



Entrepreneurship and Job Creation in Jordan: Challenges and Prospects for Start-ups

Mutaz Minwer Halal Alharbi

Department of Business Administration, Faculty of Administrative and Financial Sciences, Irbid National University, Jordan



Corresponding Author: Mutaz Minwer Halal Alharbi

Article Info

Abstract

Article history:

Received 5 July 2020

Received in revised form 11

July 2020

Accepted 14 July 2020

Keywords:

Entrepreneurship

Job Creation

Challenges

Startups

Unemployment

The aim of this article is to assess entrepreneurship activities in Jordan and present how start-ups reduce unemployment. The article also explores the challenges that start-ups face and how such challenges hinder entrepreneurs from engaging in business smoothly. The sample of the study comprises two hundred start-ups distributed in different regions in the country. The method of analysis employed is primarily descriptive statistics in the form of frequencies. Moreover, the binary logit model is used to check the prospects of self-employment and business creation attitudes among youth. The findings of the study reveal that entrepreneurship is one of the main strategies for creating jobs in Jordan, and it contributes to the overall growth of national economy. The study also reveals that the major challenges to engage in start-ups are related to financing and fundraising, regulations of taxation and interpretations of laws. The study also identified a considerable lack of entrepreneurial training at the early stages of business creation.

Introduction

Entrepreneurship is a very important topic that receives genuine government attention for its economic value in addressing the high rates of unemployment in any country. In Jordan, there has been a wide recognition for entrepreneurship activity since an early time. University of Jordan Innovation and Entrepreneurship Centre and Queen Rania Centre for Entrepreneurship are examples of the state's interest in advancing entrepreneurship activities among the Jordanian youth. The objective of these non-profit organizations is to promote entrepreneurial activities in the Jordanian economy. More importantly, the Jordanian government has always given importance to self-employment and entrepreneurship. Special attention is paid to job creation and training, and rehabilitation projects are also initiated to combat unemployment as part of efforts to propel the socio-economic development process forward (Al-Zu'bi et al., 2018). To create a basis for entrepreneurial activity, the attention should be focused on vocational education and training. In Jordan, the age group 0-29 years accounts for about sixty eight percent of the population (Omet et al., 2015). Given the alarming rates of youth unemployment and the persisting challenges in sustaining start-ups, entrepreneurship activities offer huge chances for young Jordanians to employ themselves and engage in business. Recently, tangible efforts have been exerted by governmental financial and non-financial institutions to target the graduates of vocational and technical education to promote entrepreneurship and self-employment.

In terms of economy, Jordan possesses a strong service sector that greatly contributes to the country's GDP and constitutes a large portion of employment in public sector. In addition, Jordan has always been viewed as a country with high levels of entrepreneurial activity and several start-up support programs (e.g. in incubation, mentoring and Investment) were launched long back in the late 1980s and 1990s before many other countries in the region started establishing such programs (Kalaldehy & Al-Homsi, 2019). Nevertheless, the start-up business owners seem to be inadequately prepared, and they lack the proper entrepreneurial skills and attitudes that are needed to successfully start an enterprise, run it in the market and allow it to grow. Therefore, it is important to ensure that the owners of start-ups are equipped with the necessary skills, knowledge and understanding to manage their businesses effectively. The Jordanian government with its public financial institutions along with specialized private centres should provide training and implement measures that would help small-capital start-ups benefit from access to finance through the effective use of these services. Financing sector should be designed to serve the growth of entrepreneurship and support start-ups in the country.

The economic role of the private sector in the country is highly appreciated. Hence, entrepreneurship and issues related to its activities frequently attract interest from authorities. Jordan has developed a National Microfinance Strategy, and there are also four micro-credit providers including private microfinance institutions, commercial banks, governmental microfinance institutions, and non-governmental organizations (NGOs). Despite being positioned well in some business sectors, Jordan has underachieved in developing a regulatory environment to promote entrepreneurship (Schiff et al., 2015). Microfinance in Jordan is regarded as a transparent industry and the institutions are ranked well with a pathway for poverty reduction. However, there have been no proven increases in employment generation (Schiff et al., 2015). Despite the fact that micro-financing is regarded as the backbone of entrepreneurship, start-ups still struggle with securing funding and financing opportunities. The government and concerned bodies should accordingly adopt certain plans to serve and sustain start-ups in the country. In addition, the government authorities should evaluate the current financing system and seek to implement specific micro-lending regulations and cluster industries in order to increase the effectiveness of this industry. Indeed, micro-financing as an essential driver for entrepreneurship should be expanded to reach out to more private capital investment and the financing agencies whether government or independent should be engaged in mentoring activities and providing financial training.

