

Factors Affecting the Financial Performance of Jordanian Insurance Companies Listed at Amman Stock Exchange

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Received: March 7, 2012 Accepted: March 30, 2012 Published: April 1, 2012

doi:10.5296/jmr.v4i2.1482 URL: <http://dx.doi.org/10.5296/jmr.v4i2.1482>

Abstract

This study aimed at investigating the factors that mostly affect financial performance of Jordanian Insurance Companies. The study population consisted of all insurance companies' enlisted at Amman stock Exchange during the period (2002-2007) which count (25) insurance company. The data collected was analysed by using a number of basic statistical techniques such as T-test and Multiple- regression. The results showed that the following variables (Leverage, liquidity, Size, Management competence index) have a positive statistical effect on the financial performance of Jordanian Insurance Companies. The researcher recommended that a high consideration of increasing the company assets will lead

to a good financial performance and there is a significant need to have highly qualified employees in the top managerial staff.

Keywords: Financial performance, Stock exchange, Factors affecting.

1. Introduction

Company performance is very essential to management as it is an outcome which has been achieved by an individual or a group of individuals in an organization related to its authority and responsibility in achieving the goal legally, not against the law, and conforming to the morale and ethic.

Performance is the function of the ability of an organization to gain and manage the resources in several different ways to develop competitive advantage (Iswatia, & Anshoria, 2007). There are two kinds of performance, financial performance and non-financial performance. Financial performance emphasizes on variables related directly to financial report. Company's performance is evaluated in three dimensions. The first dimension is company's productivity, or processing inputs into outputs efficiently. The second is profitability dimension, or the level of which company's earning are bigger than its costs. The third dimension is market premium, or the level of which company's market value is exceeding its book value (Walker, 2001)

Performance is a difficult concept, in terms of both definition and measurement. It has been defined as the result of activity, and the appropriate measure selected to assess corporate performance is considered to depend on the type of organization to be evaluated, and the objectives to be achieved through that evaluation. Researchers in the strategic management field have offered a variety of models for analyzing financial performance. However, little consensus has emerged on what constitutes a valid set of performance criteria. For instance, researchers have suggested that studies on financial performance should include multiple criteria analysis. This multidimensional view of performance implies that different models or patterns of relationship between corporate performance and its determinants will emerge to demonstrate the various sets of relationships between dependent and independent variables in the estimated models (Ostroff and Schmidt, 1993)

2. Statement of the Problem

The subject of financial performance has received significant attention from scholars in the various areas of business and strategic management. It has also been the primary concern of business practitioners in all types of organizations since financial performance has implications to organization's health and ultimately its survival. High performance reflects management effectiveness and efficiency in making use of company's resources and this in turn contributes to the country's economy at large. (Naser, and Mokhtar, 2004)

In Jordan there was a good performance of many sectors such as banking sector, the insurance sector didn't react to the growth of Jordanian economy. The overall financial performance of insurance companies in Jordan is somehow weak expect for some companies which accomplished some revenues. This study tries to investigate the weakness in the overall financial performance of insurance companies. The study's main objective then could be summarized in identifying the factors affecting Jordanian insurance companies' financial performance.

Therefore, this study seeks to answer the following questions:

What are the basic factors affecting financial performance of Jordanian Insurance Companies?

What is the level of financial performance for Jordanian insurance companies?

3. The Importance of the Study

The study importance emerges from the fact that insurance sector plays a significant role in enhancing the country economy, and providing critical services for people in Jordan, the current study will empirically implement a comprehensive analytical framework of financial performance in the case of Jordan insurance sector. The study will also examine the impact of key determinants of firms' financial performance.

Other importance of this study could be summarized as the following:

In Jordan, a few researches have been investigated factors affecting Jordanian insurance companies' financial performance, so the current study will be a base for other studies in the same field, and it will help in adding value to this subject.

Another importance of this study derived from distinguishing between financial and non-financial drivers of Jordanian insurance companies' financial performance.

The current study will also provide a comprehensive framework and literature about of firm financial performance, and the factors influencing it in the case of Jordanian insurance companies.

Finally the current study will identify the effect of Leverage, liquidity, Age, Size, Management competence index, or other not identified variables on Jordanian insurance companies'

4. Aim and Objectives

The main aim of this study is to investigate the factors that mostly affect financial performance of Jordanian Insurance Companies. This aim will be achieved by the following objectives:

To identify the effect of Leverage, Age, Size, liquidity, Management competence index on the financial performance of Jordanian insurance companies.

