CRIMINAL LAW, LEGAL GOVERNANCE, AND STRATEGIC CAPABILITY DEVELOPMENT: THE ROLE OF GOVERNMENT LOAN GUARANTEES IN JORDANIAN MANUFACTURING SMES

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Abstract

This paper examines the role of government loan guarantees (GLGs) as legal-financial tools influencing the strategic investment behavior and dynamic capabilities of manufacturing small and medium-sized enterprises (SMEs) in Jordan, uncovering the underlying dimensions and aspects of these dynamics and capabilities. With a quantitative and cross-sectional approach, this study aims to gather data from 283 manufacturing SMEs who currently use national guarantee schemes, applying these data to a partial least squares structural equation model (PLS-SEM) for analysis. Results show that the use of these GLGs has a significant effect on strategic investment intensity and dynamic capabilities, with strategic orientation being a partial mediator, moderated by firm size, which benefits most from these effects among the medium-sized firms. This shows that, besides being financial facilitation instruments, these instruments can be used for governance purposes in order to manage investment behaviors, manage regulatory requirements, and manage capabilities within organizations. With the effectiveness of these instruments being dependent on combining financial accessibility, strategic readiness, and strong regulatory management, this paper provides valuable information for policymakers who must efficiently manage guarantee schemes and manage risks, including misuse, fraud, and lack of regulatory compliance, among these financial instruments used by manufacturing SMEs within the Jordanian economy.

Keywords: Legal Governance, Loan Guarantees, SMEs, Strategic Investment, Regulatory Frameworks, Jordan

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1. INTRODUCTION

Small and medium-sized enterprises (SMEs) play a key and diversified role in promoting industry diversity, employment creation, and innovation, most notably within developing nations such as the Kingdom of Jordan. The importance of SMEs is emphasized by De Matteis et al. (2023). However, despite the importance of SMEs in economic growth, they actually encounter a series of significant legal-financial challenges within the credit market, emphasized by Crawford et al. (2024). As a means of relieving these financial challenges currently being faced by SMEs, loan guarantee programs emerged, a legal-financial tool aimed at mitigating lenders' perceived risks within credit transactions, as explained by Bachas et al. (2021).

Initially, these government loan guarantees (GLGs) were primarily used within the economy to mitigate failures within the financial markets. However, within the newer paradigms of financial research, especially within Mateus and Neugebauer, (2025) and Thanasas et al. (2024), loan guarantees can be used within an economy as a means of legal control and corporate governance within a firm — a means of influencing a firm's behavior and legal mannerisms within the regulation/right observation standards within a given economy (Morshed, 2025a). However, despite these financial instruments being issued within a given economy, most currently existing pieces of financial research remain primarily centered on financial performance rather than legal SME observation post-strategy change within dynamic capabilities, especially within

However, a gap is identified, and this study aims to fill it by investigating the impact of GLGs on the level of strategic investment activity and dynamic capabilities established in manufacturing SMEs in the region of Jordan. This study is outlined by four main research questions:

RQ1: Can GLGs enhance the intensity of strategic investment among SMEs?

RQ2: Can GLGs accelerate the evolution of dynamic capabilities?

RQ3: Can strategic orientation play a mediation role in a relation centered solely on capability evolution and access of GLGs?

RQ4: Can firm size moderate the impact of access to GLGs on the improvement of capabilities?

To develop a precise theoretical model for these objectives, the strategy used here is a theoretical framework which combines dynamic capabilities theory described by Huang et al. (2025), Yu and Gan (2025), strategic orientation views expounded by Prasannath et al. (2024) and Xu et al. (2022), and other legal frameworks including enforcement of criminal law explained by Chang (2024), Stillerman (2024), Wang and Wang (2024), and Yin et al. (2025).

The relevance and importance of this study can be derived within the institutional setting of being a new economy, such as within the boundaries of a country such as Jordan, where a lack of strong enforcement tools and moral hazard potential may create reservations about the effectiveness of any new policies being implemented in the economy (Islam et al., 2025; Mahmoud & Mahmoud, 2025). It is imperative to understand the importance of group linkages in understanding strategic actions, coupled with developing capabilities for better compliance.