The significance of entrepreneurship in Jordan stems from its role in supporting the national economy and combating unemployment. It is therefore not surprising to find small to medium size enterprise (SMEs) in Jordan to constituting ninety nine percent of all private firms and they employ seventy seven percent of the private sector workforces (Schiff et al., 2015). Unfortunately, these firms receive only a small percentage of the total value of commercial loans, and this can result in closures of some start-ups. The inability to support and finance start-ups has led to inconsistent growth in entrepreneurship activities in the last few years. The statistics and indexes realised by international organizations reveal that Jordan has not been able to overcome regional and international economic situations. The results are usually a difficulty in creating employment opportunities and involvement of Jordanians in entrepreneurship activities.

Unemployment all over the country persists and continues to pose challenges for youth. Jordan still has a long way ahead to go towards creating a healthy business environment for entrepreneurs to flourish (Schiff, Schmidt, & Troncoso, 2015, p. 2). Due to few natural resources and a small industrial sector, Jordan's economy is reliant on foreign aid as well as

tourism, the service sector and foreign worker remittances. As a result, the government is the largest single employer in Jordan. (Schiff, Schmidt, & Troncoso, 2015, p. 7). Consequently, business incubators and innovation programs must be implemented in Jordan with an aim to alleviate poverty and create more jobs. Undoubtedly, enterprises whether small or medium-sized create job opportunities and generate income for the youth and poor in a developing country (Al-Mubaraki & Busler, 2017; Daksa et al., 2018). Understanding the role of entrepreneurial innovation in the economic growth and development is very essential and should be incorporated in the education system. All efforts have to be directed towards creating an entrepreneurial mindset that guides human behaviour toward opportunities, innovation, and value creation (Gonthier & Chirita, 2019).

Women in the Middle East have one of the lowest labour participation rates in the world, despite the high levels of literacy compared to men (Caputo et al., 2015). Jordan is not an exception in lack of women involvement in business. There still exist several challenges and social barriers that prevent Jordanian women from flourishing as entrepreneurs in general. Women's entrepreneurship is considered a significant factor for overall economic growth and development in any country. Globally, an increase in poor women's income often leads to relatively higher spending on family welfare, critical for reaching key national development goals in areas such as nutrition and girls' education (Kharouf et al., 2007). Young women find difficulties in accessing funding opportunities and securing family's permissions to engage in business. Most of the female entrepreneurs in Jordan either studied abroad or hail from a liberal family mindset that encourages women involvement in social and economic activities.

Moreover, Jordan in the last few years is coping with the huge influx of refugees and displaced migrants from the neighbouring countries. Due to the civil wars in the region, Jordan is flooded with millions of refugees and this generates pressure on the already staggering economy. The country, among other challenges, is coping with the issue of refugees, slow economic growth, and high unemployment, which is particularly high among its youth. Though the Total Entrepreneurial Activity (TEA) in Jordan was 8.2% (Arabiyat et al., 2017), it has declined alarmingly due to the reasons mentioned above.

In terms of the ease of doing business, Jordan is ranked 75 in a list featuring 190 economies according to the latest World Bank annual ratings. The rank of Jordan improved to 75 in 2019 from 104 in 2018. This is an encouraging indicator shaping the prospects of entrepreneurship in the country. Nonetheless, entrepreneurial activity has witnessed steady decline since 2014. As per the latest Global Entrepreneurship Monitor (GEM) National Report for Jordan, the total entrepreneurial activity rate in the country shows a continually decreasing rate over time from 18.3% in 2004, 10.2% in 2009, to 8.2% in 2016 (Kalaldehy & Al-Homsi, 2019). There is a sharp decline that can only be explained in the framework of the current economic turmoil and political instability in the whole region. Similarly, the rate of established business ownership showed a decrease from 5.3% in 2009 to 2.7% in 2016 (Kalaldehy & Al-Homsi, 2019). The present article is therefore an attempt to evaluate the current entrepreneurial activity in Jordan, identifying challenges and highlighting prospects. The article also draws attention to the current situation of start-ups in Jordan and how they can reduce unemployment among Jordanian youth.

