Developing Factors within an Industries Cluster in Oman as a Regional Development

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Abstract: The concept moves away from the conventional and traditional way of thinking about economic growth which is about huge investments and massive entrepreneurial activities coming from outside the region in contrast to the new idea that regional economic growth can emerge from within the region and small enterprises can make significant economic contribution to the country, regional location and individual. ‘The success of entrepreneurial clusters in recent decades, however, has challenged this wisdom, and now many policy makers state that they want their regions to be the next Silicon Valley’ according to Aaron Chatterji et al, April 2013. And this project will very much highlight and examine the motivational forces and drives to foster an economic regional culture that will have a cumulative effect on the overall economic growth of Oman. In the words of Glaeser et al (2010): ‘The move away from smokestacks to small-scale entrepreneurship is understandable given the strong correlation between small establishment size and local economic development’. The line of thinking will be from the motivational perspective which itself is a very abstract, uncertain and at times vague concept and but holds the key to success, irrespective of empirical evidence.

Keywords: entrepreneurial clusters, policy makers state, economic development

JEL classification: R11

Introduction

Oman, a monarchy, with a population of 2.7 million and per capita USS 21,390 in a territory comprising of 309550 sq (Wikipedia.org/wiki/oman) and second largest country in the Gulf Co-operation Council (GCC), and one of the oldest independent country in the Arabs and Muslim world, located on the Strait of Hormuz at the entrance to the Persian Gulf and 56 kilometres directly opposite Iran. And the central theme in the project: Key Motivational Factors to Locate within an Industry Entrepreneurial Cluster in Oman, is to critically explore, investigate, research and probe with empirical evidence into the motivational factors leading to higher economic growth and performance through the usage of the concept: industry entrepreneurial cluster.. The key question as stated by
Shen, Luxi et al (2015): ‘Can a reward of an uncertain magnitude be more motivating than a reward of a certain magnitude? Research documents the motivating-uncertainty effect and specifies when this effect occurs. People invest more effort, time, and money to qualify for an uncertain reward than a certain reward.’

Now is the time to adopt and integrate the concept: industry cluster as economic policy: Industry entrepreneurial Cluster that will encourage local entrepreneurs to invest time, resources and effort in the regional economic development. What exactly is ‘industry entrepreneurial cluster mean’ or how is it defined? According to Porter (1998, p.197):‘Geographical concentrations of interconnected companies, specialised suppliers, service providers, firms in related industries, and associated institutions (for example, universities, standards agencies, and trade associations) in particular fields that compete but also co-operate.’ Dictionary meaning of cluster mean a group of similar things or people closely together (Oxford, Learner’s Pocket Dictionary, 2008). But a close examination of the concept ‘cluster’ opens the door to confusion and debate. The confusion may start from attaching the concept cluster to similar types of industries within a particular geographical area or what type of similar service providers form the cluster region or what level of industrial aggregation could be termed as cluster or what sort of linkages do similar organisations have to maintain or is the network important to form a cluster state of industry, large companies coming to a particular place and need not be from that particular region etc. But in the current research, cluster is taken to refer to a particular geographical area with particular emphasis on the local population’s entrepreneurial initiative to work closely together, preferably in a similar industry and form a localized economic activity.

So, what could be the motivational factors to encourage such localized economic activity? Each factor will be researched and examined with empirical surgical tools to maximize the local entrepreneurship. According to Goss, David, (Goss, David, Fourth Edition, Organizational Behaviour, 2005, Pearson Education Limited: ‘Motivation is made up of: direction: (what a person is trying to achieve), effort: how hard is a person trying) and persistence: (how long a person continues trying).’ What is intriguing about motivation is the fact that other factors of subjective nature like attitude, perception, beliefs, values, behaviour, social perception, skills, knowledge, ability, goal, trust, actions, needs, expected rewards and reinforcements, leadership, pride and challenge play a vital role in the formation of motivation, which is an energetic force from within to do something. Motivation provides the reason to do something. Robbins, Stephen (2009) opine that the ‘performance-reward relationships need strengthening.’ This implies that in order to provide motivation or in order to critically examine motivation, the reward factors must be taken into account. By reward is meant the benefits of indulging in a certain type of activity. In the case of Oman, where local entrepreneurship needs to be encouraged, the key question: how can the local people be motivated and what could be the rewards leading to local entrepreneurial culture? At the same time, what reasons could there be for disengagement of the local people also needs to be addressed. So, basically, two key issues need to be analyzed: the motivating factors and de-motivating factors of local entrepreneurial initiatives: motivators and de-motivators
Trying to address the motivators and not the de-motivators will not necessarily encourage the local entrepreneurs to come forward. On the other hand addressing the de-motivators and not the motivators will also defeat the object: that is encouraging local entrepreneurs to come forward. So both the areas of motivation will need to be examined. And that examination will be done by surveys through well-designed questionnaires to understand the true facts of what the local entrepreneurs actually want and what action can be undertaken to ensure smooth transition from conventional economic growth to localized economic growth.

