EFFECT OF UTILIZING ISLAMIC AND NON-ISLAMIC BANKING FACILITIES ON THE FIRM GROWTH IN JORDAN

by

MAHMOUD ANWAR FAWZE AL-RDAYDEH

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GDP	Gross Domestic Product
PLS	Profit Loss Sharing
E&Y	Ernst and Young
CBJ	Central Bank of Jordan
DIB	Dubai Islamic Bank
IMF	International Monetary Fund
IFSB	Islamic Financial Services Board
GCC	Gulf Countries Council
FD	Financial Development
EG	Economic Growth
GMM	Generalized Method of Moments
MENA	Middle East and North Africa
VECM	Vector Error Correction Model
OLS	Ordinary Least Square
R&D	Research and Development
ASE	Amman Stock Exchange
BF	Banking Facilities
IBF	Islamic Banking Facilities
NIBF	Non-Islamic Banking Facilities
STRA	Business Strategy
FG	Firm Growth
AUE	Asset Utilization Efficiency
PPC	Premium Price Capability
INV	Inventory Turnover
AG	Asset Growth
SG	Sales Growth
EG	Employment Growth
VIF	Variance Inflation Factor

KESAN TERHADAP PENGGUNAAN KEMUDAHAN PERBANKAN ISLAM DAN BUKAN ISLAM KE ATAS PERTUMBUHAN FIRMA DI JORDAN

ABSTRAK

Kewangan merupakan salah satu sumber utama yang diperlukan dalam pembentukan institusi dan pertumbuhan. Pembiayaan bank adalah sumber dana yang penting, dan kebanyakannya digunakan oleh syarikat secara tidak langsung memberi kesan ke atas pertumbuhannya. Sastera kemudahan perbankan dalam konteks kewangan korporat dan pertumbuhan yang kukuh menunjukkan bahawa kebanyakan kajian memberi tumpuan kepada kemudahan perbankan konvensional di negara-negara maju. Walaupun industri perbankan Islam berkembang di peringkat global, kajian tidak memberi tumpuan kepada peranan mod pembiayaan dalam konteks pertumbuhan perniagaan. Oleh itu, kajian ini membangunkan satu rangka kerja lanjutan tumpuan terhadap peranan kemudahan perbankan Islam dan kemudahan perbankan bukan Islam dalam pertumbuhan syarikat. Di samping itu, kajian ini meneroka peranan penyederhanaan terhadap strategi perniagaan ke atas hubungan antara kemudahan perbankan Islam dan perbankan bukan Islam serta pertumbuhan yang kukuh. Data dari firma di Jordan digunakan dalam kajian ini kerana ia merupakan salah satu daripada negara-negara membangun yang mempunyai sistem dwi-perbankan. Sampel kajian ini terdiri daripada 113 syarikat dari 227 syarikat yang disenaraikan di ASE. Sampel kajian telah dibahagikan kepada dua kumpulan. Kumpulan pertama yang merupakan syarikat yang menggunakan kemudahan perbankan Islam atau kemudahan perbankan bukan Islam, manakala kumpulan kedua terdiri daripada syarikat-syarikat yang menggunakan kedua-dua kemudahan iaitu

daripada perbankan Islam dan kemudahan perbankan bukan Islam. Kajian ini menggunakan tiga pengukuran pertumbuhan firma, iaitu pertumbuhan aset, pertumbuhan jualan, dan pertumbuhan pekerjaan. Dengan menggunakan analisis panel data, model kesan tetap dan model kesan rawak merupakan analisis lebih sesuai berbanding model lain. Keputusan bahawa hubungan kemudahan perbankan Islam dan pertumbuhan kukuh disokong sepenuhnya. Manakala, keputusan hubungan di antara kemudahan perbankan bukan Islam dan pertumbuhan yang kukuh disokong sebahagian. Bagi peranan penyederhanaan pula, keputusan menyokong peranan strategi perniagaan sebagai penyederhanaan di antara kemudahan perbankan Islam dan bukan Islam serta pertumbuhan yang kukuh. Secara umumnya, hasil kajian menunjukkan bahawa ia merupakan sokongan empirikal pendidikan semasa.