Methods

The research methodology that is used in this article is quantitative, and the tool of data collection is survey questionnaire. The survey consists of twenty statements designed based on literature review, and it was dully validated to eliminate any inconsistency. Each statement

in the survey was developed through refining the relevant information in order to achieve the study objectives. The instrument for collecting data was also tested for field validity on fifty targets. Consequently, some statements were added and others were removed. Statistical analysis includes the binary logit model which is used to identify the pattern of entrepreneurship. The Statistical Package for the Social Sciences (SPSS) was used for statistical analysis, and the responses to each statement were analyzed using frequencies that are common in descriptive statistics. The explanatory variables of age, sex, type of start-up, education and training are grouped as individual characteristics. Moreover, the survey questionnaire covers several aspects of entrepreneurship activity, providing quantifiable information about the prospects and challenges for start-ups in Jordan.

Two hundred start-ups distributed in different areas in the country were taken as a sample of the study. Simple random sampling was employed to ensure inclusion and representation of start-ups of different sectors. The primary data of this study are derived from the survey designed and distributed to the sample. Secondary data also comes from the reports of GEM (Global Entrepreneurship Monitor) and other reports about entrepreneurship activity in Jordan. A review of previous studies and literature was conducted to identify the challenges and research gaps with regard to entrepreneurship activity in Jordan. Data in the form of reports from national and international sources were also incorporated in this article.

Results and Discussion

The statistical analysis of obtained data reflects to a great extent the current status of entrepreneurship in Jordan. Though the main objective is to examine the challenges in business creation in Jordan, the article addresses the prospects of entrepreneurship in the county. In terms of distribution, the analysis of the data reveals that there is a significant difference in the density of entrepreneurship activity across Jordan. Most of the startups are registered in three governorates, namely Amman, Zarka, and Irbid. This clearly indicates the distribution of the entrepreneurial activities in Jordan is not linear but follows a pattern of concentration in specific regions. The economic activities in these three governorates attract young entrepreneurs and they therefore act as the hub for innovation and generation of startups. In terms of gender, there is definitely a significant gap between male entrepreneurs and female entrepreneurs all over the country. This remains a significant factor impacting entrepreneurship and it is growth. This can be seen in the figure below.

