

Volume 25, Special Issue**Print ISSN: 1099-9264****Online ISSN: 1939-4675**

CASH FLOWS SOURCES AND IT IS IMPACT ON PROFITABILITY WITHIN COVID-19 PANDEMIC: CASE STUDY OF INDUSTRIAL COMPANIES LISTED IN AMMAN STOCK EXCHANGE

Sulaiman Raji Weshah, Al-Blaqa Applied University

ABSTRACT

Tracking cash flow is always important as a base for tracking costs, avoiding or reducing losses in turn to help in increasing profitability. This study aims to identify the impact of (operational, investment and financing cash flows sources) on profitability within period of Covid-19 pandemic through industrial companies which are listed in the ASE in Jordan. In order to achieve these objectives, the published financial reports of the (44) surveyed companies analysed for the five quarters from the beginning of 2020 up to 31 March 2021. The results of the study show an oscillating and low level of statistically significant impact of independent study variables (sources of operational cash flow and investment and financing) on the variables of the study (profitability).

This study recommends expanding investment through property rights and avoids resorting to financing in the manner of high-cost borrowing. Thus, specific recommendation for achieving returns on long-term assets from financing and investment activities is better than operational activities.

Keywords: Sources of Cash Flow, Profitability, Industrial Companies, Amman Stock Exchange, Jordan

INTRODUCTION

Theoretical Background and Literature Review

(COVID-19) pandemic and its economic impact increasing investor and other decision-makers' needs to have full quality of financial information more than ever before which led accounting companies, regulatory bodies and member organizations in (International Federation of Accountants- IFAC) to provide advice and guidance urgently on the requirements for preparing the financial and accounting reports that must be take it into account the impact of (COVID-19) (Gould & Arnold, 2020).

Liquidity and profitability are necessary and basic matters to facilitate the business of the enterprises, they are of great importance in "maximizing the wealth of shareholders" (Haddad, 2014). Liquidity is necessary to fulfil obligations and avoid the risk of bankruptcy, and profitability is necessary to ensure the ability to survive and business continuity. Achieving a balance between liquidity and profitability is consider a difficult task, companies seek to increase control and follow-up on cash flows.

Industry sector in Jordan suffers from stifling financial crises due to high expenses, increased taxes, intense competition in the markets, in addition to the difficult political conditions, and this requires making a double effort in order to provide the necessary liquidity to cover the

required obligations in a timely manner without being charged additional fees, which will negatively affect the net income (Armoti, 2017).

As per International Labour Organization report about the impact of the Covid-19 pandemic on enterprises in Jordan (2020) the cash flow was reported across all surveys as one of the main immediate challenges.

Liquidity has a high level of importance based on the most important and visible aspect of every economic entity in a market economy ability to pay its obligations in due time (Breuer et al., 2012).

For investors, (Sinagl, 2020) found the Covid-19 pandemic has impact on industry long-run cash-flow risk predicted which industries performed worst during the pandemic. Also, (Fahlenbrach et al., 2020) concluded that within Covid-19 pandemic the firms with less financial flexibility experience has lower returns. Some firms tend to use precautionary borrowing to meet cash flow shortage, but the high debt gives the firm less financial flexibility as (Heitor, 2021) mentioned and added that firms use existing credit lines to increase cash holdings.

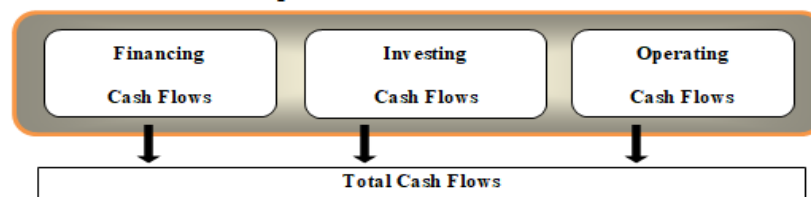
For banks, (Acharya et al., 2020) mentioned that banks need to decide how to react to covenant violations when client facing crises, but this depends on bank health. Thus, banks with less liquid are more likely to restrict credit supply against violations.

