THE FINANCIAL PROFILE OF SMALL BUSINESS: EXPERIENCE DERIVED FROM THE MIDDLE EAST AND NORTH AFRICA (MENA) REGION

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ABSTRACT
The study has been developed to the establishment of the financial profile of micro-enterprises in the Middle East. The objective of this paper is to provide a well documented answer to the debatable question on whether small business has outlived its usefulness or it forms an important facet of the economy, "Asset or liability". Given the small amount of empirical work done in developing countries, and non-existent of any empirical research in this area in the Middle East, the findings were analyzed in relation to empirical research done in developed and developing countries. The criteria for inclusion were that the previous studies should involve substantial empirical work, including partial or comprehensive analysis of financial data. A concluding point for this study is that the financial profile exercise provides confirmation to the effects of the life-cycle, growth and size of the firm on its financial behavior and financial structure. Thus, there appears to be marked dissimilarity between the financial profile of small firms at inception and small growing firms in developing economies. Based on asset utilization concept, the empirical investigation questions the traditional economic theory with its emphasis on large scale economies.

Keywords: Small Business Finance; Small Business Liquidity; Asset-Liability Management; MENA Small Business.

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1. Introduction:

The view has been widely accepted that banks have been nearly absent in the field of small enterprise finance. This assumption has dominated the perception of academics and practitioners for a long time, who viewed NGOs as the main source of finance for micro enterprises. Therefore, it has been the belief that there is little scope for discussion to be learned from the experience of commercial bank lending to small enterprises.

Inconsistency in the definition of small businesses is a challenging issue when making cross-country comparisons. OECD (2012) highlights significant variation in definitions, with many statistical agencies defining small businesses as those with fewer than 50 employees. The OECD recommended that financial institutions use a definition based on firm size rather than the size of loans, so that financial data would then conform to the definitions used by statistical agencies. However, the OECD found that many financial institutions were reluctant to switch to reporting based on the number of employees unless required to do so by regulators.

A number of recent studies, however, indicate that the banking sector plays a more important role than it was believed earlier (World Bank, 2011; Almmeyda, 1996, and Churchill, 1999).

The biggest constraint to the involvement of regional institutions in financing regional projects is the size of the banks. Banks in the Middle East are small. The total equity of all Gulf banks at the end of 2003 was $44bn – about the same size as Barclays. A more relevant comparison is perhaps to look at the biggest banks in the Gulf – the ones which we would be looking for to lead and underwrite big deals: only three institutions in the Gulf had equity of more than $2bn – which is about the size of the UK-based Bradford & Bingley Bank.

Recent empirical evidence using household data indicates that access to basic financial services such as savings, payments and credit can make a substantial positive difference in improving poor people's lives (Caskey et al., 2006; Dupas and Robinson 2009). For firms, especially small and medium enterprises (SMEs), the difficult access to finance is often the main obstacle to growth (Schiffer and Weder, 2001; Cressy, 2002; IADB, 2004; and Beck et al., 2005, 2006, and 2008a).

Analysts and policymakers increasingly recognize the importance of SMEs2 in economic development (Beck, Demirgüç-Kunt, and Peria, 2008a; OECD, 2006). SMEs are critical because they account for large shares of total output and employment and are thus key to the strategic objective of overcoming poverty. Studies indicate that formal SMEs contribute up to 45 percent of employment and up to 33 percent of GDP in developing economies; these numbers are significantly higher when taking into account the estimated contributions of SMEs operating in the informal sector (Stein, Teima and al, 2010).

According to Rocha et al (2011), state banks seem to be taking greater risks than private banks in their SME lending business. They are less selective in their strategies to target SMEs, have a lower ratio of collateralized loans to SMEs, and a higher share of investment lending in total SME lending. At the same time, they also seem to have less developed SME lending technologies and risk management systems. A lower share of state banks has dedicated SME units, makes use of credit scoring, and conducts stress tests.

In the World Bank's Enterprise Surveys, the MENA region has the lowest percentage of firms with credit lines or loans from financial institutions, at 25.07%, compared to 56.92% for Eastern Europe and Central Asia, or 45.02% for South Asia (Alvarez de la Campa, 2011)6. Based on the same study, 16.4% of firms in MENA using banks to finance investment, the lowest compared to other regions (34.18% in the OECD) and on average "34% of firms identified access to finance as major constraint to economic activities". The constraint may be higher (Algeria, 50% and Lebanon, 42%) or lower (Oman, 25%). This adds to the inefficiencies of the banking sector in the MENA region and its unsuitability to well finance the economic development.