To provide some conclusions and recommendations for top management and decision makers at insurance companies to deal with variables that affect financial performance In order to enhance their company financial performance.

To provide the local libraries with scientific material dealing with variables that affect financial performance on Jordanian insurance companies'

5. Literature Review

5.1 Insurance in Jordan

The Jordanian insurance sector came into existence primarily in 1946 when an insurance

agency affiliated with the Egyptian Orient Insurance Company was established. Prior to that, insurance had been limited to insurance on letters of credit that required cover on land or marine transport. This cover was provided by the Ottoman Bank through Eagle Star Company in London. In 1956, the first Association for Insurance Companies was established as the authority responsible for regulating the sector (insurance commission ,2007).

The insurance sector in Jordan consists of 26 licensed insurers (as of 2006 year-end), of which one is specialized in life insurance, 7 are specialized in general insurance, and the remaining 18 are engaged in both life and general insurance (insurance commission, 2007).

The large number of insurance companies in the market coupled with the severely underdevelopment of the sector has led to an overcrowded market, with the leader in terms of market share of premiums written claiming a mere 8.9% of the total, and the average market share for the companies in the sector standing at 3.8% in 2006 (insurance commission ,2007).

In contrast, the sole insurer specializing in life insurance alone, the American Life Insurance Company, claimed 49.9% of total life premiums written in 2006.

The market contains 33 loss adjusters, 50 brokers, 7 insurance advisors, 10 actuaries and 385 agents.(insurance commission ,2007)

5.2 Firm Performance

Company performance is very essential to management as it is an outcome which has been achieved by an individual or a group of individuals in an organization related to its authority and responsibility in achieving the goal legally, not against the law, and conforming to the morale and ethic. Performance is the function of the ability of an organization to gain and manage the resources in several different ways to develop competitive advantage. There are two kinds of performance, financial performance and non-financial performance (Hansen and Mowen, 2005).

The literature usually distinguishes between two types of firm performance, financial or economic performance and innovative performance. Financial or economic performance is often expressed in terms of growth of sales, turnover, employment, or stock prices (Havnes and Senneseth 2001), whereas innovative performance is generally expressed in terms of expenditures, patents, percentage of innovative sales, or self-reported (results of) innovations (Oerlemans et al. 2001, Hagedoorn and Cloudt 2003). Although both types of performance are often inter-related (Damanpour and Evan 1984), the literature often uses both types of performance as separate concepts or only focuses on one of the two. (Knoben and Oerlemans,2006)

Company performance is the measurement for what had been achieved by company which shows good condition for certain period of time. The purpose of measuring the achievement is to obtain useful information related to flow of fund, the use of fund, effectiveness, and efficiency. Besides, the information can also motivate the managers to make the best decision.

5.3 Measures of Financial Performance

There have been various measures of financial performance. For example return on sales

reveals how much a company earns in relation to its sales, return on assets determines an organization's ability to make use of its assets and return on equity reveals what return investors take for their investments. The advantages of financial measures are the easiness of calculation and that definitions are agreed worldwide. Traditionally, the success of a manufacturing system or company has been evaluated by the use of financial measures (Tangen, 2003).

(Berger, et al.1995) contend that the factors underpinning the operational performance of financial services firms are often difficult to discern because of the intangible nature of outputs and the lack of transparency over resource allocation decisions. Nonetheless, insights from the financial economics literature, such as those provided by agency theory, can contribute important insights into the determinants of operational performance in financial services firms. For instance, agency theory articulates that relationships between owners of firms (principals) and managers (agents) are maintained by contracts (Jensen, 1990). As the separation between ownership and control diverges due to corporate growth, contracts have to be introduced to ensure the alignment of owners' and managers' economic interests. As a result, operational performance will be a function of the effectiveness of contractual mechanisms in attracting, retaining and controlling managerial talent in ways that maximize owners' wealth.

5.4 The Primary Ratios

The primary ratios used for analyzing the performance of a company can be categorized into five groups:

- .Liquidity ratios
- .Asset management ratios
- .Debt management ratios
- .Profitability ratios
- .Market value ratios

These ratios can be combined to determine the rate of return for a company and its owners and the rate at which the company can grow the sustainable rate of growth. By adding data about the company's stock market performance, the analyst can gain insight into how financial markets view the company's performance (Harrington, 1989)

6. Factors Affect Financial Performance of Companies

Empirical literature examines how financial and non-financial factors, such as leverage, liquidity, size, age, and Management competence index have an influence on the firms' financial performance and growth. The researcher has chosen these factors because they are the most appropriate ones for Jordanian context among many factors affecting the financial performance. On the other hand, these factors can be easily measured by using the data that is afford by Jordanian insurance companies.

