

# Cash Flows and Earnings for Share in Islamic Banks: Jordanian Evidence

Bader M. Alsharif<sup>1</sup>, Talal M. Bataineh<sup>2</sup> & Khaled M. Abo Aliqah<sup>2</sup>

<sup>1</sup> Assistant Professor, Faculty of Business, Tafila Technical University, At-Tafila, Jordan

<sup>2</sup> Professor, Faculty of Business, Tafila Technical University, At-Tafila, Jordan

Correspondence: Bader M. Al-Sharif, Faculty of Business, Tafila Technical University, AT-Tafila, P.O. Box 179, Tafila, 66110, Jordan. E-mail: bader.alsharif99@gmail.com

Received: September 16, 2020

Accepted: October 23, 2020

Online Published: November 6, 2020

doi:10.5539/ijbm.v15n12p15

URL: <https://doi.org/10.5539/ijbm.v15n12p15>

## Abstract

This study provides evidence on the effect of cash flows extracted from operating, investing, and financing activities attributed to the net profit, total assets or liabilities on the return per share for Jordan Islamic Bank, International Islamic Arab Bank, and Al-Rajhi Islamic Bank. The methodology is based on panel regression analyses of annual report data for Jordan listed Islamic Banks for the year from 2005 to 2019. The return on a stock plays an important role in investing and financing operations. Thus, the cash flows are weak in the short term and quickly increase in the long run. Results show a negative relationship between cash flow and return on a stock, except for cash flows from operating activities, which have a positive relationship with the return on a stock in the second and third models. The reason for this positive relationship is either the increase in operations from untapped money does not increase the size of assets or liabilities or the decrease in operations leads to an increase in profits and thus an increase in the return on the stock. This association indicates moderation in maintaining the amount of cash. Any risk facing the bank from withdrawals or financing operations is covered without affecting the size of the bank's profits until the turnout by investors increases and the profit increases.

**Keywords:** cash flows, earning per share, islamic banks

## 1. Introduction

Commercial transactions in markets developed from bartering and dealing with precious metals (gold and silver) to exchanging paper currencies. Various types of markets have appeared, including financial markets. These markets began dealing with usurious banks and now transact with secured banks. People who have transacted with usurious banks search for Islamic banks in the east and west of the country to avoid accepting or contributing to riba. The nucleus signs of Islamic banks or windows began appearing in commercial banks in Egypt, Pakistan, and Malaysia. The first Islamic bank was established in Jordan in 1978 and followed by the opening of the International Islamic Arab Bank in 1987 and the Islamic Elite Bank in 2009. Islamic banks then entered the market of economics and banking modestly but rapidly developed over time (Securities Depository Center, 2020). Banks play a mediating role between depositors, who want to invest their savings with minimum risk and withdraw them when needed, and investors, who want to borrow money at a reasonable cost for months or years and return it when appropriate and after generating income from their investments. Islamic banks are intermediate financial institutions that mobilize and invest deposits and finance projects in line with Islamic Sharia regulations. These banks are interested in financial statements, such as income and budget statements. Many attempts have been made to derive important financial lists that benefit finance and accounting work in the 1950s in the US; a list of changes in the financial position was obtained, and the cash flow list was not obtained until it was displayed and analyzed using appropriate methods to convert the available data into useful information, which could be used to determine the strengths and weaknesses of a bank's activity, make necessary decisions and forecast future cash flows (Shaheen et al., 2004: 223).

Despite the delay in preparing the first list of cash flows until 1984, which provides useful information on a bank's operating, investing, and financing activities, as indicated by Resolution No. (5) issued by the Financial Accounting Standards Board, and given the importance of the list of financial flows, the Financial Accounting Standards Board issued Standard No. (95) in 1987, which obliges firms and Islamic banks to prepare a list of cash flows instead of a list of changes in the financial position; this standard came in response to the crisis that

has befallen American financial markets and what happened in the financial markets and future contracts in 1987 (Al-Halaby, 2006: 215).