Throughout the Middle East, small and medium sized enterprises account for the majority of private sector employment. In Morocco, they account for 80% of GDP and are the chief source of employment. Yet Moroccan banks make hardly any loans to small and medium sized enterprises. The picture is similar in Jordan and Egypt. In Egypt, 700,000 people enter the job market every year. The private sector accounts for two thirds of all employment and small businesses are the biggest source of employment. Yet small business finance hardly exists in Egypt. Commercial banks simply don't have the credit skills and the know-how to lend money to small and medium sized enterprises, nor are they able to command the sort of pricing which makes such lending attractive. As a result, a sector which should be the principle engine for job creation is starved of funds.

Review of the financial profile literature shows that there are conflicting points and views on small business financial profile. With regard to profitability some scholars (Anderson, 1967; Bates, 1964; Gupta, 1969; Taylor, Jordan, and Lowe, 1999) found that small firms tend to be less profitable than large firms. On the other hand, Bolton (1971), Wilson (1979), Tamari (1980), Walker and Petty (1987) and Hutchinson and Michaelos (1998) found that small firms are more profitable than large firms. Davis and Yeomens (1974) found that profitability of small firms was affected by credit squeeze than were the profits of large firms. In making a comparison between slow and fast growing firms in UK, Bolton (1971) found that rapid growth firms were more profitable than slow growth firms. This finding is inconsistent with Elliott's (1972), Gupta's and Singh's and Whittingtons's (1988) inferences. Osaze (1992) in developing economies-Nigeria found a relationship between growth and profitability.

A 2009 World Bank report concludes "that access to finance, long touted as a gendered barrier, is not significant in any of the countries [studied] except Yemen. This finding does not mean that finance is not a considerable barrier to businesses. It just means that male- and female-owned firms face the same high barriers" (Chamlou, 2008). However, the report authors also stress that the study only looked at well-established firms with multi-year track records.

The liquidity position of small firms is a hot debatable issue in the literature of finance. The low liquidity of small business, as compared to large business, is a school of thought led by bates (1971), Walker and Petty (1987) and Wilson (1979). The other school of thought is supported by scholars such as Chen and Balke (1979) and Elliott (19720. the third school of Bolton (1971), Meredith (1992) found that there was no significant differences between large and small firms as regards liquidity profile. Bates and Halley (1982), Boswell (1970), Tamari and his group (19800 and Osaze (1992) tended to agree that rapid growth causes liquidity problems for small firms. They based this statement on the argument that liquidity has stemmed from greater investment in fixed assets and sales as well as from greater reliance on short term fund.

On financial gearing, the literature shows different opinions and views on the position of small business financial risk. According to Bolton (1971), Elliott (1972), and Tamari (1980) small firms are not very different from large firms. Bates (1971) found that large firms were more debt oriented than small firms. Walker and Petty's (1987) finding based on US data is inconsistent with Bate's finding. In making a comparison between slow and fast growing small firms, Bolton (1971), Ray and Hutchinson (1986) and Osaze (1992) found that small rapid growth firm is more highly geared than the slow one.

These differences between the findings of scholars provide the academic justification for this research effort in attempting to establish the financial profile of small firms at inception and growth stages and to build a dichotomy between small and large firms in the Middle East as well as developing economies. Moreover, this research effort aims to address the other gap in the literature, by making an attempt to draw the financial profile of the small firm at inception stage of development. On the academic and practical level, the current study is deemed to be the first research effort to look into the issue of financial profile of small firms at inception as well as small growing firms and large private enterprises from a Middle Eastern perspective

contributing to the small business body of knowledge in developing economies. This in turn would indicate the significance and originality of the current study.
The next section of this paper describes the data and methods. The third section examines the financial profile of the research sample, and the fourth section presents conclusions and implications.

2. Data and Methododology:

The findings presented in this paper are based on empirical data obtained from structured personal interviews with 40 small manufacturing firms, classified into 20 firms at inception and 20 at growth. 15 large private enterprises have been taken as a control group. (For definitional issues see the working definition of the research project).
The analysis of the accounting data was cross-sectional, consisting of "snapshots" of small sample firms at a particular point in time, rather than looking at individual firms over time. The financial date for the period 2009 – 2011 was aggregated, and accounting ratios were derived. To provide firm conclusions, the analysis was based on aggregates of the whole period (2009-2011) and annual aggregate balance sheets derived for the three financial periods, so as to reflect the financial profile trend of the research sample. The data was collected from four countries in North Africa and Middle East (MENA), the countries are Egypt, Jordan, Yemen and Oman Sultanate.
Due to non-availability of accounting data suitable for sophisticated analysis (modeling) and poor accounting information maintained by the research sample, the analysis was based on a very short time series (3 years), similar to Oxford survey (1964) in the UK; as a pioneer and exploratory work in the Middle East.

