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Research Article

The Impact of Capital Structure on Stock Returns in Industrial Jordanian Companies Listed in Amman Stock Exchange: Role of the responsibilities of the Board Directors, and disclosure and transparency as Moderating variables

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Abstract

This study examines the effect of capital structure on Stock Returns in the presence of the disclosure, transparency, and responsibilities of the Board of Directors as Moderating variables. During the period 2014–2018, data were collected for 60 industrial companies listed on the ASE. The results show that the capital structure in its dimensions (short-term debt to equity, long-term debt to equity, and total debt-to-total asset) has an impact on stock returns. Moreover, this analysis finds that there is an influence of the Board of Directors' responsibilities, as well as disclosure and transparency, in improving the impact of the capital structure in its dimensions (short-term debt to equity, long-term debt to equity, and total debt to total assets) on the stock returns. Furthermore, the findings recommend that Jordanian industrial companies rely on short-term loans while reducing long-term borrowing to evade the firms paying higher interest rates.

Keywords: Capital structure, Stock Returns, Disclosure and Transparency, Responsibilities of the Board of Directors, Jordan

1. Introduction:

The emergence of repeated global financial crises has led to the emergence of the importance of the presence of frameworks that protect the continuity of companies and achieve their goals. Thus came the concept of corporate governance that started to develop the regulatory frameworks that are linked to governance. This is in order to ensure the sustainability and continuity of these companies within the competition in addition to avoid the damage that might occur as a result of the global financial crises, with the overlap of the global economy and the expansion of the trade among countries through treaties and agreements (Florackis, and Ozkan,2010). Stock market investment is regarded as an important factor in a country's economic development and growth. To promote this aspect, the country's economic policies must be encouraging, providing an investment environment that attracts and maintains investors and investment. This contributes to the development of the country's economy. In general, investors focus their resources into investments with lower risks and a greater probability of capital recovery in a shorter period of time, since stock returns are an important factor in choosing a better investment. (Emamgholipour et al, 2013).

Many studies have indicated that corporate governance is a supportive system that enhances and controls the agency's theory through contributing to improving and controlling the relationship between managers and shareholders, especially since it has been shown that the collapse of the stocks of large companies such as (Enron, Worldcom, Adelfa and Tyco) is largely contributed to a weakness in the corporate governance system. Therefore, the presence of an effective governance system contributes to improving the operational performance and the growth and prosperity of companies by unifying a comprehensive vision of both managers and owners. (Deakin and Konzelmann, 2004). The varied factors linked with the returns of corporate stocks have led to an increase in the decision makers' attention in knowing the results of studies on this subject in order to be able to judge the realism of these returns and to build their decisions in light of that. Given the importance and correlation between capital and returns due to costs and risks, the accounting research has tended to discover the degree of its association with returns, especially in the absence of an optimal capital structure and different economic, environmental, and administrative conditions where companies work. To enhance the reliability of returns and increase the investors' confidence, the financial markets increased their focus on the need for companies to adhere to the principles of corporate governance and disclosure in their annual reports because of their role in controlling the performance of companies as well as the decisions that ensure their continuity. To cope up with the developments in the process of disclosure and transparency, the industrial companies in Jordan paid interest in committing to the principles of corporate governance to increase the quality of their information, especially those related to stock returns. The structure of a firm's capital is a significant concern for investors and financial managers, the Board of Directors, and theories in finance because debt is one of the financial risk factors that can contribute to evolving risks. Researchers investigated the relationship between capital structure and stock returns, such as (AL zou'bi, Bashatweh, & Abu Khader,2020) (Tahmoorespour, Ali-abbar & Randjbaran, 2015);(Onaolapo,& Kajola,2010).