A- Leverage

Debt leverage is measured by the ratio of total debt to equity (debt/equity ratio). It shows the degree to which a business is utilizing borrowed money. Companies that are highly leveraged may be at risk of bankruptcy if they are unable to make payments on their debt; they may also be unable to find new lenders in the future. Leverage is not always bad, however; it can increase the shareholders' return on their investment and make good use of the tax advantages associated with borrowing.

B- Liquidity

Liquidity refers to the degree to which debt obligations coming due in the next 12 months can be paid from cash or assets that will be turned into cash. It is usually measured by the current assets to current liabilities (current ratio). It shows the ability to convert an asset to cash quickly and reflects the ability of the firm to manage working capital when kept at normal levels. A firm can use liquid assets to finance its activities and investments when external finance is not available or it is too costly. On the other hand, higher liquidity would allow a firm to deal with unexpected contingencies and to cope with its obligations during periods of low earnings. (Liargovas, and Skandalis, 2008)

C- Company Size

The size of the firm affects its financial performance in many ways. Large firms can exploit economies of scale and scope and thus being more efficient compared to small firms. In addition, small firms may have less power than large firms; hence they may find it difficult to compete with the large firms particularly in highly competitive markets. On the other hand, as firms become larger, they might suffer from inefficiencies, leading to inferior financial performance. Theory, therefore, is equivocal on the precise relationship between size and performance (Majumdar, 1997).

D- Company Age

Several earlier studies (Batra, 1999, Lumpkin & Dess, 1999) argued that firm age has an influence on its performance. (Sorensen & Stuart ,2000) argued that organizational inertia operating in old firms tend to make them inflexible and unable to appreciate changes in the environment. Newer and smaller firms, as a result, take away market share in spite of disadvantages like lack of capital, brand names and corporate reputation with older firms. (Kakani., Saha., and Reddy, 2001)

Regarding firm age, older firms are more experienced, have enjoyed the benefits of learning, are not prone to the liabilities of newness, and can, therefore, enjoy superior performance. Older firms may also benefit from reputation effects, which allow them to earn a higher margin on sales. On the other hand, older firms are prone to inertia, and the bureaucratic ossification that goes along with age; they might have developed routines, which are out of touch with changes in market conditions, in which case an inverse relationship between age and profitability or growth could be observed. (Liargovas, and Skandalis, 2008)

E- Management Competence Index

Is a multidimensional concept and a number of well documented attempts have been made in the literature to define it. More specifically, the popularity of the term competence can be attributed to (Boyatzi, 1982). In “The Competent Manager”(Boyatzi ,1982) defines competence as “an underlying characteristic of a person”, stating it could be, “motive, trait, skill, aspect of one’s self-image or social role, or a body of knowledge which he or she uses”(Woodruffe, 1993) points out, that this definition leaves the term open to a multitude of interpretations and argues that the term ‘competence’ can be used to refer to a ‘set of behaviors, skills, knowledge and understanding which are crucial to the effective performance of a position’. (Nordhaug and Gronhaug ,1994) interpret competence as “work-related knowledge, skills and abilities” while(Rees ,2003) argues that there has been an enormous diversity of interpretation of the term, ‘competence’, and no agreed definition.(Hamel and Prahalad ,1994) define competence as a bundle of skills and technologies that enable company to provide benefits for customers rather than a single skill or technology.

7. Previous Studies

A study for (Lee, 2008) titled: "Ownership Structure and Financial Performance: Evidence from Panel Data of South Korea".

The study examined the effect of equity ownership structure on firm financial performance in South Korea. It focused on the role of two main dimensions of the ownership structure: Ownership concentration (i.e., the distribution of shares owned by majority shareholders) and identity of owners (especially, foreign investors and institutional investors). Using panel data for South Korea in 2000-2006, the study found that firm performance measured by the accounting rate of return on assets generally improved as ownership concentration increases, but the effects of foreign ownership and institutional ownership are insignificant. The study also found that there exists a hump-shaped relationship between ownership concentration and firm performance, in which firm performance peaks at intermediate levels of ownership concentration. The study provided some empirical support for the hypothesis that as ownership concentration increases, the positive monitoring effect of concentrated ownership first dominates but later is outweighed by the negative effects, such as the expropriation of minority shareholders. The empirical findings shed light on the role ownership structure plays in corporate performance, and thus offer insights to policy makers interested in improving corporate governance systems in an emerging economy such as South Korea.