3. Analysis:

3. 1. Liquidity:

It was established in accounting and finance literature that a high degree of liquidity is a positive sign of strong capacity of the firm to honor commitments. The other side of liquidity profile is embodied in the negative implications of keeping idle cash and resources, with reduced or negative earnings. The latter pint has had significant implications in Jordan and other developing countries, with a high rate of de-capitalization.
The survey indicates that the small firm at the inception stage of development was more liquid than the small growing firm as reflected by the current ratio. 75% of the sample of small firms at inception maintained a liquidity profile with current ratio of more than one, compared to 35% of small growing firms. This finding is consistent with Walker and Pettey (1987) and Gupta's (1990) study that current ratio, as a liquidity indicator, was seen to fall with the firm's growth. Based on current ratio, the survey shows that there was no significant difference between the liquidity profiles of the small growing firm and the large private company. This finding provides positive support to the Bolton Committee's (1971) and the US Small Business Administration's findings (1984). The finding on small growing profile provides a positive support to Osaze (1992) inference in Nigeria.
In terms of cash flow ratio, the indication was that the small growing firm was less liquid than the small firm at inception stage. The survey shows that 55% of small growing firms maintained 1 to 20% cash flow as a percentage of current liabilities, compared to 65% of small firms at inception, which maintained over 20%. Regarding large private enterprises, the cash flow ratio result is consistent with the finding based on current ratio. The liquidity profile of small firms at inception was an indication of reliance on internal finance and low portion of institutional finance.

Table (1): Liquidity Measurement Based on Aggregated Accounting Data

Liquidity Indicator	Start - up		Growing Firms		Large Firms	
5 Range of Ratios	**No. of Firms**	**%**	**No. of Firms**	**%**	**No. of Firms**	**%**
1. Current Ratio:						
Less than 1	5	25%	13	65%	8	53%
Between 1 – 1.49	9	45%	3	15%	7	47%
Between 1.50 – 1.99	2	10%	1	5%	0	0
2.0 or above	4	20%	3	15%	0	0
	20	**100%**	**20**	**100%**	**15**	**100%**
Current ratio<1 Illiquid	5	25%	13	65%	8	58%
Current ratio>1 Liquid	15	75%	7	35%	7	47%
2. Cash Flow Ratio:						
Cash Flow to Current Liabilities						
Negative Ratio (-ve CF)	1	5%	-	-	5	33%
Range:						
1 – 20%	7	35%	11	55%	8	53%
21 – 40%	5	25%	5	25%	-	-
41 – 60%	-	-	1	5%	2	13%
61 – 80%	-	-	-	-	-	-
81 – 99%	1	5%	1	5%	-	-
100 – 200%	1	5%	-	-	-	-
Over 200%	5	25%	2	10%	-	-
100% and over	6	35%	2	10%	-	-
61% and over	7	35%	3	15%	-	-
3. Working Capital Ratio: (WC)						
Companies with Negative WC	5	25%	13	65%	8	53%
Companies with Positive WC	15	75%	7	35%	7	47%
Net Working Capital/ Total Assets	5	25%	13	65%	8	53%
Less than 10%	7	35%	1	5%	5	33%
10- 20%	4	20%	2	10%	1	7%
21- 40%	4	20%	2	10%	1	7%
41 – 60%	-	-	-	-	-	-
61 – 80%	-	-	1	5%	-	-
81 -100%	-	-	-	-	1	7%
10% or more	8	40%	6	30%	2	13%
4. Current Liabilities/Total Debt Ratio						
Less than 20%	0	0	0	0	0	7%
21- 40%	1	5%	0	0	0	0
41 – 60%	0	0	0	5%	4	27%
61 – 80%	2	10%	2	10%	2	13%
81 -100%	15	75%	16	80%	6	40%
5. Long term Finance/Long term Assets Ratio						
Less than 50%	0	0	2	10%	1	7%
50 – 99%	2	10%	8	40%	6	40%
100 -149%	12	60%	2	10%	6	40%
150 -200%	2	10%	5	25%	1	7%
More than 200%	4	20%	3	15%	1	7%
100% or more	18	90%	10	50%	8	53%

Liquidity, as measured by the working capital ratio, provides support to findings based on current ratio and cash flow ratio. The sample firms show that 25% of starting up firms maintained negative working capital, compared to 65% of small growing firms. Regarding the relationship between net working capital and total assets employed by the firm, the small firm at inception maintained 6% in 2009 and 7% in 2010 compared to small growing firms which maintained (25%) in 2009 and (4%) in 2010. This is an indication of correlation between growth and liquidity profile.

The empirical work provides evidence that there was a severe shortage in working capital for both small and large private enterprises, as reflected by the working capital ratio. Regarding international comparison with UK and Nigeria, a conclusion could be drawn that small firms as well as large firms in MENA countries, experience greater shortage in working capital. The working capital shortage has an implication for earning capacity as well as the degree of capacity utilization of assets.

As a consequence of limited access to the capital market, the small firm at inception relies on internal resources. Table (3) indicates that small growing firms have relied much more on short term financing, with fixed assets showing increase. The reliance on short term financing was reflected in a steady increase in current liabilities with a steady decrease in long term financial facilities.