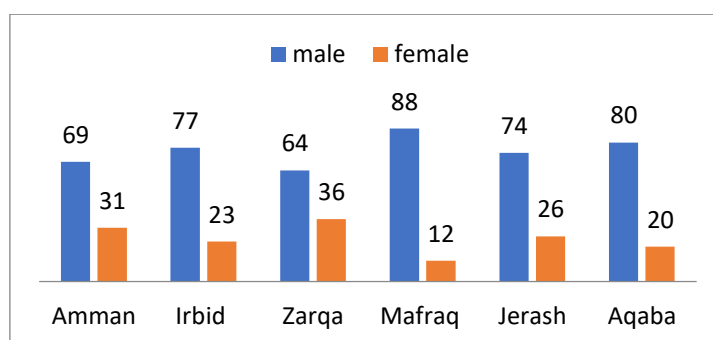


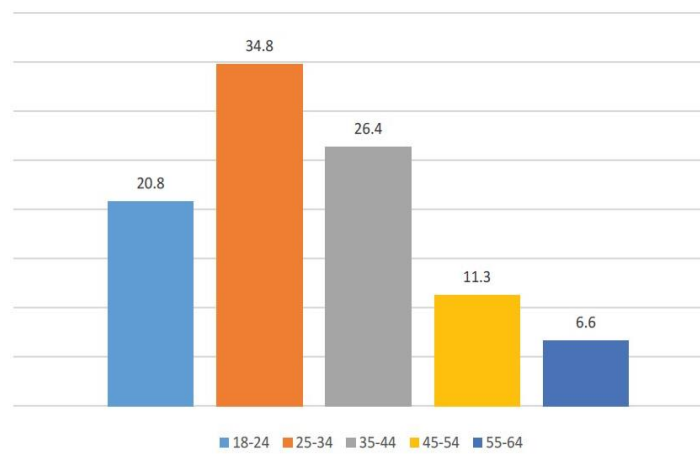
Figure 1. Entrepreneurs by Gender

Source: Data Processing Results, 2020

As it is shown in Figure 1, the female participation rate is much lower than the male participation rate. The respondents ascribed this lack of female engagement to social and cultural factors. However, the fact that the female participation rate in the labor force is increasing, the female entrepreneurship experience shows steady progress compared to

previous years. In attempting to understand the lack of engagement in business, the respondents disclosed that there is considerable fear of failure. This fear among female entrepreneurs directly affects their attitudes towards creating business. Given the progress made in the country in terms of women empowerment, the trend is bound to change with increased exposure to business activities and engagement in training.

Most of the entrepreneurs in Jordan are between the age group from 25-34. This indicates a younger generation of entrepreneurs associated with start-up initiation. The figure below clearly shows the age groups in relation to entrepreneurship activities. It is shown that 34.8 percent of the owners of start-ups are aged between 25 and 34 years old. It is a promising indicator, reflecting the early engagement of young Jordanians in business creation. In addition to securing self-employment, this young workforce of entrepreneurship is destined to create employment opportunities for others as well, eventually contributing to the reduction of unemployment in the country.



Finger 2. TEA Rates in Jordan by Age Group 2020

Source: Data Processing Results, 2020

The analysis reveals that the capital of most of the start-ups is relatively small. Most of the surveyed startups began their business activities in relatively small capital. Moreover, the majority of these startups rely heavily on financing from personal sources. Therefore, there is fear of failure due to the absence of financing opportunities. According to the results of the study, the most problematic factor that hinder doing business in Jordan is related to state's regulations. The respondents indicated that there are certain restrictive regulations which affect doing business. Figure 3 below clearly displays the most problematic factors affecting growth of startups in Jordan according to the results of the survey.

As it is shown, a large number of startups at the growth stage consider regulations as not friendly. They believe that the frequent changes in regulations cause disruptions in doing business and affect the business models that they have developed. In their view, the state's policies should act as an enabler not merely as a regulator. Most importantly, the results of the study reflect that whenever there are new laws, they do not accommodate changes in technology and put into considerations the newly adopted business trends.