From a methodology standpoint, this proposed empirical research used a quantitative, explanatory, and cross-sectional research design. It concentrated on SMEs in the manufacturing industry with existing access and utilization of loan guarantee schemes designed by governments. A structured questionnaire methodology was used for data gathering, and the data were subsequently processed with the help of a partial least squares structural equation model (Morshed, 2025b). This is an efficient tool for handling intricate relationships among unobservable variables, with a view to analyzing mediation and moderation effects simultaneously (Magno et al., 2024).

The rest of this article is organized in the following manner. Section 2 provides an exhaustive bibliography study related to financing issues within SMEs, loan guarantee schemes within the framework of governmental support, strategic emphasis, dynamic capabilities, and legal governance concepts. Section 3 presents the research methodology incorporating design, sampling, scale design, and the use of partial least squares structural equation model (PLS-SEM) techniques. Section 4 presents the empirical findings. Section 5 discusses the research findings within the concept of existing theory. Section 6 concludes the paper, highlighting managerial implications related to this research and future related research.

2. LITERATURE REVIEW

2.1. SMEs, financing barriers, and government loan guarantees

SMEs remain the backbone of innovation, job creation, and inclusive economic growth, even more so in developing countries. Despite the critical importance of SMEs to a country's productivity base, SMEs still experience considerable financing constraints that limit their ability to invest, grow, and innovate (De Matteis et al., 2023; Morshed, 2024). To mitigate the chronic financing difficulties of SMEs, governments across the world have initiated schemes called government loan guarantee (GLG), which help to encourage banks to offer loans to SMEs to minimize the possibility of default on the loans (Oreqat, 2021). Through this guarantee arrangement, the banks' risk of loan default reduces because even SMEs that do not meet the standard criteria of creditworthiness can still obtain loans due to the guarantee offered (Crawford et al., 2024; W. Jin et al., 2022).

At first, the role of the GLGs remained more of a safety net that facilitated the survival of firms and improved the functioning of the credit markets (Morshed, 2025c). But modern scholarship treats them as positive instruments of policy that facilitate business development, competition, and strategies (Bachas et al., 2021; Carletti et al., 2023), as they help mitigate funding constraints that make innovation and the development of new technologies and enhanced competitive capacities of SMEs feasible (Gai et al., 2023; Thanasas et al., 2024). What is more, during the COVID-19 pandemic experience, these programs essentially facilitated the SMEs' restructuring of operations and their adaptation to the increased uncertain conditions (Cowling et al., 2022; Mateus & Neugebauer, 2025).

2.2. Strategic orientation, dynamic capabilities, and financial leverage

Although GLGs increase financing, financial access is not a sufficient condition for competition. Firm-level strategies are critical in determining whether financial access results in building capabilities (X. Jin et al., 2022). The idea of a firm's "strategic orientation" — the organization's proactive, risk-seeking, and foresightful way of thinking and acting—has emerged as the dominant frame of reference in the study of financial slack exploitation (Prasannath et al., 2024; Xu et al., 2022). Studies have revealed that strategically oriented firms selectively used the guaranteed loan for innovation and growth over liquidity management (Nicolas, 2022; Reyad et al., 2022).

This ties very much with the dynamic capabilities approach that regards competitive advantage as emanating from the capacity of an organization to identify potential threats and opportunities and adapt its internal structures accordingly (Alkadi, 2024; Ashal & Morshed, 2024). This can result in the development of dynamic capabilities on the part of the SMEs if the GLG makes it easy for them by improving their liquidity conditions so that they are better positioned to invest strategically in their technology and human capital development (Yu & Gan, 2025; Huang et al., 2025).

2.3. Legal governance and criminal law enforcement

The functioning of the GLGs remains highly dependent on the quality of the legal system upon which the administration of the former rests. This creates the potential for moral hazard issues surrounding excessive risk behavior on the part of both the lender and the borrower under the guarantee of government-backed insurance of potential losses (Chang, 2024; Stillerman, 2024). Within developing countries, a lack of prosecution power further exacerbates the problem of fund misuse (Wang & Wang, 2024; Yin et al., 2025).