Table (2): Working Capital ratio

Research Sample (3 Years)			**Nigeria: Osaze (1992)**		**UK**		
Starting up Small firm	Small Growing Firms	Large Firms	Non R. GSF	R. GSM	Bolton (1971)	Ray & Hutchinson (1983)	
						SGF	ICFC
6%	11%	2%	26%	18%	2%	11%	26%

Table (3): Change in Sources and Uses of Funds

	Small Growing		**Large Firms**	
	2009	**2010**	**2009**	**2010**
Change in sales	+61%	+27%	+49%	+3%
Change in Current liabilities	+17%	+70%	(21%)	+10%
Change in Long term Loans	+22%	(9%)	+62%	+18%
Change in Long term Finance	+73%	+7%	+215%	(17%)
Change in Fixed assets	+29%	+10%	+20%	(17%)
Change in Current assets	+133%	+1%	+7%	+20%

The liquidity profile, as measured by current liabilities to total debt ratio, shows that small growing firms maintained a high level of current debt to total debt. The low level of liquidity of small growing firms increased steadily from 77% in 2009 to 86% in 2011. The sample of small firms at inception with a degree of liquidity profile provides that the ratio of current liabilities to total debt rises with the growth rate and age of the firm, with 25% in 2009, 55% in 2010 and 75% in 2011. The availability of long term financial facilities to large firms means that large private enterprises tended to be more liquid than small firms.

Table (4): Liquidity Indicators

		Current Ratio	Cash Flow/Liability	Working Capital Ratio	CL/TD Ratio	Long-term Finance/Fixed Assets ratio
2009	St. SF	1.84	117%	6%	25%	107%
	SGF	0.46	31%	(25%)	77%	68%
	Large F	0.89	(19%)	5%	45%	91%
2010	St. SF	1.22	36%	5%	55%	106%
	SGF	0.91	34%	(3%)	77%	95%
	Large F	0.79	(15%)	(5%)	38%	94%
2011	St. SF	1.20	21%	7%	75%	111%
	SGF	0.91	28%	(4%)	86%	79%
	Large F	0.86	(37%)	(5%)	36%	95%

Note: St. SF: Start up Small Firm; SGF: Small Growing Firm; CL: Current Liabilities; and TD: Total Debt.

The sample shows that small firms were slightly more liquid than small firms included in Walker and Petty's (1978) research efforts in US. The low liquidity profile of small firms, as measured by this ratio, could be explained by unavailability of long term financial facilities. This finding provides positive support to Bates (1971), Gupta (1990) and Wilson (1979). The finding that 80% of small growing firms sample with 100% current liabilities to total debt ratio, was an elaboration of the traditional of the financing of the firm, and suggests that small firm experience a liquidity problem and maintained an over trading profile.

The empirical work provides that there was a switch in the use of short term finance in financing and funding long term assets by small growing firms and large private enterprises, this observation was established in the literature by Tamari (1980), Wilson (1979), Bird and Juttner (1974). Harris and Raviv (1991) state that: "….small firms depend substantially on overdraft for medium and long term purposes".

The sample shows that 50% of small growing firms maintained less than 100% of long term finance to long term assets, compared to 10% and 47% maintained by small firms at inception and large private enterprises respectively.

3. 2. Financial Gearing:

The extensive use of external sources of finance by large and small growing firms with some degree of variation has an implication on the financial gearing of the firm, explaining the dissimilarities between small firms at inception and small growing firms. Generally speaking, the empirical investigation provides conclusive evidence that the small firm, regardless of stage of development, relies more on equity and internal sources of finance, than do large firms.

According to the ECB's "survey on the access to finance of SMEs in the euro area", covering October 2011 to March 2012 (ECB, 2012c), access to finance remained the second most pressing problem for euro area SMEs. Moreover, it appears to be still a more severe concern for SMEs than for large firms. However, the most pressing problem for SMEs and large firms was once again "finding customers".

When looking at actual applications for external financing, 24% of SMEs applied for a bank loan between April and September 2012. The main reason for SMEs not to apply for a bank loan was the availability of sufficient internal funds (see also box 1). When looking at the actual success of loan applications, SMEs continued to report a higher rejection rate than large firms. Moreover, SMEs reported increasing rejection rates for bank loans and unchanged rates for bank overdrafts.

Although MENA banks are the region‟s primary source of external financing, World Bank reports note that total domestic credit to the private sector is the lowest of any emerging region. This assessment is supported by firm-level data showing that MENA firms are less likely to have access to loans or lines of credit from formal financial institutions than those of any region beside Sub-Saharan Africa. A 2010 IMF study notes a credit deceleration in the MENA region by an "average of nearly 30 percentage points" since mid-2008 (IMF, 2010).

