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THE RELATIONSHIP BETWEEN FINANCING DECISION AND INVESTMENT DECISION FACTORS ON THE FIRM PERFORMANCE IN AMMAN STOCK EXCHANGE

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Abstract:

Amman Stock Exchange (ASE) is one the developing market in Middle East area, but it has some unique features associated with continuous struggles to survive. With these conditions the possibility of financial reporting quality specially in relation to earning management become questionable. However, studies in developed countries revealed that there are relations between financing decision (short term debt, long term debt, debt ratio, equity) investment decision (capital expenditure, investment scale) and firm performance nonfinancial firms listed at Amman Stock Exchange (ASE). Therefore, this study is an exploration into the Amman Stock Exchange (ASE). to increase the knowledge regarding the firm performance, its antecedents, and its connection with firm performance. The study has different variables and relation, this study design has some characteristics, which formulate its design and include; scientific research, deductive research; qualitative research, and secondary data research. The model is composed of ten variables. The data collected from secondary data reports published by the Amman Stock Exchange (ASE) or by the companies in its official websites. The dataset has 148 companies in 10 years from 2008 to 2019 and model relations analysis are based on STATA regression models.

Keywords: Financing decision, investment decision factors, firm performance, and Amman Stock Exchange (ASE)

BACKGROUND OF THE STUDY

Effective firm performance should fundamentally guarantee shareholders' value by ensuring the appropriate use of firms' resources, enabling access to capital and improving investor confidence (Rammadan, 2020). This is related both to internal organization and external market conditions; firm `s responsiveness to external conditions is largely dependent on the way the firm is managed as well as the efficacy of the firm`s structure (Al-Thuneibat, 2018). Some authors (Sawalqa, 2021) have argued that good firm prevents the expropriation of company resources by managers, ensuring better decision making and efficient management. This results in better allocation of company resources and, ultimately, improved performance.

ASE is keen on establishing cooperation relations with international stock exchanges, associations and organizations and entering into agreements with them, and participating in Arab and international conferences and seminars, as it is an active member of the Arab Stock Exchanges Union, the European Asian Stock Exchanges Federation, the International Federation of Exchanges, and the International Organization of Securities Authorities (Saymeh & Salameh, 2019). One of the most important future projects for ASE is to seek full membership in the International Federation of Exchanges, and update its technical structure, especially the trading system, the extensive land network, and the development of control, inspection and communication systems with brokers and shareholding companies, in addition to developing ways of disseminating information and restructuring all Its publications, especially the monthly statistical bulletin and corporate shareholder guide (Kedzior, Grabinska, Grabinski, & Kedzior, 2020).

ASE has also developed a new record based on free stocks, as this record is calculated by weighting the market value of free shares available for trading in companies and not by the total number of shares listed for each company. It should be noted that this method is supported by a large number of international institutions that calculate records for most of the countries of the world (Al-Othman & Al-Zoubi, 2019; Kedzior, Grabinska, Grabinski, & Kedzior, 2020). This record is characterized by the fact that it better reflects stock price movements in the market, mitigates the influence of companies with a large market value, and gives more opportunity to small and medium-sized companies to influence their movements. Moreover,

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one of the most important future projects of the ASE is updating its technical structure, especially the trading system and the vast land network, developing control and inspection systems, and contacting brokers and joint-stock companies, in addition to developing the means of disseminating information and restructuring all its publications, especially the monthly statistical bulletin and the shareholder companies' directory (Khasawneh & Staytieh, 2017). Chaleeda et al. (2019) report mixed results on the relationship between capital structure and value of the firm. Short-term debt to total assets and long-term debt to total assets proxies were found to have significant and positive relationship with firm performance, which supports free cash flow theory. However, they did not provide explanation of financing decision with respect to Trade-off theory of capital structure and resource dependence theory (Himmah, & Dianty, 2021; Yasmin, & Utama, 2020). Based on cash flew risk preferences, firm financing behavior deviate with different financing mix. Therefore, this study attempts to assess the relationship between financing decision and investment decision factors on the firm performance in Amman stock exchange.