The Jordan central banks' response to Covid-19 and government liquidity support appeared by directives to postpone collecting the debt owed by individuals have a role in increasing the volume of cash in the hands for these individuals, which may lead to an increase in spending within the quarantine period. (Khasharmeh, 2018) wondered if Liquidity Influence Profitability in Islamic Banks of Bahrain and revealed that Liquidity significantly affects the profitability of Islamic banks in Bahrain during the study periods, and the profitability of Islamic banks depends to a large extent on liquidity.

In addition, (Alshatti, 2014) conducted that the quick ratio and investment ratio had a significant impact on profitability, also the capital ratio and current assets ratio have a non-significant impact on profitability of Jordanian commercial banks. While (Nishanthini & Meerajancy, 2015) found an efficient and effective liquidity management provides an enjoyable profitability and leads to survival in Sri Lanka banks although conducted that there is no statistically significant relationship between liquidity and profitability ratios among manufacturing companies listed on the Sri Lanka Stock Exchange, and that the values of the Pearson correlation coefficient are negative between the return on capital employed and liquidity, and that the liquidity ratio is negatively related to all measures of profitability. Also, in Nigeria (Adebayo, 2011) found a significant relationship between liquidity and profitability. And that profitability in commercial banks is greatly affected by liquidity.

Cashflows Sources

Cashflow sources divided into three categories as shown in Figure 1:



Source: Prepared by Researcher

FIGURE 1
CASH FLOW SOURCES

Jordan Industrial Environment

The importance of the industrial sector based on its contribution in GDP (about 25%). It also contributes to the public treasury revenues with more than one billion dinars annually through taxes, according to information mentioned on the website of the Jordan Chamber of Industry.

Regarding government response on Covid-19 pandemic, as of UNDP report mentioned that the government response measured in high level, but the impact on households and businesses across Jordan has been significant and the COVID-19 crisis will have a long-term impact.

Research Questions

Given the importance of the Jordanian public shareholding industrial companies in serving the economy, as well as the fact that they play an important and effective role in achieving economic growth, increasing productions, national income and employing Jordanian labor in Jordan, and the fact that these companies need to provide the necessary liquidity and achieve profits for the ability of continuation.

The research problem and questions study can be clarified by answering the following:

- 1) What is the extent of interest in the cash flow statement in industrial companies in Jordan?
- 2) What is the role of the sources of cash flows in achieving a balance between liquidity and profitability?
- 3) To what extent are the sources of cash flows reflected on liquidity and profitability?

Table 1			
INDEPENDENT AND DEPENDENT VARIABLES			
	Variables	Type	Way to be Measured
Cash Flow Sources	Operational Cash Flows	Independent	Net operating cash flow divided by the market value of common stock at the end of the period
	Investment Cash Flows	Independent	Net cash flow investing activity divided by the market value of common stock at the end of the period
	Financing Cash Flows	Independent	The net financing cash flow divided by the market value of the common stock at the end of the period
Profitability	ROA	Dependent	Net profit (after tax)/total assets
	ROE	Dependent	net profit (after tax)/equity

METHODOLOGY

This study relied descriptive and deductive Approaches, the population consisted of all industrial companies listed on the Amman Stock Exchange (63) industrial companies but with exceptions for industrial companies whose financial reports published in the Amman Stock Exchange are lacking and therefore they stood at the published financial reports of (44) industrial companies for the five quarters from the beginning of 2020 up to 31 March 2021.

RESULTS AND DISCUSSIONS

One-Sample Kolmogorov-Smirnov test used to check the data distribution was normal, and the results that Sig value for all variables are values more than (5%) and K-S test values for all dimensions are less than (5) as table (2) illustrating:

Variables		Mean	Std	K-S	Sig
Cash Flow Sources	Operational Cash Flows	0.0799	0.1897	1.348	0.053
	Investment Cash Flows	0.0569-	0.1573	0.698	0.715
	Financing Cash Flows	0.0188-	0.2178	0.515	0.953
Profitability	ROA	1.6781	9.1039	0.683	0.739
	ROE	0.3310	17.5019	1.104	0.175