The three factors that will be further extensively examined are: motivators, de-motivators and culture. Culture is in simplistic terms, what one can see, feel and hear that are usually expressed through artefacts, values and the thinking of the inhabitants of a certain organisational culture. Culture is defined: is a pattern of shared basic assumptions that the group learned...that has worked will enough to be considered valid and therefore, to be taught to new members as the correct way to perceive, think and feel.’ In order to ensure a new economic culture, how people perceive, think and feel will need to be challenged in a dialectic manner which is not exclusion of the current culture but no integrate the current and the new localized economic and entrepreneurial thinking to create a synthesis. And eventually, when people see positive results, gradually, the old way will fade away, may be after some resistance at the social level.

Oman’s economic foreign policy is a synergy of a trade relation with U.S and ‘the Sultanate of Oman has been a strategic ally of the United States since 1980 when it became the first Persian Gulf state to sign a formal agreement allowing U.S use of its military facilities.’ Kenneth Katzman (February 2016). Strong literature suggests that the domestic economic policy is influenced by the foreign policy and how this impact on the government of Oman will be examined. As the US government encourages the concept of Clusters of Entrepreneurship and Innovation, it may be thought that the U.S. government will also do the same if the government of Oman thinks of utilizing the concept for greater economic prosperity. This is something that will have to be taken further as economics, foreign policy and domestic policy seem to move in a symmetrical manner.

And it is the local entrepreneurs who will bring the change that will be facilitated by Motivation and minimization of the De-Motivating factors. The De-motivating factors may also be referred to as the barriers or obstacles to entrepreneurship. Among the various factors that can act as motivators: income, control of income, being able to use experience for the greater benefit of the society, provide employment, enjoy the work and gain satisfaction. On the other hand, the de-motivating factors will include lack of economic environment, no entrepreneurship skills, lack of education, government rules and regulations not encouraging enough, the legal system is not supportive, lack of leadership skills among the population, lack of support from the financial institutions, et cetera. Also the de-motivators are referred to as Institutional Barriers as suggested by Kathy Fogel et al (2006).

So, the four areas of industry cluster in relation to Oman will be further researched: motivators, de-motivators, culture and foreign policy. These four areas of industry cluster need to be identified as having significant influences on the choice of local population in relation to entrepreneurship.
1. The Choice of Topic and Justification of the Central Research Question

The central point of discussion: Key Motivational Factors within an Industry Entrepreneurial Cluster in Oman as Regional Development. The focus of attention is on Regional Development or localized economic activity leading to regional economic development by adopting the entrepreneurial theory: Industry Entrepreneurial Cluster.

The choice of the topic is based on the reasoning that Oman is one of the fastest growing economies in the Arab world.

The key claim of the research: Industry Entrepreneurial Cluster is the answer to economic growth from the perspective of sustainability and long-term benefits.

Aaron Chatterji et al. (April 2013) opine that ‘The success of entrepreneurial clusters in recent decades, however, has challenged this wisdom, and now many policy makers state that they want their region ‘to be the next Silicon Valley.’ So wisdom is the learned scholar Aaron Chatterji referring to? The traditional wisdom of employment growth and economic growth was about attracting large firms to relocate. Now, instead of large firms coming into a new territory, small entrepreneurial and regional in nature and more localised have shown that the benefit is more in terms of employment growth and economic growth.

This research aims to examine the motivating factors to enable entrepreneurial clusters to address the regional economy as well as influence employment growth positively.

The overall purpose of the research is to show that entrepreneurial clusters will contribute to the sustainable employment growth at the regional level and at the same time add value to the sustainable economic development at the regional level leading to reduction of the overall economic growth of Oman.