This study extends prior studies on capital structure and stock returns and disclosure, transparency, and the responsibilities of the Board of Directors in industrial companies in Jordan by an understanding of the reasons for the change in Stock Return Since this increases income which can be used to benefit stockholders, and adhering to corporate governance principles (disclosure, transparency and the responsibilities of the Board of Directors) improves corporate reputation, resulting in a competitive advantage in the business environment. The study gap is induced by changes in stock prices, which cause variations in returns, i.e. return variations are uncertain in the firms' capital market. As a result, the research question is whether there is an impact of capital structure on stock returns in the presence of the disclosure, transparency, and responsibilities of the Board of Directors as Moderating variables in Jordanian public industrial companies listed in the ASE from 2014 to 2018.

2. Theoretical framework

2.1 Stock Returns

The key factor for investors to make the appropriate investment decision in the company is the stock returns, mostly used by investors in evaluating firms such as growth predictions, etc. (Mashayekhi, Fadae, & Rahmani, 2008). According to (Sugiyanto&Febrianti,2021) shows the returns display the financial gains they have earned from investing. An attempt to optimize stock returns is the corporation's prime aim because a high return in a firm represents the firm's potential to earn profits. The profit that the organization will use to increase performance and grow. According to (Hartono,2016; Samsul,2006) stock returns are expressed as revenues shown in the ratio of the initial investment capital. And stock returns are the rate of return on the investment made by the investor, and it is separated into two categories: realized return and expected return: (a)Realized return represents the return that has occurred and is measured based on historical data. The expected return is the expected return that the investor will gain in the future (Nurdin&Abdani,2020).

2.2 Capital structure:

Capital structure conceptual discussions started by the ideas of Modigliani and Miller (1958) they believed that the cost capital and the valuation of the companies were separate from the capital structure. The capital structure recommendation was based on erroneous opinions in 1958, in Although in separate experiments by Modigliani and Miller 1963, the effect of tax was combined into the model. The results contributed to the create of the Trade-off theory of capital structure. According to the trade-off theorem, the tax-related benefit is offset by the cost of financial hardship(ali et al.,2020).The logic of the results of Modigliani and Miller (1958) is generally accepted theories of capital structure are different, for example The trade-off theory confirm: the taxation, the pecking order theory confirm: the variations in information, and the free cash flow theory confirm: the costs of the agency(Myers,2001). Capital structure is a significant concept utilized in evaluating the worth of a firm. and this term is used by companies to finance their assets through a number of variables, like equity and debt (Vatavu, 2015). The capital structure seeks to clarify the combination of securities and sources of borrowing used by companies to fund actual investment (Myers, 2001). The capital structure includes long-term loans, specific short-term debt, common stock, preferred equity, and retained earnings. The firm's performance is determined by its capacity to achieve optimal returns on its investments, optimize the profit and wealth of its shareholders. The financing decisions different according to the relationships between risk and return (Ayange,2021). There are two types of factors that influence a company's capital structure: (a) external factors affecting a country's macroeconomic environment, such as interest rates, inflation rate and (b) internal business-specific factors such as profitability, the size of the company, etc.

Acknowledging that external conditions are general and similar to all businesses in the same region.(Sergiscu&Văidean,2014)

2.3 Disclosure and transparency:

Applying the principles of the corporate governance should provide adequate disclosure, which achieves good levels of integrity and justice. This positively affects the investors' decisions. It also leads to an attention to the financial and non-financial statements, including those related to the financial position, performance and competitive position of the company. This is in light of the importance and significant benefits of the voluntary disclosure which lead to increasing the market value of the organization. It is also necessary to work on balancing the cost of publishing, analyzing, collecting and publishing such data and the information and costs that will be paid for it. (OECD, 2015).

2.4 Responsibilities of the Board Directors:

The application of these principles provides the appropriate organizational structure within the organization and its business strategy through which a strong and effective control system is provided for the company's business and its CEO. Therefore, the governance emphasizes the separation of the functions of the CEO and the chairman of the Board of Directors ensuring that the same person is not the person who takes over the functions of the signatories. The aim is achieving effective control and supervisions and making the Board of Directors the one responsible for the CEO and his tasks that are related to essential areas in managing the organization. (OECD, 2015).

