

**THE EFFECTS OF ACCOUNTING AND MARKET
INDICATORS TOWARDS COMPANIES' PERFORMANCE IN
AMMAN STOCK EXCHANGE, MEDIATED BY STOCK
VOLATILITY**

AHMAD ABDALLAH AHMED ALSWALMEH

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AHMAD ABDALLAH AHMED ALSWALMEH

Thesis submitted in partial fulfilment for the degree of
DOCTOR OF PHILOSOPHY IN
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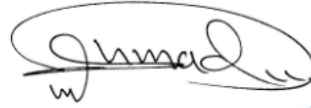
June 2021

AUTHOR DECLARATION

I hereby declare that the work in this thesis is my own except for quotations and summaries which have been duly acknowledged.

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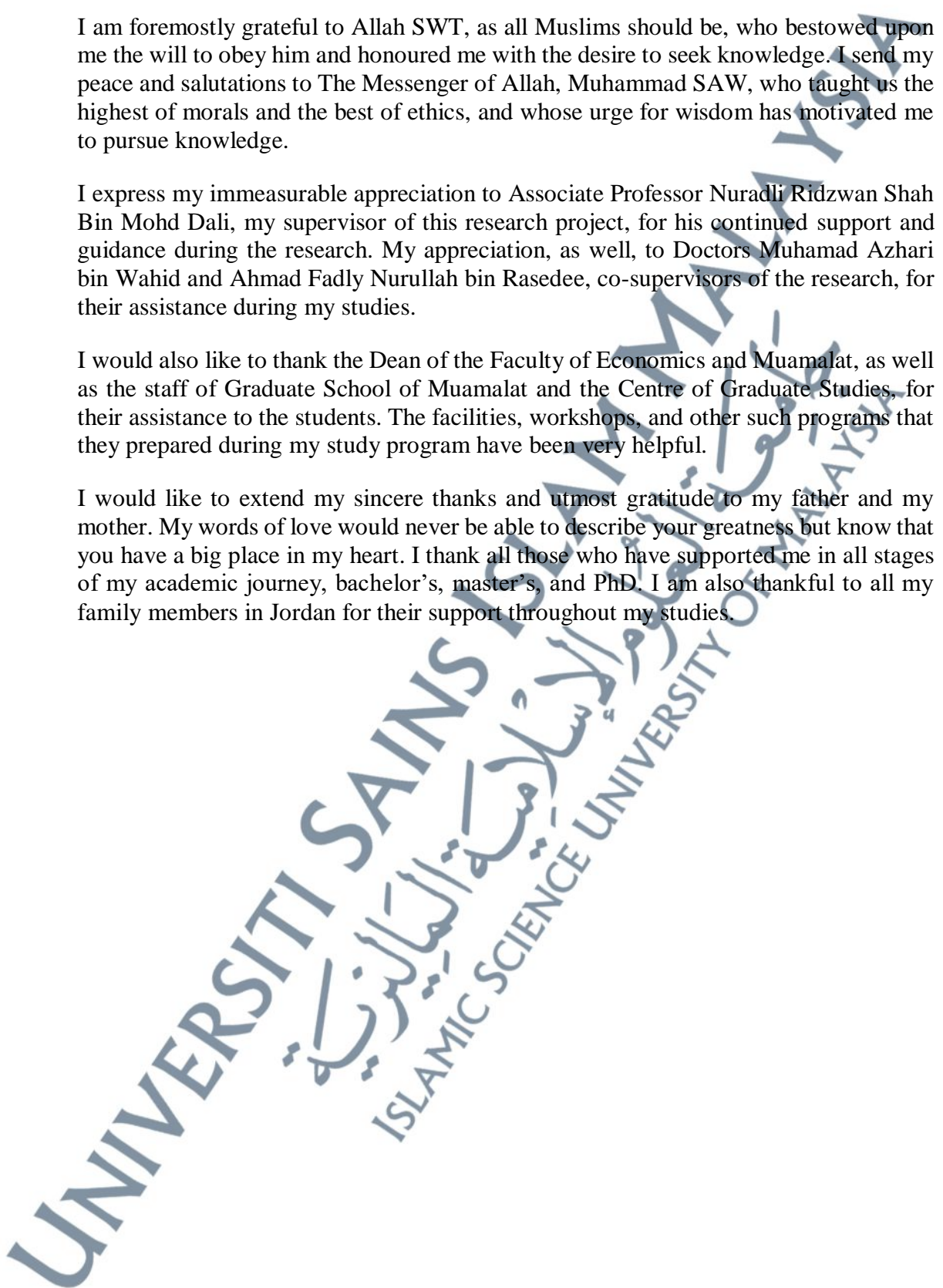
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ABSTRACT