A historically accelerated pace of trade liberalization in Oman since the early 1970s by spurring a veritable deluge of imports has quite significantly increased competitive pressure on SMEs in Oman. Rapidly falling cost of communications have by unifying global markets heightened the intensity of competition. Trading is widely seen as a safer, richer, smarter and bulkier career to have than manufacturing---bad news indeed for industrialization. But again, all types of entrepreneurial cluster is to be encouraged by Government of Oman formulating a comprehensive Industrial Policy by putting special emphasis for developing Entrepreneurial Cluster as a thrust sector for balanced and sustainable industrial development in the country to help deal with the challenges of ‘regional free market economy and globalization’ Faisal Hassan and Turki O Aiyaqout (January 2012).

1.1. Country Briefing and Cities Structure

The Portuguese turned up in 1498, and occupied Muscat for over a century as a means to protect their sea lanes. Driven out by native tribes, who were in turn pushed out by a Yemeni tribe, Oman transitioned into a self-governing region. Long ruled by a sultanate, in 1774, Oman established a useful, long-term relationship with Britain that lasted until it ceased to be a protectorate in 1951. Shortly after Qaboos bin Said Al Said replaced his father (in 1970) and took control of the country, this ancient land completely gained its
independence. Among needed changes, the new sultan's priorities were social changes, as well as the modernization of the infrastructure and improving its already established oil industry. Then, in the early 1980s, this long closed country (for visitors and western businesses) partially opened its doors to the outside world.

The national flag and map of Oman as below (Fig.1)

![Figure 1: The national flag and map of Oman](http://www.infoplease.com/atlas/country/oman.html)

The source of the map: [http://www.infoplease.com/atlas/country/oman.html](http://www.infoplease.com/atlas/country/oman.html) dated 10th April 2016 (the Brown part is Oman)

2. Literature Review

The big importance of entrepreneurship for economic growth in modern ‘entrepreneurial’ economies is related to the increased importance of knowledge in the economic process. In the old, ‘managed’ economies, land, labour and capital were the main factors of production. However, globalization and the telecommunications and computer revolutions have drastically reduced the cost of shifting not just capital but also information out of the high-cost locations of Europe and into lower-cost locations around the world. This means that economic activity in high-cost locations is no longer compatible with routine tasks. Rather, globalization has shifted the comparative advantage of high-cost locations to knowledge-based activities, and in particular search activities, which cannot be costless, transferred around the globe. Knowledge as an input into economic
activity is inherently different from land, labour and capital. It is characterized by high uncertainty, high asymmetries across people and is costly to transact (Thurik and Wennekers, 2004).

Coming back to the key idea: identifying the key motivational factors that will lead to the formation of an industry entrepreneurial cluster in Oman as regional development.

In other words, what could be the key inspiring factors that the local inhabitants will take into account to invest at the local level. In order to establish the key motivational factors, 2 basic questions will need to be examined in an Omani context:

• Why should the local entrepreneurs and inhabitants be interested to invest at the local level as an industry cluster?

• Will the outcome of the industry cluster in Oman be positive?

After a literature review of the above mentioned questions, an industry cluster model will be developed taking into account the context is Oman. The model is essentially a proposal to move forward with the idea of industry cluster in Oman.

Why should the local entrepreneurs and inhabitants be interested to invest at the local level as an industry cluster?

Each Omani region has unique cluster strength. Regional cluster is about identifying local strengths. Yet, the fact remains, local inhabitants gain employment from local industry clusters where small number of industries or firms decides to come in one geographical area and provide the service or goods to customers. With employment being generated, also new leaders come into the scene to embrace the new cluster entrepreneurial culture and at time also oppose such economic activity which is somewhat rare. Besides employment, there are tangible economic benefits for the specific region in terms of wealth creation, job creation and individual profits as evidenced by the Silicon Valley. With the distinct economic benefits of not only employment but the spending power of the local residents increase and with that, a sort of regional confidence and pride develops within the local people. At the same time, due to high and intense competition, customers at times get bargains and improved service. Besides the economic benefits, there are other benefits of firms coming together, for example, the cost of transportation of goods and services is reduced when firms are located close to customers and suppliers. Alongside with the economic benefits, the region will also benefit from the education and training perspective where local schools and colleges will eventually arrive to support the workforce. As a result, the whole regional population will become educated and skilled for the labour market. According to Swann et al (1998: 57), the benefits include customer proximity, reduced customer search costs, information externalities and reputation. And Swann et al (1998) has also given the warning that too much completion and congestion may at times slow clustering.