In this respect, the criminal system of law serves not only as a punitive measure but as the building block of the creditworthiness of financial structures at the state level. Abuse of guaranteed loans may happen either through financial information irregularities, unauthorized disbursements of funds, or through state-level collusive behavior between the government and other business organizations. All these elements of abuse of guaranteed loans make this practice a criminal activity that undercuts the financial viability of financial structures. Effective state-level regulation helps prevent this practice and ensures that organizations align with their strategies. Lack of financial accountability on the part of the state makes a particular practice common.

This correlation can be explained with the aid of various models of comparison. The European Union's European Public Prosecutor's Office (EPPO), for that matter, handles cases of EU funds-related fraud. This clearly proves the direct correlation between financial irregularities and criminal liability. This regulatory framework could greatly help countries like Jordan.

2.4. Institutional integration, digital governance, and legal modernization

The integration of the GLGs within other innovation and legal structures works better. Within the successful economies, the GLGs serve as complements to innovation tax credits, development of clusters, and incubators, and create a synergetic innovation outcome (Pierrakis et al., 2024; Romanello et al., 2025). This could result in accountability improvement because there is a distribution of accountability across various institutions. This might not happen in successful economies, but in developing economies because of the weak institutions that create an environment of corruption (Nawaz & Koç, 2020; Omowole et al., 2024).

Digital transformation brings about opportunities as well as various risks that affect the management of GLGs. AI-assisted credit scoring and investigations using blockchain technology could make the financial system more transparent and competitive (Deng et al., 2025; Opp, 2025). However, the increased reliance on technology makes programs more vulnerable to digital financial crimes that conventional criminal law typically cannot address.

This integration is particularly significant in countries like Jordan, where the pace of reform in the digital area is faster than the pace of modernization of the legal system.

2.5. Gap analysis: Linking criminal law, governance, and SME strategy

Although there have been numerous studies conducted on GLGs, there still appear to be significant gaps at the intersection of legal governance structures and criminal accountability, and SME strategies. Indeed, the majority of the literature that currently exists on this topic focuses on access to financing and performance (Carletti et al., 2023; Crawford et al., 2024; Bachas et al., 2021), except for the intersection of ethical investment strategies and criminal accountability. Indeed, the topic of criminal accountability appears to remain unexplored (Shaban & Omoush, 2025).

Despite the existence of well-recognized threats of corruption and moral hazard (Chang, 2024; Stillerman, 2024; Wang & Wang, 2024), very few empirical analyses evaluate the specific effects of the intensity of criminal prosecution on SMEs' strategic orientation or building capacity. This study fills this knowledge gap (Alshehadeh et al., 2022).

Despite being a Middle East and North Africa (MENA) region or even a Jordan-specific topic, the study of financial access (Morshed et al., 2024; Al-Kofahi et al., 2024) received more attention than the lack of punitive execution effects that might result in weakening the overall strategy of the GLGs.

To effectively address the above shortcomings, an approach necessitating the intersection of criminal law and governance with capability theory must take place. Established enforcement and predictability of the law are critical to realizing the potential of these GLGs as instruments of ethical development.

The hypotheses are as follows:

H1: GLGs positively influence strategic investment intensity.

H2: SMEs with loan guarantees exhibit stronger dynamic capabilities.

H3: Strategic orientation mediates the relationship between loan guarantees and dynamic capabilities.

H4: The impact of loan guarantees on capabilities is stronger in medium-sized firms than in small firms.

H5: The effectiveness of government loan guarantees is moderated by the strength of criminal law enforcement.

3. RESEARCH METHODOLOGY

3.1. Research design

This research used a quantitative, explanatory, cross-sectional study design that investigated the relationship between GLGs and the level of strategic investment and the development of dynamic capabilities of small and medium-sized manufacturing enterprises in the state of Jordan. By the nature of the study design used, it became feasible to systematically investigate the relationship between variables at a single point in time.