The relationship between corporate governance and the stock Returns according to (Andreou et al., 2014) showed that the relationship between corporate governance and the financial management decisions such as investment management and profits are factors affecting the stock Returns below the optimal level in the sector to which the study was applied, namely the marine industries. The study also showed that the dimensions of the corporate governance represented in the presence of several governance committees, the size of the appropriate board of management and its internal equity, the comparison of board members working on boards of other companies, and the duplication of the function of the General Manager are all better linked to the general level with the company's performance and the company's financial decisions. (Gupta & Sharma,2014) showed that there is a significant effect for the corporate governance on improving the management efficiency in the companies operating in South Korea and India. The study showed that applying the governance and the institutional directory imposes effective restrictions on the stock prices in the companies in addition to the financial performance. It also showed that the enterprises applying and enjoying efficient institutional governance are performing better financially than others. (Koerniadi et al, 2014) also showed an analysis of the corporate governance practices and the volatility of stock Returns . Its results showed that if other factors stabilize, different aspects of the corporate governance such as board formation, shareholders' equity, and disclosure practices are associated with lower corporate risk levels, reflecting on the stability of the stock prices and their improved returns. (Mousavi et al, 2010) also examined the effect of certain corporate governance procedures and practices on the returns, such as the concentration of equity on both equity and assets and the ratio of the market share value to the book share value. The results showed that there was a significant correlation between the return on assets and the equity concentration and the other hand, there was no correlation between the return on equity and the equity concentration and between the ratio of the market share value to the book share value. (Lee, 2008), a study related to the effect of the capital structure on the company's financial performance showed that equity and the nature of the shareholders are important indicators of the capital structure in the companies surveyed, which are available on the South Korean stock exchange. The study showed that there is a variance in the extent to which the dimensions of governance affect the financial performance where it was noted that there is a significant effect for the equity concentration in companies on the development of the company's performance. As for the companies with a high equity concentration, their financial performance is automatically improved compared to others. On the other hand, the study found that the overall relationship between institutional equity and international equity does not affect the improvement in financial performance. It also showed that there are variances and differences in the effect of the corporate governance on the Stock Returns for different companies in the same country or different countries. This difference is attributed to the different corporate environments and circumstances and the efficiency of their corporate governance systems and also because of the different economic environments and political conditions among the third world countries in particular. As for the relation between the dimensions of the corporate governance and the stock returns, (Aloui & Jarboui, 2018) indicated that the administrations are focused on governance by showing that the relationship between the ratio of the external concentration in the board of administration with the dividends is large and that the increase in the proportion of external directors leads to volatility and instability in the company's share prices. This will reflect on the company's predicted returns. In return, the study showed a great number of neutral and independent managers in the stability of volatility and that there was evidence that there was an interactive and good relationship among the independent external departments.

3. Previous study:

Table (1) below shows the previous study:

Authors	Amis	Result
Aloui, & Jarboui (2018)	The paper aims to analyze the relationship between stock volatility and external and independent directors.	Conclusions show the significant impact of external directors on stock return volatility. Also, the size of the company and ROA are negatively affecting volatility in stock returns, from the other, the CEOs are a significant and positive impact on the volatility of stock returns.
Koerniadi , Krishnamurti ,& Tourani-Rad (2014)	The paper aims to analyze the effect of company-level corporate governance practices on the risk-ness of a company's stock returns.	Using an index of corporate governance, the findings show that well-governed New Zealand companies are less risky. The findings reflect in particular the lower degree of risk associated with issues relating to corporate governance such as board representation, shareholder rights, and disclosure.

Shan,& Gong (2017)	This paper shows the analysis of the association between ownership structure and firms performance.	The findings show ownership concentration presents a key role for companies. The concentration of ownership for the main shareholder will greatly increase corporate efficiency,
AlZou'bi , Bashatweh & Abu Khader (2020)	The paper aims to investigate the impact of Capital Structure on Stock Returns.	The findings in this paper that the capital structure indicators (Long term debt to equity, Short term debt to equity, and total debt to total assets) have a positive effect on stock return.
Ryu, Ryu ,&Hwang(2017)	The paper aims to analyze the relationship between corporate governance, market competition on stock returns in Korea	The findings show that the relationship between market competition and stock returns of a company is insignificant, and the impact of corporate governance on stock returns affect the extent of market competition.
Kurniawan (2021)	The purposes of this analysis are to measure the impact of debts to equity (DER), return on assets (ROA), and a total asset turnover (TATO) on stock returns in property and real estate	The findings explain a partial ROA and Equity ratio has no significant impact on stock returns, and the total assets turnover a positive and significant impact on stock returns.