EFFECT OF UTILIZING ISLAMIC AND NON-ISLAMIC BANKING FACILITIES ON THE FIRM GROWTH IN JORDAN

ABSTRACT

Financing plays a vital role in the establishment and development of institutions. Bank financing is an important source of funds, and it is mostly employed by firms. A considerable amount of literature has been published on banking facilities in the context of corporate finance and firm's growth, most of which have focused on conventional banking facilities in developed countries. Moreover, a considerable literature has grown up around the theme of Islamic banking industry; nevertheless, there is a notable paucity of empirical research focusing specifically on the role of financing modes in the context of business growth. Thus, this study has developed an extended framework which mainly concentrates on the effect of Islamic banking facilities and non-Islamic banking facilities in the growth of firms. In addition, the study has investigated the moderating role of business strategies in the relationship between Islamic and non-Islamic banking facilities and firm growth. The study has targeted firms in Jordan as a sample from developing countries that adopt dual banking systems. Specifically, the sample of the study has included 113 firms from the 227 listed firms on the ASE. These firms have been divided into two groups: the first group includes firms that use either Islamic banking facilities or non-Islamic banking facilities, and the second group includes firms that use both Islamic banking facilities and non-Islamic banking facilities. Three measurements of firm growth, namely, asset growth, sales growth, and employment growth have been used as a source of the data collection. Depending on panel data analysis, the fixed effect model

and random effect model were found to yield richer data than the other models. The results obtained from the analysis of fixed effect model and random effect model have proved a significant correlation between Islamic banking facilities and indicators of firm growth. However, the study has found an insignificant correlation between non-Islamic banking facilities and some indicators of firm growth. Regarding the moderating role, the results were in line with previous research on the role of business strategies as a moderator between Islamic and non-Islamic banking facilities on the one hand, and firm growth on the other hand. As a conclusion, the results of the study have shown empirical support for the current respective research.

CHAPTER ONE: INTRODUCTION

1.0 Introduction

This chapter briefly presents the general focus of the current study. It starts with the background of the study and introduces the problem statement. Research questions and objectives are also presented. Then, the contribution of the research is also shown. After that, the scope of the research is presented. Finally, definitions of key terms and organization of the thesis are shown at the end of chapter.

1.1 Background

Financing is one of the core resources that are necessary in institutions formation and growth. One of the fundamental questions in finance is the relevance of financing decisions. Typical financial decisions of businesses determine how much and what type of financing (debt and equity) should be chosen to raise the required capital to maximize the value and growth of businesses. Modigliani and Miller (1958) posited that if capital structure is irrelevant, management should not devote significant time in choosing a firm's financing strategy. However, if capital structure is relevant, management should seek the optimal financing resources that maximize a firm's value.

Thus, firms should determine the appropriate time and amount of financial resources to raise capital from different sources using the internal sources of firms, such as issuance of a new share (equity financing), or external sources, such as borrowed resources from financial institutions (debt financing). The reasons for firms' decision on the form of financing, such as debt, equity, or internally generated funds,

are complex. These considerations include taxation, market interest rates, inflation expectations, and ability to generate internal finances. These factors affect the relative costs among different sources of financing.

Firms must consider the trade-off between the benefits and costs of bank financing relative to other potential financing choices. The previous literature on financial intermediation argues that the potential benefits of bank financing include low moral hazard, adverse selection costs, and ease of renegotiation in financial distress (Berlin & Loeys, 1988; Chemmanur & Fulghieri, 1994; Diamond, 1984, 1991; Hoshi, Kashyap, & Scharfstein, 1993; Ramakrishnan & Thakor, 1984).

According to Schumpeter (1911) argued that entrepreneurs need credit to finance new production techniques and emphasized the role of the banking system in allocating capital to innovative businesses. Thus, banks are recognized as the most important financial institutions that provide financing and promote business and economic growth. This assumption was supported by Goldsmith (1969), Shaw (1973), McKinnon (1973), King and Levine (1993) and Levine (1997) who indicated that the development of the banking sector leads to high output and growth. Organizing the banking sector leads to more financial resources, which can be allocated to productive use and used to improve the efficiency of asset allocation, thus contributing to the value and growth of firms and producing high economic growth (Beck & Levine, 2004; Bencivenga & Smith, 1991; Cetorelli & Gambera, 2001; Levine, Loayza, & Beck, 2000; Levine & Zervos, 1998; Odedokun, 1998; Rajan & Zingales, 1998; Saint-Paul, 1992).

Banks and other intermediate financial institutions provide financial services for all sectors of society and promote growth if these institutions can direct financial

resources towards sectors with the highest demand. Bank financing is an important source of funds, and it is mostly employed by firms. Bank financing can variably affect the growth of firms. This effect may be positive if bank financing allows a firm to address its liquidity constraint, thus increasing the firm's profitability and firm expansion. The positive influence of bank financing is indicated by economic growth (Nkurunziza, 2005).

Previous literature provided inconsistent results about the significance of using bank financing on the growth of firms. Some studies confirmed that bank financing is one of the most important sources of external funds, which are mostly used by firms for growth such as Rahaman (2011) and Demetriades, Du, Girma, and Xu (2008). However, the findings of other researchers, such as Beck and Levine (2002) and Maksimovic, Beck, Demirgüç-Kunt, and Levine (2000) considered that the effect of using bank financing on firm growth is ambiguous. Maksimovic, et al. (2000) indicated that firm growth is mainly affected by utilizing internally generated financing. Guariglia, Liu, and Song (2011) confirmed this result and found that firms achieved high rates of growth using internal finances. Thus, it appears that there is a third variable may influence this relationship.

