Management and Analysis of Financial Leverage for Market Value of Shares for Jordanian Service's Companies

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Abstract

The importance of this study the came from the role of these companies in the national economy. On the other hand problem of the study comes form of the following question:Is there an impact of financial leverage on the market value of the shares for service companies ? Conclusion:After a statistical analysis which showing the presence effect of financial leverage indicators on the market value of shares for service companies listed in Amman Stock exchange.Recommendations:Based on the conclusions of this study, the researcher reached the requirement to provide specialized and experienced staff to interpret and understand financial indicators of assess(the strengths and weaknesses in the financial plans and policies governance) that enterprise level of performance which makes investment decisions. Requirement to do further studies involving larger sample either to study or a longer period of time, to do a similar study on other financial markets in the Arab world to learn about the impact of the Finance leverage on the market value of the companies.

Index terms— financial leverage, share, book value.

1 Introduction

ife around us and each science will be developing to keep pace with developments taking place around us, and as a result of the evolution that has occurred in the capital markets, economic globalization, and the pursuit of the administration that expand the wealth of owners had to be the evolution of the administrative and financial the methodology of science is clear and properly. As a result of these developments that have become "Financial Position" specializes in the management needed to carry objects of various activities of funds, as well. Make decisions that determine the quality of those funds that are the sources obtained, which determine the optimum blending between different sources of funding, "short and long term." Financial management relies on the usages of instruments and methods of quantitative analysis arriving the best options, whether belonging to the part financing, production or financial problems which the administration put to take a particular decision, as well as whether a question of funding for a particular project or buy a specific asset or a trade-off between several ways of financing. The financial leverage result of using fixed costs or debt financing structure in order to Author: Researcher, Jordan. e-mail: mm.saho@yahoo.com maximize the return on equity **??**Gitmen, 2003). Overall, the increased financial leverage result of increasing in yield and risk. The amount of leverage in the financial combination structure nevertheless debt or equity funds in the financial structure of the company that could affect a large and significant on the market value of the company through its impact on the company return. Unlike some of the reasons for the high risk management and the company can fully control to use financial leverage. The importance of this study, being one of the limited studies that aim to clarify the relationship between financial leverage and the market value of shares for companies, also it increases the importance of this study the role of these companies in the national economy.On the other hand problem of the study comes form of the following question:

Is there an impact of financial leverage on the market value of the shares for service companies?

Determinants of the study:will include a period of 15 years (from the end of 2000 and until the end of 2015) which is ample time to conduct the study.

The study hypothesis: There is no statistically significant impact for financial leverage on market value for the companies service.

2 Description data variables:

This study addressed the shareholders companies in the Jordanian capital market, which plays a big role in the national economy. So we will take the service sector companies as a sample for this study.

In this study, usages of leverage indicators to measure first the book value of the total divided by the book value of total assets and liabilities. The other indicator is the book value of long-term debt divided by total assets (Shakhatreh 2012.(The study methodology will applies multiple regression equation to find the impact of financial leverage on the market value for companies shares of the variables:Y = ?0 + ?1X1 + ?2X2 + ?

Where as: Y: expresses the dependent variable in the model which is the market value of shares. X1, X2: reflect the independent variables in the model, namely, (the book value of the total divided by the book value of total assets, the book value of the debt of longterm obligations divided by total assets), respectively. ?1, ?2: express the regression coefficients. ?: expresses the random error.