• How could the local entrepreneurs and potential local entrepreneurs be inspired to invest as an industry cluster?

The first and foremost point to be made: the patronage of the government and local authorities is mandatory to form an industry cluster that will encourage, inspire and motive people to invest their time and resources. Through government policies, special
funds need to be arranged by the local authorities to make it accessible to the local people. Financing is a must which must be made accessible for the entrepreneurs to come forward. Financial assistance, sponsorships, donations, free advise centres and training and development must have the intervention of the government that will provide the encouragement for the local entrepreneurs to come forward. But Chatterji, Aaron et al, (April 2013), ‘it is not obvious that government policy can create entrepreneurship.’ By this statement it is meant that the government cannot do everything. It is the local entrepreneurs that need to come forward and take the lead role in creating a cluster. That is why local entrepreneurs with the local knowledge will need to be identified and motivated to form an industry cluster. What the government should do is to facilitate the process by providing funds for start-ups and providing access to information with a cluster strategy in place. The government of Oman needs to develop a cluster strategy taking into account the views of the local entrepreneurs and with a long term vision. In Oman, the government will have to take the lead role. Besides the government taking the lead role, it is important to understand that without a good understanding of the cultural setting and cultural intervention, a change of paradigm within the local inhabitants in relation to industry cluster will not happen. For a long lasting impact, alongside an economist perspective, it is equally vital to take the perspective of Omani sociologists who will understand the Omani culture better.

Also, culture helps the cause of identification. By identification, is mean, the people can identify to a certain beliefs. It is this sense of identity that brings commitment. Schein (1985) suggests that culture can be examined at three levels:

- level one: easily observed rituals and behaviour
- values and beliefs
- basic assumptions

The above mentioned points need to be examined in the context of Omani culture with the aim to gain acceptance to the Industry culture Concept and to create an enabling environment in which existing and potential entrepreneurs find within an easy reach most of what the direly need – information, counselling, mentoring, access to finance, technology and means to market.

With culture the question of Trust is also of great importance. In a cluster environment, in spite of the intense competition and rivalry, there must be an element of trust among the key players, trust in the system, trust in the government initiatives related to the Industry Cluster, trust in the financial institutions and last but not least trust in the entrepreneurial management team of the different firms striving for different aims and objectives.

In a cluster environment, trust is not only about employment, it is beyond that: trust in the system is what will invite and inspire aspiring entrepreneurs to come forward and invest and take advantage of the benefits of a Industry Cluster.

What is interesting to note that Omani society neither adopts Westernization nor rejects Westernization? Whatever is good for Oman is accepted without compromising the history of Oman.
According to Linda Pappas Funsch, (2015), ‘Omani national psyche a certain cosmopolitanism, including a pronounced affinity for harmonious interaction with people of disparate traditions.’

The third question is: the outcome of an Industry Entrepreneurial Cluster in Oman. With right government initiatives in the form of strategy, infrastructure, financing and leadership accompanied with the collective wisdom of the local inhabitants in the right cultural setting alongside a good monitoring system, should be able to see the growth of another Silicon Valley in Oman. Now more and more governments are coming forward with the desire to form Industry Cluster as the benefits are visible and recognizable, and influenced to implement policies intended to launch initiatives to support existing clusters or to form new ones as observed by Solveï, (2003).

![Figure 2: Model of Industry Cluster in Oman](image)

Source By researcher (2016)

The above mentioned model under the name: Industry Cluster in Oman, is a model developed to facilitate the process of forming an Industry Cluster in Oman as Regional development. And the starting point is: Regional Cluster Data.

According to Boja, (2011), ‘The Cluster is an economic phenomenon that is placed in a competitive context in which many businesses simultaneously compete and collaborate to gain different economic advantages.’

Regional Cluster Data (RCD) is about collecting data systematically on the potential cluster regions. The data should comprise of the following facts: unique strengths of each selected cluster region in terms of what it can offer, whether services or products based on economic- historical analysis of the region. It is assumed that each town has something special to offer. What to offer is the topic that needs to be investigated and examined. The analysis must include all the tangible and intangible items that could or have the potential
to create marketable provisions through profit-oriented analysis. Also, data should include
the demographics of the region (age profiling, total population, gender, level of education)

Short, medium and long term time bound action plans will be taken for implementing this
Industry Entrepreneurial Cluster strategy and policy efficiently to provide quick
industrialization that can provide speedy regional employment and speedy regional
economic growth.

