

## Impact of the Jordanian Commercial Banks on Financing Small and Medium Enterprises in Jordan

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### Abstract

The study aimed to identify the impact of the Jordanian Commercial Banks in providing financial loans and facilities to support small and medium enterprises widely spread in Jordan. The study focused on the role of such enterprises in achieving the economic development and reducing unemployment. The researchers applied quantitative approach through using a questionnaire. 238 questionnaires distributed to the study sample (Jordanian Commercial Banks) out of which 233 questionnaires were retrieved and 4 questionnaires were excluded making the total amount of questionnaires valid for the statistical analysis 229. The study concluded that there is a severe competition among commercial banks in financing small and medium enterprises; however, they suffer from lack of feasibility studies on small and medium enterprises. The study also concluded that small and medium enterprises have a modest role in achieving an economic development due to the weak success of projects in the market. According to the results, the study recommended the need that the Jordanian commercial banks provide larger loans to finance small and medium enterprises and the need that they conduct feasibility studies on such enterprises. The study also recommended developing and editing laws and regulations on the small and medium enterprises in Jordan by the Jordanian government.

**Keywords:** Small and Medium Enterprises, Jordanian Commercial Banks.

### Introduction

Small and medium- enterprises are among the most important sectors of the economic activity in the developing countries in general and in the Arab countries and Jordan in particular; their success is an important factor in developing the economic and social activity and they are not less important than the large enterprises, but they are an integrative approach to most large enterprises (Matar & Eneizan, 2018; Eneizan & Wahab, 2016; Matar et al, 2018). Small and medium enterprises (SMEs) in Jordan contribute significantly to the reduction of unemployment through labour employment and medium growth in light of their

wide spread, limited funding, ease of access and dependence on personal savings (Al-Rawashdeh, 2017; Alshannag et al, 2016; Alshannag et al, 2017a,b).

Information and data indicate that the Jordanian commercial banks used to play an important and significant role in providing financing for various small and medium enterprises, which requires from the Jordanian commercial banks to provide loans and decrease liabilities; until now, banks play this important role (Mostafa & Eneizan, 2018). Furthermore, the Jordanian commercial banks in Jordan have a major role in providing the necessary loans and facilities for funding small and medium enterprises especially in light of the risks of funding resulting from the weak liabilities provided by small and medium enterprises for paying the loans on time. All this will maximize the problem (Qadoumi, 2012). Accordingly, the current study will highlight the impact of the Jordanian commercial banks on financing the small and medium enterprises in Jordan.

In addition, the commercial banks in Jordan have been contributed to the Jordanian economy by financing different sectors in Jordan such as industrial, insurance, hybrid and electronic vehicles, and green products that have been widely used and it has a positive effect on firm performance of Small and Medium Enterprises (Eneizan et al, 2016a,b; Eneizan & Obaid, 2016; Eneizan et al, 2018; Eneizan et al, 2015).

## **Theoretical framework and Literature Review**

### **Theoretical Frameworks**

#### **Concept of Small and Medium Enterprises**

There is no comprehensive, universally agreed, Arab and international definition for the concept of small and medium enterprises. The definition of the concept varies by time, place, country, time and economic organization.

The most important criteria, terms and definitions include:--

- The central bank of Jordan defined small enterprises as enterprises that employ (50-200) individuals and their total amount of assets or sales is less than JD 1 million per annum (small and medium enterprises guide 2017).
- The medium enterprises were identified by the Central Bank as having (21-100) employees by an asset value of (1-3) million Jordanian dinars and their annual rates range from (1-4) million Jordanian dinars (central bank).
- The Jordanian Department of Statistics (2010 Survey) has defined the small enterprises as comprising (5-19) employees while the medium enterprises have (20-49) employees.
- The United Nations Industrial Development Organization (UNIDO) defined the small enterprises as comprising (10-50) employees, and that the medium enterprises comprise (10-99) employees.

#### **Characteristics of Small and Medium Enterprises**

Small and medium enterprises are characterized by a range of characteristics according to several economic, financial, legal, and social aspects.

The most important characteristics that can be assigned are as follows:-

1. Most small and medium enterprises are owned by persons; their ownership is private/individual.

According to the Human Development Report in Jordan (2011), 80% of enterprises in Jordan are managed by their owners; this indicates the independence of the managements of enterprises; all decisions are in the hands of the owner.