A study for(Liargovas & Skandalis ,2008) titled: "Factors affecting Firms Financial Performance: the Case of Greece".

The purpose of this study is to empirically implement a comprehensive analytical framework of financial performance in the case of Greek industrial firms during the period 1997-2004. The paper examined the impact of key determinants of firms’ financial performance. The study distinguished between financial and non financial drivers of firm performance. The study results showed that leverage, export activity, location, size and the index for

management competence significantly affect firm performance in Greece. The results indicated that profitable firms in Greece are large, young, exporting firms with a competitive management team, which have an optimal debt-equity ratio and use their liquidity to finance their investments.

A study for (Prasetyantoko & Parmono, 2008) titled: "Determinants of Corporate Performance of Listed Companies in Indonesia"

Which was basically concerned with the factors determining corporate performance of listed companies in Indonesia, especially due to the 1997 financial crisis? The main result was fairly interesting in which firm size is positively related to firm profitability, but it was not related to market capitalization. It means that firm size is matter on the fundamental value of the firms, but it should not be important variable for market value of the firms. By employing panel data of 238 listed companies in Jakarta Stock Exchange (JSX) in the period 1994 – 2004 as the sample, the study also found that macro factors are more important variables inducing firm Performance, rather than firm-specific factors. It could be due to the 1997 great crisis. The results also showed that ownership factor matters on firm performance by the evidence that firms with majority foreign ownership have much higher performance in both measurements namely return on asset (ROA) and market capitalization growth than domestically-owned firms.

A study for (Antoniou et al, 2007) titled: "The Determinants of Capital Structure: Capital Market Oriented versus Bank Oriented Institutions".

This study investigated how firms operating in capital market oriented economies (the United Kingdom and the United States) and bank oriented economies (France, Germany and Japan) determine their capital structure. Using panel data and a two-step system-GMM procedure, the study found that the leverage ratio is positively affected by the tangibility of assets and the size of the firm, but declines with an increase in firm profitability, growth opportunities and share price performance in both types of economies. The leverage ratio is also affected by the market conditions in which the firm operates. The degree and effectiveness of these determinants are dependent on the country's legal and financial traditions. The results also confirm that firms have target leverage ratios, with French firms being the quickest in adjusting their capital structure towards their target level, and the Japanese are the slowest. Overall, the capital structure of a firm is heavily influenced by the economic environment and its institutions, corporate governance practices, tax systems, the borrower-lender relationship, exposure to capital markets, and the level of investor protection in the country in which the firm operates.

A study for (Tarawneh ,2006) titled: "A Comparison of Financial Performance in the Banking Sector: Some Evidence from Omani Commercial Banks".

The purpose of this study is to classify the commercial banks in Oman in cohesive categories on the basis of their financial characteristics revealed by the financial ratios. Total of five Omani commercial banks with more than 260 branches were financially analyzed, and simple regression was used to estimate the impact of asset management, operational efficiency, and

bank size on the financial performance of these banks.

The study found that the bank with higher total capital, deposits, credits, or total assets does not always mean that has better profitability performance.

8. Study Population and Sample

The study population consisted of all insurance Companies' enlisted at Amman stock Exchange during the period (2002-2007) which count (25) insurance company. The researcher took all of them as a study sample.

9. Methods of Collecting Data

The researcher depended on secondary sources which include books Articles, relevant literature, Jordanian insurance companies financial statement and reports, and Amman Stock Exchange in order to collect the scientific content of the theoretical framework of the study and to explain the basic concepts of the study. The collected data focused into the following variables:

- . Company Leverage
- . Company liquidity
- . Company Age
- . Company Size
- . Company management competence index
- . Financial performance through calculating (ROA)

10. Data Treatment

Depend on the study model the regression analysis was used to investigate the impact of independent variables on dependent variable. The following explain the method used for calculating dependent and independent variables:

A measure was used to evaluate the financial performance that is the Return on assets (ROA): ROA is one of the most widely used financial models for performance measurements and it was developed by Dupont in 1919. ROA determines a firm's ability to make use of its assets (Tangen, 2003). One of the previous study (Agiomir giannakis, et al. 2006) has used ROA as a measure of financial performance.