2.1. Cooperation, coordination and consultation with all sectors at the national and
regional level

All the key actors must agree that Industry Entrepreneurial Cluster as the vehicle for
enhancing the standard of live and economic growth for the common people. The broad
objective of the Industry Entrepreneurial Cluster shall be to:

Acknowledge the importance of Industry Entrepreneurial Cluster as an indispensible
player in the economic growth acceleration

Include the Industry Entrepreneurial Cluster Strategy in the Omani Budgetary Framework

A National Taskforce will be formed on the development of Industry Cluster in Oman to
draw up a realistic industry cluster strategy for promoting rapid growth. The National
Taskforce will submit recommendations to the Ministry of Commerce and will include a
comprehensive state of recommendations that, if implemented, will mount to coherent
strategy to promote the development of Industry Cluster in Oman in three phases: short,
medium and long term.

3. Implementation of the Industry Entrepreneurial Cluster

The implementation will be undertaken by The Implementation Committee who will work
under the guidance of the National Taskforce. The role of the Implementation Committee
will be to execute the Industry Cluster Strategy and will be the Secretariat of
Implementation and to be headed by a leader who has Industry Cluster experience. And
will provide the following information mentioned in the next line

The Implementation Committee will try to attract training providers and educationalists to
take on the responsibility of workforce skills upgradation.

It is important to understand that a positive relationship must exist among three key
players as identified by Etzkowitz, (2002): Business environment, Government and Public
administration, Education and Research

What this means is that the Omani Government will have to attract the attention of
educational institutions to come forward and extend their hand in the regional cluster
areas where their core responsibility will be to oversee the up-grade of skills of the local
inhabitants. With the up-grade of skills, will come advanced entrepreneurial managerial
skills compatible with the Industry Cluster Strategy of the government.

3.1. Evaluation:
Systematic monitoring to be introduced in all the key aspects of the Industry
Entrepreneurial Cluster framework
These are the elements which will be taken into account when monitoring firm performance by the Evaluation Team.

There will be in place a robust and transparent feedback mechanism

The Evaluation Team will be in charge of Incident Response within the cluster region and will develop mechanisms to respond to urgent emergency matters within the cluster region. The emergency issues will need to be defined and the overall Health and Safety issues will be dealt and under the supervision of the Evaluation Team.

Feedback which forms part of the Industry Cluster Personality is extremely significant and at the same time, because it is least understood, seems to be often side tracked and seldom treated with urgency and respect. Feedback is about trying to understand the outcome of something through a feedback process. Accepting feedback and giving feedback are both extremely important elements of feedback. Basically feedback means the process of feeding back information into a particular system, for the output to improve. But as warned by Swann et. al (1998), that congestion and competition may slow down clustering.

Each firm will have to supply information on Continuous Improvement Process to the Evaluation Committee which is to be a part of the feedback mechanism. Without good feedback mechanism, the Industry Cluster Project will suffer. This is the reason why the feedback mechanism is extremely vital. The Evaluation Team will also gather information from the Environment and provide guidance to the Implementation Team as well as individual firms within the Cluster region.

The Industry Cluster Model is flexible and can be used to facilitate the process of forming a cluster region in Oman and accelerate the economic growth. The Industry Cluster Model
for Oman is about economic transformation at the regional level by the integration of action and reflection at each stage of the process. For the sustainable installation of the model needs to be real commitment concerning all acts of initiation and includes the whole process and to be owned by the key players for productive results. Unfortunately, there is no substitute for commitment. If it is there, it is there. And ultimately contribute to the overall economic growth of Oman from the perspective of Entrepreneurial Industry Cluster. The path to the creation of an Industry Cluster will not be without obstacles and as the history Oman suggests with the outstanding leadership of Sultan Qaboos, Oman will overcome the obstacles and move forward.

Before a closure of this Literature Review, a quotation worth remembering by Alfred Marshall in 1890:

‘When an industry has thus chosen a locality for itself, it is likely to stay there long: so great are the advantages which people following the same skilled trade get from near neighbourhood to one another. The mysteries of trade become no mysteries: but are as it were in the air, children learn many of them unconsciously.’

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