Finance literature has highlighted that a competitive environment is the reason for the strong relationship between the usage of banking facilities and firm growth and for firms' use of banking facilities and other external financial resources. Demirgüç-Kunt and Maksimovic (1998) stated that firms in a competitive environment tend to use external financing to achieve growth at the same rate as their competitors. This argument implies that competition is an important factor that encourages firms to use banking facilities to finance operations and production

activities, thus achieving growth. In this regard, managers must know the magnitude, trends, and rate of this competition. They must manage strategically to compete favorably, thereby ensuring firm growth and survival. Porter (1980; 1985) postulated that strategic management leads to a competitive advantage, which results in superior performance and firm growth. Firms that lack proper competitive strategies have less opportunity for growth and survival (Kinyuira, 2014).

Competitive advantage can be achieved by firms when these firms adopt different production strategies in operation and production activities. These production approaches are called business or competitive strategies. (Porter, 1980, 1985) contended that industries could achieve superior competitiveness by adopting generic strategies and suggested the two basic types of strategies that could cause firms to attain competitiveness, namely, cost leadership and product differentiation. The significance of any strength or weakness that a firm possesses is its effect on relative cost or differentiation.

These two basic types combined with scope of activities, which firms seek to achieve, lead to three generic strategies: cost leadership, differentiation, and market focus strategy. In cost leadership, firms aim to achieve operational efficiency to reduce their cost. In product differentiation, firms create products and services that differentiate them from their competitors. Thus, firms that adopt cost leadership aim to achieve operational efficiencies, whereas firms that employ product differentiation focus on innovation and creativity to increase their competitive advantage. The adopted strategy has two variants, namely, cost focus and differentiation focus. This strategy is applicable in a narrow segment to achieve cost leadership or different

products (Porter, 1985). Porter noted that firms must select only one of the three strategies or risk wasting their precious resources (Porter, 1980, 1985).

This business strategy may affect the debt usage of firms. To achieve growth, the adopted strategy should enable firms to maximize resources, such as financial resources. An inappropriate business strategy leads firms to waste resources as each strategy has its own characteristics. The cost of debt increases with the usage of banking facilities. This increase forces managers to perform better to meet mounting financial obligations (Berger & Di Patti, 2006). Creditors impose agreements with managers to efficiently use resources to ensure that debts are paid on time (Simerly & Li, 2000). This phenomenon can be referred to as the critical agency problem-controlling mechanism. The effectiveness of this controlling mechanism highly depends on business strategy (cost leadership or product differentiation) (Jermias, 2008). Operational efficiencies are critical in cost leadership. Thus, debt agreements, which are imposed by creditors, force managers to efficiently use financial resources that may lead to firm growth. Firms that adopt a product differentiation strategy focus on innovation and creativity, which involve risky decision making. The imposed agreement by creditors could affect creativity by avoiding risky decisions, thus to better use of banking facilities and achieving growth.

Firms that use banking facilities acquire funding from different types of banks. Two types of commercial banks exist, namely, Islamic and conventional banks. The products and services of conventional and Islamic banks have similarities and differences. Islamic banking is based on Sharia (Islamic principles). Therefore, all deals, transactions, business tactics, features, and investment focus are derived from

the Sharia law, which imposes significant differences from many aspects of the operations of the conventional banking system.

The correlation between investment and profit is the key difference between Islamic and conventional banking, which aims to maximize the wealth of shareholders wealth (Dar & Presley, 2000). Conventional banking is not appropriate for borrowers of a Riba-free system. With the emergence of Islamic finance, other alternatives are now available for credit borrowers. In conventional systems, most banking facilities impose interest, which is called Riba in Islamic finance. Riba is not allowed in the teachings of the Qur'an, the Muslims' holy book. Riba in Sharia (Islamic laws) refers to "the 'premium' that must be paid by a borrower to a lender along with the principal amount as a condition for a loan or for an extension in its maturity" (Chapra, 1985).

The basic principle in Islamic finance is that unfair or exploitative contracts, which contain risk or speculation, are not allowed. Islamic finance does not allow new risks to be created for profit (Siddiqi, 2002). All partners involved in financial transactions share the profit or loss and risk of a contract, and no one obtains a predetermined return. Islamic finance emphasizes sharing risk over an asset-based model, whereas conventional finance, which is mostly debt-based model, facilitates the transmission of risk (Imam & Kpodar, 2010).

Islamic banking facilities rely on sharing risk and profit contract (Hassan & Lewis, 2014). Thus, all parties in a contract are allowed to share production, marketing, and transportation risks. Parties can conduct exchanges to reduce the risk of income volatility. Islamic banking is a particular mode of financial intermediation in which companies could benefit as fund providers participate in the profits and losses of a project and are more like an equity holder than a debt holder.

