REGULATIONS AND COMPETITIONS OF HOUSING BANK IN DIFFERENT ECONOMIC PHASES: A CASE STUDY APPROACH

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ABSTRACT

To analyze the impact of regulations and competition on the housing bank (HB) in different economic phases in Jordan. Qualitative design is used following a case study approach for analyzing the housing bank in Jordan from 1976 to 1994. In the Boom phase (1976 to 1983), the economy of Jordan was centralized, deregulated and expanded probing competition. In the recession phase (1984 to 1990), economic growth was slow, where the financial crisis occurred constituting a more regulated and competitive local economy. HB adopted a decentralized structure, where the accounting practices were minimal. Even though the production declined, it showed relatively effective financial returns. In the recovery phase (1991 to 1994), the competition and supervision of HB increased. HB provided complete banking services, increasing organizational coordination, and minimal use of accounting data. It also showed declining financial results. External environment of the country impacts bank performance and its structure.

Keywords: Case Study, Different Economic Phases, Housing Bank, Regulations and Competition, Jordan.

INTRODUCTION

Financial institutions play a fundamental role in both developed and developing economies, as they promote economic growth, sound financial decision making, and productive investments (Canepa & Khaled, 2018). Most studies confirm that these institutions change because of a change in the global market including technological innovation, financial service deregulation, as well as open international competition (Abdelhamid, 2017; Khasawneh, 2019). Although financial sectors in the developing countries can adhere and withstand these changes, the developing nations face difficulty in instigating changes in its international economic operations, international agreements, systematic governance, competition policy and other related international structures (Canepa & Khaled, 2018). Similar is the case of Jordan.

Primarily, since the year 1964, the financial market in Jordan is regulated by the Central Bank of Jordan (CBJ). Even though CBJ primary source of investment is government, it continues to regulate independently (Pakurár et al., 2019). Over the years, significant changes have occurred in the Jordanian commercial sector to instill consistency in the national and international operations of the banking sector (Khaled & Bani-Ahmad, 2019). The rapid transformation of the Jordanian banking sector is enabled due to its instigation of several banks, and their branches, development, and improved banking services for meeting the customer requirements (Al-Fayoumi & Abuzayed, 2009).

One of its development efforts includes the establishment of the Housing Bank (HB) by the Government of Jordan in 1974 (Nawaiseh et al., 2019). HB is a public shared company which has attracted a various number of equity shareholders from Arab states and international market to participate and holds its equity for offering long-term loans at the low-interest rate for the low-income earners to overcome the housing problem (Al-Homoud & Is–haqat, 2019). HB has its strategies centered for developing the construction sector of the economy, given its substantial share in the country's overall GDP. For instance, the rise in the domestic demand led to the 14.3% development in the manufacturing sector in 1922. This promoted HB to aggressively invest in various companies, which created financial problems for the bank. Altarawneh & Shafie (2018) documented that ambiguous mechanism for the banking sector accounted for the substantial loss in Jordanian financial market, as it failed to keep a record of the savings and preserve the money. Earlier work of Zeitun & Benjelloun (2012) showed that Jordanian banks are at high risk due to their inadequate input management mechanism.

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REVIEW OF PREVIOUS STUDIES

The analysis of the Jordan economy highlighted that Jordan economic sector constitutes a small economic base, however, intense competition for various reasons, i.e., for a deregulated healthy economy, advanced banking education of the public, as well as increased cash level in the economy (Işık et al., 2017). These factors have contributed to the increase in financial companies. However, the economic boom of the sector ended in 1983, with a total of 1983 banks comprising of 311 branches and three exchange offices. This led to the crowding of the market in the late 1980s, which accounted for its economic slowdown.

The Jordan banking sector reinforced in the 1980s by developing various new institutes, real estates, and saving institutions. The existing institutes were complemented through these institutions, which initiated new banking services, and which became challenging for the competitors to match (Işık et al., 2017). Housing bank provided these services which were difficult to match. In late 1994, the total number of banks was 26 including ten commercial national banks accompanied by housing bank, five foreign bank branches, six investment banks and four financial institutions comprising a total of 446 branches and exchange offices. The aggregated competition serves as a great challenge for HB form national as well as international banks, i.e., Citibank.