4. Research Design:

4.1 Research Population and Sample

This study population included all 66 Firms listed companies in the ASE, while the survey sample included (60) firms from the study population after applying the Sekran equation. The survey was carried out from 2014-2018, and annual reports were still provided by companies involved in the study.

4.2 Data Collection:

The authors focused on primary sources found in Jordanian industrial firms' published annual reports from 2014 to 2018. Secondary sources included previous articles, papers and books collected via internet in public libraries etc..

4.3 Variables Measurement:

Table 2 description of Measurement of variables used in the study:

Table 2 : Measurement of variables

Variables	Notion	Measurement	Source
Dependent Variable			
Stock returns	SR	(Pt-(Pt-1))/Pt	(Nurdin&Abdani,2020)
Independent Variable			
Short-term debt to equity	SDE	Short-term debt / equity	(Shan, &Gong, 2017),(Githira, Nasieku, 2015)
Long-term debt to equity	LDE	Long-term debt / equity	
Total debt to Total assets	TTA	Total debt / Total assets	

Moderator Variable			
responsibilities of the Board of Directors	RBD	Using content Analysis	(Ajanthan, 2013), (Bashatweh,&Ahmed,2021)
Disclosure and Transparency	DT		

4.4 Multicollinearty

The variance inflation factor (VIF) and the variance inflation factor (Tolerance) were excluded in order to assess the independence or association of independent variables. The findings from the table showed that the VIF was less than 10 for all dimensions, meaning that interaction between the dimensions of the independent variable was not an problem . The VIF for the capital structure dimensions and the responsibilities of the Board Directors, and disclosure and transparency varied from (1.061 to 2.499). In addition, the tolerance for both variables was limited to the 0.1, strengthened the view that there are no problems with multiple linear correlations.

Table 3: Findings of the multiple correlation analysis for independent and moderating variables

Variables	VIF	Tolerance
Short term debt to equity	2.386	0.419
Long term debt to equity	2.499	0.400
Total debt to total assets	1.102	0.907
responsibilities of the board of directors	1.061	0.942
Disclosure and Transparency	1.085	0.922

4.5 Unit root test

For this analysis, Table 4 describe the root test unit:

Table4: Unit Root Test		
Variables	T value	Sig
Short term debt to equity	-15.322	0.0000
Long term debt to equity	-11.103	0.0000
Total debt to total assets	-24.309	0.0000
Stock Returns	-19.104	0.0000
Responsibilities of the board of directors	-13.959	0.0000
Disclosures and Transparency	-16.867	0.0000

The test used in this analysis was Levin, Lin & Chu. This analysis includes a table of data stability test findings. This analysis contains Table 3 of the outcomes of the stability test. The time series results for the study are stable over time, as all p-values less than 5% .

4.6 Model Estimation:

The scope of research data extends for many firms into many years, and they constitute the panel data requiring an estimate of the model suitable for the testing of such data as the outcomes of three models are compared with time series and cross sections. And the Hausman test is used in this study For collection of models:

Table 5 : Hausman Test

Model	ch2	Prob.	Appropriate Model
HO1	9.458	0.002	Fixed
HO2	4.321	0.021	Fixed

5. Results

5.1 Hypothesis testing

Table presents an analysis of the Hypothesis test in this study:

HO1: There is no statistically significant impact at sig (α ≤ 0.05) for the board's responsibilities in improving the impact of the capital structure in its dimensions (short-term debt to equity, Long-term debt to equity, and total debt to total assets) on stock returns of Jordanian industrial companies listed in the ASE.