2. Relying on the human element and personal character of the services provided to clients, i.e. the enterprise owner is the enterprise manager and the administrative and technical supervisor because the ownership of the enterprise is individual (of a family nature), where all decisions are focused in the hands of the owner who attracts manpower and customers ( Al-Mahrouq and Magableh-2006).
3. Most small and medium enterprises are very different and diverse, as they are innovative and highly effective; they also help develop the individual capabilities (Prof. Abd Al-Naser Nour 2012/2013).
4. These enterprises are characterized by having a relatively small capital size at the time of establishment compared to the large enterprises; this feature has given small and medium enterprises the ability to make decisions quickly and appropriately compared to large enterprises (Prof. Abd Al-Naser Nour 2012/2013).
5. Small and medium enterprises are characterized by a low number of employees, which results in having good relationships and a kind of intimacy between small enterprises and their clients leading to providing the service or goods to customers with love and friendship (Mohsen and Naser 2011).
6. Their activities are often individual (Al-Sus, 2010) in planning and marketing and they have a simple, organizational structure and modest capital since they rely on family savings in financing; furthermore, the enterprises utilize modest technology and employees.

### **Main Obstacles, Difficulties and Challenges Facing Small and Medium Enterprises**

There is no doubt that the development of small and medium enterprises faces some problems and obstacles worldwide; although there are some differences among regions and from one sector to another, there are some common problems facing small and medium enterprises.

We can summarize the most important problems facing small and medium enterprises as follows:-

1. Small and medium enterprises pay a higher interest rate than that paid by greater competitors on the same type of loans by 2% to 4% (Qandah, 2009).
2. Lack of a specific and clear regulatory framework and government policies to support small and medium enterprises, such as laws, legislations, investment incentives and technical support, which ensures their sustainability; furthermore, such enterprises depend on educational skills, low level of technology and lack of modern marketing plans. (Al-Ghasib, 2009).
3. Small and medium enterprises (SMEs) in Jordan face the following difficulties (website, 2015):
  - High costs of direct and fixed expenses, especially electricity and water.
  - High costs of providing technical and consultant support when starting the project.
  - High and unstable taxes.
  - Bureaucracy in the procedures followed by the supervisors of some exemptions such as the exemption of import duties for certain goods and services.
  - Small and medium enterprises receive 13% of the facilities granted by the banks and they provide 40-60% of total jobs around the world; there are 95% of such enterprises in Jordan and they contribute by about 40% of Jordan's GDP (Yaroub Al-Qudah).

**Literature Review**

There are several studies dealing with the topic of financing enterprises by banks such as (Al-Smairat, Yousif 2009) entitled with "financial and administrative problems facing small enterprises in the Northern Region (Jordan); the study focused on identifying the administrative and financial problems faced by the owners of small and large enterprises on a sample of 260 enterprises; the researcher concluded that there are problems represented in the lack of capital, lack of financial, marketing and administrative expertise that led to the failure of some enterprises and lack of liabilities. The researcher recommended the need to prepare effective and thoughtful programs and the need for training and qualifying owners of some enterprises.

A study by Al-Rawashdeh (2017), "the role of the commercial banks in financing small and medium enterprises in Jordan" focused on identifying the role of the Jordanian commercial banks in financing small and medium enterprises in Jordan and identifying the most important challenges faced by the Jordanian commercial banks in obtaining funds. The study concluded that there is a crucial role for the Jordanian banks in supporting small and medium enterprises in Jordan, a severe competition among banks in financing such enterprises and challenges faced by the banks in financing the small and medium enterprises such as the difficulty in providing financial securities. The study recommended the need for supporting the investment strategies of institutions by the Jordanian commercial banks through balancing the risks and the predicted returns, the need to set regulations that guarantee the rights of the agency providing the loans and the need to study the financial and administrative reality of small and medium enterprises.

Mohsen and Nasser (2010), conducted a study as "financing small and medium enterprises in Islamic banking formulas" examined the most important formulas of Islamic banking financing in providing financing for small and medium enterprises. The study addressed the concept and characteristics of small and medium enterprises and their impact on development and it attempted to identify the most important problems and difficulties facing the Islamic banks financing of small and medium enterprises.

Moreover, a study by Al-Sawi and Ali (2015), focused on identifying the important role of 5 banks in financing the small projects in Sudan from 2007 to 2012. The study adopted the questionnaire as a tool for data collection where questionnaires were distributed to 100 employees in working in the senior management and in the investment management of these banks. The results of the study showed that the contribution of the Sudanese banks in providing financing for these small and medium enterprises was low and that the increase in the value of securities asked by banks for the financing process negatively affected the financing of such enterprises.

