World Bulletin of Management and Law (WBML)
Available Online at: https://www.scholarexpress.net
Volume-3, October-2021
ISSN: 2749-3601

THE RELATIONSHIP BETWEEN FINANCING DECISION AND FIRM PERFORMANCE, MEDIATING ROLE CASH FLOW RISK FIRMS IN AMMAN STOCK EXCHANGE

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Article history:

Received: August 11th 2021
Accepted: September 13th 2021
Published: October 18th 2021

Abstract:

This study aims to make a meaningful contribution to the firm performance specifically nonfinancial companies listed at Amman stock exchange (ASE-Jordan), which has become a central issue for the developing countries. However, to maintain financing decisions short-term debt, long-term debt, total debt, equity factors are challenging due to many changes that occur within the Critically, firm became a major contributor to organizational cash flow. Therefore, this study examines the relationship between financing decision short term debt, long term debt, total debt, equity and firm performance in Jordan mediating by cash flow risk among non-financial companies listed at Amman stock exchange (ASE-Jordan).
Furthermore, a quantitative research approach is selected to capture the relationship between independent and dependent variables. Nature of data is panel data comprised of firm base yearly observations of variables of interest. This study aims to cover a time period of 11years from the year 2009 to 2019. Moreover, this study reveals that equity and ROA showed a positive significant relationship ($\beta = 0.521$, $p < 0.000$). As regards the second condition, the link between equity and the cash flow. The finding was consistent with the hypothesis as the result revealed a positive significant association between equity and the cash flow risk risk ($\beta = 0.469$, $p < 0.001$). In testing the third condition, the link between cash flow risk and ROA. The result was consistent with hypothesis three as it showed a positive significant effect ($\beta = 0.819$ and 0.000). The fourth condition, that is the link between equity and ROA showed a smaller beta coefficient of ($\beta = 0.512$) compared to the first model of ($\beta = 0.521$). financing decision short term debt, long term debt, total debt, equity and firm performance. However, mediate the relationship between financing decision short term debt, long term debt, total debt, equity and firm performance. Furthermore, the results of this study have implications for investors, regulators, and market participants. Policymakers might use the findings regarding earnings quality to recognize the important roles played by investment analysts and other market participants

Keywords: Financing Decision, Cash Flow, Firm Performance and Amman stock exchange (ASE-Jordan).

1. INTRODUCTION

The issue of investment is important in the maritime literature due to the volatile nature of the firm performance. Firms in Jordan need intensive capital investment and operate in a business environment in which uncertainty plays a major role. Insufficient investment can result in financing decision short term debt, long term debt, total debt, equity, as well as endangering the cash flow risk firm performance in jordan, while overinvestment can cause cash flow risk due to financial costs when the freight rate is low. Inappropriate investment decisions by individual firms can give rise to market imbalance and volatile freight rates, which hurt the performance and welfare of the firm performance in jordan (Al-Msiedeen, 2019). Furthermore, Firms could pay out cash flow risk as dividends, use cash to reduce debt or equity financing, hold cash as precautionary savings, or spend the additional cash flow risk on investment. How firms use internally generated cash could affect the recovery speed from a recession, which is accompanied by improvements in profitability (Al-Msiedeen, 2019). The excess cash flow risk over what is required to fund all projects with a net positive present value. firms with free cash flows tend to face higher agency costs due to conflict of interest between stakeholders and managers

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(Alnawaiseh, Alomari, Al-Rawashdeh, & Alnawaiseh, 2017). Firm managers have incentives to invest rather than distribute the dividends despite poor investment opportunities.

Firms with uncertain cash flow risk have more difficulty accessing external finance and face higher cost of capital for an investment project because capital providers face higher risk due to the uncertainty. In this case, firms are more financially constrained and must rely on internally generated cash flow, which affects both dividends and investment.

Although the issue of firm problem was arisen from many industries, empirical studies on the industry are relatively less developed. The firm performance is characterized by its high level of debt and tangible assets. firms need initial heavy investment and continue to invest in facilities, vessels, etc. This study on the investment and enlightens whether traditional financial theories which verified many industries can be applied to the Jordan firms. This paper investigates how cash flow risk influences the levels of investment and dividends in the firms in Jordan.

The association between investments and firm performance has been explored by some studies (Al-Fasfus, 2020). These studies provide evidence of a substantial correlation between investment and firm performance. Investment factors are explained mainly from traditional financing theories such as agency theory (Jensen & Meckling, 1976) and asymmetrical information theory (Myers & Majluf, 1984). According to these theories, empirical analysis indicates that the main factors of investment in the business are cash flow, growth opportunities, profitability, firm size, and financial leverage (Toumeh, & Yahya, 2017). Cash flows are the aspects that influence the decision of investment and performance of the firm (see Dogan, 2013). Given the state of knowledge, our study contributes to the literature in several ways. First, the contribution of this study is to identify the nexus between investment decision and firm performance.

