind of planning, support and implementation, business incubators can play a great role in the development of a vibrant and thriving entrepreneurial ecosystem and help in achieving the goals envisioned in the Five Year plans which will lead to sustained prosperity, growth and employment opportunities in the future.

REFERENCES:


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