The conventional banking system is vulnerable to global financial crises. Many scholars have shed light on the conventional banking system and the root causes of the crises. Muslim and Western scholars have analyzed the instability and inherent weakness of the conventional banking system and suggested the Islamic banking system as a solution. Kayed and Hassan (2011) argued that financial crises would not occur under an Islamic banking system because most, if not all, of the factors that contributed to the development of this crisis (e.g., interest rate) are not allowed under the rules of Sharia.

Furthermore, the stability and effective risk management of Islamic banks allow Islamic finance to be a viable alternative to conventional finance. Dan Taylor, a British financial expert, stated that Islamic banks are more appealing to investors because these banks have safe investments, exhibit effective risk management, and provide a great capacity to manage the risks from liquidity deficit (Saymeh & Orieqat, 2013). Under the profit and loss sharing principle (PLS), the Islamic banking system reallocates the consequences of risk to all parties in a business. In contrast, debt financing of the conventional banking system relieves a financier from uncertainty by shifting it to a real investor who bears the entire risk of the enterprise. By spreading the same risk to all parties in a business, the Islamic financing system promotes financial stability particularly during crises. Boumediene and Caby (2009) pointed out that Islamic banks during the last crisis were more stable than conventional banks. In other words, Islamic banks were immune to the subprime crisis.

Islamic banking provides an efficient channel for productive resources to be transmitted to economic growth. Recent studies have analyzed the role of Islamic financing in economic growth. Farahani and Dastan (2013) and Abduh, Brahim, and

Omar (2012) determined that Islamic financing has a significant role in short-run and long-run periods in economic growth. Yusof and Bahlous (2013) argued that Islamic banks provide an efficient channel for productive resources to be transmitted to economic growth.

Islamic financial institutions are growing and becoming successful in the past few years in many countries; these organizations operate through more than 300 institutions in 75 countries (Cihak & Hesse, 2008). According to the Ernst & Young (E&Y) report, global Islamic banking assets were expected to reach US$1.8 trillion in 2014, increasing from US$1.54 trillion in 2013 and US$1,086 billion in 2012.

The literature on role of bank financing in terms of firms mainly focuses on conventional finance, such as the works of Levine and Warusawitharana (2014a), Nkurunziza (2005) and Sufi (2009). Although the substantial increase in Islamic banking occurred earlier, few studies analyzed the effect of this important type of financing on firm growth. The banking facilities in developing countries are the most important source of external funds. Ayyagari, Demirgüç-Kunt, and Maksimovic (2012) noted that banking facilities are the primary source of external financing of firms in developing countries. Despite the importance of banking facilities, previous studies mostly focused on developed countries and not on developing countries such as Jordan.

Along with the continuous growth of Islamic banking in Arab countries and in the Middle East, Jordan had engaged early in the concept of Islamic banking as Jordan has an open society. The experience of Jordan in Islamic banking began three decades ago. Jordan Islamic Bank was the first Islamic bank, and it was established in 1978. Islamic banks increased and expanded by establishing more branches, banks

such as the Islamic International Arab bank, and other Islamic institutions including Jordan Islamic Insurance, Islamic Investment House, and Jordan Finance House. Despite the small area of Jordan and its lack of oil, Jordan has engaged successfully in the Islamic banking industry, particularly after the recent global crisis that overwhelmed the conventional banking system. As a result, Central Bank of Jordan (CBJ) issued a permit to add two Islamic banks, namely, Jordan Dubai Islamic bank in 2010 and Al Rajhi bank in 2012, which led to increase the share of Islamic banks in the total banking facilities to business sectors from 13% in 2009 to roughly 22% in 2014 as shown in Figure 1.1.