The efficient market hypothesis theorizes that current stock prices and returns reflect all relevant information. Stock prices and returns only change upon the emergence of new information. Firms must provide information to help investors make investment decisions. The concerns of owners, investors, business partners, stakeholders, and creditors about the financial position of a company calls for appropriate performance measurement tools (i.e., discriminate between investment opportunities and effect of stock volatility). Most often, they rely on publicly available accounting and market indicators. There is also a lack of financial analysis techniques on financial indicators that can discriminate between performing and underperforming companies. The extant literature is inconclusive about the impacts of accounting and market indicators on stock price and return, likely due to its implicit assumption that they are direct. An alternative perspective, one that has met with little investigation, is that the impact may be influenced by a mediator, such as stock volatility. Against these issues, this study built on past research to: 1) investigate the impact of accounting and market indicators on stock price and return; 2) evaluate company performance and distinguish companies into performing and underperforming; and 3) investigate the mediating effect of stock volatility on relationships between accounting and market indicators and stock price and return. Therefore, investors and stakeholders can predict stock validity using indicators that reflect the performance of firms' operating activities. Additionally, they enable policymakers and market regulators to make rational decisions to enhance investment policies. The study analyzed a panel data of 63 companies constituting the Amman Stock Exchange General Index from 2008 to 2018 using ordinary and generalized least squares regression models, multiple discriminant analysis, and structural equation modelling. The findings showed that: 1) earnings per share (EPS), return on asset (ROA), market capitalization (MC), stock turnover ratio (STR), and book value per share (BPS) significantly and positively affected stock price; 2) total asset turnover (TOA), ROA, EPS, STR, and price-to-book value (PBV) significantly and positively affected stock return; 3) STR, EPS, and TOA significantly discriminated between performing and underperforming companies; 4) stock price volatility fully and positively mediated the relationship between STR and stock price; and 5) stock return volatility fully and positively mediated the relationship between MC and STR and stock return. The results were robust, and they evinced that accounting and market indicators, which are the main references of financial information, are reflected on company performance. The results are expected to provide an informative guideline to researchers to design appropriate performance evaluation models (e.g., Z-score models and mediation models); investors to choose the best investment opportunities in ASE; and financial policymakers to improve investment policies in Jordan. Investors, especially, may refer to the findings to help them make short-term investment decisions. Academics could also adopt the novel research models to evaluate company performance while accounting for stock volatility, allowing them to identify high-performing firms and rank companies by performance. Future studies may consider replicating the analysis in developed and other emerging markets.