Financial Leverage : Intended leveraged entity's dependence on borrowing from banking and financial institutions to build their financial needs, thus be fixed financial costs are the debt interest or paid, also if the company raises preferred shares to meet those needs, the fixed financial costs here are in Dividend preferred stock that the company will be paid to shareholders, so the preferred stock has a guaranteed profit and specific (Attar, 2001).Financial leverage as the ratio of total debt to total assets, or to the total value of the company **??**Brigham and Lewiston-1993). As well as the degree of adoption of facility to finance its assets on sources of fixed-income funds (whether loans, bonds, or preferred shares) which affects the profits earned also affects the degree of risk they are exposed to (Indian, 1997). so called proprietary trading, which means an entity using third party funds in order to achieve the greatest possible return for the owners and the owners of the facility, which represents the ratio of total liabilities to total assets. Evident from the preceding definitions that leverage include measuring the total liabilities (long and short term) to total assets, but some may consider that leverage is limited to debt or long-term commitments effect only, but the most correct according to the most recent studies.Total Leverage: It is also possible to determine the effect of each operating leverage and funding on the profits and risks of the company by using the same method that was used for both funding and operating. This combined is called total leverage. It means that using of operational and financing fixed costs in order to maximize the impact of the change in net sales on the profit per ordinary profits that generated per share (2003, Gitman). From the above it is clear that the financial Leverage generally reflects the facility's reliance on the instruments of production, the sources of fixed-cost financing. To raise the two effects, it contributes to increasing the yield earned by ordinary shareholders, but it also contributes to increased risks that are exposed to the virus, the survival of other factors unchanged, it is expected result to increase in yield that rise in the market value of shares, as It is expected the result as a result of increased risk reduction in the market value for shares. Here are facing a shareholder relationship between return and risk, we mean compensatory relationship (Risk, Return: Trade Off) so as to contribute in the end to maximize the market value of the facility. This happens when it reaches its decisions to the point where the positive impact tied to the yield increase with the negative impact of the increasing risk, it's break-even point (Gitman, 2003)Leverage indicators: Debt Position indicates that the debt situation in the facility to the extent by using other people's money in the creation of the profits, ie the extent to which I went to management of enterprise rely on others to finance their needs,It is believed) that the company is depending heavily on debt to finance their operations may lead to influence the objectives and policies, so that shift attention between providing a return of multiple parties with a stake in the company to meet the needs of creditors as reflected in the performance for company and its market value as a result of the risks high-imposed debt, so the loans and the benefits of the service will lead to the depletion of resources companies of cash needed to run its projects.

It will be measuring this variable in the current study through the most common size of debt criteria, (League, 2006.) Proportion of commitments to total assets of company -:This ratio measures the portion of the assets, which were funded by creditors, and means to increase this percentage to increase the amount of funds used by the shareholders of funds to create a profit which calculated as follows: Leverage = total liabilities / total assets .This figure means that the facility was financed certain percentage of their assets to debt, which means that each dinars untapped one in total assets resulting in debt by a certain of dinar. It is noted that the higher this percentage increased risk and expected return. Ratio of liabilities to total equity -: This ratio measures the portion of the assets that have been financed from equity. So increasing this percentage to increase the amounts used by the establishment of equity rights to create revenue, it is calculated as follows: Leverage = total liabilities / total equity .This figure means that the facility was financed certain percentage of their assets through equity. This means also that every single dinar untapped equity in the total debt increased by a rate of the dinar. It is noted that the higher percentage increased risk not lead to the company's ability to service its debt and its exposure to the bankruptcy.

