

THE IMPACT OF THE CAPITAL STRUCTURE ON THE PERFORMANCE OF JORDANIAN INDUSTRIAL JOINT STOCK COMPANIES

KHALDOUN M. AL-QAISI, PH.D.

Associate Professor of Finance, Faculty of Business, Finance Department Al-Zaytoonah University of Jordan.

Abstract

The investigation analyzed the effect of the capital structure on execution in the Jordanian business entities enlisted in the Amman Stock Exchange for a time of five years from 2012 to 2017. The examination utilized various relapse investigation to demonstrate the impact of obligation proportion, obligation to value proportion, yearly rate change in resources, Asset turnover, on both degree of profitability and profit for value, and the coefficient of relationship between's investigation factors was utilized to help the consequences of numerous relapse. The investigation of the relapse coefficient for the examination information demonstrated a factually noteworthy antagonistic impact of 12% on the proportion of obligation to quantifiable profit. The relapse coefficient examination did not discover a factually noteworthy impact at a critical level of 12% for the proportion of obligation to value over rate of return. Furthermore, there was a measurably critical unfriendly impact at 1% level of obligation to value proportion on return on value. The investigation of relapse coefficients did not discover a factually critical impact at 10% importance of the proportion of obligation to return on value.

Keywords: Capital structure, Amman Stock Exchange, Jordanian industrial.

INTRODUCTION

Each shareholding company may acquire shares, bonds or debt through long-term financing. And that capital structure is a combination of funding in all its components. The Company's average maturity of the target capital structure reflects the funding decisions taken at any time available to it, thus contributing to achieving the financial and non-financial objectives set out in the Company's strategic plans and thus maximizing the value of the company. (Kick et al, 2017).

Market risk, which is the other side of capital formation, can be measured by empirical methods that the company conducts to detect and evaluate in order to reduce and avoid it, which is the market risk and risk factor that the company can avoid through the use of tuna. Of the management's expectations of a number of cash flows of the company, which contributes to the uncertainty of operating profit, which in turn affects the capital structure. (Siqueira, et al., 2018). Based on (Al-Qaisi, 2013) for the time period 2003 – 2007, the empirical results indicate that listed Palestinian firms have low leverage ratios. In addition, the results show that long-term debt is literally non-existent. Finally, the Seemingly- Unrelated Regression estimation results indicate that while some of the well-known determinants of capital structure (firm size and firm profitability) are applicable to the Palestinian case.

The capital structure contributes to improving the financial performance which reflects the company's position to develop future plans to expand its activities and maintain its performance to the public with the best results and also helps to monitor the liquidity and preparation of the annual budget. (Kieschnick and Moussawi, 2018)

LITERATURE REVIEW

The researcher considers the theories of capital in theoretical literature and from these theories: (Kieschnick and Moussawi, 2018), (Jiang et al., 2018)

• **Miller Theory**

Researchers and authors have developed a number of theories concerning the structure of capital that the researcher mentioned (Miller's theory and Exchange theory): (Jiang et al., 2018)

If the shareholder keeps them until his death, no taxes are taxable at all. Therefore, the proceeds on shares are generally taxed at lower effective rates than the proceeds on debt, and because of the tax position, Miller argued that investors welcome the acceptance of relatively lower returns before taxes on equity relative to the proceeds on pre-tax bonds. (Ramli et al., 2018)

Therefore, as Miller points out, (i) prefer the possibility of interest deduction using debt financing, but (ii) the greater preference for income treatment reduces tax on equity than the required rate of return on equity.

• **Exchange theory**

Although bankruptcy is very costly, the results of MM have shown no bankruptcy costs, as bankrupt companies have high legal and accounting costs, which lead to the loss of customers and suppliers, leading to the sale of assets and liquidation of the company. (Matias et al., 2018)

The bankruptcy begins with the layoffs and turnover of key employees, resulting in weak supplier credit to the company, and hence a reduced customer frequency on the company in a rapid manner, leading to the death of the company in practice and the refusal of banks and lenders to finance because of the low guarantees. (Kieschnick and Moussawi, 2018)

It is most likely that problems related to bankruptcy will arise when the company includes a large amount of debt on its capital structure. So bankruptcy costs do not encourage companies to pay their use of debt to excess levels.

According to the researcher, companies that face high costs in case of attachment to financing funds should rely less heavily on debt. Previous arguments have led to the development of the so-called "leveraged exchange theory" in which companies exchange the benefits of debt financing for higher interest rates and bankruptcy costs. Essentially, the exchange theory says that the value of the company used is equivalent to the value of the company that does not use leverage, as well as side effects, which include tax protection and expected costs due to the seizure of funds.

2.1 Previous Empirical Studies

Kayo et al., 2018 This examination analyzed the degree to which family organizations are not the same as non-family organizations in their use proportions and their capital structure modification. By applying a dynamic exchange off model to an example of Brazilian organizations for 2003-2013, we demonstrate that family organizations have higher use and slower modification speeds in contrast with non-family organizations. It contends that family organizations' chiefs incline toward higher use since they are more certain and hopeful than supervisors of non-family firms. Money related imperatives coming from this high use keep over-utilized family firms from quickly modifying their objective capital structure.