Therefore, in this study researcher aims to check the association between financing decision short term debt, long term debt, total debt, equity and firm performance with the mediating role of cash flows, which is not yet studied in Jordan to the best of the researcher's knowledge. Lastly, the researchers have captivated information from different areas and sectors. The reason for selecting the different sectors is to provide a comprehensive image of corporate investment decisions of nonfinancial companies listed at Jordan stock exchange (JSX). So, the main objective of this study is to check the relationship between financing decision short term debt, long term debt, total debt, equity and firm performance with the mediating role of cash flows.

2. FIRM PERFORMANCE

The most important factor in this study firm performance and the growth of the company have a solid connection with each other. Firm performance (profitability) is generally perceived as an important criterion for company persistence and ongoing achievement. Furthermore, Company performance can be assessed in various ways or using different methods. The method of financial analysis commonly used is the use of profitability ratios as key measures of overall efficiency and performance of companies. The ultimate objective of every organization is to maximize its profitability. Thus, companies can reap the benefits of increased profitability (Marashdeh, 2014).

3. Cash Flow Risk

The history of the association between financing decision short term debt, long term debt, total debt, equity and firm performance in Jordan mediating by cash flow risk of the company had turbulent. It is thoroughly studied in the centuries of 1950s and 1960s. Thus far cash flows afterward entirely but vanished from the corporate investment study. Moreover, their research study examined these contrasting propositions for the firms of the United States. Afterward the results revealed that investment in the financially constrained firm is generally less sensitive to csh flow (internal) than others as we describe above. Results also revealed that internal cash flows are positively and significantly related to the investment decision of the company. Therefore, results signifying a pecking order in financing (Alslehat, & Al-Nimer, 2017). Alnawaiseh al. (2017), the result of their study reveals a negative and strong association between cash flow risk and performance of the company. But when extend the model to apply the random effect model the result of this study reveals the positive association between firm performance and cash flows.

4. INVESTMENT DECISION

The term "investing" could be linked to a variety of activities, but the ultimate objective in this activity is to employ the funds over a while to improve the wealth of investors. The funds to be invested come from already owned assets, money borrowed, or savings. Investment is largely classified as real and financial investments. Real investment generally involves a certain type of tangible assets, such as land and machinery. Whereas financial investments include

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paper and electronic contracts, such as stocks, bonds, and debts (Al-Tanbour, & Awad-Warrad, 2021).

5. DATA AND METHODOLOGY

This research uses quantitative research method which is more appropriate for numeric data. Further this study is based on secondary data of corporate entities over a long time period hence, quantitative research approach is selected to capture relationship between independent and dependent variables. Nature of data is panel data comprises of firm base observations of variables of interest. This study aims to cover a time period of 11 years from the year 2009 to 2019. So population comprises of 200 non-financial companies listed at Amman stock exchange (ASE-Jordan). Research in corporate finance mainly classify firms into financial and non-financial firms. Firms of financial sector possess different capital structure not comparable with non-financial sector firms thus financial sector firms are excluded from final sample of research. Therefore, unit of research analysis is individual non-financial firm with annual representation. Moreover, firms undergone any type of merger and acquisition processes are also excluded due to biased performance indicators. Financial sector firms are excluded from the sample because banks capital structure is entirely different from manufacturing firms and dominated by deposits. So, financial sector can't assimilate with nonfinancial sector in single study. As far as the source of data is concerned annual data would be collected through annual reports and financial statements of listed nonfinancial firms.

6. DESCRIPTIVE STATISTICS

Table 1.1 depicts the descriptive statistics of the variables employed in addressing the objective the study. The ROA had a average value of 4.295% and a minimum and maximum of -13.826% and 27.452%, respectively. These were relatedly similar to the figures reported by Matar et al. (2018). The ROE had a mean value of 12.052% and a minimum of -23.752% and a maximum 27.651% respectively. The values were lower than what was reported by of Almajali and Shamsuddin (2019) and relatively different from the figure documented. This might be as a result of the wide gap between the two periods of the study. The Table also reveals an average value of 21% short term debt together with a minimum and a maximum 1.2% and 52%, respectively. The mean value of 21% indicates that on average, 21% of the total assets of the sampled firms were sponsored through short term financing. This figure is a bit different from what was documented by Matar et al. (2018). The long term debt revealed a mean value of 6.8% and a minimum and maximum of 0.0% and 33. 5% respectively. This suggest that on average, 6.8% % of the total assets of the sampled firms were sponsored through long term financing. This figure has a slide different from what was reported by Matar et al. (2018).