The changes in the external market and the recent international banking industry turmoil, and the deterioration of the developing economies' financial system has given rise to the debates concerning their proper governance mechanism (Işık et al., 2017). It must be noted that financial market deregulation and liberalization has driven changes in the banking systems across the world. These financial market reforms are likely to impact the overall performance of the Jordanian market and its macroeconomic performance. To deal with the external market changes, several changes have been made to the housing bank of Jordan. Also, this changing market environment has been emphasized for other sectors concerning the organizational control (Naranjo-Valencia et al. 2016; Wynen & Verhoest, 2016), and only a few have investigated it in the context of the banking industry.

Review of the literature has also highlighted that although various researches examined the financial sector of Jordan, they failed to comprehensively examine the role carried out by HB in Jordan concerning its response to the changes in the external environment. Mostly, the authors have assessed banks financial performance (Khaled & Bani-Ahmad, 2019), customer satisfaction (Pakurár et al., 2019), risk and governance (Alkurdi et al., 2018; Hussainey, Tahat, and Aladwan, M. (2019), ownership structure (Nawaiseh et al., 2019) and more, but none on the response of HB to the external changes or the reasons which promoted its action from 1976 to 1994. Given this, the study aims to assess the impact of HB on the operations and control changes in the bank, the methods adopted as well as the reasons following it. This study is derived due to HB importance in the national development of Jordan, where it experienced significant changes because of an unstable economy, change regulations, high competition from 1976 to 1994. This timeframe is critical given the changed management as well as policies of the banks, followed by a decrease in financial returns. Until now, no research has examined these issues; thereby, this research expands the existing research area by focusing on the impact of external environment on the organization, management accounting, and control system changes, with respect to banks, in Jordan.

METHODOLOGY

A qualitative research design is used for the analysis of the housing bank in Jordan and the actions it took for dealing with the changes in the external environment. The rationale for selecting this design is based on its potency to provide comprehensive results which help in developing a profound understanding of the subject in a systematic manner (Creswell & Poth, 2017). Also, for achieving the determining objective, a case study approach is adopted where the Housing Bank case is selected. Since it helps in generating rich information concerning the field data on housing bank and its response to the changes in the external environment from 1976 to 1994.

RESULTS AND DISCUSSION

The study presents a case analysis of HB from 1976 to 1994, which is categorized into three phases; namely, the boom phase, the recession phase, and last the recovery phase. The study primarily focuses on analyzing the bank competition and the changes which underwent for strengthening the HB business activities during the three phases. Concerning the state regulations for the practices of HB, there was no restriction on the expansion of HB business activities through an increase in its branches. Likewise, no parameters were observed for the financial commodities, deregulation or the full government support to the HB for the boom phase, whereas contrary to it, restrictions were imposed in the recession period along with high regulations and lower support to the HB. In the recovery phase, limited restrictions were imposed, while CBJ cooperation and its supervision for assisting in coping with the economic policy was provided. However, government-supplied less support to HBs. Table 1 presents the summary for the different state regulations that were imposed during the three phases concerning the activities such as licensing, government supervision, and support as well as credit facilities and interest rate.

Table 1
STATE REGULATIONS SUMMARY

Phases	Boom Phase (1976 – 1983)	Recession Phase (1984 – 1990)	Recovery Phase (1991 – 1994)
Licensing	Government imposed no restriction on expansion	Government imposed no restriction on bank	Government did not restrict bank expansion through branching.

	through branching. Government imposed no restriction on the establishment of any kind of bank. Required no permission for practicing of the banking activities by HB.	expansion through branching. The restriction was later imposed on expansion. Required no permission for practicing of the banking activities by HB.	Investment banks were permissible for practicing banking activities only. However, later, no permission was required for carrying the banking activities by HB.
Government supervision and support	The government provided complete support to the banks while also ensured supervision.	The government support lowered while strict supervision was imposed.	The support provided was low while cooperation was ensured.
Credit facilities and interest rate	Increasing credit facilities were offered. The interest rate was kept low.	Increasing credit facilities were offered. The interest rate was initially high and later floated.	These were provided on 50% of the deposited amount. The interest rate was determined by the demand and supply, which special HB groups later fixed.

Licensing

Licensing of the banks was provided through CBJ, which act as the regulatory body for directing the actions of the banks concerning their expansion. Like other companies, some restrictions were imposed on banks concerning their banking services and financial commodities, based on their nature, such as investment banks, commercial banks, and specialized banks. The licensing activities as per the three phases are depicted in Table 2, i.e., there was no restriction until phase two, while restrictions were recognized as the characteristic of the recovery phase.