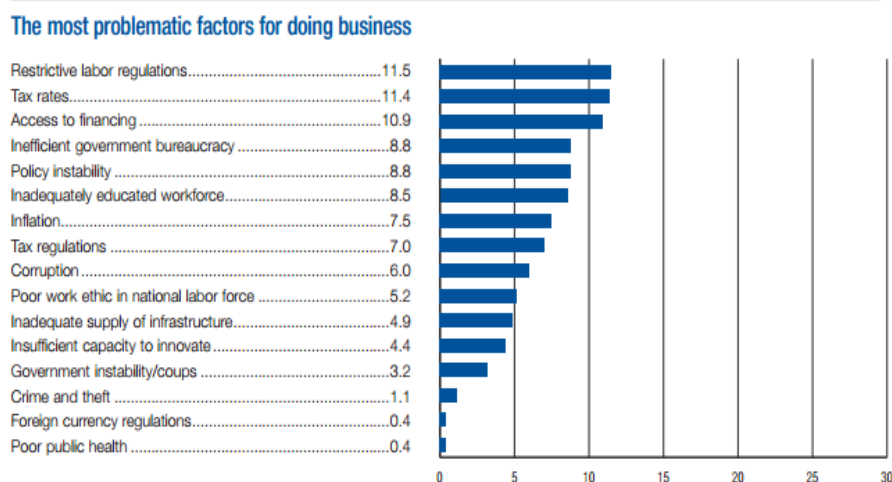


Figure 3. Problematic Factors for Doing Business

Source: Data Processing Results, 2020

In addition, most of the startups surveyed in the present study encounter issues in terms of implementations of new rules and regulations. Most of the respondents think that the rules are not designed based on investigations and studies. It seems that there is a wide scope for personal interpretations of laws and regulations, and this badly affects the growth of startups. This type of arbitrariness particularly by government employees in areas such as tax and customs weakens the legal framework of doing business in Jordan. A conflict in regulations and laws can also be realized in e-commerce. Startups which are based on online platforms indicated that there are no rules and laws governing online businesses in Jordan. The absence of e-commerce regulations forces many startups to register outside Jordan either to avoid ambiguities in taxation or lack of e-commerce regulations.

In terms of taxation and facilities offered to startups, the entrepreneurs surveyed indicated that the government offers little incentives to the emerging businesses. For continual growth of startups, the government should offer eligible startups certain tax exemptions for some years in order to enable them to reach maturity stage. This can provide security for the new businesses and it can be done either by providing tax exemptions for all production inputs or at least reducing taxes on international services needed as an input for production. Taxation is one of the problematic factors affecting the growth of startups in Jordan. Competing in a global scale, the startups in Jordan are in need for tax reduction to enable them to operate in a startup-friendly environment. If profit margin is low due to over-taxation, startups will definitely seek to operate in other countries where taxation is small.

The study also identified certain reasons that affect the continuity of business in Jordan. The surveyed startups indicated that closure of business can mainly be due to tax policy, non-profitable business returns, and problems in getting finance. Figure 4 below clearly presents the most significant factors that lead to the discontinuity of a business. Many startups in Jordan complain of little profit. They therefore consider Jordan as a testing ground for starting a business but not to continue further without adequate profit. It is also apparent that if there is no adequate financing to fuel growth of startups, discontinuity is a viable option.

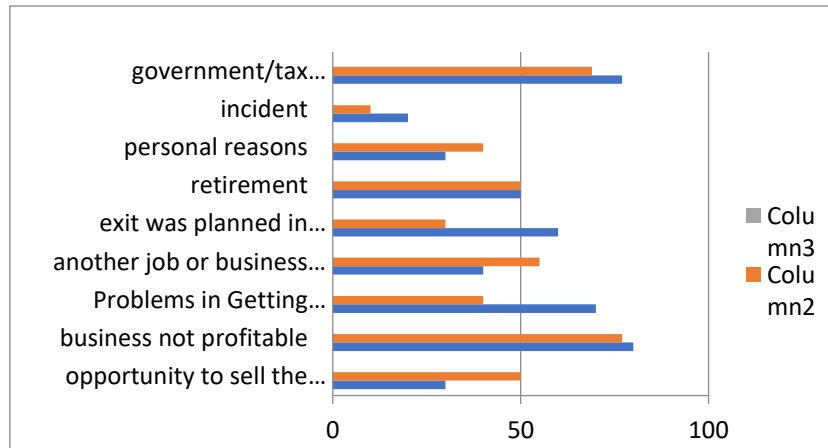


Figure 4. Reasons for Discontinuing Business

Source: Data Processing Results, 2020

The findings of the study suggest that coordination between government and private companies should be established in order to regulate and support startups in the country. Further coordination and cooperation are also significant to address the issues of financing. Equity in loans, grants, and subsidies should be offered and facilitated to the newly initiated startups in order to drive the economic activities of the whole country. As most of the startups attribute closure of business to low profit, it is imperative to re-examine taxation policy and put small enterprises into consideration for certain exemptions.

The results of the study indicate that government policies do not support entrepreneurship in the proper way and expected manner. Taxation, arbitrary interpretations of laws, and absence of e-commerce regulations all reflect the authorities' poor performance in advancing and encouraging start-up activity. There is also limited training in creating start-ups and managing growing business firms. The entrepreneurship activity is not incorporated within the education and training systems at all levels of education within the country. Most of the owners of start-ups come from diverse backgrounds and only small number of them received training in business administration and entrepreneurship. The social and cultural promotion of entrepreneurship does not exist in the public sphere and engaging in business remains a personal adventure.