The list of financial flows became an integral part of the audited financial statements included in the annual reports issued by establishments according to Standard No. (7) issued by the International Standards Committee in 1992, which replaced Standard No. (95) in 1987. The goal of institutions, companies, and Islamic banks are to achieve the development of one's share profit, which is considered one of the most important indicators of the financial performance of banks, which investors depend on when making investment decisions (Abdullah, 1995: 140).

Cash flow is defined as the amount of cash generated by investing in projects with positive net present value after the deduction of cost; it is the capital generated internally from operating, investing, and financing activities (Myers and Majluf, 1984: 750).

Given that the Islamic banking market is emerging and the investing culture of investors looking for Islamic investment is new, and most investors, especially young ones, may not have expectations for Islamic bank dividends based on a scientific fact because no scientific study has dealt with the relationship between cash flows and dividends in Islamic banks according to the researcher's knowledge. Therefore, the present study helps investors by explaining the factors that affect share stock, including cash flows in Islamic banks, for them to reach correct investment decisions and avoid rumors by studying the impact of cash flows generated from operating, investing, and financing on earnings per share in Islamic banks.

## 2. Literature Review

The cash flow statement shows the cash and quasi-cash changes for operations, investments, and highly liquid funds that have been made by an organization in terms of increases and decreases and knowing their causes. It is a financial report that describes the performance of the enterprise in terms of cash inflows from operating, investing, and financing activities and from outflows, which are payments for operating, investing, and financing activities, such as cash dividends and taxes. Garrison et al. (2015) and Myers and Majluf (1984) predict the optimal savings hypothesis by increasing the value of the company by generating capital before making certain investment decisions. Dechow and Ge (2006) and Abu Al-Rob (2019) indicate that the amount of liquidity in banks indicates to investors the bank's ability to make new investments and pay cash dividends. Given that cash flow means cash generated from operating, investing, and financing activities after subtracting capital expenditures and taxes, the greater the amount of cash generated, the greater the profit. The increase in profit is usually greater than the increase in generated cash flow. Therefore, the cash flow generated from operating, investing, and financing activities are attributed to the net profit, and the increase in net profit increases the share's profit.

Bin Khalifa (2013) show that cash flow from operating activities attributable to assets or current liabilities increase profit and earnings per share because the volume of assets and liabilities has not changed during operations. The relationship between cash flows from operating activities attributed to assets or current liabilities and the return for the stock is positive. However, the size of assets is affected by the investment process, especially if these assets or new assets that have been purchased are exploited. Therefore, the greater the percentage of asset exploitation in the investment process, the more cash flows from the investment process increase, and managers tend to invest the funds that give them personal privileges at the market level. These managers choose to invest and finance in projects with a high personal return despite the negative current value of the projects, or they use cash flow in investing and financing with personal privileges while ignoring the interest of shareholders and the board of directors and not using assets, which lead to lower returns. Etale and Pingilar (2016) and Eyisi and Okpe (2014) discuss that enterprises with high cash flow spend more in investing and financing activities and do not require the use of the enterprise's assets effectively, which is consistent with the high cash flow hypothesis, compared with facilities with low cash flow that tend to use assets effectively. Jensen (1993), Ang et al. (2000), Br-Bukit and Iskandar (2009), Gul (2001), Hamidi (2014), Alzararee and Al-Azzawi (2014), and Frank and James (2014) indicate that managers do not inform the investors and shareholders of the cash flow projections of investing and financing because of their conflicting personal interests; this conflict results in the ineffective use of the assets of the facility. Therefore, the increase in investments and finances in the bank increases the earnings per share, but the increase in investing and financing activities with high cash flows contributes to the ineffective use of assets and then reduces the earnings per share in the bank.

Based on the above discussion, the relationship between cash flow derived from operating, investing, and financing activities is expected to be attributed to total assets.