Nevertheless, the appropriateness of the cross-sectional approach for the study of dynamic capabilities based on methodological reasons could only be partially justified. Dynamic capabilities are inherently evolutionary. A cross-sectional approach could thus only partially address these evolutionary characteristics. A longitudinal approach could more effectively address these changes over time. But because of various practical constraints, accessibility of longitudinal data of the organizations being studied could not be ensured; therefore, the approach taken remains justifiable on this point, although there might exist certain reservations regarding its appropriateness in this study.

3.2. Target population and sampling procedure

The study targeted SME manufacturers based in Jordan that received assistance through the loan guarantee schemes initiated by the government. A stratified random sampling method was used that ensured proper representation of the various strata of the sectors. This enhanced the external validity of the study by reducing the possibility of sample biases.

The final sample comprised 283 SMEs that were stratified based on the industry sector and region, as indicated in Table 1.

Table 1. Stratified sample allocation by region and sector

Region	*Food and beverage*	*Textiles and apparel*	*Chemicals and plastics*	*Machinery and metals*	*Other manufacturing*	*Total (n)*	*% of Total*
North Jordan	18	12	10	8	10	58	20.5%
Central Jordan	25	22	15	10	18	90	31.8%
South Jordan	20	18	15	10	10	73	25.8%
Amman Industrial Zone	24	20	10	10	18	82	29.0%
Total (n)	**87**	**72**	**50**	**38**	**56**	**283**	**100%**

Note: N = 283 SMEs.

3.3. Data collection procedure

Primary data collection took place using a structured questionnaire that gauged variables within the context of the conceptual framework of the study. The questionnaire surveyed company characteristics, government loan guarantee access, company strategies, investment patterns, and dynamic capabilities. All variables of the study used the scale of a 5-point Likert scale ranging from 1 "strongly disagree" to 5 "strongly agree" (Opdahl, 2024).

Questionnaires were conducted on the owners of the firms and the higher management regarding financial and investment strategies because they had the knowledge required on strategies and development (Alshehadeh et al., 2023). The collection of the data took place between September and November of 2024 because the period avoids seasons that may affect the results. Geographical areas considered were the major industrial areas of the countries of Jordan, which include Amman, Irbid, Zarqa, and Karak, because of the need for diversity (Taqa, 2025).

Though this single-time method of conducting a survey proved very efficient for the collection of quantitative data, there are certain disadvantages that have been discussed under subsection 3.8.

3.4. Measures and instrument development

A questionnaire based on tested scales used in other research studies was used. *Loan guarantee access* variable was considered formative because the elements measured access to loan guarantees, the extent of loans accessed, and the extent of usage of the guarantee schemes. The variables of *strategic orientation* and *investment intensity* were considered reflective because the questionnaire measured proactiveness, innovativeness, risk-seeking, and investments made regarding innovation, technology development, and exploration of new markets. On the other hand, the *dynamic capabilities* variable could be considered reflective second-order constructs because they measured the variables of sensing and seizing with the purpose of reconfiguring (Ahmed et al., 2023).

3.5. Data analysis techniques

Data analysis procedures were performed employing SmartPLS version 4 with the PLS-SEM method. This approach of modeling was appropriately used given the predictive study's ambition of performing an exploration with intricate relationships among the variables and with a relatively moderate sample size. This approach of modeling permitted the performance of hypothesis testing on the proposed structure with great scientific rigor by employing bootstrapping resampling with the aid of 5,000 resamples. Additionally, with the approach of this study employing the SmartPLS program directly, further procedures of investigation that could aid in the deeper exploration of the proposed hypotheses through an examination of the structural equations were performed.

3.6. Common method bias and validity controls

As the instrument used a self-report methodology, there could potentially be an issue of common method bias (CMB) that could affect the results. To mitigate this issue, the questionnaire made sure that there was anonymity and that the questions were reverse-coded. On the statistical side of things, there are no issues of CMB based on Harman's single-factor test and collinearity. However, the single source of the study could potentially result in perceptual biases. This could potentially be resolved by conducting multiple source research (Morshed, 2025d).

3.7. Ethical considerations

The issue of ethics took precedence throughout the research. The voluntary participation of the candidates was considered, and permission was sought from them. Confidentiality and anonymity of the organizations and the candidates were assured. This ethical approval was sought before the initiation of the collection of the data.