The entry to regulations on entrepreneurship in the country is dynamic and there is relative openness for the start-ups to enter existing markets. In addition, the findings of the study reveal that there is an easy access to various physical resources, including communication, utilities, and transportation facilities but the charges for services are invariably not flexible. There is no scope for special tariffs for small start-ups and thus limiting their incorporation and use of other services and putting them on equal foot with well-established firms. Since most of the start-ups are of small capital, the authorities and concerned agencies should provide them with all possible facilities at reasonable rates.

The difficulty in raising funds for startups remains the most common challenge that young entrepreneurs face. In early stages of business creation, lack of funding affect the growth of startups in growth stage. Hence, growth stage becomes lengthy with marginal profit. Most importantly, local funding is weak due to lack of understanding of such type of business models. The unfair valuation of startups and also the inability to recognize the potential in new business firms result in discontinuity and failure. In the early stages of startups, financing banks do not look into the potential of the startup but they mainly consider the

current status of the business. Taken this way, startups face difficulties in convincing banks to financing their projects which mostly lead the entrepreneur to exist the market.

Entrepreneurship activity has a direct impact on decreasing unemployment. Most of the startups owners realize their significant role in contributing to the economy by creating jobs. Despite all this, they feel disappointed for the lack of recognition for their role and they request more support from government and other concerned agencies. To maintain the growth of startups in the country, the respondents suggest that special relaxation should be given in the early stages of business in order to enhance business growth. Figure 5 below shows how entrepreneurial activity is inter-connected with national economic growth. More entrepreneurial opportunities mean more jobs are created.

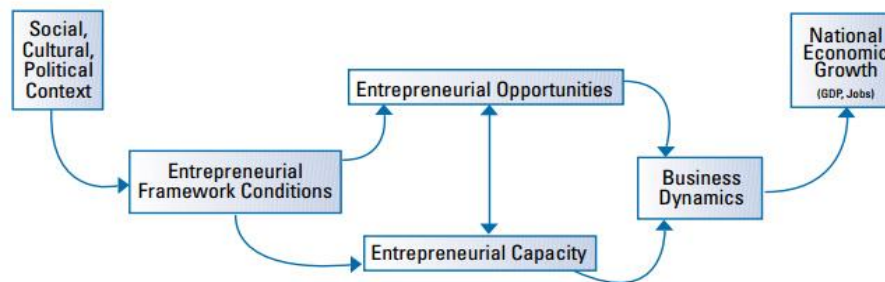


Figure 5. Model of Entrepreneurial Processes Affecting National Economic Growth

Source: Reynolds, P. D., Hay, M. and Camp, S. M. (1999). Global Entrepreneurship Monitor 1999 Executive Report. Kauffman Center for Entrepreneurial Leadership.

In general, entrepreneurship environment in Jordan is quite experiencing a downturn. There is a continual decrease of startups and the entrepreneurship activity across the country as indicated in Figure 6 goes down in an alarming way. Most of the respondents of the study consider government policies as among the main constraints that affect the entrepreneurial activity. It is expected that the government exerts greater efforts to rescue the entrepreneurial environment in Jordan since government support is undoubtedly a critical factor.

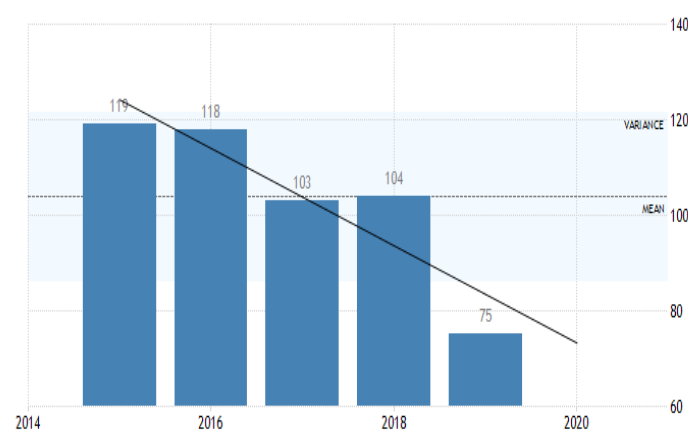


Figure 6. Entrepreneurial Activity in Jordan, 2014-2020

Source: Observation Trading Economics Results, 2020

Inadequate entrepreneurial education is also considered as a factor hampering the engagement in business. Almost 44% of the respondents consider lack of training as major factors affecting the growth of entrepreneurship in the country. Even the existing programs in