The money obtained from short-, medium- or long-run financing from banks is used because of market inefficiency or the lack of financial markets, especially if the borrowing costs from banks are low and the high volume of bank loans granted for investing and financing increase the cash flow and profits (Myers and Majluf, 1984). Martani et al. (2009), Dastgir et al. (2010), Eyisi and Okpe (2014), Khanji and Siam (2015), and Oroud et al. (2017) focus on the fact that high borrowing costs result from high debt interest rate and commissions in the central or other banks. The bank may use its cash surplus for investing and financing for others, whether individuals, institutions, or banks because it tries to maintain a moderate volume of money in the bank from deposits to meet any risks the bank faces from paying profits and withdrawals. These deposits constitute obligations in circulation in the bank. The increase in cash flow from investing and financing activities is less than the increase in current liabilities and thus increase the profits of the bank. Consequently, the funds that increase the volume of the current liabilities are directed towards investments.

We conclude from the discussion of the previous literature that testing cash flow from operating, investing, and financing activities and showing its effect on the earnings per share showed a positive relationship between the cash flows extracted from operations and the earnings per share. This relationship is statistically significant at the 5% level. Some studies, including Muthusi (2013), Taani (2011), Soewlgnyo and Soewlgnyo (2017), Suleimani (2013), and Pouraghajan et al. (2013), have presented the absence of a statistically significant effect of the relationship between cash flows from operating activities and stock profitability.

Dergham (2010) shows that cash flows extracted from operating, investing and financing activities have no statistically significant effect on the earnings per share in banks in Palestine.

Hamza (2014) show that earnings per share have a positive and statistically significant relationship with cash flows extracted from operations, an inverse relationship with the cash flows from the financing activities, and no statistical effect on the cash flows extracted from investing activities; studies have used the descriptive-analytical method for different periods and different institutions.

Nwanyanwu (2015) evaluates the cash flow and organizational performance of hospitality and print media industries in Nigeria using a pilot study. A total of 45 SMEs in those sectors are sampled. The findings show that, given the advances in technology and the quality of services delivery, which creates competition, hospitality and print media organizations should develop strategies to enhance their cash inflow.

Rahim (2016) aims to show the role of the cash flow list in evaluating financial performance measured through the profitability, leverage, and market ratios of the Jordanian banking sector. The study uses a descriptive-analytical approach and a sample that consists of 13 Jordanian commercial banks. The results show the existence of a role for the cash flow list in evaluating profitability, financial leverage, and market ratios from 2014 to 2015.

Soewignyo and Soewignyo (2017) aim to study the impact of financial ratios derived from operating cash flows on company profitability. The study uses a set of financial ratios represented in the earnings per share, return on assets, and return on equity and is based on a descriptive-analytical approach. The study consists of 41 public joint-stock industrial companies listed on the Indonesia Stock Exchange from 2011 to 2016. The study reveals that the cash flow attributable to the current liabilities has an impact on a company's profitability in all its indicators (i.e., earnings per share, return on equity, and return on assets) and that the ratio of cash flows, which are attributed to the total commitment, to the profitability of the company can be explained well.

Mohammed and Rababa'a (2018) aim to determine the effect of performance indicators based on cash flows on stock performance (asset prices and stock returns). The study sample includes 11 Sudanese banks in the Khartoum Stock Exchange from 2014 to 2010. The results show a negative and statistically significant relationship among the adjusted net income index, the working capital rate index, and the returns of the Sudanese banks' stocks.

Abu Rob (2019) aims to know the effect of the financial ratios extracted from operating cash flows on the earnings per share in Jordanian commercial banks. The researcher adopts a descriptive-analytical method on commercial banks listed on the Amman Stock Exchange from 2013 to 2017. Multiple regression analysis is used to inform the study hypotheses. The results show a statistically significant effect of the financial ratios extracted from operational cash flows on the earnings per share in Jordanian commercial banks and a significantly positive effect of operational cash flows attributed to the net profit and credit facility deposits on earnings per share in Jordanian commercial banks.

Nandhu and Kumar (2020) discuss that a statement of cash inflow and outflow is integral to exhibit the financial performance of an organization. Dynamic cash ratios support the fiscal divergence of an organization.