Table 2
LICENSING

Phases	Boom Phase (1976 – 1983)	Recession Phase (1984 – 1990)	Recovery Phase (1991 – 1994)
Establishment of the Banks irrespective of its type	No restriction	Initially no restrictions and later restrictions	The permission was given for the establishment of investment banks only
Expansion of bank through branching	No restrictions	No restrictions	No restrictions
HB Practicing of banking activities	No practicing	Partial practicing	Complete practicing
HB Permission for banking activities practice	No permission	Permission not provided	Permission was provided from January 1994

The table also shows that in the recession phase, practicing of the HB activities were partial, whereas, full access was provided in the recovery phase. Not only this but until 1994, HB required no permission from CBJ. Since in the boom phase, the establishment of banks was permissible, there were many banks that emerged. For instance, at the end of 1983, almost 35 banks were present in Jordan. Besides, the business continuation for the branch expansion policy was not restricted for any banks (such as HB), because of which 311 branches were established with 9 exchange office, 66 of which were HB branches. However, no banking activities were practiced by HB at the end of 1984.

Government Support and Supervision

CBJ has always performed a supervisory role for all the banks in Jordan, including HB. In the boom phase, HB held full support of the government and was under the supervision of CBJ, whereas, this support declined in the recession phase along with close supervision of CBJ. Lastly, in the recovery phase, the government-provided little support to HB while its activities followed the CBJ issued directions and cooperation. Explicitly, the support of the government in the boom phase was through the exemption of taxes on banks. Also, HB was owned by the government, which enabled them full support and protection from the government. Such as, no tax was paid by HB, as they received funding from the government and were provided unconditional banking obligation from the third party (Table 3). In it, the financial statements were issued by the banks, including HB, that was directly reported to CBJ, annually. CBJ also conducted inspection each year, which initially were 80 and then further increased to 105 and later 155, with only a few visits to HB. Initially, the amount of paid-up capital was JD3m, which rose to JD12m for HB, following two years of operations.

Table 3
GOVERNMENT SUPPORT AND SUPERVISION

Boom Phase (1976 – 1983)	Recession Phase (1984 – 1990)	Recovery Phase (1991 – 1994)
Government Support		
Complete support	Low or partial support	Less support
Taxes		
Banks were exempted from taxes.	Banks were exempted from taxes.	Taxes were imposed on banks from 1991.
Funds of the Government		
Some institutes of the government were obliged to deposit their fund with HB.	No institutes of the government were obliged to deposit their fund with HB.	Institutes of the government were obliged to deposit their fund with HB.
Guarantee of the Government		
The HB obligations to the third parties were guaranteed.	The HB obligations to the third parties were guaranteed.	The HB obligations to the third parties were guaranteed.
The activities of banks were under increased supervision.	The activities of banks were under increased supervision.	The activities of banks were directed.
Requirements for Reporting		
Banks reported CBJ the activities through the issued balance sheet.	Banks reported CBJ the activities through the issued balance sheet.	Financial statements were issued and reported directly to CBJ. CBJ supplied the monetary data to all banks.
Direct Examinations		
Each year about 80 inspections visits were made among with only 2 were for HB.	Each year about 105 inspections visits were made among with only 12 were for HB.	Each year about 155 inspections visits were made among with only 12 were for HB.
Paid-up Capital Level		
It required a minimum of 3 JDm. The paid-up capital for HB was 12 JDm.	It required a minimum of 5 JDm. The paid-up capital for HB was 12 JDm.	It required a minimum of 20 JDm. The paid-up capital for HB was 12 JDm
Banking System Reconstruction		
No restructuring was made based on the advice of CBJ.	Restructuring occurred in five firms based on the advice of CBJ. All Petra bank accounts were transferred to HB.	Restructuring occurred in six firms based on the advice of CBJ. Some government institute funds were required to be management by HB.

Interest Rate and Credit Facilities Policies

The interest rate analysis of the Jordan banking sector highlights that these were confirmatory to the global interest rate until 1985, where it was lower as compared to the world rates for most of the cases. This low rate enabled a high money outflow resulting in low savings and eventually no investment. Until 1992, HB charged the same interest rates as of other banks, when the different income groups (lower and middle) were provided with special treatment. Although the credit facilities were limited for most of the banks, no rigid credit policies existed for HB. Table 4 shows that CBJ imposed a credit restriction facility for a maximum of 75% amount of the credit in 1976, in 1980 the limit declined to 67.5% and lastly 70% in 1983.