Cash Flow Sources	VIF	Tolerance
Operational Cash Flows	1.174	0.852
Investment Cash Flows	1.282	0.780
Financing Cash Flows	1.104	0.906

Variables	Operational Cash Flows	Investment Cash Flows	Financing Cash Flows
Operational Cash Flows	1.00		
Investment Cash Flows	0.373**	1.00	
Financing Cash Flows	0.019	0.292**	1.00

Sig level=0.01

Table (3) and (4) indicates that there is no high correlation between the independent variables. The values were less than (80%), and therefore the sample is free from the problem of high multiple linear correlation (Dodge, 2010).

Model Summery					
R		R ²			
0.287		0.082			
ANOVA					
Model	Squares Total	Df	Squares Mean	F	Sig F
Regression	9.629	3	3.210	6.450	0.00*
Residual	107.488	216	0.498		
Total	117.117	219			
* Sig. at level $\alpha \leq 0.05$					
Coefficient					
Model	B Slope	Std Error	Beta	T	T Sig
Constant	1.146	0.168		6.821	0.00
Operational Cash Flows	0.094	0.272	0.024	0.346	0.729
Investment Cash Flows	0.174-	0.069	0.187-	2.539-	0.012*
Financing Cash Flows	0.089-	0.035	0.176-	2.564-	0.011*
F Scheduled=2.60					
T Scheduled=1.960					

Table (5) indicates that there is a statistically significant impact at the level ($\alpha \leq 0.05$) of the sources of cash flows on the ROA in the Jordanian industrial companies, but with low level of relation, where R^2 value means only 8.2% explaining the changed in ROA caused by cash flow sources. Moreover, financing cash flow has the highest impact on ROA ($\beta = -0.176$), investment cash flows has partially impact on ROA ($\beta = -0.187$) and finally operational cash flows has no impact on ROA ($\beta = 0.024$). Therefore, forecast equation form will be:

$$\begin{aligned} \text{ROA} = & 1.146 + 0.094 (\text{Operational Cash Flow Sources}) \\ & - 0.174 (\text{Investment Cash Flow Sources}) \\ & - 0.089 (\text{Financing Cash Flow Sources}) \end{aligned}$$

Table 6						
MULTIPLE LINEAR REGRESSION FOR ROE						
Model Summary						
		R	R²			
		0.196	0.039			
ANOVA						
Model		Squares Total	Df	Squares Mean	F	Sig F
	Regression	7.194	3	2.398	2.883	0.037*
	Residual	179.636	216	0.832		
	Total	186.829	219			
* Sig. at level $\alpha \leq 0.05$						
Coefficient						
Model		B Slope	Std Error	Beta	T	T Sig
	Constant	1.666	0.217			0.00
	Operational Cash Flows	0.418-	0.352	0.086-	1.189-	0.236
	Investment Cash Flows	0.074-	0.089	0.063-	0.840-	0.402
	Financing Cash Flows	0.085-	0.045	0.133-	1.896-	0.059
F Scheduled=2.60						
T Scheduled=1.960						

Table (6) indicates that there is no statistically significant impact at the level ($\alpha \leq 0.05$) of the sources of cash flows on the ROE in the Jordanian industrial companies, but with low level of relation, where R^2 value means only 3.9% explaining the changed in ROE caused by cash flow sources. Moreover, financing cash flow has a low impact on ROE ($\beta = -0.133$), and both investment cash flows and finally operational cash flows has low impact on ROE ($\beta = 0.086$), ($\beta = -0.063$). However, ROE forecast equation form will be:

$$\begin{aligned} \text{ROE} = & 1.666 - 0.418 (\text{Operational Cash Flow Sources}) \\ & - 0.074 (\text{Investment Cash Flow Sources}) \\ & - 0.085 (\text{Financing Cash Flow Sources}) \end{aligned}$$

CONCLUSIONS AND RECOMMENDATIONS

The results of descriptive statistics measures represented by mean, standard deviation, highest and lowest value for each of the independent and dependent variables during the study period from the beginning of 2020 up to 31 March 2021. The independent variables represented by the sources of operating, investing and financing cash flows: Where the highest value of the arithmetic mean during the study period for a sample of industrial companies was the operating

cash flows and amounted to (7.9%), and came in the second place for investment, where the arithmetic mean reached (-5.6%), while the financing came in the third and last place with mean of (- 1.8%), which indicates the percentage of cash flows from the operating activities of Jordanian industrial companies covering their normal activities.