To further improve the transparency of the study, the participants were assured of the academic nature of the study, the confidentiality of their answers, and their right to withdraw at any time.

3.8. Methodological limitations

Despite the rigorous method used in this study, there exist a few limitations that need to be acknowledged. First, the nature of this study's research method makes it more challenging to identify the respective development over time of the dynamic capabilities. Second, although various procedures were taken to avoid common method variance in the study's measurement approach, there still could exist certain biases on the part of the research participants. Finally, the study's concentration exclusively on the manufacturing SMEs implies certain constraints on the generalization of the results to other industries that may significantly differ due to their distinct qualities. Industry-specific structural aspects may significantly affect the loan guarantee programs' overall performance regarding the funding of SMEs. Keeping these points in mind could increase the study's credibility and viability. Nevertheless, the study makes an extremely useful contribution toward unlocking the legal implications of loan guarantee schemes on SMEs in the context of the Middle Eastern nation of Jordan.

4. RESULTS

This section will present the empirical results derived from the use of PLS-SEM on a sample of 283 manufacturing SMEs in the economy of Jordan. The findings will be presented in a structured format and will include the discussion of the measurement model fit and diagnostic tests, the linkages among the established constructs, and the consequences of the proposed hypotheses in the study. The discussion will begin with a presentation of the descriptive statistics of the study sample for a better understanding of the subject matter of the study. It will be followed by a discussion of the tests and evaluations concerning the soundness of the measurement model used in the study. Finally, the structural model findings will be presented.

4.1. Descriptive statistics

As reported in Table 2, the value of *loan guarantee access* and *dynamic capabilities* for the manufacturing SMEs of the Kingdom of Jordan stands at 3.62 and 3.92, respectively. This denotes that the SMEs embrace financial assistance to sustain their strategies. The *strategic orientation* of the SME sector stands at an average of 3.85. This denotes that the SME sector management embraces an active approach.

Table 2. Descriptive statistics and data screening

Construct	*Mean*	*Std. Dev.*	*Min*	*Max*	*Skewness*	*Kurtosis*
Loan guarantee access	3.62	0.78	1.00	5.00	0.18	0.25
Strategic orientation	3.85	0.74	1.75	5.00	0.12	0.33
Strategic investment intensity	3.69	0.80	1.00	5.00	0.09	0.41
Dynamic capabilities	3.92	0.69	2.00	5.00	0.06	0.29
Firm size	2.14	0.86	1.00	3.00	0.21	0.44

4.2. Measurement model assessment

The results obtained from the measurement model in Table 3 are of excellent psychometric quality. The reflectors have satisfactory reliabilities (CR > 0.85; $\alpha > 0.70$), with AVE above 0.50 that supports convergent validity. The Fornell and Larcker criteria and HTMT further confirm the constructs' discriminant validity (Fornell & Larcker, 1981; Salhab et al., 2025). The formative construct of the study, the access to the loan guarantee construct, passes with weights on the indicators being significant and the values of the variance inflation factor being below 3.3, which further excludes the possibility of multicollinearity (Kalnins & Praitis Hill, 2025). The measurement model thus meets the requirements of the structural equation modeling process.

Table 3. Measurement model summary

Construct	Indicators	Loading/Weight range	CR	α	AVE	VIF	Key validity indicators
Loan guarantee access (Formative)	LGA1–LGA3	Weights: 0.36–0.41; Loadings: 0.69–0.73	-	-	-	1.95–2.25	No multicollinearity; all indicators are significant
Strategic orientation (Reflective)	SO1–SO4	0.71–0.84	0.88	0.82	0.65	-	AVE √ = 0.81 > correlations (Fornell & Larcker, 1981)
Strategic investment intensity (Reflective)	SII1–SII3	0.76–0.83	0.86	0.79	0.67	-	HTMT = 0.78 < 0.85 (Salhab et al., 2025)
Dynamic capabilities (Reflective)	DC_SEN, SEZ, REC	0.73–0.85	0.91	0.87	0.66	-	High discriminant validity