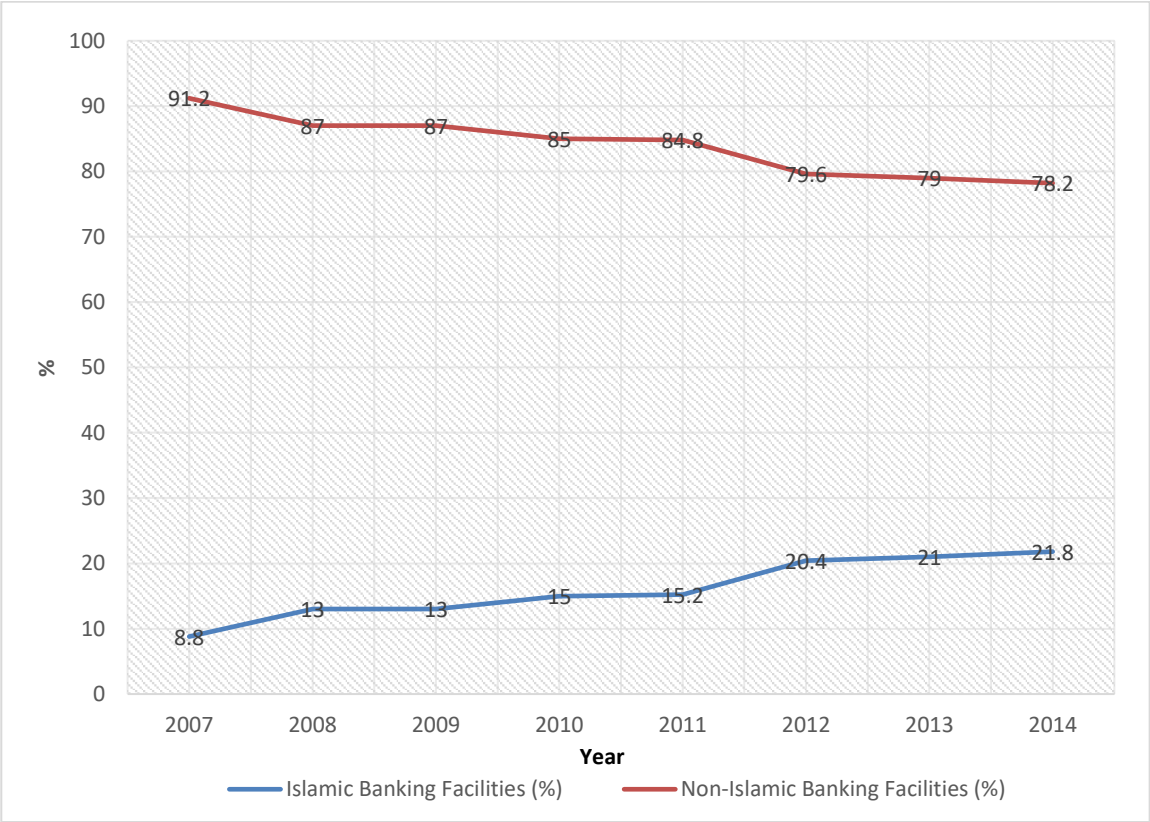

Figure 1.1 Trend Growth of Islamic and non-Islamic Banking Facilities in Jordan

The rapid growth of the Jordanian Islamic banking industry in recent years proved that Islamic finance in Jordan is an integral part of the financial sector and acts

as an effective financing resource for economic sectors. Table 1.1 presents the total banking facilities provided to business sectors and shares of both Islamic and conventional banks from 2007 to 2014.

Table 1.1 Total Banking Facilities in Jordan

Year	Total Banking	Islamic Banking	Islamic Banking	Non-Islamic Banking	Non-Islamic
2007	15813.84	1397.7	8.8	14416.13	91.2
2008	18262.02	2415.53	13	15846.49	87
2009	18644.08	2424.28	13	16219.8	87
2010	20231.96	3037.97	15	17193.99	85
2011	22191.68	3367.72	15.2	18823.95	84.8
2012	24943.8	5095.41	20.4	19848.39	79.6
2013	25625.6	5368.57	21	20257.03	79
2014	26892.7	5874.17	21.8	21018.55	78.2

Source: Association of Banks in Jordan (ABJ)

In the last three decades, Jordan implemented legislative and economic reforms to achieve liberalization and integration in the global economy. Economic regulations and laws were enacted or modified in accordance with the global trends of openness and integration to create an environment that is more conducive to business growth and investment. The most significant reforms included privatizing state-owned enterprises, opening the trade regime, and promoting exportation and foreign direct investment, which spurred economic growth by attracting foreign investment and creating new jobs. The diligent and extensive focus on implementing structural and legal reforms in Jordan made the economy more favorable to investment and created many opportunities for business in all sectors. The economic reformation of Jordan demonstrates the importance of Jordanian firms, which are a

key factor in its economic development. Thus, the number of firms listed in the Amman Stock Exchange increased from 66 firms in 1978 to 236 firms in 2015. Despite of these economic reforms, Jordanian economy has faced several problems during the last period due to the unstable environment in the surrounding countries such as Iraq, Syria and Palestine (CBJ, 2013).

However, the development economic is strongly influenced by the investment and financing decisions of firms in the business sectors (Abuhommous, 2013). Thus, provide required financing for firms help them to achieve growth. Banks and other intermediate financial institutions provide financial services for all sectors of society and promote growth if these institutions can direct financial resources towards sectors with the highest demand. In Jordan, the industrial and services sectors are vital economic sectors, which are attractive to investors. In last five years, the average contribution of the industrial sector in Jordan was around 34% from Gross Domestic Product (GDP), while the average contribution of services sector was 42% from GDP. Thus, the growth of firms in these business sectors a crucial role in solving the economic problems and support the economic performance. However, only a few studies focused on the issue of firm growth in Jordan. These studies examined the relationship between firm size and firm growth (Al-Mahrouq, 2014; Almsafir, Nassar, Al-Mahrouq, & Hayajneh, 2015).