Microfinance Funder Survey 2009 reports that because "non-profits constitute 85% of MFIs in the region and thus cannot attract shareholder capital," the majority of MENA MFIs are funded by debt "(62%), followed by grants (22%), and guarantees (13%)" (Microfinance Information Exchange, 2009, page 6).

Table (5): Degree of Capitalization: Equity as a Percentage of Total Asset Ratio

	1		**2**		**3**		**4**	
Range of the Ratio	**Start up Small Firms**		**Small Growing Firms**		**Small Firms Sample**		**Large Firms**	
	No. of Firms	**%**	**No. of Firms**	**%**	**No. of Firms**	**%**	**No. of Firms**	**%**
<20%	2	10	1	5	3	8	5	33
20-29%	3	15	4	20	7	18	4	27
30-39%	1	5	2	10	3	8	3	20
40-49%	1	5	5	25	6	15	1	7
50-59%	3	15	2	10	5	12	1	7
60-69%	4	20	2	10	6	15	1	7
70-79%	2	10	2	10	4	10	1	7
80-89%	2	10	0	0	2	5	0	0
90-99%	2	10	1	5	3	8	0	0
100%	2	10	1	5	1	3	0	0
X<50%	7	35	12	60	19	47	13	87
X≥50%	13	65	8	40	21	53	2	13
X≥60%	10	50	6	30	16	40	1	7

Table (5) illustrates the reliance of small firms at inception on equity; 65% of the sample made extensive use of equity in financing assets, compared to small growing firms with only 40%. The table provides evidence that large firms were more debt oriented than small firms, regardless of the stage of development. This finding challenged the contention that the capital structure of the small firm is more debt oriented. Based on the relationship between equity and total assets, table (5) provides an elaboration of the life cycle theory of the firm. The higher the ratio, the lower the capitalization rate in a country, where personal savings are very low as a macro-economic factor. This finding extends support to the premise that small firm at inception experienced, and tended to maintain, under-capitalization profile.

Table (6): Equity as a Percentage of Total Funds: International Comparison

No.	Country	Start up Small Firms	Growing Firms	Average	Large Firms	Whole Average
1	USA		57%	57%	57%	57%
2	UK		56%	56%	52%	54%
3	Japan		22%	22%	22%	22%
4	France		34%	34%	38%	36%
5	Israel		45%	45%	36%	41%
6	Nigeria		42%	42%	0	0
7	MENA	61%	51%	56%	18%	43%

Table (7): Equity as a Percentage of Long Term Finance

No.	Country	Start up Small Firms	Growing Firms	Average	Large Firms	Whole Average
1	USA		85%	85%	74%	80%
2	UK		92%	92%	76%	84%
3	Japan		52%	52%	45%	49%
4	France		56%	56%	56%	56%
5	Israel		75%	75%	56%	66%
6	Nigeria		-	-	0	0
7	MENA	92%	84%	88%	27%	68%

Based on an international comparison of the financial structure and profile of small and large firms in developed economy (US, UK, Japan, France) and a semi-industrial country (Israel), conducted by Hutchinson (1998), the research sample extends support to Hutchinson (1998) findings that the equity level was higher for small than large private enterprises. The empirical work adds another dimension to Hutchinson's survey, showing that the equity level is higher for the small firm at inception than for both small growing firms and large private enterprises. The high level of equity in small business financing in Jordan, was not a reflection of availability of equity finance, but rather an indication of non-availability of external sources of finance.

A further analysis of the relationship between equity and total capitalization provides an interesting point that equity was predominant at inception, and its role in financing decreases with growth and age of the enterprise in operation. The retention of profit by small growing firms, as an internal source of finance, increases slightly the contribution of equity in financing business operations.

Taking book value of equity to total debt ratio as measuring financial gearing, the indication was that small firm at inception stage of development had higher equity to total debt ratio (1.64) than did small growing firms with a ratio of (0.82). With respect to large private enterprises, the indication was that small growing firms tended to maintain a higher equity to debt ratio than large corporations with an average of 0.25. This finding challenges the conclusion of Tamari (1980) that small corporations have a higher debt to equity ratio than do large corporations. The possible explanation of the profile was the fact that large private firms were more frequent users of long term loans than small firms.

With respect to the comparison between small firms at inception and small growing firms, the research finding lends support to Elliot's (1987) observation that growth was found the firm's debt position, with

respect to both debt equity ratios. As far as large private enterprises are concerned, empirical data show that large firm has a higher debt to equity ratio than both the small firm at inception, and the small growing firm. A vital question to be raised in this context is why large firms with a liquidity profile similar to small growing firms, have a higher debt to equity ratio than small growing firms. The study answers this question by providing empirical evidence that small growing firms rely more on current liabilities (38%) than do large enterprises (32%).

On the other hand, large enterprises use more long term liability financing (49%) than small growing firms (10%). Consequently, small growing firms maintain a higher level of current debt to total debt ratio and lower debt to equity ratio, as compared to large private enterprises. This finding is consistent with the US "SBA" report (1984), and Bristol Research Group finding in UK (1998).