Al-Qadoumi (2015), "financing small enterprises in Jordan: obstacles and challenges" aimed to identify the importance of the financing of small enterprise in Jordan and identify the obstacles faced by them regarding funding. A field study was conducted on the Jordanian commercial banks in financing projects in Jordan through a questionnaire. The study concluded that the amount of the funds provided by institutions for financing small enterprises is not enough to ensure their success; furthermore, the study found that financial institutions use careful procedures in asking for securities in order to provide funding for small enterprises that lack any kind of support from the government. The study recommended the need for financing the small enterprises by commercial banks and financial institutions for achieving an economic development, the need to reduce the securities requested from small

enterprises to receive loans especially in the rates of interest and finally calling for establishing an investment fund for such enterprises in Jordan by the government.

Al-Sus (2010), "Some successful international experiences in the field of the development of small and medium enterprises in Palestine" showed that there were 99.8% of small and medium enterprises that have less than 50 employees of the total enterprises in the Palestinian economy. The study also showed that the small and medium enterprises in Palestine contribute in reducing the unemployment problem, which reached to more than 27% of the total labour force and that the Palestinian Authority provides tax exemptions on small and medium enterprises. Further, the study recommended establishing a loan guarantee fund and the need of involving small and medium enterprises in the government tenders.

Furthermore, a study by Singh, Gange, S.& Deshmck.S (2010), "Competitiveness of small and medium enterprises in the globalization economy" focused on analyzing the problems, challenges and obstacles facing small and medium enterprises in India and China after globalization and the study recommended the need for developing administrative skills, working on developing the production quality and reducing costs.

Akeem (2014) conducted a study entitled: "Banking Sector and development of SMEs in Osun State" focused on the role of commercial banks in the development of small and medium enterprises in Nigeria. The study focused on adopting the descriptive and analytical approach and the study sample consisted of 170 employees in the small and medium enterprises. The study concluded a direct correlation between the loans granted by commercial banks and the growth and development of small and medium enterprises in Nigeria.

A study by Prises (2013), "the Role of commercial Banks in Production of small and Medium Enterprises (SMEs) in Pakistan" focused on the role of commercial banks in supporting the production of small and medium enterprises in Pakistan during (2008-2012). The study adopted the descriptive, analytical approach via statistical information and data. The study utilized some statistics and graphs and it concluded that commercial banks do have a role in focusing on the importance and role of small and medium enterprises in Pakistan.

### **Methodology**

Quantitative approach was used in this study to achieve the study objectives. The data was collected through a questionnaire from the commercial banks in Jordan. The aim of this study is to investigate the impact of the Jordanian Commercial Banks on Financing Small and Medium Enterprises in Jordan. In order to achieve the aim, the study used the Statistical Package for Social Scientists (SPSS) 21 to conduct the analysis.

The researchers applied quantitative approach through using a questionnaire. 238 questionnaires distributed to the study sample (Jordanian Commercial Banks) out of which 233 questionnaires were retrieved and 4 questionnaires were excluded making the total amount of questionnaires valid for the statistical analysis 229.

**Analysis and Results****Demographic Analysis**

Table (1)

Demographic analysis

Variable	Category	Frequency	Percentage
Sex	Male	141	61.8
	Female	88	38.2
Age	20-30 year	101	44.1
	31-40 year	77	33.6
	41-50 year	37	16.2
	51 & above	14	6.1
Academic Qualification	Diploma	12	5.3
	Bachelors	189	82.5
	Higher diploma	9	3.9
	Masters	19	8.3
	PhD	-	-
Job title	Manager	33	14.4
	Deputy director	20	8.7
	Head of department	27	11.8
	Accountant	6	2.6
	Customer service	55	24
	Credit employee	75	32.7
	Investment employee	6	2.6
	others	7	3
Years' experience	5 years & below	52	22.7
	6-10	63	27.5
	11-15	45	19.7
	16-20	35	15.2
	21 and above	34	14.9

Table 1 above shows that around 62% of the respondents were males and 38% were females. While looking at the age one can find that 44% of the respondents were between 20 and 30 years of age. 37% were between 31 and 40 years 16% were between the age of 41 and 50 years will only 6% were above the age of 51 years. While looking at the academic qualification of the respondents it can be said that most of the respondent had a bachelor's degree having around 83% of the total respondents. While 8% were masters, 5% were diploma, around 4% were higher diploma while none of them were PhD qualified. The frequency distribution of job title of the respondents show that 14% had the job title of manager, around 9% were deputy director, 12% were head of departments, 2.6% were accountant, 24% belonged to customer service, 32.7% were credit employee, 2.6% investment employee and others were



only 3%. The experience of the students is depicted above and shows that 22.7 were having the experience of 5 years and below, 27.5% had experience between 6 and 10 years, 19.7% had the experience from 11 to 15 years 15% were having 16 to 20 years of experience and around 15% were having the experience 21 years and above.