3 II.

4 Previous Studies

Study. Cakici, Nusret; Chatterjee, Sris; Topyan, Kudret, (2015): Decomposition of book-to-market and the cross-section of returns for Chinese shares In this paper, we show that the book-to-market decomposition described in Fama-French (2008) significantly improves the predictive power of the estimation for an important emerging market, viz, Chinese shares. Second, we show that this improvement comes mainly from the change in book equity and not from the change in price. The predictive power of the change in book equity is most pronounced for large stocks, for stocks listed on Shenzhen Exchange, for stocks with low book-to-market (or growth stocks), and for Class B shares. Net Share Issue and Momentum add no explanatory power to the predictive regressions. Study Choi, Jaewon. Richardson, Matthew. (2016). Investigation the volatility of firms' assets in contrast to existing studies that focus on equity volatility. We estimate asset volatility using a comprehensive data set on the market values of corporate security returns. We find significant differences between the properties of equity and asset volatilities with implications for several important areas of finance. First, financial leverage has a large influence on equity volatility. Second, leverage and asset volatility have permanent and transitory effects, respectively, on equity volatility, helping explain the short-and long-run dynamics of equity volatility. Third, we analyze and compare the cross-section of asset versus equity returns. Study Agliardi, Elettra. Amel-Zadeh, Amir. Koussis, Nicos (2016). Developing and empirically test a trade-off model for the analysis of leverage changes in mergers and acquisitions. Our study extends prior findings of a post-merger increase in leverage for the acquiring firm, by linking this leverage increase to merging firms that are less correlated, create significantly larger growth options, and have lower bankruptcy costs and lower volatility. Specifically, we show that acquiring firms are more likely to finance diversifying acquisitions with debt as equity holders exploit the increased debt capacity with higher leverage resulting in total merger gains that are positively associated with financial synergies. We also provide evidence of a U-shaped relationship between growth options and leverage changes theoretically and empirically in the context of mergers.A comprehensive model with financial, operational synergies and growth options is developed and tested for M&A. Crosssectional differences in leverage changes and merger gains are explained. We find a U-shaped relationship between growth options and leverage changes in mergers. We challenge prior empirical evidence on coinsurance effects and shareholders' gains in M&A. The relation between growth options created with the merger and debt financing is non-monotonic. Study Antzoulatos, Angelos A. Koufopoulos, Kostas. Lambrinoudakis, Costas and Tsiritakis, Emmanuel (2014). We explore the effect of financial development on corporate capital structure and the tightness of financial constraints that firms face. We employ an econometric technique that allows us to explicitly test for convergence in capital structure. This technique increases the power of our statistical tests. In doing so, we identify a group of convergent firms. The driving force of convergence is financial development, which positively affects the firms' leverage ratio. We also identify a group of firms, whose leverage is not affected by financial development, because they are financially constrained.We test for convergence in corporate capital structure. A group of convergent firms is identified. Convergence is driven by financial development, which affects leverage positively.

Financially constrained firms' leverage is not affected by financial development. Study Alipour, Mohammad. Pejman, Mohammad Ebrahim. ??2015). explores the effect of the degree of operating leverage, financial leverage, and efficiency on market value added. The purpose of this paper is to investigate economic value added (EVA), as a performance measurement model, as compared to six traditional accounting performance measures vis-à-vis the market value of firms listed on Tehran Stock Exchange (TSE).

The paper also explores the effect of the degree of operating leverage, financial leverage, and efficiency on market value added. The paper uses a sample of 450 firm-year observations from the Iranian market and applies pooled ordinary least square and panel data regression. The results indicate that EVA has no superiority over other performance measures, and that return on sales and return on assets are more powerful than EVA in explaining firm market value. Due to EVA's lack of correlation with market value, investors cannot use it as an internal value creation measure along with the traditional performance measures. This paper is one of the first studies on the relevance of traditional accounting and value-based performance measures in explaining TSE market values. The results extend EVA's role in explaining market values, and address its effect on investors' decisions in a continental Asian market with characteristics similar to that of Iran.