ABSTRAK

Efficient market hypothesis menyatakan bahawa harga dan pulangan saham semasa mencerminkan semua maklumat yang berkaitan. Harga dan pulangan saham hanya berubah apabila terdapat maklumat baru. Syarikat mesti menyediakan maklumat kepada para pelabur untuk membantu mereka membuat keputusan pelaburan. Keprihatinan pemilik, pelabur, rakan niaga, dan pemiutang terhadap kedudukan kewangan sesebuah syarikat memerlukan alat-alat pengukur prestasi yang bersesuaian (yakni membezakan antara peluang pelaburan dan kesan kemudahubahan saham). Kebiasaannya, mereka bertumpu pada penunjuk perakaunan dan pasaran. Tambahan lagi, tidak banyak kaedah analisis kewangan terhadap penunjuk kewangan yang dapat membezakan antara syarikat berprestasi dan kurang berprestasi. Kajian lepas mendapati bahawa impak penunjuk-penunjuk perakaunan dan pasaran terhadap harga dan pulangan saham adalah tidak pasti. Hal ini barangkali kerana ia menganggap bahawa hubungan tersebut adalah hubungan langsung. Satu perspektif alternatif yang belum banyak dikaji adalah bahawa impak ini dipengaruhi oleh pembolehubah penengah, seperti kemudahubahan saham. Berdasarkan isu-isu ini, kajian ini dibangun atas kajian lepas untuk: 1) mengkaji impak penunjuk perakaunan dan pasaran terhadap harga dan pulangan saham; 2) mengukur prestasi syarikat dan membezakan syarikat kepada berprestasi dan kurang berprestasi; dan 3) mengkaji kesan penengah kemudahubahan saham terhadap hubungan antara penunjuk perakaunan dan pasaran dan harga dan pulangan saham. Justeru, pelabur dan pemegang saham boleh meramalkan kemudahubahan saham menggunakan penunjuk-penunjuk yang mencerminkan prestasi aktiviti operasi syarikat. Tambahan lagi, ia membolehkan penggubal dasar dan pengawal atur pasaran membuat keputusan rasional untuk menguatkan dasar-dasar pelaburan. Kajian ini menganalisis data panel bagi 63 syarikat dalam Amman Stock Exchange General Index dari tahun 2008 hingga 2018 menggunakan model regresi kuasa dua terkecil biasa dan umum, analisis pembezaan berganda, dan pemodelan persamaan berstruktur. Dapatan menunjukkan bahawa: 1) perolehan sesaham (EPS), pulangan aset (ROA), permodalan pasaran (MC), nisbah pusing ganti stok (STR), dan nilai buku sesaham (BPS) mempengaruhi harga saham secara signifikan dan positif; 2) pusing ganti aset (TOA), ROA, EPS, STR, dan nilai harga-ke-buku (PBV) mempengaruhi harga saham secara signifikan dan positif; 3) STR, EPS, dan TOA membezakan antara syarikat berprestasi dan kurang berprestasi secara signifikan; 4) kemudahubahan harga saham memberikan kesan penengah penuh dan positif terhadap hubungan antara STR dan harga saham; dan 5) kemudahubahan pulangan saham memberikan kesan penengah penuh dan positif terhadap hubungan antara MC dan STR dan pulangan saham. Dapatan-dapatan ini teguh dan menunjukkan bahawa penunjuk perakaunan dan pasaran, yang merupakan sumber utama maklumat kewangan, tercermin pada prestasi syarikat. Dapatan tersebut diharapkan boleh menyediakan garis panduan yang berguna bagi para penyelidik untuk mereka bentuk model penilaian prestasi yang sesuai (seperti model Z-score dan model penengah); para pelabur untuk memilih peluang pelaburan terbaik di ASE; dan para penggubal dasar untuk memperbaiki dasar pelaburan di Jordan. Terutama sekali, para pelabur boleh merujuk kepada dapatan tersebut untuk membantu mereka membuat keputusan pelaburan jangka pendek. Para ahli akademik juga boleh menerima guna model kajian baharu untuk menilai prestasi syarikat sambil mengambil kira kemudahubahan saham. Ini membolehkan mereka mengenal pasti syarikat-syarikat yang berprestasi tinggi dan menempatkannya mengikut prestasi. Kajian masa hadapan boleh membuat analisis yang serupa di pasaran-pasaran maju dan berkembang lainnya.