FINANCING DECISION AND FIRM PERFORMANCE

Business activities should be financed in one way or other way. It is not possible for the companies to support their fixed assets and working capital demands without finance. Businesses also can't survive in this cut throat competitiveness of corporate scenarios without finance. Therefore, financing decision is the vital element of the corporate business world that influence the fate of business through firm performance (Al-Rdaydeh, 2018). Commonly enterprises finance some part of their assets with equity capital and remaining part with other resources for example long-term debts and short-term debts etc (Oktavina, Manalu, & Yuniarti, 2018).

Recently, Chaleeda et al. (2019) report consistent results on the relationship between capital structure and value of the firm. Short-term debt to total assets and long-term debt to total assets proxies are found to have significant and positive relationship with firm performance, which is also supported by free cash flow theory. Additionally, Hajer and Anis (2018) also analyzes the impact of financing decision on firm performance. Their findings also show that financing decision has positive and significant effect on firm performance of financial sector firms. Thus, from the extensive literature it is induced that the impact of financing decision on firm performance is still unclear, therefore this study intends to investigate relationship of financing decision with firm performance by hypothesizing:

H1: Financing Decision significantly influences Firm Performance of Jordan
H1a: Short term debt significantly influences Firm Performance of Jordan
H1b: Long term debt significantly influences Firm Performance of Jordan
H1c: Total debt significantly influences Firm Performance of Jordan
H1d: Equity significantly influences Firm Performance of Jordan

INVESTMENT DECISION AND FIRM PERFORMANCE

Conceptual Framework

This study utilizes trade-off theory of capital structure, resource dependence theory, cash flow theory and liquidity model in order to essentially examined the relationship between financing decision factors (short term debt, long term debt, debt ratio, equity) and investment decision factors (capital expenditure, investment scale) and firm performance. The theories assist in highlighting different hypotheses relating financing decision factors and investment decision factors and firm performance (Herman Ryan., & Harry 2013). Nevertheless, trade-off theory explains capital structure problem and reconciles the conflicting interests, Furthermore, controlling trade-off theory problem becomes indispensable in the decision-making process of a company since the decision makers are not its residual claimants of firm resources, they may probably take actions or decisions that differ from interests of the main residual claimants (Oktavina, Manalu, & Yuniarti, 2018). Furthermore, this study attempts to accomplish it objectives and provide answers to its research questions via the study framework established as shown in Figure 1.1.

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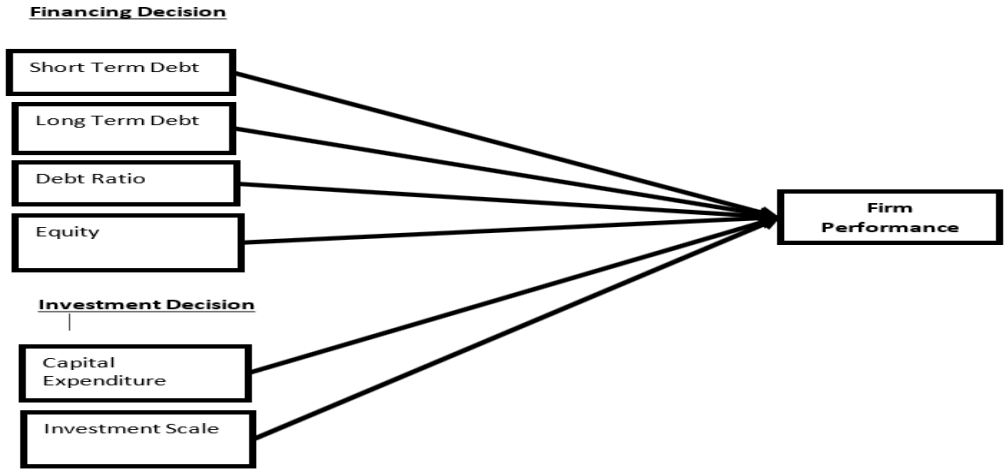

Figure 1.1: Research Framework.