Table (8): Range of Equity to Total Debt Ratio

	Current Start up Small Firms		**Current Small Growing Firms**		**Large Firms**	
Ranges	**No. of Firms**	**%**	**No. of Firms**	**%**	**No. of Firms**	**%**
<20%	2	10%	0	0	4	27%
20- 40%	2	10%	5	25%	5	33%
41 – 60%	2	10%	2	10%	3	20%
61 – 80%	1	5%	3	15%	0	0
81 -99%	0	0	2	10%	1	7%
<100%	7	35%	12	60%	13	87%
≥100%	13	65%	8	40%	2	13%

The last two rows of table (8) provide firm evidence that the small firm at inception was low geared, as compared to the small growing firm. This finding provides positive support to the forgoing analysis of data, which form strong and documented support to the research question.

Based on Bolton's (1971) and Ray and Hutchinson's (1986) classification of what constitutes high and low level of financial gearing, a conclusion could be drawn that small growing firms were highly geared, with figures in line with Bolton's (1971) and Ray and Hutchinson's (1986) in the UK and Osaze (1992) in Nigeria. Regarding large private enterprises, the empirical survey shows that financial gearing was very high. The difference between small growing firms and large private enterprises is embodied in the degree of financial gearing. The research work provides evidence that the level of financial gearing of starting up small firms increased with an increase in short term finance received by small firms. This was an indication that equity to debt ratio decreased with the age of the small firm. The possible explanation of this trend could be the access of the small firm to the capital market, after its early stage of establishment, in the form of short term bank borrowing. This finding was an elaboration of the effect of the life cycle of the firm on pattern of financing and financial behavior.

The research findings, based on the relationship between equity and long term finance and long term assets, confirm the analysis of the financial gearing profile, based on debt/equity ratio that the level of equity is higher for small firms than for large firms, and the debt level of small firms is very different. This observation, in turn, questions critically Bolton's (1971); Elliott's (1972); Chen's and Balke's (1978) and Tamari (1980) findings, and lends positive support to Bates's (1971) finding that debt level tends to be lower for small firms. The non-availability of long term debt to small business at inception could be seen clearly in

the similarity in equity level as measured as a percentage of long term finance or long term loans. (See table 9).

Table (9): Equity to Long term Finance Ratio

	Start up Small Firms*		Small Growing Firms		Large Firms	
Ranges	**No. of Firms**	**%**	**No. of Firms**	**%**	**No. of Firms**	**%**
<20%	0	0	0	0	2	13%
20- 40%	1	5%	0	0	3	20%
41 – 60%	4	20%	3	15%	3	20%
61 – 80%	3	15%	3	15%	1	7%
81 -99%	3	15%	3	15%	0	0
100%	9	45%	11	55%	6	40%

* Family Finance reduces the rate.

	Start up Small Firms*		Small Growing Firms		Large Firms	
Equity/L.T loans Ratio	**No. of Firms**	**%**	**No. of Firms**	**%**	**No. of Firms**	**%**
Companies Received L.T. Loans	5	25%	4	20%	9	60%
Companies Not Rec. L.T Loans	15	75%	16	80%	6	40%
Ranges						
1 -19%	0	0	0	0	2	13%
20- 40%	0	0	0	0	1	7%
41 – 60%	0	0	0	0	2	13%
61 – 80%	0	0	0	0	0	0
81 -99%	0	0	0	5%	1	7%
100%	5	25%	3	15%	3	20%
	20	100%	20	100%	15	100%

Regarding the comparison between small firms at inception and small growing firms, the measurement of financial gearing, based on a relation between equity to long term finance ratio, and equity to long term debt ratio (table 9), shows that small growing firms tend to maintain a higher equity level than small firms at inception, which indicates the result reached under debt/equity ratio. The explanation of this contradiction is embodied in the reliance of small growing firms on institutional short term finance, as a direct result of lack of long term loans. This explanation implicitly and explicitly confirms the finding that small growing firms were greater users of external source of finance and high geared, as compared to small firms at inception.

3.3. Profitability:

In terms of sales to total assets ratio, the sample firms provide evidence that small growing firm was more efficient in utilization of its assets relative to the small firm at inception, and large private enterprises. The asset turnover of small growing firm rose from 110% in 2009 to 117% in 2011 with an average 115.7%, compared to the small firm at inception, with an average of 69% and large private enterprises with an

average of 28%. The low profitability of the small firm at inception is a confirmation of the finding of Anderson (1990), that small relatively new firms were less profitable. The degree of capacity utilization of the small firm at inception, increased steadily from 28% in 2009 to 83% in 2011. This was an indication of the use of more working capital finance from external sources, which was an elaboration to the effect of age and life-cycle of the firm on the pattern of financing.