4.3. Structural model evaluation

Table 4 results show that the structural model accounts for 53% of the variance in *strategic investment intensity* and 62% of the variance in *dynamic capabilities*; these are both highly significant and useful for SME-related research. Predictive fit ($Q^2 > 0.30$) indicates that the structural model can make precise forecasts outside the sample. Effect size analyses show that the *loan guarantee access* variable has a moderate but significant impact on the *strategy investment intensity* variable, but a smaller yet still significant impact on *dynamic capabilities*. The *strategy orientation* variable exercises the strongest force on the dependent variables and supports its establishment as an essential behavioral mediator of capability building (Magno et al., 2024).

Table 4. Structural model evaluation

Endogenous construct	R^2	Q^2	Effect size (f^2)
Strategic investment intensity	0.53	0.31	LGA → SII: 0.24
Dynamic capabilities	0.62	0.37	SO → DC: 0.29; LGA → DC: 0.18

4.4. Hypothesis testing

All four hypotheses are confirmed as indicated by the results in Table 5. Both *loan guarantee access* and *strategic investment intensity* are significantly and positively correlated ($\beta = 0.47$), whereas *dynamic capabilities* are also significantly and positively affected ($\beta = 0.34$) by the same access. The indirect relationship with *strategic orientation* ($\beta = 0.19$) signifies that the relationship between access and capability development is partially mediated; that is, financial access can potentially contribute to capability development only if the SME adopts an orientation that focuses on the future with calculated risk-taking. Finally, the moderating role of *firm size* ($\beta = 0.22$) confirms that access through loan guarantees assists large SMEs in developing dynamic capabilities more effectively (Hasan & Juhannis, 2024).

Table 5. Path coefficients and hypothesis testing

Hypothesis	Path	Coefficient (β)	t-value	p-value	Result
H1	LGA → SII	0.47	6.82	< 0.001	Supported
H2	LGA → DC	0.34	5.10	< 0.001	Supported
H3	LGA → SO → DC	0.19	4.23	≈ 0.0001	Supported
H4	LGA × Firm size → DC	0.22	3.67	≈ 0.0003	Supported

4.5. Mediation and moderation analyses

As indicated in Table 6, the partial mediated relationship between the variables of *loan guarantee access* and *dynamic capabilities* by the variable of *strategic orientation* has a VAF of 35.8%. This implies that nearly a third of the effects of loan guarantee access are mediated by the organizational internal process of strategic orientation (Khrais & Alghamdi, 2021). The results of the moderated relationship indicated that the flexibility of medium-sized organizations in improving financial assistance as an internal organizational process of renewal signifies the theoretical implications that propose that absorptive capacity and management acumen facilitate the application of financial resources (Hasan & Juhannis, 2024).

Table 6. Mediation and moderation analysis summary

Path	Effect type	β	t-value	95% CI	VAF	Mediation type
LGA → SO → DC	Indirect	0.19	4.23	[0.10, 0.27]	35.8%	Partial mediation
LGA × Firm size → DC	Moderation	0.22	3.67	-	-	Stronger in medium-sized firms

4.6. Multi-group analysis

Results of the regional multi-group analysis (MGA) analysis presented in Table 7 show that there are no significant differences between the studied zones ($\Delta\beta = 0.07$, $p > 0.10$). This assists in determining the stability of the results and confirms that the variables of the respective study affect the loan guarantee access and the size of the organizations similarly across the industrial zones of the state of Jordan (Al-Daoud & Abu-AlSondos, 2025).

Table 7. Multi-group analysis by region

Region	Sample size (n)	Max Δ path (β)	p-value	Conclusion
North Jordan	58	-	-	-
Central Jordan	90	-	-	-
South Jordan	73	0.07	> 0.10	No significant differences

5. DISCUSSION

This study proves that GLGs have a highly significant positive effect on the intensity of strategic investments and the development of dynamic capabilities among manufacturing SMEs in Jordan. The highly significant direct relationship between access to government loan guarantees and strategic investment ($\beta = 0.47$, $p < 0.001$) confirms the existence of financial constraints and promotes additional investments beyond immediate operations (Cowling et al., 2022; Gai et al., 2023). This result supports the theoretical foundations of dynamic capabilities because external injections of resources are considered catalysts that facilitate innovation by rebuilding assets (Alkadi, 2024; Ashal & Morshed, 2024).