Banking is one of the main sectors in Jordan. According to the International Monetary Fund (2003), the banking system in Jordan is well developed and contributed an average of 23.4% to the GDP in the last five years. The total banking facilities from the banking system to the private sector increased in the last seven years at a compound annual growth rate of 7.8% between 2007 and 2014 and reached

US$2.7 billion (Table 1-1). Several scholars highlighted that an organized banking sector produces more financial resources that could be allocated to productive use, thus improving the efficiency of asset allocation. Asset allocation contributes to the growth of firms and increases economic performance (Beck & Levine, 2004; Bencivenga & Smith, 1991; Cetorelli & Gambera, 2001; Levine, et al., 2000; Levine & Zervos, 1998; Odedokun, 1998; Rajan & Zingales, 1998; Saint-Paul, 1992).

Studies addressing the role of using banking facilities in Islamic or non-Islamic facilities at the firm growth level in Jordan are lacking. Most studies focused on the role of the banking sector in supporting the economic growth of Jordan (Al-Jarrah, Al-Zubi, Jaara, & Alshurideh, 2012). Other studies discussed the role of Islamic banks in economic growth, such as the works of Al-Oqool, Okab, and Bashayreh (2014), and Moh'd AL-Tamimi (2013).

The existing literature on the effect of using banking facilities on firm growth indicates the likelihood that a third variable may share in the relationship and contribute to the mixed results. According to Frazier, Tix, and Barron (2004) when the results of previous literature provide evidence that the relationship between the dependent variable and the independent variable is positive or negative, the mediator variable can be established to explain why or how the independent variable affects the dependent variable. Although the moderator variable can be established, previous literature shows that the relationship between the dependent variable and the independent variable is inconsistent.

The central argument in the current study is that the usage of banking facilities is likely to lead to high firm growth in a competitive economy. This result occurs because firms are more willing to invest and have plans to expand because of the

competitive environment in the market. This assumption is highly dependent on the competitive strategy applied by firms, which cause these firms to efficiently use financial resources and achieve growth. The current study anticipates that business strategy (cost leadership and differentiate product) moderates the relationship between the usage of banking facilities and firm growth.

Following these discussions, the current study aims to address the limitations in the literature by examining the effect of using two types of banking facilities, namely, Islamic and non-Islamic facilities, on firm growth and by investigating the moderating effect of business strategy, particularly cost leadership strategy and differentiate product strategy, in Jordanian firms.

1.2 Research Problem

The emergence of many local and global political issues, increasing oil prices, and global economic crises, such as the last financial crisis in 2007–2008, contributed to the global economic instability in recent years. Jordan is considered a developing country, and its economy is an open one. It suffers from external and internal shocks, debt crisis, and economic collapse (International Monetary Fund, 2012). Jordan recently faced several shocks, including the global financial crisis, the Arab Spring, the shortages in gas movements from Egypt, and the civil war in Syria, which led to a large inflow of refugees from Syria to Jordan. These problems, together with the increase in oil price, further affected the economy of the country (CBJ, 2013). The repercussion of these shocks influenced the performance of the Jordanian economy in terms of price increase, budget deficit, inflation rate, unemployment rate, poverty level, and population growth rate (USAID, 2012).

Six years after the financial crisis, the average percentage of budget deficit to the GDP increased to 6.3%, which is higher than the average of 4.1% in the last five years before the crisis (CBJ, 2014). The average unemployment rate during the same period after the crisis is 12.5%. The main reason for this high percentage is the entry of a large number of low-paid Syrian workers in the labor market (CBJ, 2014).

However, the Jordanian economy has limited natural resources. The country is highly dependent on foreign aid, workers' remittances, and the growth of business sectors to support its economic performance (CBJ, 2013). The business sectors, which include industrial firms, services, and financial firms, play a crucial role in enhancing economic performance (CBJ, 2013). The growth of firms in these business sectors can help improve the performance of the Jordanian economy and mitigate these challenges. Firm growth is determined by a combination of internal and external factors. It is determined by the specific characteristics of a firm, such as age, ownership structure, location, industry sector, legal form, and innovation. Considerable evidence shows that external financing also determines firm growth (Levine, 2005; Saeed, 2009).

Banking facilities are one of the most important sources of external financing and firms may use this type of financing to support its growth (Rahaman, 2011). Accordingly, investigating the growth rate of Jordanian firms and the role of the banking sector in supporting these firms is crucial. The questions on this issue are as follows: To what extent do firms in Jordan utilize these banking facilities? To what extent do the Islamic and non-Islamic banking facilities help promote the growth of Jordanian firms?

