

The Relative Impact of Liquidity, Leverage and Solvency on Profitability of Jordanian Industrial Companies Listed on Amman Stock Exchange

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Al-Zaytoonah University of Jordan, 2020

Abstract

The study aims to demonstrate the relative impact of liquidity, leverage and solvency on the profitability of industrial companies listed on Amman Stock Exchange. To reach the objectives of this study, the descriptive analytical approach was followed by analyzing some financial ratios of a sample of 44 Jordanian industrial companies listed on Amman Stock Exchange, where the study covered the time period between 2012 to 2018. Return on assets and return on equity have been examined as measures of profitability, liquidity ratio and quick ratio as measures of liquidity, debt ratio and debt to equity ratio as measures of leverage, and the interest coverage ratio as a measure of financial solvency. By using the multiple regression analysis to test the research hypotheses, the study found that there is a negative and statistically significant impact at the level of 1% between financial leverage and profitability, while the results did not show any statistically significant effect of liquidity and solvency on profitability. The results also showed that leverage has the highest relative impact among independent variables on profitability, followed by solvency and then liquidity. The results also indicated that the size of the company is a control of the effect between liquidity, leverage and solvency on the profitability of companies. The study concluded that the management of industrial companies should reduce dependence on debt to finance companies in order to achieve the highest possible returns, and also recommended maintaining the acceptable level of liquidity to ensure the continuity of companies and attention to the level of solvency within companies in order to maintain a high financial performance.

Keywords: Profitability, liquidity, leverage, solvency, industrial companies