Table 6: Regressions result

Model 3			**Model 2**			**Model 1**			**Independent Variable**	**Dependent Variable**
Sig	**T**	**B**	**Sig**	**T**	**B**	**Sig**	**T**	**B**		
						0.00	8.36	1.04	capital structure	Stock Returns
			0.000	5.11	0.268				board's responsibilities	
0.008	3.411	0.172							Interaction between the responsibilities of the Board of Directors and capital structure	
0.702			0.617			0.684			**R**	
0.494			0.381			0.469			**R2**	
.025			.088			-			**ΔR2**	
3.739			2.460			3.527			**F**	
0.000			0.000			0.000			**Sig**	

The table above shows the results of the multiple hierarchical regressions. It shows that three models have been used so that the base model shows a positive relationship between the capital structure and the Stock Returns where r was (0.684). Also, there was a statistically significant effect at sig. (0.05) for the capital structure on the Stock Returns where the value of f was (3.527) by a statistical significance level (0.000) as for the value of the R squared, it was (0.469). This means that the capital structure was able to explain 46.9% of the variance of the dependent variable. With regard to the reduced model of introducing the board responsibilities as an moderating variable, there appeared a positive correlation between the board's responsibilities and the Stock Returns, with a correlation coefficient value of (0.617) and that there was a statistically positive effect for the board responsibilities variable on the Stock Returns where the value of f was (2.460) by a statistical significance of (0.000), and the R squared was 0.381. This means that the board's responsibilities were able to interpret these stocks from the variant stocks returns. The third model shows that the interaction of the moderating variable "the responsibilities of the Board of Directors" was added with the independent variable "capital structure" to show their effect on the Stock Returns where it was clear that there is a positive correlation between the interaction of the variables and the stocks' return where the correlation coefficient was (0.702). The results also indicated a positive effect for the responsibilities of the Board of Directors as an moderating variable of the relationship between the capital structure and the stocks returns where the value of f was (3.793) by a statistical significance of (0.000) and the R squared was (0.494). thus, the increase above the R squared in the base model was (0.025) leading to rejecting the null hypothesis stating that there is no statistically significant effect at sig. ($\alpha \leq 0.05$) for the board's responsibilities on improving the effect of the capital structure in its dimensions (the ratio of short-term debt to equity, the ratio of long-term debt to equity and the ratio of total debt to assets) on the stocks returns of the Jordanian industrial companies listed in the Amman Stock Exchange. Thus, the alternative hypothesis stating that there is a statistically significant effect at sig. ($\alpha \leq 0.05$) for the board's responsibilities on improving the effect of the capital structure in its dimensions (ratio of short-term debt to equity, long-term debt ratio to equity and ratio of total debt to total assets) on the stocks returns of the Jordanian industrial companies listed in the ASE is accepted.

HO2: There is no statistically significant impact at sig ($\alpha \leq 0.05$) for the disclosure and transparency in improving the impact of the capital structure in its dimensions (short-term debt to equity, Long-term debt to equity, and total debt to total assets) on stock returns of Jordanian industrial companies listed in the ASE.

Table 7: Regressions result

Model 3			Model 2			Model 1			Independent Variable	Dependent Variable
Sig	T	B	Sig	T	B	Sig	T	B		
						0.00	8.36	1.04	capital structure	
			.000	10.5	.502				disclosure and transparency	

0.000	4.87	.270			Interaction between disclosure and transparency and capital structure	Stock Returns
.719			.520	.684	**R**	
0.518			.271	.469	**R2**	
0.049			.198	-	**ΔR2**	
4.115			111.09	3.527	**F**	
.000			.000	.000	**Sig**	

The table above shows the results of the multiple hierarchical regressions where 3 models have been used. The base model shows a positive relationship between the capital structure and Stock Returns where the value of r was (0.684). There was also a statistically significant effect at sig. (0.05) for the capital structure on the Stock Returns where F was (3.527) by a statistical significance of (0.000). As for the regression value, it was (0.469) i.e. the capital structure was able to explain 46.9% of the variance of the dependent variable. the results of adding the disclosure and transparency as a moderating variable, it appeared that there was a positive correlation among disclosure, transparency, and Stock Returns, with a correlation coefficient of 0.520. There was also a statistically positive effect for the disclosure and transparency variable on the Stock Returns where the value of F was (111.09) by a statistical significance of (0.000), while the R squared was (0.271), which meant that both the disclosure and transparency were able to explain this ratio from the variance of the Stock Returns. As for the third model, the results of the analysis showed a positive correlation between the interaction of the adjusted variable of the disclosure and transparency with the independent variable of the capital structure and the Stock Returns.