As for the investment and financing activities, the results showed that they were weak and ineffective, which indicates that the Jordanian industrial companies suffer from the circulation of financing and investment in the industrial field that they practice.

Depending on the low level of Returns On Assets (ROA) and Property Rights (ROE), which indicates, according to the results of the current study, the main recommendation for Jordanian industrial companies to expand investment through property rights and avoid resorting to financing in the manner of high-cost borrowing. Thus, specific recommendation for achieving returns on long-term assets from financing and investment activities is better than operational activities, especially in the foreseeable future with long periods.

Generally, management of Jordanian industrial companies needs to increase interest in relying on self-financing represented by retained earnings and voluntary reserves in the event of an appropriate investment opportunity. Focus on the statement of cash flows and derived financial ratios because of its importance in helping the managers and financial decision makers to determine the financial position of the company.

REFERENCES

- Acharya, V.H., Almeida, F.I., & Perez-Orive, A. (2020). Bank lines of credit as contingent liquidity: Covenant violations and their implications. *Journal of Financial Intermediation* 4(4), 1-39.
- Adebayo, O. (2011). Liquidity management and commercial banks' profitability in Nigeria, *Research Journal of Finance and Accounting*, 2(8), pp 24-39.
- Almeida, H. (2021). Liquidity management during the Covid-19 pandemic. *Asia-Pacific Journal of Financial Studies*, 50, 7–24.
- Ahmed, S. (2017). *The impact of the efficiency of working capital management on the financial performance of industrial companies listed on the Amman Stock Exchange*. Unpublished Master's Thesis, University of the Middle East, Amman, Jordan.
- Ali-Suliman, A. (2015). The effect of the liquidity management on profitability in the Jordanian Commercial Banks. *International Journal of Business and Management*, 10(1), 62-71.
- Breuer, A., Mihaela, L., Breuer, B.L., & Andra, M. (2012). Cash and liquidity/liquidity and liquidity ratio. *Constantin Brâncuși University of Târgu Jiu, Economy Series*, 4, 78-82.
- Dodge, Y. (2010). *The Concise Encyclopedia of Statistics*. Springer-Verlag New York, (Edition Number 2), ISBN 978-0-387-32833-1.
- Fahlenbrach, R., Kevin, R., & René, M.S. (2020). *How valuable is financial flexibility when revenue stops? Evidence from the Covid-19 crisis*. Discussion paper, National Bureau of Economic Research.
- Gould, S., & Arnold, C. (2020). *The financial reporting implications of COVID-19*.
- Salim, H.F. (2014), *Financial Management, (Fourth Edition)*. Hamed House for Publishing and Distribution, Amman, Jordan.
- International Labour Organization report about the impact of the Covid-19 pandemic on enterprises in Jordan (2020).
- Hussein, K. (2018). Does liquidity influence profitability in Islamic banks of Bahrain: An empirical study? *International Journal of Financial Research*, 9(2), 236-248.
- Petra, S. (2020). *When does cash-flow risk matter to investors? Evidence from the COVID-19 Pandemic*. University of Iowa, Tippie College of Business, Iowa City, United States.
- Niresh, J.A. (2012). Trade-off between liquidity and profitability: A study of selected manufacturing firms in Sri Lanka. *International Refereed Research Journal*, 4(2), 34-40.
- Nishanthini, A., & Meerajancy, J. (2015). Trade-off between liquidity and profitability: A comparative study between state banks and private banks in Sri Lanka. *Research on Humanities and Social Sciences*, 5(7), 78-86.
- UNDP report, Covid-19 Impact in Jordan (2020).

www.jcbank.com.jo

www.who.int

www.jci.org.jo