Given that previous studies have yielded a mixed result about the relationship between utilizing banking facilities and firm growth (Rahaman, 2011; Beck & Levine, 2002), this study introduces business strategy as moderator variable. The adopted strategy should enable firms to maximize their resources relative to the opportunities in the external environment. Firms must employ an appropriate business strategy to avoid wasting resources, such as financial resources (Porter, 1985), so that they will grow. This was confirmed by Bena and Xu (2015) and Demirgüç-Kunt and Maksimovic (1998).

In the context of Jordan, studies confirmed that competition among firms is high because of new free trade agreements with other countries, such as the United States, Canada, and Europe (Al-Rfou, 2012; Hutaibat, 2005). Thus, Jordanian firms adopt different business strategies that resulted in increased competition. Accordingly, examining the moderating role of business strategy on the relationship between the use of both Islamic banking facilities and non-Islamic banking facilities and firm growth is necessary and crucial.

Consequently, the study fills the gap in the literature by examining the effect of using both Islamic and non-Islamic banking facilities on growth of listed firms in Jordan. This study determines the reason for the inconsistent results from previous studies by the inclusion of business strategies, namely, cost leadership and product differentiation as the moderating factors which may help to interpret the relationship between utilizing of banking facilities and firm growth.

1.3 Research Questions

Guided by the problem statement, the current study attempts to test the effect of utilizing Islamic banking and non-Islamic banking facilities on the growth of Jordanian firms and addresses the following questions:

1. What are the effects of utilizing Islamic banking facilities or non-Islamic banking facilities on the growth of Jordanian firms?
2. What are the effects of utilizing Islamic banking facilities and non-Islamic banking facilities on the growth of Jordanian firms?
3. What is the role of Business strategy in moderating the relationship between utilizing of Islamic banking facilities and/or non-Islamic banking facilities and firm growth in Jordan?

1.4 Research Objectives

The current study generally aims to fill the gap in the literature by empirically examining the influence of Islamic and non-Islamic banking facilities on the growth of firms in Jordan. The specific research objectives of the current study are summarized as follows:

1. To investigate the effects of utilizing Islamic banking facilities or non-Islamic banking facilities on the growth of Jordanian firms.
2. To investigate the effects of utilizing Islamic banking facilities and non-Islamic banking facilities on the growth of Jordanian firms.
3. To explore the role of Business strategy in moderating the relationship between utilizing of Islamic banking facilities and/or non-Islamic banking facilities and firm growth in Jordan.

1.5 Contribution of the Research

Most studies on bank financing in the context of corporate finance and economic growth have largely focused on the conventional bank financing in developed countries. However, the issue of Islamic banking facilities has gained limited attention, particularly in the context of corporate finance. Banks constitute a major component of any economy and are a tributary of development and advancement. Banks perform these roles through a set of functions conducted by financial institutions. Banks collect funds in the form of deposits and provide finances for businesses without disregarding other services. The role of banks as a financial mediator is sensitive and important for the easy and good flow of markets. These institutions are expected to make credit and liquidity available during financial difficulties in the market. Therefore, the continuation of any economy depends on the safety and strength of its banking system, which is a major part of any financial system.

The banking sector in Jordan effectively developed in a short period unlike that in many other developing countries particularly because of the influence of the political figures in this country. Despite the crises experienced by Jordan and the unstable global conditions, the banking sector managed to maintain its stability to a significant extent under the policies pursued by the Jordanian Central Bank to retain a strong banking system and provide an appealing investment environment, which is reflected by the increasing number of Jordanian banks, particularly Islamic banks, from two Islamic banks in 2008 to four Islamic banks in 2012. The summary of the contributions of the current study is as follows:

First, many studies have addressed the effect of utilizing bank financing as a source of funding in terms of firm growth. Researchers who examined this topic have focused on conventional finance and not on the effect Islamic finance on firm growth. Thus, the current study examines the influence of utilizing Islamic and non-Islamic banking facilities on firm growth. Second, most studies have addressed the effect of bank financing in developed countries. However, studies in the context of the Middle East region, particularly in Jordan, are lacking. Thus, the findings from this thesis provide additional information on the effect of both Islamic and non-Islamic bank financing on the growth of firms in a developing country.

Third, this study introduces business strategy (cost leadership and differentiate product) for the first time as the moderator on the effect of utilizing Islamic banking facilities and non-Islamic banking facilities on firm growth in Jordan. Fourth, this study provides a framework for future researchers who intend to examine the influence of Islamic and non-Islamic banking facilities on firm growth in Jordan and other countries in the Middle East and around the world. The results from this study provide pertinent information for the relevant authorities on planning and designing policies most suitable for the Jordanian business culture, such as CBJ, Amman Stock Exchange, or other regulatory bodies. The findings of this study can also help authorities evaluate the current situation of the banking sector and assess the contribution of both Islamic and non-Islamic banks to businesses sectors and economic growth in Jordan.