5.2 Discussion and Conclusion:

The main aim of this research was to explore the Capital Structure on Stock Returns in the presence of the disclosure, transparency, and responsibilities of the Board of Directors as Moderating variables. These findings are as follows. First, There is a statistically significant effect at sig. ($\alpha \leq 0.05$) for the capital structure in its dimensions (short-term debt to equity, Long-term debt to equity, and total debt to total assets) on the Stock Returns, the f value was 64.62 by a statistical significance of (0.000), The influence of capital structure on stock returns can be related to the efficiency of management of the public industrial enterprises so that long-term borrowing decreased which was to avoid the company inability to bear significant benefits especially in condition with high-interest rates there has therefore been a reliance on short-term borrowings which shows how political and economic uncertainty affects the region and therefore creates a dissipation of the future vision of the economy depending on self-funding and not extending the financial leverage particularly long-term borrowing. The results of the analysis are inconsistent with (Nasih and Al-Badran, 2014), which shows that the leverage and profitability there is no relationship between them. This might be attributed to the difference of the study community represented by the industrial companies in Iraq, the small sample represented by 14 companies and the different dependent variable; (Nasih and Al-Badran) focused on the profitability while the variable in the current study was the Stock Returns. The result of the current study however was consistent with (Samhan, 2015), which indicated an effect for the capital structure and the financial leverage on the market value of the education and investment companies. In addition, (Githira and Nasieku 2015) showed that the capital structure is in positive relation to the asset structure, as well as (Hong and Gong,2017) showed that the capital structure influences the performance of firms.

Second, there was also a statistically significant effect at ($\alpha \leq 0.05$) for the responsibilities of the Board Directors, and disclosure and transparency in improving the effect of the capital structure in its dimensions (short-term debt to equity, Long-term debt to equity, and total debt to total assets) on the stocks returns. where the F value was (3.739);(4.115) by a statistical significance of (0.008); (0.000). By comparing this result with the results of the previous studies, it is clear that it was consistent with (Abweni, Al-Omari, 2016), and (Haddad, 2017). Also, the current result was consistent with (Ajanthan,2013) which indicated a mixed relationship between the governance principles and the capital structure. Also, it was consistent with (Kouenberg et al. 2013) which concluded that the existence of good governance has a significant effect on the returns of the traded stocks. Finally, it was consistent with (Budiman,2015) which found an effect for the corporate governance principles on the profitability and the shareholder value. It is also clear that the result of the current study was inconsistent with (Kumar,2006), which indicated that there was relationship between the governance principles and the capital structure. The difference in the results may be due to the different study environment, the timing of the study and the different dimensions through which the variables were measured . It might be also attributed to the different quality of the accounting information and the annual reporting data that was relied on in these studies.

The study has important practical implications. First, the results suggest that the ASE should encourage firms to focusing on the principle of disclosure and transparency as an important principle of corporate governance due to its effect on increasing the confidence and the survival of the enterprise. Moreover, shareholders and Corporate directors should be aware of the importance of adherence in corporate governance Because it has a role in higher reporting quality. Second, Diversifying the capital structure of the industrial companies due to its effect on the stock returns.

Since the research was limited to Industrial Jordanian Firms Listed on the ASE, the findings should be viewed in the Jordanian scope, as they do not extend to industries with different characteristics and institutional. Furthermore, since the current analysis is based on a sample from 2014–2018, future studies could expand the study period and further explore the effect of Capital Structure on Stock Returns and other corporate governance principles.

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