STUDY METHODOLOGY

Research design communicates information about the key features of the academic study, which can be performed by using any of the quantitative methodology (Hussein, 2012). This study aims to examine the relationship between the independent variables Financing Decision and Investment Decision factors on the firm performance as dependent variable of non-financial firms listed at Amman stock exchange. In order to achieve the research objective, a quantitative research approach has been applied whereby the study was conducted based on the analyzed numerical data.

STUDY POPULATION AND SAMPLE

The target population of this study includes the companies listed on the Amman Stock Exchange (ASE) for the period from 2009 till 2019, which have appropriate data and measures regarding all the proposed variables and its projected scales as discussed in scales design part of this chapter. The desired population is 172 non-financial firms.

A sample was drawn from 172 companies from the 172 companies; researcher used his judgement to include only companies with complete reports during the time horizon from 2008 to 2019. Previous firm performance and

STUDY MODELS

Panel Regression Models

Below is a mathematical representation of the panel regression model, model studies the effect the independent variables (financing decision and investment decision factors) The ɑs represent the effects of the model and ε was used to model the errors of the model.

Path Regression Model

$$ROA = \beta_0 + \beta_1 \text{Short\_debt}_{it} + \beta_2\ \text{Long\_debt}_{it} + \beta_3\ \text{Debt\_ratio}_{it} + \beta_4 \text{Equity}_{it} + \beta_5\ \text{Investment\_Scale}_{it} + \beta_6\ \text{Capital\_Expenditure}_{\ it} + \beta_7\ (\alpha_0 + \alpha_1 Short\_debt_{it} + \alpha_2\ Long\_debt_{it} + \alpha_3\ Debt\_ratio_{it} + \alpha_4 Equity_{it} + \alpha_5\ Investment\_Scale_{it} + \alpha_6\ Capital\_Expenditure_{\ it}) + \varepsilon_{it}$$

STUDY RESULT

Descriptive statistics

Return on assets, which is the response variable of this analysis and is used as an indicator for the firm performance, has its data summarized in table 1.1. It can be confirmed that ROA was recorded 1645 times for a total of 148 firms. It can be notice from the table that ROA takes positive and negative values, where it ranges between -60.53 and 43.94 with an average of 3.48 and a standard deviation of 10.81. Figure 4.1 depicts the distribution of the data by a histogram plot.

Table 1.1 Descriptive statistics of the dependent – Return on Assets.

Dependent	N	Mean	Std. Deviation	Minimum	Maximum
ROA	1645	3.48	10.81	-60.53	43.94

Correlation Analysis

The table below, are the results of the Pearson correlation tests between study's variables. This Pearson correlation test evaluates the null hypothesis that there is no linear relationship between the variables

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involved. The values recorded are the Pearson correlation coefficients and the significancy of each coefficient (P-value). All financing decision variables were significantly linearly related to the return of assets (ROA), where the highest correlation of 0.198 with the equity. Regarding the investment decision variables. They are linearly negative related to ROA, and the investment scale was significant, while the capital expenditure was statistically insignificant. The variable had no significant correlation with any variable except with the investment scale, therefore a mathematical transformation will be used in the regression models to find the most suitable. Overall, it can be seen from table 1.2 the correlation matrix that the relationships amongst the variable vary from weak to moderate. These linear relationships which seem to be evident of not encounter a multicollinearity problem in they linear models including all these variables. However, multicollinearity will be tested if it exists after building the regression model.

Table 1.2 correlation coefficients between variables of the study.