Siqueira et al., 2018 This examination inspected to build up another viewpoint on capital structure contrasts between revenue driven social and business endeavors by consolidating

engraving and social enterprise hypothesis. Utilizing a longitudinal coordinated example, we find that revenue driven social endeavors have 40% to 13% lower use and up to four times more prominent use steadiness after some time than business ventures. Our outcomes propose that these distinctions in capital structure get from the procedure of prosocial arranging, which goes past the essential spotlight on budgetary inclinations. In this manner, revenue driven social undertakings—and comparable half-and-half associations, for example, B organizations may require hypotheses changed in accordance with their specific circumstance.

Elmagrhi, et al., 2018 This examination researched the relationship among trustee board decent variety (TBD), corporate administration (CG), capital structure (CS) and money related execution (FP) utilizing an example of UK philanthropies. In particular, we research the impact of TBD on CS, and find out whether CG quality conservatives the TBD-CS nexus. Moreover, we analyze the effect of CS on FP, and find out whether the CS-FP nexus is likewise directed by TBD and CG quality. The outcomes demonstrated that trustee board sex assorted variety negatively affects CS, however this relationship holds just up to the point of having three ladies trustees.

Khawaja et al, 2018 This study investigated the ownership and the governance structure of firms affects the decision to raise funds, and subsequently the choice of the capital instrument. We hypothesize that the choice of capital instrument depends on the relative riskiness of the source of funds ranging from equity to debt finance including bonds, sukuk or bank loans. Using a sample from 2000-2015 of 1,565 firms from countries including Malaysia, Indonesia, Singapore and Pakistan, it found the evidence that ownership concentration is associated with higher control motives and restricts equity financing to avoid ownership dilution.

Seran et al., 2017 This investigation analyzed the effect of the worldwide emergency on the connection between firm-related components (estimate, substantial and impalpable resources, development, and benefit) and the capital structure of French smaller scale endeavors. Boards of 4945 firms are considered relatively more than two periods: previously (2003– 2007) and amid (2008– 2013) the worldwide emergency. Amid the worldwide emergency, small scale ventures make due by depending for the most part on inside wellsprings of financing. Outside use is decreased, as the expanded data asymmetry and default hazard raise the cost of obligation.

METHODOLOGY OF THE STUDY

The methodology of the study discusses the society and sample of the study, determines the hypotheses of the study to be tested, presents the concepts of the variables of the study, adopts the equations necessary for analyzing the study data, and chooses the statistical methods used in analyzing these data.

The Study opulation and Sample

The study population consists of Jordanian industrial joint stock companies listed on the Amman Stock Exchange for the period from 2012 to 2017. The study sample included 23 Jordanian public joint stock companies that had the necessary financial data during the study period. The study of the impact of the capital structure on the performance of companies in the industry sector was selected for the importance of this sector. Previous

studies have considered a period of five to demonstrate the impact of the capital structure on performance.

Statistical Analysis

The results of the study describe the data statistically, and test the high correlation between the independent variables, the distribution of the study variables, and the hypotheses of the study.

1. Statistical description of the variables of the message

	ROI	ROE	DR	DER	ASTUR	GROW
Mean	0.033	0.015	0.287	0.513	0.767	0.027
Median	0.038	0.043	0.278	0.372	0.69	0.013
Min.	- 0.278	- 1.044	0.0122	0.033	0.05	- 0.362
Max.	0.439	0.572	0.752	3.216	2.22	1.144
STDEV	0.101	0.185	0.158	0.557	0.411	0.188
Observations	115	115	115	115	115	115

2. Multi-Collinearity test

Var	Tolerance	VIF
Debt ratio	0.241	4.158
Ratio of debt to equity	0.238	4.149
Asset turnover	0.963	1.049
Growth rate	0.877	1.140

The results indicate that there is no high correlation between the independent variables, because the VIF results for each independent variable are less than 5.

3. Natural Distribution Test

Var	Z	Sig.
Return on investment	1.5	0.022
Return on equity	1.91	0.001
Debt ratio	1.765	0.004
Ratio of debt to equity	2.082	0.000
Asset turnover	1.72	0.005
Growth rate	2.065	0.000

The results of the analysis showed that all variables were followed by natural distribution

4. Test the hypotheses

Multiple regression analysis of the impact of capital structure on return on investment

	β	t	Sig.
Constant	0.040	1.627	0.107
DR	-0.182	-1.707*	0.087
DER	-0.003	-0.095	0.924
ASTUR	0.053	2.617***	0.010
GROW	0.186	4.013***	0.000
F Change	9.836***		0.000
Adjusted R ²	0.237		
Durbin-Watson	2.469		

*** α at 1%

** α at 5%

* α at 10%

The results showed statistically significant significance of F (9.836) at a significant level of 1%. This finding confirms the validity of the first alternative hypothesis with a statistically significant effect at a significant level of 1% Of the capital structure on the performance of the entity.

RESULTS AND RECOMMENDATIONS

1. The increase in indebtedness reduces the return of companies to investment, and this result is logical and expected, according to the researcher, because the external financing of the assets of the company increases the burden and risks to which it is exposed.
2. Increasing financial leverage (ratio of debt to equity) reduces return on equity. This result indicates that the return on debt is lower than its cost in Jordanian industrial joint stock companies for the period 2012- 2017.

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