- .Leverage as measured by the ratio of total debt to equity (debt/equity ratio)
- .Liquidity ratio measured by the ratio of current assets to current liabilities
- .Size as measured by the Total Assets
- .Age as measured by the number of years since establishment
- .Management Competence Index measured by the ratio of profit to number professional

.Financial performance was measured by ROA

The analysis of the data collected from Jordanian insurance companies financial statement will follow a number of basic statistical techniques in order to identify and interpret the ratings of respondents such as means, standard deviations, T – test for independent variable,

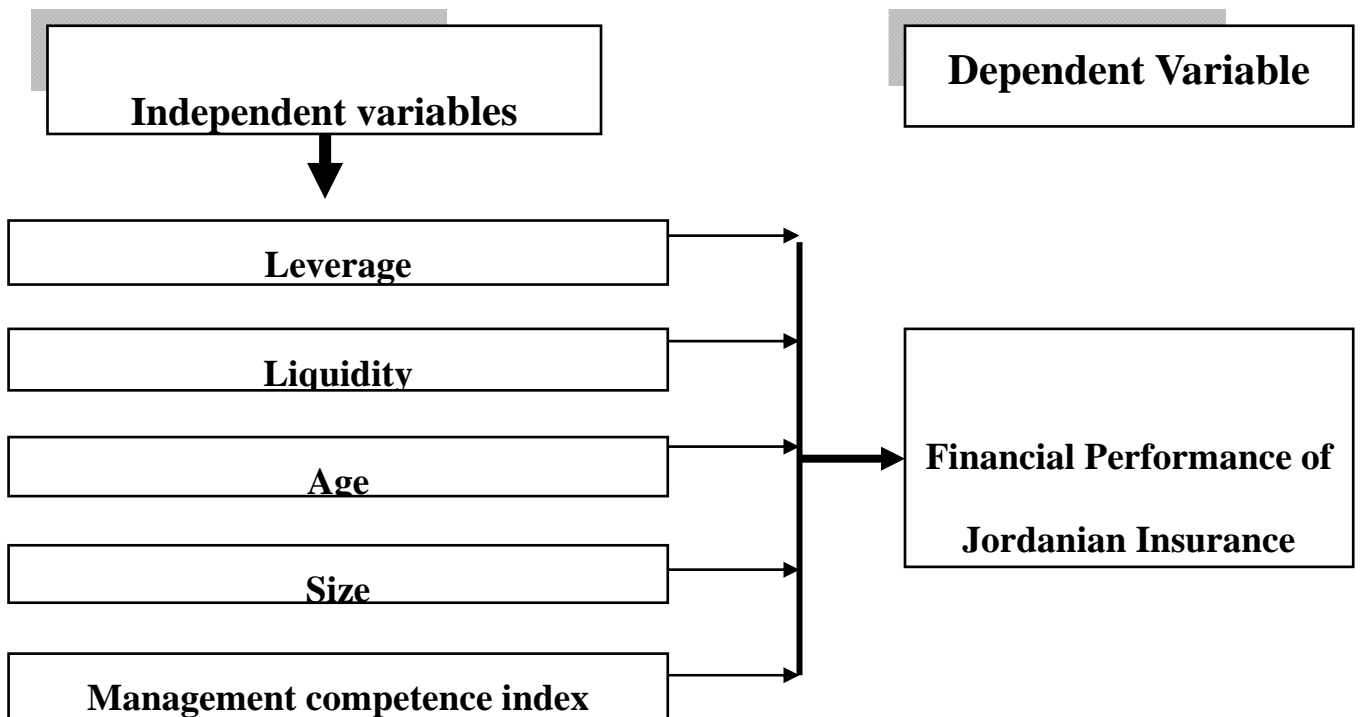
The degree of criticality of each factor is to be analysed by using a content analysis approach.

To answer the study questions and hypothesis the following statistical methods will be used:

.For subject of response description means and standard deviation will be used

.For hypothesis testing multiple linear regression method will be used

11. Study Model



12. Study Hypotheses

The following null hypotheses are formulated for this study to make hypothetical answers to the study problem and its questions:

There is no significant effect for Leverage on Financial Performance (Return on assets) of Jordanian Insurance Companies.

There is no significant effect for liquidity on Financial Performance (Return on assets) of Jordanian Insurance Companies.

There is no significant effect for Age on Financial Performance (Return on assets) of Jordanian Insurance Companies.

There is no significant effect for Size on Financial Performance (Return on assets) of Jordanian Insurance Companies.

There is no significant effect for Management competence index On Financial Performance (Return on assets) of Jordanian Insurance Compan

13. Findings and Data analysis and Recommendations

13.1 Sample Profile

Table (1) shows the sample characteristics of this study.