Table (2)  
Descriptive Statistics

	N	Mean	Std. Deviation	Std. Error Mean
q1	229	3.0917	1.25844	.08316
q2	229	2.2620	.96035	.06346
q3	229	2.6114	1.06048	.07008
q4	229	2.5284	1.00233	.06624
q5	229	2.7860	1.10127	.07277
q6	229	3.8865	1.23730	.08176
q7	229	3.0917	1.25844	.08316
q8	229	2.2183	1.06186	.07017
q9	229	2.1004	1.01456	.06704
q10	229	2.1572	1.01813	.06728
q11	229	2.7729	1.37680	.09098
q12	229	2.5983	1.15287	.07618
q13	229	1.8603	.90206	.05961
q14	229	1.8210	.90723	.05995

Table 2 shows the descriptive statistics for the individual questions, the valid number of observation in all questions is 229, the means of the question are between 1.82 and 3.88 while the standard deviation shows that the minimum standard deviation is 0.902 and the maximum standard deviation is 1.25. Shows that there is no deviation in the data.

### Hypotheses Testing

The main hypothesis for the study is that **“There are challenges and risks faced by Jordanian banks in financing SMEs”**. These risks and challenges were asked in the form of questions and there were total 14 questions. For the purpose of understanding the opinion of the respondents each question was analyzed separately using one sample t-test. The responses were based on likert scale from 1 to 5. The following table shows the analysis for each question. Concluding either the risk or challenge exist or not. All 14 sub-hypotheses are summarized in the table below.

Table (3)  
Statistical Analysis

Questions	p-value	Mean difference	Result
1) The inability of SMEs because of their lack of success in the market	.000	.09170	<b>Supported</b>
2) Difficulty of adequate guarantees by SMEs owners	.000	-.73799	Not supported
3) The inability of the owners of SMEs to repay the loan granted to them within the specified period of time	.000	-.38865	Not supported
4) The weakness of SMEs owners' ability to manage their projects in the right way	.000	-.47162	Not supported
5) Lack of interest in commercial banks to finance SMEs and dependence on other financing institutions	.000	-.21397	Not supported
6) Lack of adequate study by banks for SMEs	.000	.88646	<b>Supported</b>
7) The intensity of competition among local commercial banks in relation to the financing of SMEs	.000	.09170	<b>Supported</b>
8) High risk of SMEs financing	.000	-.78166	Not supported
9) SMEs owners do not disclose the financial statements related to their projects	.000	-.89956	Not supported
10) Low level of SMEs technology	.000	-.84279	Not supported
11) Lack of laws and regulations governing the work of SMEs	.000	-.22721	Not supported
12) Lack of regular accounting records for SMEs	.000	-.40175	Not supported
13) SMEs contribute to reducing unemployment in Jordan	.000	-1.13974	Not supported
14) SMEs contribute to Jordan's economic and social development	.000	-1.17904	Not supported

The table 3 above shows the results regarding the issues faced by banks. There are three main issues that are faced by the banks. They are lack of adequate study by banks for SMEs, The intensity of competition among local banks in relation to the financing of SMEs and the inability of SMEs because of their lack of success in the market. About the other issues the respondents are either about neutral or they disagree with these challenges.

### Conclusion

The above study was intended to study the challenges and issue faced by Jordanian banks in financing SMEs. There were total 14 issues found which are usually faced by the commercial



banks in financing SMEs. The data about the issues were collected from 229 respondents using a close ended questionnaire based on 5 point scale. The data was analyzed using SPSS. The results showed that in the Jordanian banking sector there are three main issues that are faced by the banks. They are lack of adequate study by banks for SMEs, The intensity of competition among local banks in relation to the financing of SMEs and the inability of SMEs because of their lack of success in the market. About the other issues the respondents are either about neutral or they disagree with these challenges. The relevant authorities should make the policies and take necessary steps to overcome the above mentioned issues.

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