1.6 Scope of the Research

This study determines the usage of Islamic banking facilities and non-Islamic banking facilities of firms. These facilities, which are provided by both types of banks, involve many forms of financing that firms in Jordan may use. This issue is discussed in the following chapters. According to Ayyagari, et al. (2012) banking facilities are the most widely used external financing schemes by firms in developing countries. The current study is conducted on firms in a developing country (Jordan), which has a well-developed banking system that significantly contributes to the growth of the country. Previous studies did not focus on Islamic financing in this area in a combined form. The focus in this study will be on investigating the effect of utilizing Islamic and non-Islamic banking facilities on the growth of Jordanian firms. Also, the study introduces business strategy as a moderator on this relationship.

1.7 Definitions of Key Terms

Definitions or constructs of the key terms are being presented as follows:

(a) **Firm Growth:** "The growth of firm can be defined in terms of revenue generation, value addition, and expansion in terms of volume of the business" (Gupta, Guha, & Krishnaswami, 2013).

(b) **Islamic Banking Facilities:** or Islamic financing is "the provision of factors of production, goods and services without requiring an immediate counterpart to be paid by the recipient" (Kahf, 1999). Islamic Banking Facilities is merely a name of providing factors of production, goods and services for which payment is deferred.

(c) **Non-Islamic banking facilities:** is a loan or a collection of loans, given from banks to the firms. These loans can be many different types, depending upon the needs of the companies, and can vary from letters of credit to term loans, and can be committed or uncommitted.

(d) **Business strategy:** is "the pattern of decisions in a company that determines and reveals its objectives, purposes, or goals, produces the principal policies and plans for achieving those goals, and defines the range of business the company is to pursue, the kind of economic and human organization it is or intends to be, and the nature of the economic and noneconomic contribution it intends to make to its shareholders, employees, customers, and communities"(Andrews, 1980).

1.8 Organization of the Thesis

The chapters of this thesis are organized into six parts.

The first chapter discusses the background of the study, outlines the problem statement, the research objectives, and the research questions, states the contribution of the study, and provides the definitions of the key terms.

Chapter two provides an overview of the Jordanian economy and businesses sectors, banking system in Jordan, global Islamic banking and finance industry, and presented literature about the relationship between finance and economic growth.

Then, Chapter three provide discussion and conceptualization of the main variables (firm growth, Islamic and non-Islamic banking facilities, as well as business strategy), also this chapter discusses the theoretical framework of the research and provides the hypotheses of the study.

Chapter four explains the methodology used to achieve the objectives of this study. The study uses panel data regression of 10 years starting from 2006 to and inclusive of 2015.

Chapter five presents the finding of this study, and finally Chapter six presents the summary and conclusion, focusing on the salient points of the findings, with a presentation concerning the limitations of the present research, and highlighting possible ideas for future research. The chapter ends with an overall conclusion of the thesis.

CHAPTER TWO: JORDANIAN ECONOMY AND BUSINESSES SECTORS

2.0 Introduction

This chapter presents a general description of the Jordanian economy and its main economic sectors. This chapter describes Jordan's geography and economy, economic sectors, and banking system, specifically Islamic banking and finance. An overview of the global Islamic banking industry, is presented.

2.1 Geography of Jordan

Jordan (Arabic: الأردن al-'Urdunn), formally called the Hashemite Kingdom of Jordan, is an Arab country in Southwest Asia. It is located in the heart of the Middle East, which is at the meeting point of Asia, Africa, and Europe. Jordan has a total area of 89,318 km2 (Department of Statistics, 2013). Amman is the capital city, which is located in Northwest Jordan. Jordan's population in 2013 was 6,530,000 (Department of Statistics, 2013). Jordan spans the northwest of Saudi Arabia, the south of Syria, the southwest of Iraq, and the cast of the west bank. It has access to the Red Sea via the port city of Aqaba, which is located at the northern end of the Gulf of Aqaba (Royal Jordanian Geographic Centre, 2014). Jordan shares control of the Dead Sea with Palestine and the coastline of the Gulf of Aqaba with Palestine, Saudi Arabia, and Egypt. Jordan is mostly covered by the Arabian Desert. The northwestern area and the Jordan River are regarded as part of the Fertile Crescent.

Figure 2.1 Map of the Hashemite Kingdom of Jordan

Jordan has a combination of Mediterranean and arid desert climates. The Mediterranean climate prevails in the north and west, and the majority of the country is a desert. The country has warm, dry summers and mild, wet winters. Its average annual temperatures range from 12 °C to 25 °C and summer highs reach 40 °C in the desert regions. Rainfall averages vary from 60 mm annually in the desert to 700 mm in the northern hills; some of the rain falls as snow (Department of Statistics, 2013).

The kingdom of Jordan constitutes three main regions: central, north, and south. Each region includes four governorates; thus, Jordan has 12 governorates in total. The largest region is the central one, followed by the north and then the south.