As shown in (1), the oldest insurance company (Jordan Insurance) was established in 1951 while the recent established company (Gerasa Insurance) was found in 1997. Regarding the employees, Jordan Insurance has the largest number of employees which is 214. On the other hand, the lowest number (32) is found in Gerasa Insurance. Regarding the branches, Middle East Insurance has the largest network of branches which are (8). Regarding the professional, Middle East Insurance has the largest number of the professional the lowest number (1) is found in Jordan insurance and Arab union international insurance

13.2 The Dependent Variable Question

What is the level of financial performance for Jordanian insurance companies?

To answer this question the mean and standard deviation were calculated for the financial performance for Jordanian insurance companies for the period between (2002-2007) as shown in table (2)

Table (2) contains descriptive statistics of the dependent variable used in this study. As appeared in this table, the largest financial performance (ROA) was achieved by Jordan International Insurance Company which equal (10.708). Al-Manara Insurance Company has got the lowest financial performance (ROA) which is (-2.776).

- Hypotheses Testing and Results

To test multiple regression models, it is necessary to assess whether the collected data violate some key assumptions of regression models because any assumption violations can result in distorted and biased research results (Hair et al. 1998). These assumptions include Multicollinearity and Normality:

Multicollinearity can be controlled by two ways: tolerance values and values of variance inflation factor -VIF (Hair et al. 1998). High degrees of multicollinearity can result in both regression coefficients being inaccurately estimated, and difficulties in separating the influence of the individual variables on the dependent variables (Hair et al. 1998). Any variables with a tolerance value below 0.10 or with a value above 10.0 of VIF would have a correlation of more than 0.90 with other variables, indicative of the multicollinearity problem (Hair et al. 1998). Results in the table below (3) shows that Tolerance for all independent variables is more than 0.10 and Variance Inflation Factor- VIF for the independent variables

is less than the limited valued 10.0, so as a result we can say there is no multicollinearity between the independent variables.

Fitness of the model: the linear regression analysis of the original model reveals that the R-square of the model is 0.37. This means the model explains 37% of the variance in the dependent variable (table 4) The model is statistically significant as the p-value for the model is 0.000. That is less than the limit for statistical significance limit (table 4), which is 0.10 for weak significance and 0.05 for significance. This is good; meaning the fitness of the model in explaining the performance is high.

The data were checked to verify that the assumption of multivariate normality was met. In a strict definition of a normal distribution, the skewness of the data would equal zero (Hair et al. 1998). In a practical sense, normality is defined as “a range of scores that span either side of zero”. In the current study, skewness ranged from 0.19 to 0.89 as showed in table (5). Following the definition, skewness scores of the current data indicate an approximately normal distribution.

After the researcher assure that the assumptions of regression models were met, the following section deal with hypotheses testing. The following hypotheses were tested using Multiple Regression analysis and (t-test), to know if there is an impact of independent variables on the dependent variable. According to the decision rule: accept null hypothesis (H0) if the significance level (α) of the question is greater than 0.05 significance level, and reject (H0) if the significance (α) level equals or is less than 0.05 (Sekaran, 2003). As a result for this decision rule, the researcher has tested statistically the proposed hypotheses and found the following results:

The estimated equation for multiple linear regression model is:

$$FP = \alpha + b_1L + b_2Q + b_3G + b_4S + b_5M + \epsilon$$

Where:

FP: financial performance

L: leverage

Q: liquidity

G: age

S: size

M: management competence index

α : constant

b_1, b_2, b_3, b_4, b_5 : the parameter to be estimated

ϵ : error

The following null hypotheses are formulated for this study to make hypothetical answers to

the study problem and its questions:

Hypothesis 1

There is no significant effect for Leverage on Financial Performance (Return on assets) of Jordanian Insurance Companies.

Using multiple regression to test the previous mentioned hypothesis, it was found that calculated $t = 7.202$ (greater than the tabulated value of $t = 1.98$) and a significance level of (.000). The null hypothesis was rejected. Thus, the leverage which was considered as one of the important factors has an impact on financial performance for insurance company. The result suggested that the insurance company should increase its concentration on borrowing and debt department and at the same time should be careful about this.

Hypothesis 2

There is no significant effect for liquidity on Financial Performance (Return on assets) of Jordanian Insurance Companies.

Since calculated t equals 3.162 (greater than the tabulated value of $t = 1.98$), with a (.046) significance level,, the null hypothesis was rejected. It found that there is significant statistical impact of liquidity on Financial Performance of insurance companies. The result suggested that the insurance companies should increase the current assets and decrease current liabilities because the positive relationship between the liquidity and financial performance.

Hypothesis 3

There is no significant effect for Age on Financial Performance (Return on assets) of Jordanian Insurance Companies.