support of startups are considered weak and irrelevant to the needs of entrepreneurs. Many startups find various support programs of little use in terms of tools, curriculums, and capable human resources. If proper support is offered, Jordan would ultimately become a hub for startups operating in advanced technologies and artificial intelligence.

Conclusion

The importance of entrepreneurship is well-recognized by the Jordanian government and several initiatives have been adopted in the last few years to encourage youth innovations and start-ups. However, there are certain restraining factors that hamper the growth of entrepreneurial activity. The lack of financing and fundraising opportunities for start-ups all over the country limits the maturity of new businesses. The current economic situation in Jordan demands creation of jobs, and entrepreneurs have the capacity to reduce unemployment and contribute to growth of national economy. Though their role is recognized by the state, entrepreneurs encounter various challenges represented by fluctuating regulations and arbitrary interpretations of laws. Moreover, inadequate entrepreneurial training very often leads to discontinuity of business due to failure in managing and employing administrative and technological tools. Jordan, with limited resources, should focus more on improving entrepreneurial activity and recognize its role in boosting the country's economy. Besides, entrepreneurial education should be integrated into education system in order to prepare citizens culturally and socially to venture into business creation with at least pre-informed expertise. Given its location and economic status, it is essential for Jordan to invest more in creating a culture of entrepreneurship among citizens.

References

- Al-Mubaraki, H., & Busler, M. (2017). Challenges and opportunities of innovation and incubators as a tool for knowledge-based economy. *Journal of Innovation and Entrepreneurship* , 6 (15), 1-18.
- Al-Zu'bi, M., Vesela Radovic, M. A. Z. B., & Radovic, V. (2018). *SDG11 and the Associated Challenges to Implementation', SDG11–Sustainable Cities and Communities: Towards Inclusive, Safe, and Resilient Settlements (Concise Guides to the United Nations Sustainable Development Goals)* (pp. 21-76). Emerald Publishing Limited.
- Arabiyat, T., Sandri, S., & Alkhatib, W. (2017). *Global Entrepreneurship Monitor: Jordan National Report 2016/2017*. Jordan Enterprise Development Corporation and Centre for Strategic Studies.
- Caputo, A., Mehtap, S., Pellegrini, M., & Al-Refai, R. (2015). Supporting Opportunities For Female Entrepreneurs In Jordan. *International Journal of Entrepreneurship and Small Business* , 6 (4), 1-18.
- Daksa, M., Yismaw, M., Lemessa, S., & Hundie, S. (2018). Enterprise innovation in developing countries: an evidence from Ethiopia. *Journal of Innovation and Entrepreneurship* , 7 (6), 1-18.
- Gonthier, J., & Chirita, G. (2019). The role of corporate incubators as invigorators of Innovation capabilities in parent companies. *Journal of Innovation and Entrepreneurship* , 8 (8), 1-18.

- Kalaldehy, F., & Al-Homsi, J. (2019). *Jordan's Startup Economy: Assessing the economic contribution and potential of tech and tech-enabled startups*. Deutsche Gesellschaft für and Internationale Zusammenarbeit (GIZ) GmbH .
- Kharouf, A., Dababneh, A., & Akhal, R. (2007). *Women Business Owners in Jordan: Characteristics, Contributions and Challenges*. The Center of Arab Women for Training and Research and The International Finance Corporation.
- Omet, G., Shami, M., & Bino, A. (2015). Entrepreneurship In Jordan: Regional Analysis And Envisaged Role. *Research Journal of Business and Management* , 2 (3), 323-333.
- Schiff, A., Schmidt, N., & Troncoso, J. (2015). *Entrepreneurship Environment Assessment In Jordan : Silatech Research and Policy Report*. University of Minnesota.