Table (10): Sales to Total Assets Ratio

	Start-up Firms	**Growing Firms**	**Large Firms**
2009	28%	110%	35%
2010	96%	120%	23%
2011	83%	117%	28%
Average	**69%**	**115.7%**	**28%**

The higher the degree of asset utilization (Table 10) has shown by the small growing firms, in comparison with the small firm at inception, could possibly be explained by the accessibility of the small growing firm to the capital market. Moreover, the higher sales to total assets ratio maintained by the small growing firm was an indication of little or no excess capacity among small growing firms, which stood as a proof of the institutional long term debt finance gap. The asset turnover of small growing firms in THE MENA region was lower than that found by Bolton in the UK, and Osaze in Nigeria. This is turn reflects the lack of working capital finance in Jordanian financial market.

Table (11): Sales to Total Assets Ratio

	Start up Small Firms*		**Small Growing Firms**		**Large Firms**	
Ranges	**No. of Firms**	**%**	**No. of Firms**	**%**	**No. of Firms**	**%**
<50%	8	40%	2	10%	6	40%
50- 99%	4	20%	5	25%	5	33%
<100%	12	60%	7	35%	11	73%
100– 149%	3	15%	6	30%	2	13%
150-200%	1	5%	3	15%	0	0
Over 100%	8	46%	13	65%	4	27%
Over 200%	4	20%	4	20%	2	13%

Based on the comparison between small and large enterprises, the study provides empirical confirmation of the established contention in accounting and finance literature, that small firms were more efficient in utilizing assets and in generating high earnings than larger firms (Bolton, 1971; Wilson, 1979; Tamari, 1980; and Walker and Petty, 1978).

There are several macro-economic explanations to this observation which challenges the large scale economies theory. This research states that large enterprises were capital intensive, built and established around partial or full processing of imported raw materials and technology, whereas the small firm is constrained by low level of capitalization and with relatively local and simple technology, and local raw materials. Therefore, the larger firm was more subject to macro-economic indicators. The heavy over-investment measured as an imbalance between production capacity and inputs, was cited as a main factor behind underutilization of production capacity, which stands as a negative economic indicator (Royal Council, 1999).

The economic costs of underutilized capacity exhibited by large private firms are two folds; First, the waste and uneconomic utilization of resources in a country with very meager financial resources. Second, underutilized capacity means foregone production. This empirical investigation provides support to the World Bank Report (1998) stating that "The firms that on average have the greatest potential for economically efficient production were those based on domestic raw materials, rather than imported inputs".
The research findings give an empirical justification for a development policy based on the philosophy of positive encouragement for small business and the avoidance of investment in industries already suffering from excess capacity.
The relationship between total assets and retained profit is an indication of the degree of profitability, profit retention, as well as the degree of importance of retained profits in financing the firm. This ratio shows that small growing firms were more profitable than either small firms at inception or large private enterprises. This is an indication that the small growing firm retains a portion of its profit to finance growth and expansion. The research sample shows that the retained earnings of small growing firms rose steadily from 10% in 2009, to 14% in 2011 with an average of 12%, compared to 1% of small firms at inception. This finding lends positive support to Bates (1967) that small firms rely more than large firms on their own savings for expansion.
A further analysis of the historical financial data shows that 50% of small growing firms maintain 10% and over of retained profit to total assets ratio, compared with 20% of small firms at inception and 7% of large firms.

Table (12): Retained Earnings to Total Assets Ratio

	Start up Small Firms*		**Small Growing Firms**		**Large Firms**	
Ranges	**No. of Firms**	**%**	**No. of Firms**	**%**	**No. of Firms**	**%**
Negative RE	6	30%	2	10%	6	40%
<10%	10	50%	8	40%	8	53%
10- 20%	3	15%	7	35%	1	7%
21– 30%	0	0	2	10%	0	0
31-40%	1	5%	1	5%	0	0

However, the earnings retention of small growing firm in MENA is low when compared to with small growing firms in Nigeria, with 23.47% for fast growing firms, and 24.25% for slow growing firms as well as Belton (1971) (20-28%) and Bath Super growth firms (21-27%). This could be explained by the low level of capacity utilization maintained by the small growing firm in MENA, as compared to the UK, and Nigeria, as a result of the shortage and lack of satisfactory working capital finance. The low level of profit retention maintained by large firms was not due to profit distribution but rather to accumulated losses, in the sense that DPR is quite low if not non-existent. This sort of profile was explained by respondent managers of large enterprises as being the result of shortage of working capital finance and other inputs, reflected in the fact that most large firms were working at less than 30% capacity.
Earnings before interest and tax (EBIT) provides confirmation of the previous findings that the small growing firm was more profitable than other firms, with an average of 7%. To figure out this ratio, the profit was adjusted by adding director's remunerations to the reported profit.
Profit margin as an indicator provides the interesting point that there was no significant difference between small firms at inception and small growing firms in generating operating profits, with an average of 4.3% and 6.3% respectively. A further analysis, of aggregate accounting data provides the surprising result that

the small firm at inception was doing better than the small growing firm in generating income. The research sample shows that 60% of starting up small firms maintained 10 to 49% profit margin ratios, compared with 35% of small growing firms sample. This contradictory result could possibly be explained by the fact that most small firms at inception were built around raw material, whereas most of growing firms depend partially or fully on imported raw material as part of the growth and development process. The other explanation was that small firms at inception usually start very small, with low operating expenses, compared to small growing firms.