		Short debt	**Long debt**	**Debt ratio**	**Equity**	**Investment Scale**	**Capital expenditure**
Short debt	Corr.						
	P-value						
Long debt	Corr.	-.112**					
	P-value	0.000					
Debt ratio	Corr.	.767**	.552**				
	P-value	0.000	0.000				
Equity	Corr.	-.747**	-.541**	-.977**			
	P-value	0.000	0.000	0.000			
Investment Scale	Corr.	-.066**	-.091**	-.114**	.113**		
	P-value	0.007	0.000	0.000	0.000		
Capital expenditure	Corr.	.063*	0.015	.062*	-.069**	.172**	
	P-value	0.011	0.541	0.012	0.005	0.000	
ROA	Corr.	-.159**	-.098**	-.197**	.198**	-.072**	-0.027
	P-value	0.000	0.000	0.000	0.000	0.004	0.265

*. Correlation is significant at the 0.05 level (2-tailed). **. Correlation is significant at the 0.01 level (2-tailed).

Goodness of fit of SEM Model

Table 1.3 shows the results of the goodness of fit of the model, and it can be noticed that 2.2% of the variance ROA were explained by the independent variables, while 5.3% of the variance in ROA were explained by the independent variables. In total the model explains 7.1% of variance.

Table 1.3 Goodness of fit of SEM Model.

dep var	**Variance**			**R-squared**	**mc**	**mc2**
	fitted	**predicted**	**residual**			
ROA	**116.727**	**6.216**	**110.51**	**0.0532**	**0.2308**	**0.0532**
Overall				**0.0711**		

mc = correlation between depvar and its prediction
mc2 = mc^2 is the Bentler-Raykov squared multiple correlation coefficient

CONCLUSION

The motivation of this study was based on the issues stemming from the organizational performance,

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functioning of the firm and outcomes of its operations firm's performance in Amman Stock Exchange (ASE). However, this may influence the performances of firms (for example financial institutions) in various economies, including those in Jordan. In mitigating the financing decision, investment decision and firm performance that exists between shareholders and managers (Abdul Aziz Farid Saymeh & Sulieman Abu Sabha 2016; Berg, & Gider, 2017; Bouslah, Kryzanowski, & M'Zali, 2018).

Relatively, investors go after a company with a better performance because it is the essential requirement for an organizational survival and growth (Kakanda et al., 2016a), which can come from an effective firm performance. In the same vein, despite willing to make investments in a more profitable firm, investors are also ready to make efficiency investments in a company with effective firm performance (Stanwick, 2008). To achieve the objective of mitigating the Trade-off Theory, the board of directors is considered as the most significant firm performance that is saddled with the responsibility of overseeing the decisions of the executives (Al-Manseer et al., 2012, Kakanda, Salim, & Chandren, 2017). The main duty of the board is to direct the overall activities of the performance in a more cautious and proactive way, since they are the highest authority in the decision-making process, and their directives to the organization enable a regular return to the shareholders (Chipeta, & Deressa, 2016; Clark, 1917; Dierker, Lee, & Seo, 2019; Forte, & Tavares, 2019; Grazzi, Jacoby, & Treibich, 2016). The effectiveness of financing decision, investment decision to improve firm performance is still an issue among various firms' stakeholders from a developed or emerging economy.

The data utilized in this study was extracted from the annual reports and accounts of 148 nonfinancial firms listed at Amman stock exchange. listed financial service firms from 2008 to 2019. Make this study more unique, a robustness check was conducted by separating the samples into service and industrial firms in Jordan (Chaleeda, Islam, Ahmad, & Ghazalat, 2019; Chavali, & Rosario, 2018). This segregation enables an investigation into how financing decision, investment decision affects performance in listed non-financial service and industrial firms in Jordan.

SUGGESTIONS FOR FUTURE RESEARCH

It has been established that this study has contributed a lot to theory, to practice, to various companies' stakeholders, and to academic communities, yet, suffers from some setbacks. Therefore, based on the identified flaws, this study has made some suggestions for future research in this promising area of academic endeavor. future research can replicate this study by examining the effect of inancing investment decision factors and firm performance among industrial and service firm in Amman Stock Exchange (ASE) in other sectors and /or other environments. This will assist in comparing the result of this study with the findings of similar studies, which could help generalization of the current study findings.

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