Table 4
CREDIT FACILITIES AND INTEREST RATE POLICIES

Phases	Boom Phase (1976 – 1983)	Recession Phase (1984 – 1990)	Recovery Phase (1991 – 1994)
Bank Despites Credit Facility	75% in 1976, 67.5% in 1980 70.0% in 1983	In it, the bank deposit was restricted not to increase more than 70%. It required an investment of about 15% of the bank deposit in companies' equities while 4% in the government offered bonds. Later in 1987, bank deposit of 9% was required to be invested in companies' equities while the investment of 4% on government offered bonds was canceled. It required an investment of about 20% of the bank deposit in companies' equities in 1990.	The credit extent of the bank in 1991 did not increase from 10% of the deposit amount. It also does not exceed the Banks capital and reserves as that of 10 times. The bank deposit facility was canceled as of 1994.
Average deposit rate of HB's credits	90.9%	84.7%	51.3%
Credits' interest rate	7.5% in 1976 8.75% in 1983	9.0% in 1984 8.0% in 1986 Floated in 1989	The rate was determined through the demand and supply which was 10.3%
Deposits' interest rate	5.5% in 1976 6.25% in 1983	6.5% in 1984 5.5% in 1986 Floated in 1989	The rate was determined through the demand and supply which was 5.0%

Bank competition

The understanding of the bank competition is integral based on its effect on the overall banking sector structure. Table 5 provides the number of banks that existed at the end of each phase. It can be observed that most of the banks were present in 1983, whereas the branches were higher in the recovery phase, i.e., 446. Similar statistics were found for the HB banks, where almost 108 branches are prevalent. It can be observed that the number of HB banks has increased from the boom phase to the recession and finally to recovery phase, which indicate an increase of competition among them.

The study using a case study approach analyzed the environmental factors which impact the functioning of the Housing bank in Jordan. The three environmental factors identified in the study include the economic condition, state regulations, as well as bank competition. The three factors have accounted to the changes in the three phases from 1983 to 1994, namely, boom, recession, and recovery phase. Throughout the three phases, the HB has undergone substantial changes in terms of its operations and control activities. This is consistent with the research outcomes of Phan et al. (2018), which also showed that environmental factors affect bank efficiency and its functions. Similarly, Carletti (2010) showed that the economic environment and environmental factors impact the structure of the banks.

Table 5
HB BANKS AND EXISTING COMPETITORS (AT THE END OF EACH PHASE)

Variable/ year	1983	1990	1994
Number of banks and financial companies	35	32	26
Number of branches	311	364	446
Number of exchange offices	9	55	123
Number of new entrants	17	4	2
Number of HB branches	66	96	108
Number of HB exchange offices	-	-	8

RECOMMENDATIONS

Initially, in the boom phase, the economic conditions were favorable, along with state support and low bank competition. These conditions enable housing bank to expand its working and generate increased returns, which improves its financial stance in the economy. The positive environment promoted the formation of new financial organization, which contributed to the economic growth of the country. However, the shortage of HB professionals let to its centralized vertical structure, which used a formal set of rules as provided by the top management.

With time, the changes in the environment led to the recession period. This, along with the financial crisis in the 1980s, impacted the functioning of various banks. This recession and financial breakdown led to the increased scrutiny by the CBJ and tightened regulations. Likewise, bank competition also increased in the recession period, while government support reduced. To overcome the negative consequence, HB adopted the diversification strategy where various services and polices were executed, such as training of staff, automation, branches expansion, and investment diversification. Likewise, Meesrichan and Fongsuwan (2014) stated that bank expansion through branches was impacted due to changes in the economic condition. To respond to the financial crisis, Lee (2017) stated that Korean banks adopted automated wealth management system, effective in improving bank efficiency.

CONCLUSIONS

The economic changes showed structural changes in HB modified its centralized structure to decentralized, where formal and information management control was used for communication to improve the information flow and work behavior. These policies also enabled the banks to identify the new source of funds and to enhance its impact on the banking market and governmental policies. The credit risk abilities of the bank were also impacted as the results of changed environmental conditions. The similar practices are demonstrated by Sun & Chang (2011) on the Asian countries, and by Fiordelisi Marques-Ibanez & Molyneux (2011) and Pastor (2002) on the European bank. The findings revealed that the Jordanian HB had undergone substantial changes and improvements in terms of financial soundness and resilience in the markets. Though HB in Jordan is susceptible to environmental pressures. More research can be conducted on the HB concerning the impact other banks and their practices held. Accordingly, this would assist in advancing the research area.

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