Study Bhagat, Sanjai. Bolton, Brian. (2015). We investigate the link between firm size and risk-taking among financial institutions during the period of 2002 -2012 and find size is positively correlated with risk-taking measures. Second, a decomposition of the primary risk measure, the Z-score, reveals that financial firms engage in excessive risk-taking mainly through increased leverage. Third, banks that enjoy better corporate governance engage in less risk-taking. Fourth, investment banks engage in more risk-taking compared to commercial banks. Finally, the positive relation between bank size and risk is present in the pre-crisis period ??2002) ??2003) ??2004) ??2005) ??2006) and the crisis period (2007-2009), but not in the post-crisis period (2010-2012). Study (Yunus, 2011): This study aimed to identify the impact of the application of the fair value of financial instruments held accountable for earnings per share of each of the market rate of return and the return on net income through the theoretical aspects associated with the subject, the scientific underpinnings of accounting and processors analysis related thereto. To achieve this purpose, the tests hypotheses through the analysis of financial statements for each of the income statement, statement of changes in shareholders' equity and cash flow statement of the number of (13) companies listed in the Palestinian market for the period from 2004 to 2009 and measure the correlation coefficients and regression to determine the strength and direction of the relationship between independent and dependent variables, the study showed that the return on the stock market positively influenced by all of the variables (net income, and earnings of financial instruments, the proposed dividend to shareholders, the cumulative change in fair value, while earnings per share of the market variables dividends has not been affected to the shareholders, and the balance cash and cash equivalents, and the results showed the majority of companies to achieve the subject of study for possessory security gains, which reflected positively on the financial performance of those companies, thereby increasing earnings per share of profit. Study **??**Khryosh, 2003): This study aimed to measure the cash flows related to the market value of the shares of banks and financial establishments Jordanian contribution, that assumed a positive relationship between the net cash flows and market value in the long term and short term, the study used the simple regression equation to study the relationship and effect between variables of the study, the study results indicated that there were no statistically significant relationship between the market value per share and net cash flows. And the lack of a statistically significant relationship between the market value of the shares and the ratio of net cash flows to long-term or short-term liabilities, the study recommends more attention to their own financial indicators cash flow impact on the market value of the shares. **??**tudy (credited, 2001): This study aimed to test the relationship between market returns for shares accounting profit taking into account the size of the enterprise, through the study of the impact of each variable of variables representing the profit variable change in earnings per share and a variable level of per share profits for the same that relationship through the charts. the study concluded for several results of the most important, that all of the variable capacity of earnings per share and a variable level of earnings per share does not explain more than 10% of the market returns, the study recommended to increase the profitability of companies and raise revenue shares.Study **??**Kamal & Others, 2010): This study aimed to identify the extent of the leverage effect of the policy dividend consisting of a sample of (**??**03) is a company listed on the financial Karachi for the period 2002 -2008, accounting for Leverage study by indebtedness, showed results of the study to leverage an impact on the dividend policy, on the other hand, the study showed that financial leverage has a negative impact of increased dividends.

5 III.

6 Methodology

The following are results of the study analysis that aimed to identify the impact of financial leverage on the market value of shares for service companies: School premise does not affect the leverage indicators on the market value of shares for service companies listed in Amman Stock exchange. Using both (the proportion of liabilities to total assets of the company and the ratio of total liabilities to equity) to express the financial performance of those service companies listed in Amman Stock Market. Multiple regression was applied to study the impact of financial leverage on the market value of shares, Table **??**o. 1 illustrates this.

7 From

above table that the value of (R) amounted to (0.070), a value that is statistically significant, which indicated that the function of correlation between the (independent variable) depending on the services sector, the value of (Rsquare) (0.48) which is a function value statistically explain the inability of financial performance indicators for companies to influence the market value, amounting to test the value of (F) (32.42), a statistically significant value at the significance level (? = 0.05), this indicates the presence of a statistically significant relationship between financial performance indicators for companies and the market value of the shares in the services sector.

IV.

8 Conclusion

After a statistical analysis which showing the presence effect of financial leverage indicators on the market value of shares for service companies listed in Amman Stock exchange.

V.

9 Recommendations

Based on the conclusions of this study, the researcher reached the requirement to provide specialized and experienced staff to interpret and understand financial indicators of assess (the strengths and weaknesses in the financial plans and policies governance) that enterprise level of performance which makes investment decisions. Requirement to do further studies involving larger sample either to study or a longer period of time, to do a

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Statistical significance	F	R-square	R	Statistical significance	T	?	Variable
0.00	32.42	0.48	0.070	0.00	7.65	6.77	The proportion of liabilities to total assets of the company
				0.00	7.86	6.96	Ratio of total liabilities to equity

Figure 1: Table 1 :

similar study on other financial markets in the Arab world to learn about the impact of the Finance leverage on the market value of the companies. [1] [2] [3]

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