Ho3 was accepted since the calculated t equals 1.008 (less than the tabulated value of $t = 1.98$), with a .994 significance level. It found that the age of company has no effect on financial performance. The result suggested that the new insurance companies shouldn't pay attention to age because of the negative relationship between age of company and financial performance.

Hypothesis 4

There is no significant effect for Size on Financial Performance (Return on assets) of Jordanian Insurance Companies.

As shown in table (7), sig. is (0.000) which is less than 0.05, and calculated t equals 6.509 (greater than the tabulated value of $t = 1.98$). So the null hypothesis was rejected. So that the size for insurance companies was considered an effective factor that impact on financial performance. The result suggested that the companies should increase their assets volumes in order to increase their financial performance because the positive relationship between size and financial performance.

Hypothesis 5

There is no significant effect for Management competence index on Financial Performance

(Return on assets) of Jordanian Insurance Companies.

As shown in table (7), a calculated value of $t = 3.861$ (greater than the tabulated value of $t = 1.98$) and the significance level is .041 which is less than 0.05. The null hypothesis was rejected. The management competence index on insurance companies as an effective factor in impacting financial performance. The result suggested that the insurance companies should focus on employees' efficiency by choosing the employees who complete higher educations.

14. Findings Discussion

After testing the hypothesis and analyzing the data, it was found that:

Leverage has a significant statistical impact on Financial Performance of insurance companies. This is supported by many previous studies (Liargavas and Skandalis, 2008; Kakani et al, 2005; Bashir, 2005; Neri, 2001; Admms and Buckle, 2000) which stated that an increase in the leverage has a positive impact on their performance. In alignment with most previous studies, it was that high leverage might be beneficial, because it can improve managerial incentives and force them to invest optimally. On the other hand, highly leveraged firms may confront aggressive strategies from their less leveraged rivals and lose market share in an oligopoly product market.

Liquidity has a significant statistical impact on Financial Performance of insurance companies. This study is supported by (Chen and Wong, 2004). But it contradicts with (Adams and Buckle, 2000). Since liquidity measures the ability of managers in insurance companies to fulfill their immediate commitments to policyholders and other creditors without having to increase profits on underwriting and investment activities and liquidate financial assets. This reasoning therefore implies that high liquidity obviates the need for management to improve annual operational performance. Furthermore, high liquidity could increase agency costs for owners by providing managers with incentives to misuse excess cash flows by investing in projects with negative net present value and engaging on excessive perquisite consumption.

Company age has no significant statistical impact on Financial Performance of insurance companies. This finding is consistent with what (Liargavas and Skandalis, 2008) who found that age has no significant statistical impact on financial performance. As a result, an older, well-established company is likely to be more proficient in gathering, processing and releasing information when needed because of learning experience.

Size has a significant statistical impact on Financial Performance of insurance companies. This finding is supported by (Liargavas and Skandalis, 2008; Tarawneh, 2006; Kakani et al, 2005; Chen and Wong, 2004), who stated that the larger firm are more profitable. Hence, large firms have more resources, more accounting staff and sophisticated information systems that result in high performance. Furthermore, large companies tend to be followed by a relatively large number of financial analysts who usually rely on timely release of annual reports to confirm and revise their expectations of companies' present and future economic prospects.

Management competence index has a significant statistical impact on Financial Performance of insurance companies. This finding is consistent with what (Liargavas and Skandalis, 2008) and (Merikas et al, 2006) have found. Hence the level of education of professionals affects the assessment of the quality of their competence and thus the company's ability to achieve future success.

15. Recommendations

Based on the research findings the following reachable recommendations were presented for this study:

It is positive to have high consideration of increasing the company assets. Because the size of the company is an important factor as it influences its competitive power. Small companies have less power than large ones; hence they may find it difficult to compete with the large firms particularly in highly competitive markets.

Great attention should be paid to leverage. Companies that are highly leveraged may be at risk of bankruptcy if they are unable to make payments on their debt; they may also be unable to find new lenders in the future. On the other hand, leverage can increase the shareholders' return on their investment and make good use of the tax advantages associated with borrowing.

The finding regarding age has a good indicator for new entrants to insurance industry that the age of the company has no influence on its good performance.

There is a significant need to have highly qualified employees in the top managerial staff.