Besides the financial aspects, this study underscores the significance of the legal and institutional framework of loan guarantee schemes on the determination of their outcomes. The success of loan guarantee schemes cannot be merely attributed to the liquidity assurance because the regulatory conditionality incorporated into the schemes' structure matters. This implies that the behavioral constraints imposed by these schemes may be the reason why the results do not reflect moral hazards despite the theoretical implications under conditions of moral hazards (Chang, 2024; Stillerman, 2024), because the results do not reveal the possibility of the parties' opportunistic behavior. This result supports the theoretical argument presented by Wang and Wang (2024) and Yin et al. (2025) that tight monitoring suppresses behavior susceptibility-related hazards.

The relationship between GLGs and dynamic capabilities ($\beta = 0.34$, $p < 0.001$) proves that financial tools can act as catalysts of organizational learning. Some SMEs with more financial slack are better positioned to experiment and analyze new possibilities and redefine the organization's system (Islam et al. 2025). Nevertheless, this process does not happen on its own. Partially mediated by standard deviation ($\beta = 0.19$), this result clearly identifies the need for management's proactivity and forward-looking thinking when translating financial access into adaptive potential (Prasannath et al., 2024; Xu et al., 2022). This result refutes Nicolas's (2022) views on the direct relationship between financial access and the development of capabilities by showing that there are behaviorally active factors within the organization that affect the efficacy of policies.

The size of the firm further conditions the effectiveness of GLG ($\beta = 0.22$), with medium-scale firms being the major beneficiaries of the program owing to their higher adaptive capacity and clearly defined accountability structures (Mahmoud & Mahmoud, 2025; Oyegbade et al., 2022). Small businesses do not have the administrative capacity to strategically harness the credit guarantee benefit (Onileowo et al., 2021).

Finally, the sectoral variation, and more specifically the more pronounced effects in the Chemicals and Plastics sector, point out that the most successful application of the GLGs occurs in capital-intensive and highly regulated industries that regularly require an upgrade of their capabilities (Pierrakis et al., 2024; Romanello et al., 2025). As a conclusion, the results show that GLGs are hybrid financial instruments with their strategic effects being driven by the combined forces of institutional enforcement, management action, and organizational capacity.

Even with their importance in national economic structures, SMEs are still hampered by historically ingrained constraints when it comes to accessing formal financial resources, something that severely limits their ability to make strategic investments, use new technology, and adapt to changing market conditions (Alite et al., 2025; Nguyen et al., 2025; Begum & Begum, 2025; Mehdaoui & Moufdi, 2025; Larabi, 2025).

6. CONCLUSION

This study makes theoretical contributions to several domains. First, it expands dynamic capabilities theory by integrating it with the legal-governance approach and showing that the process of adapting and learning based on resources cannot remain the sole responsibility of the firm but can result through an interplay of legal and institutional constraints. GLGs introduced and managed through the legal system of contracts and governance serve as hybrid instruments that incorporate the elements of incentives with behavior regulation.

Second, this study confirms the contingency theory because it clearly proves that the success of GLG depends on the size of the company and the orientation of its management. As the differentiated advantages for the medium-sized company reveal, the structure of the organization and its compliance ability serve as the mediating conditions.

Thirdly, the study incorporates Institutional Theory because it proves that the potential of these policy instruments, such as Gloucestershire Local Governance Guidelines, depends on the quality of the environment within which the institution will operate. Indeed, institutional control over the administration of these guidelines has ensured that moral hazard issues are managed properly; this way, the interests of the business align with state interests (Chang, 2024; Stillerman, 2024). This makes the Gloucestershire Local Governance Guidelines both financial and moral.

Methodologically, this study confirms the appropriateness of the PLS-SEM approach in examining the complex relationships that may exist between governance structures and strategic action, even when considering latent constructs like dynamic capabilities. This methodological approach provides an instrument with great potential for iterative analysis that can facilitate the investigation of how statutory and administrative interventions affect business strategies.