Table 1.1 Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
roa	2,460	4.295	9.160	-13.826	27.452
roe	2,460	4.147	12.052	-23.752	27.651
shortdebt	2,460	0.213	0.154	0.012	0.523
longterm	2,460	0.068	0.096	0.000	0.335
debtratio	2,460	0.291	0.190	0.018	0.716
equity	2,460	0.710	0.190	0.283	0.982
cashflow	2,460	0.004	0.093	-0.207	0.258
capitalexp	2,460	0.489	0.321	0.017	0.994
investment	2,460	867.478	2276.517	0.000	7049.475

Note: roa- return on asset, roe = return on equity, shortdebt = short term debt, longterm = long term debt, debtratio = debt ratio, equity = equity, cashflow = cashflows, capitalexp = capital expenditure, investment = investment

The debt to equity ratio had an average figure of 29% with minimum and maximum values of 1.8% and 71.6% respectively. This implies that the sampled firms finance their operations through debt by 29% whilst the remaining 71% was through equity financing option. This figure is a bit similar to what was reported and is different from the figure documented by Vengesai and Kwenda (2018). The equity ratio had a mean value of 71% with minimum and maximum values of 28% and 98% respectively. This implies that the sampled firms finance their operations through equity option by 71% whilst the remaining 29% was through equity financing option as reported above. This figure justifies the above presentation of average debt ratio of 29% thus, implying that the sampled firms' assets were largely financed through equity financing option.

The mediator cash flow risk had an average value of 0.4% with the lowest and highest values of -20.1 and 25.8% respectively. This implies that the sampled firms

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that have positive cash flows are more to accumulate their cash reserves, thereby enabling them to reinvest, pay out cash to the shareholders and settle their future obligations.

7. Results and Discussion on the Link between Free Cash flow risk and Financial Performance

This section emphases on the third objective of the thesis which was set to examine the link between the free cash flow risk (cashflow) and financial performance (ROA) of the Jordanian listed firms. This third hypothesis was tested to confirm the third condition of the mediation effect. For interpretations purposes, some parameters, such as the coefficient (β), standard error, t-values, and p-values were presented. Table 1.2 represents the regression outcomes of model three (phase three) of the link between the free cash flow risk (cashflow) and financial performance (ROA). From the Table 1.2, it was revealed that cashflow had a positive significant relationship with the ROA. This was inferred from the estimation of coefficient of 0.819 and p-value of 0.000, which was significant at 1%. This implies that a unit increase cashflow will bring about an additional increase in ROA by 0.819. This is in line with the finding of Zhou Tan, Faff, and Zhu, (2016) who documented that if cash flows are utilized for investment opportunity, then they will have positive effect on firm performance. The result therefore, supports the hypothesis of this present study that predicted a significant relationship between cashflow and financial performance.

Table 1.2
Regression (Phase 3) the Link between Free Cash flow risk and Financial Performance

		Panel-corrected		
Variable	**Coef.**	**Std. Err.**	**Z-Stat.**	**P>|z|**
cashflow	0.819	1.992	4.930***	0.000
capitalexpiditure	-0.662	0.786	-0.840	0.400
investmentscale	0.000	0.000	-1.430	0.153
_cons	0.714	0.463	10.180***	0.000
R^2		0.03		
Wald chi2		85.89		
Prof. chi2		0.000		
Hettest (P-values)		0.000		
Mean VIF		1.000		
Linktest(hatsq)		0.265		
Serial Correlation Test (P-values)		0.000		
Hausman Test (P-values)		0.000		

Note: cashflow = cashflows, capitalexpiditure = capital expenditure, investmentscale = investment scale, *** p<0.01, ** p<0.05, * p<0.1

8. DISCUSSION OF FINDINGS

The empirical estimations as regard the impact of cash flow risk on the firm performance of insurance firms in this study in non-financial companies listed at Amman stock exchange (ASE-Jordan) is quite revealing. Cash flow risk was observed to determine insurance firms' firm performance and is statistically significant. The findings however differ from that of (Dakhlallh, Rashid, Abdullah, Qawqzeh, & Dakhlallh, 2020; Al-Msiedeen, 2019) where they reported negative impact of cash flow risk on firms' performance. The implication of this finding is that efficiency and application of managerial skills by managers in handling the three major activities in the business will engender performance.

This ultimately will lead to maximization of the shareholders wealth. Cash flow risk from operating activities was observed to significantly increase financial performance of the insurance companies in the period examined. The findings however complimented (Alnawaiseh, Alomari, Al-Rawashdeh, & Alnawaiseh, 2017) The findings are however not in tandem with Matar, et al,. (2018). Cash flow risk from financing activities was found to increase the firm performance of the sampled insurance firms, but was not statistically significant.

9. CONCLUSION AND FUTURE STUDY

Cash flow risk is a major concern that every manager watches out for carefully so as to achieve a stated objective. A positive cash flow risk spells out insolvency and financial crisis, particularly for insurance firms. This is because without cash, it is prettily difficult to efficiently operate the business, meet their obligations as at when due, expand operation and maximize wealth of the shareholders. The results of this study have showed that cash flow risk is a major determinant of the firm performance of non-financial

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companies listed at Amman stock exchange (ASE-Jordan). Size does not increase financial performance of insurance firms. What is required to operate optimally is efficiency in the cash flow risk generation. A lot of insurance companies have liquidated due to the inability to meet financial obligations to the customers majorly occasioned by insufficient cash flows. This has engender moral hazard and adverse selection in the non-financial companies listed at Amman stock exchange (ASE-Jordan).

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