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Table 1. Sample Characteristics

Insurance Companies	Year of Establishment	No. of Employees	No. of Branches	No. of Professional
1- JORDAN INSURANCE	1951	214	7	2
2- MIDDLE EAST INSURANCE	1962	139	8	13
3- THE UNITED INSURANCE	1972	56	0	5
4- GENERAL ARABIA INSURANCE	1972	60	1	4
5- Al-Manara Insurance	1974	60	5	5
6- JERUSALEM INSURANCE	1975	93	0	4
7- JORDAN FRENCH INSURANCE	1976	59	1	7
8-ARAB UNION INTERNATIONAL INSURANCE	1976	43	0	2
9- DELTA INSURANCE	1976	37	1	4
10- THE HOLY LAND INSURANCE	1980	62	4	4
11- YARMOUK INSURANCE & REINSURANCE	1980	35	0	5
12- Jordan & Gulf Insurance	1980	53	0	7
13- OASIS INSURANCE	1980	44	1	3
14- ARAB LIFE & ACCIDENT INSURANCE	1980	142	6	6
15 PHILADELPHIA INSURANCE	1980	41	6	5
16- AL-NISR AL-ARABI INSURANCE	1989	125	1	5
17 ARAB ORIENT INSURANCE	1996	95	1	9
18- JORDAN INTERNATIONAL INSURANCE	1996	113	7	8
19 EURO ARAB INSURANCE GROUP	1996	45	0	7
20- ARAB GERMAN INSURANCE	1996	96	1	12
21- THE ISLAMIC INSURANCE	1996	92	4	3
22- THE ARAB ASSURERS	1996	70	5	10
23- ARAB JORDANIAN INSURANCE GROUP	1996	58	0	8
24-ARAB AMERICAN TAKAFUL INSURANCE	1996	39	0	4
25- GERASA INSURANCE	1997	32	0	6

Table 2. Standard deviation for the financial performance (ROA) for Jordanian insurance companies for the period between (2002-2007)

Company Name	Mean 100%	Std. Deviation
AL-NISR AL-ARABI INSURANCE	6.5435	1.69410
JORDAN INSURANCE	9.0683	13.24922
GENERAL ARABIA INSURANCE	4.0208	1.64250
JERUSALEM INSURANCE	6.7579	1.52177
MIDDLE EAST INSURANCE	9.1574	7.47233
THE UNITED INSURANCE	6.6339	5.25918
JORDAN FRENCH INSURANCE	-1.7504-	13.80950
THE HOLY LAND INSURANCE	2.4330	8.51070
YARMOUK INSURANCE & REINSURANCE	10.2813	9.96440
GERASA INSURANCE	1.4847	8.17904
ARAB ORIENT INSURANCE	7.1130	2.78407
OASIS INSURANCE/	-1.81721	44.16164
ARAB LIFE & ACCIDENT INSURANCE	4.9761	4.07448
PHILADELPHIA INSURANCE	5.2300	3.59521
ARAB UNION INTERNATIONAL INSURANCE	5.9672	14.18459
THE NATIONAL AHLIA INSURANCE	1.6330	9.59576
JORDAN INTERNATIONAL INSURANCE	10.7080	5.30459
EURO ARAB INSURANCE GROUP	3.1810	9.66008
ARAB GERMAN INSURANCE	3.3742	3.87376
THE ISLAMIC INSURANCE	5.5398	2.21059
THE ARAB ASSURERS	4.5115	5.24925
ARAB JORDANIAN INSURANCE GROUP	8.0299	7.67815
AL BARAKAH TAKAFUL CO.LTD	2.7920	9.28677
DELTA INSURANCE	7.2876	2.75350
Al-Manara Insurance	-2.7762-	14.81936
Total	4.1610	12.24292

Table 3. Tolerance and Variance Inflation Factor-VIF

	Variables	Tolerance	VIF
	leverage	.870	1.149
	liquidity	.890	1.124
	Company age	.751	1.332
	Company size	.763	1.311
	Management competence	0.39	2.35

Table 4. The result of ANOVA for testing hypothesis

Dependent Variable	Source	R Square	Sum of Squares	df	Mean Square	F	Sig.
Financial Performance	Regression		7757.645	5	1551.529	15.328	.000 ^a
	Residual	0.37	14575.837	144	101.221		
	Total		22333.482	149			

Table 5. Skewness coefficients

Variable	Skewness
Leverage	0.23
Liquidity	0.65
Company age	0.19
Company size	0.89
Management competence	0.26

Table 6. Results of Multiple Regression Analysis

Independent Variables	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-5.130-	2.681		-1.913-	.058
leverage	5.962E-6	.000	.760	7.202	.000
liquidity	.013	.078	.313	3.162	.046
Company age	6.138E-10	.000	.301	1.008	.994
Company size	4.618	.838	.686	6.509	.000
Management competence	1.178	.633	.430	3.861	.041