The results show that the relevance of the GLGs depends more on how these schemes can be integrated into the overall institutional setting than on the exclusive capacity of the schemes as short-run financing instruments. The results clearly illustrate that there must be differentiated policy strategies according to the specific requirements of different company groups. The increased sensitivity of the medium-sized companies implies that there should be specific schemes that will improve access to finances as well as the capacity of the management systems of these companies. The more significant role of the GLG schemes with regard to capital-intensive industries further implies that specialized guarantee schemes should be designed according to the specific regulatory requirements of the sector.

On the issue of governance, a factor that the concerned governments must consider is that the schemes of the GLG must operate within clear and transparent rules that are binding. Additionally, there should be proper oversight that avoids instances of misconduct, improper reporting of results, and the abuse of the guaranteed funds.

As regards the application of the SMEs management approach, the results above provide an implication that financial guarantees will yield more benefits if the organization displays strong characteristics of orientation and absorptive capacity. Organizations that concentrate on innovation and the digitization of their operations and capacity development may gain the most benefit out of the financial liquidity guarantee made. Thus, there must be a reflection that the application of the GLGs must not only focus on the management of liquidity but also on development within organizations that have the right structures and outlook.

This paper examines the role of GLGs in facilitating dynamic capabilities alongside financial support and the impact of these loan guarantees on the strategic investment intensity level of SMEs in the manufacturing industry in Jordan. Findings show that financial support is an important factor in enhancing strategic investment, including dynamic capabilities, although this is not a directly related factor because strategic orientation is a mediating factor for financial support and strategic investment, indicating the importance of deliberate management. Small businesses can gain from these loan guarantees because of the capabilities that come with the support, although the most likely business to be most favored is the one with better administrative capabilities, because of being classified as a medium-sized business.

From a theoretical angle, the results suggest that GLGs can be used both as financial instruments and legal/institutional tools of governance. From a theoretical standpoint, the combination of dynamic capabilities theory and strategic orientation and governance frameworks helps to better understand the nexus between financial governance and other processes within an organization with regard to competitiveness. From a practical standpoint, the key message is the importance of developing guarantee schemes that meet the needs of businesses according to their scale and industry requirements, with adequate supervisory and compliance regimes in place. From a management angle of an SME, the key message is developing strategic preparedness and enhancing innovative and institutional capabilities within an organization for better access to the benefits offered by GLGs.

However, this study bears a number of limitations, which must be addressed. Firstly, the research is based on a cross-sectional study, where data is taken for a single instance in a specific period of time rather than being monitored for a series of times. Secondly, the research uses self-collected data, which may generate inaccuracies within the study. Thirdly, the study is restricted only to the SME manufacturers.

To fill these research gaps, it is recommended that researchers use a longitudinal design involving the same subjects over a series of times in order to identify the long-term dynamics of strategic performance and compliance over time. Cross-country comparison can help identify the impact of institutional quality and legal enforcement strength on the effectiveness of GLGs in a given setting.

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APPENDIX. SUPPLEMENTARY ANALYSES

To improve readability, supplementary diagnostics and robustness checks are presented in the Appendix. These tests confirm the absence of common method bias (CMB), the robustness of paths across sectors, and the stability of results after removing influential cases.

Table A.1. Common method bias: Harman's single-factor test

Statistic	*Value*	*Threshold*	*Conclusion*
Variance explained by the first factor	34.5%	< 50%	No significant bias (Saxena et al., 2024)

Table A.2. Sector-based multi-group analysis (MGA)

Sector	*n*	*Path: LGA → SII (β)*	*Diff.*	*p-value*	*Conclusion*
Chemicals and plastics	50	0.55	+ 0.11	0.041	Stronger effect
Other manufacturing	233	0.44	-	-	Baseline

Table A.3. Sensitivity analysis

Test	*Method*	*Result*	*Conclusion*
Exclusion of outliers	Removed 5 high-leverage cases	$\Delta\beta < 0.04$	Results robust (Demir et al., 2024)