The empirical work provides evidence that the capital needed to finance assets in the late nineties of last century was more than that needed in the 1970's. This observation was an explanation of high operating profit of small firms at inception, low retained earnings to total assets and low level of asset utilization, compared to small growing firms.

If we look at Middle East financial systems, we must first make a broad distinction between the Gulf and most other countries in the Middle East. The Gulf has a mature, efficient and profitable banking system, but its capital markets are underdeveloped as are some aspects of non-bank financial institutions such as mortgage lending. But Gulf banks do a pretty good job of meeting their customers' needs. Elsewhere in the Middle East, the banking systems are characterized by large inefficient state-owned banks which in practice operate as cash dispensers to state-owned companies. These banks have accumulated huge non-performing loans, which in economic terms are a contingent liability on the state budget. Such banks have taken little interest in developing a wide range of financial instruments which will accommodate the needs of the private sector. In these countries capital markets tend to be rudimentary.

4. Conclusions and Policy Implications:

The empirical findings of this investigation have been stated at various points throughout the preceding parts of this paper (III.A – III.C). It may now be possible to combine and summarize the main conclusions of this study. The empirical findings have theoretical and policy implications, which are of special significance to banks and other bodies willing to provide finance to small business, and potential investors in small business.

The main conclusions and their theoretical and policy implications may be summarized as follows:

1. As a measure of the degree of capitalization, the small firm at inception shows a high ratio of equity to total assets. This high ratio, coupled with lack of equity finance, is an indication of undercapitalization of the small firm at the inception stage of development. While debt is a viable source, undercapitalization results in a low volume of borrowing against security, unfavorable loan terms and a high cost of borrowing. This study provides evidence that undercapitalization is one of the financial characteristics of small firms at inception, a financial pitfall, which might lead small businesses to failure and death. This finding supports the traditional theory and suggests its applicability to the financial profile scene in developing economies like MENA countries.
2. In terms of working capital management, starting-up small firms tend to exhibit more liquidity than small growing firms. The study supports the contention that growth causes a liquidity problem. Large private enterprises, on the other hand, appear to have less liquidity than small firms at inception and exhibit liquidity similar to small growing firms. This finding provides an answer to some controversial issues in finance and accounting literature.
3. As regards to the financial risk, the survey shows that the small firm at inception tends to be low geared, whereas the small growing firm is highly geared. The empirical investigation provides firm evidence that large private enterprises have higher financial gearing than small firms.

4. As far as profitability is concerned, small growing firms are more efficient in utilization of their assets than small firms at inception. The empirical investigation challenges the large scale economies theory, providing evidence that small firms are more efficient in utilizing their capacity, and in generating earnings, than large private enterprises. This finding lends support to Bates's (1967), Walker and Petty's (1978), and Wilson's (1979) inferences in developed economies. At the policy implication level, this observation offers a strong documented case for the adoption of a national economic development policy, based on the philosophy that the small firm is the best and most appropriate vehicle for industrial development in a poor country, with very small economy and narrow opportunities. As a national issue, this strategy could restore the economic independence of the country, and could speed up the privatization policy enforced by a country.
5. Confidence is also still too often lacking in the relations between contractors and financiers, whether it is equity or banking. The conditions of meeting of supply and demand are not met. This has a very particular impact on SMEs which encounter difficulties to get the financing by credit and whereas they do not have access to the money markets. Access to financial services remains insufficient with high transaction costs and limited to the well-off segments of the population only.

A concluding point for this paper is that the financial profile exercise provides confirmation of the effect of the life cycle, growth and size of financial behavior, and financial structure of the firm. Thus, there appears to be a marked dissimilarity between the financial profile of small firms at inception, small growing firms, and large private firms in developing economies.

It is worth mentioning that care should be taken in the interpretation of these results, being based on poor accounting information, a distinctive feature of developing countries (Parker, 1984), particularly applicable to small businesses. The main limitation of this study analysis is that it was based on a very short time series (3 years) and on aggregated accounting records collected from different countries in the MENA region. Wilson (1989) argues that: "There is very great diversity in the financing patterns and financial performance of small companies, the degree of variation in the usual financial ratios is much greater for small companies than for large. Consequently average figures for small companies as a whole can sometimes be very misleading and must be treated with caution".

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