المُلخَص

تتص فرضية السوق الفعّال على أن أسعار الأسهم والعائدات الحالية تعكس جميع المعلومات ذات الصلة؛ وأن الأسعار والعائدات تتغير فقط عندما يتم نشر معلومات جديدة. يجب على الشركات تقديم المعلومات للمستثمرين لمساعدتهم في اتخاذ قرارات الإستثمار، كما تستدعي مخاوف المالكين والمستثمرين وشركاء الأعمال وأصحاب المصلحة والدائنين بشأن المركز المالي للشركة أدوات قياس أداء مناسبة (كالتمييز بين فرص الإستثمار وتأثير تقلب الأسهم). في أغلب الأحيان، يتم الإعتماد على المؤشرات المحاسبية والسوقية المتاحة للجمهور، وهناك أيضاً نقص في تقنيات التحليل المالي حول المؤشرات المحاسبية والسوقية التي يمكن أن تميز بين الشركات ذات الأداء المرتفع والشركات ذات الأداء المنخفض. الأدبيات الموجودة غير حاسمة بشأن العلاقات بين المؤشرات المحاسبية والسوقية وسعر السهم والعائد، يرجع ذلك على الأرجح إلى الافتراض الضمني بأنها مباشرة. المنظور البديل الذي لم يلق سوى القليل من التّحقيق، هو أن العلاقات قد تتأثر بمتغير وسيط، مثل تقلبات الأسهم. في مواجهة هذه القضايا، بُنيت هذه الدراسة على الدراسات السابقة من أجل: (1) دراسة تأثير المؤشرات المحاسبية والسوقية على سعر السهم والعائد. (2) تقييم أداء كل شركة على حدى وتمييز الشركات إلى أداء مرتفع وأداء منخفض. (3) التحقق من التأثير الوسيط لتقلب الأسهم على العلاقات بين المؤشرات المحاسبية والسوقية مع سعر السهم والعائد. لتحقيق هذه الأهداف، تم تحليل بيانات 63 شركة تشكل المؤشر العام لبورصة عمان من عام 2008 إلى 2018 باستخدام نماذج انحدار المربعات الصغرى العادية (OLS) والمعممة (GLS)، والتحليل التمييزي المتعدد (MDA)، ونماذج المعادلات الهيكلية (SEM). أظهرت النتائج أن: (1) ربحية السهم (EPS)، والعائد على الأصول (ROA)، والقيمة السوقية (MC)، ومعدل دوران السهم (STR)، والقيمة الدفترية للسهم (BPS)؛ أثرت بشكل إيجابي وهام على سعر السهم. (2) إجمالي دوران الأصول (TOA)، ومعدل دوران السهم (STR)، وربحية السهم (EPS)، والعائد على الأصول (ROA)، ونسبة السعر إلى القيمة الدفترية (PBV)؛ أثرت بشكل إيجابي وهام على عائد السهم. (3) ميز كل من معدل دوران السهم (STR)، وربحية السهم (EPS)، وإجمالي دوران الأصول (TOA) تمييزاً هاماً بين الشركات ذات الأداء المرتفع والأداء المنخفض. (4) توسط تقلب أسعار الأسهم بشكل كامل وإيجابي العلاقة بين معدل دوران السهم (STR) مع سعر السهم. (5) توسط تقلب عائدات الأسهم بشكل كامل وإيجابي العلاقة بين القيمة السوقية (MC) ومعدل دوران السهم (STR) مع عائد السهم. كانت النتائج قوية، وتدلل على أن المؤشرات المحاسبية والسوقية، والتي تعد المراجع الرئيسة للمعلومات المالية، تنعكس في أداء الشركة. من المتوقع أن تقدّم النتائج دليلاً إرشادياً للباحثين من أجل تصميم نماذج تقييم أداء مناسبة (مثل نماذج Z-Score ونماذج الوساطة)؛ والمستثمرين من أجل إختيار أفضل الفرص الإستثمارية في بورصة عمان؛ وصنّاع السياسات المالية لتحسين سياسات الإستثمار في الأردن. قد يعتمد المستثمرون خصوصاً على النتائج لمساعدتهم في اتخاذ القرارات الإستثمارية قصيرة الأجل. يُمكن للأكاديميين أيضاً اعتماد نماذج بحثية جديدة لتقييم أداء الشركة مع مراعاة تقلبات الأسهم، مما يسمح بتحديد الشركات عالية الأداء وترتيبها حسب أدائها. قد تنظر الدراسات المستقبلية في تكرار التحليل بالأسواق المتقدمة والأسواق الناشئة الأخرى.

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$R_{i,t} = A + \beta_i rm_t + \varepsilon_{i,t}$	(3.1) 36
$E(R_i) = a_i + \beta_i R_m + \beta_z NF + \varepsilon_{i,t}$	(3.2) 37
$E(R_i) = R_f + \beta_i [E(R_m) - R_f]$	(3.3) 38
$[E(RM) - R_f] \beta_{IM}$	(3.4) 39
$R_i = \alpha + \beta R_m$	(3.5) 41
$R_i = R_f(1 - \beta) + \beta R_m$	(3.6) 41
$P_{i,t}$	(4.1) 100
$R_{i,t} = (P_{i,t} - P_{i,t-1}) / P_{i,t-1}$	(4.2) 100
$R_{i,t} = (P_{i,t} - P_{i,t-1}) / P_{i,t-1}$	(4.3) 100
$\sigma^2 = \omega + j = 1q\alpha j \varepsilon^{2t-J} + i = 1p\beta i \sigma^{2t-J}$	(4.4) 103

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LIST OF ABBREVIATIONS

P	-	Price
R	-	Return
V	-	Volatility
CP	-	Company Performance
PV	-	Price Volatility
RV	-	Return Volatility
ROA	-	Return On Assets
ROE	-	Return On Equity
NPM	-	Net Profit Margin
CR	-	Current Ratio
DR	-	Debt Ratio
TOA	-	Total Assets Turnover
MC	-	Market Capitalisation
STR	-	Stock Turnover Ratio
EPS	-	Earnings Per Share
BPS	-	Book Value Per Share
PER	-	Price Earnings Ratio
PBV	-	Price-to-book Value
MDA	-	Multiple Discriminant Analysis
SEM	-	Structural Equation Modelling
OLS	-	Ordinary Least Squares
GLS	-	Generalized Least Squares
ASE	-	Amman Stock Exchange
JGB	-	Jordanian Government Bond
CBJ	-	Central Bank of Jordan