Conventional statements, such as income statements and balance sheets, have not been enough to provide acute information about liquidity because they do not project the real changes in the cash balance. The measurement of real cash flows should depend more on dynamic cash flow-based ratios. These ratios are an acute measure to indicate the financial soundness of a company. The present study attempts to analyze the effectiveness of cash flow ratios to predict the performance divergence of selected steel firms in India. After reviewing the previous studies, this study examines the relationship between cash flows from operating, investing, and financing activities attributed to net profit, assets and liabilities, and the earnings per share in Islamic banks in Jordan using a descriptive-analytical approach. This study is different from previous scientific studies because it is the first to examine Islamic banks and use statistical methods.

### 3. Research Methodology

#### 3.1 Selection of Variables and Development of Hypothesis

This experimental study consists of two parts. First, the measurement of variables, including earnings per share representing the dependent variable, is obtained by dividing the net profit by the number of annual ordinary shares in Islamic banks. The three independent variables in each model, which are cash flows measured by money generated from operating, investing, and financing, are divided into the net profit in the first model, assets in the second model, or liabilities in the third model. Second, we investigate whether these major independent variables have the same effect on the stock's profit prospects in Islamic banks. The multiple linear models are tested below for cash flows extracted from operating, investing, and financing activities. These cash flows are attributable to net profit in the first model, assets in the second model, and obligations in the third model with the earnings per share in Islamic banks. The following hypotheses are proposed.

*Hypothesis 1:* Earnings per share has a negative relationship with cash flow derived from operating, investing and financing activities / net income after tax at the level of significance ( $\alpha \leq 0.05$ ) in Islamic banks.

*Hypothesis 2:* Earnings per share has a positive relationship with cash flow derived from operating activities / total assets and a negative relationship with cash flow derived from investing and financing activities / total assets at the level of significance ( $\alpha \leq 0.05$ ) in Islamic banks.

*Hypothesis 3:* Earnings per share has a positive relationship with cash flow derived from operating activities / current liabilities and a negative relationship with cash flow derived from investing and financing activities / current liabilities at the level of significance ( $\alpha \leq 0.05$ ) in Islamic banks.

#### 3.2 Research Model

The methodology is based on panel regression analyses and the hypotheses are tested through the following general models:

$$Y = \beta_0 + \beta_1 X_1 + \beta_4 X_4 + \beta_7 X_7 + \epsilon_i \quad (1)$$

$$Y = \beta_0 + \beta_2 X_2 + \beta_5 X_5 + \beta_8 X_8 + \epsilon_i \quad (2)$$

$$Y = \beta_0 + \beta_3 X_3 + \beta_6 X_6 + \beta_9 X_9 + \epsilon_i \quad (3)$$

The variables in the above models are illustrated in Table 1.

Table 1. Dependent, independent variables in the research model

Name of the variable	Code of the variable	Measure	Expected signs
<b>Dependent variable</b>			
Earnings per Share	Y	Calculating the deviation, the benchmark for the market value of a share	
<b>Independent variable</b>			
Operating Cashflow attributed to Net Profit	X1	Operating Cashflow divide on Net Profit	-
Operating Cashflow attributed to Current Assets	X2	Operating Cashflow / Current Assets	-
Operating Cashflow attributed to Current Liabilities	X3	Operating Cashflow /Current Liabilities	-
Investing Cashflow attributed to Net Profit	X4	Investing Cashflow / Net Profit	+
Investing Cashflow attributed to Current Assets	X5	Investing Cashflow / Current Assets	-
Investing Cashflow attributed to Current Liabilities	X6	Investing Cashflow / Current Liabilities	-
Financing Cashflow attributed to Net Profit	X7	Financing Cashflow / Net Profit	+
Financing Cashflow attributed to Current Assets	X8	Financing Cashflow / Current Assets	-
Financing Cashflow attributed to Current Liabilities	X9	Financing Cashflow / Current Liabilities	-

Source: Author.

### 3.2.1 Dependent Variables

Earnings per Share(Y) as the dependent variable, this study measures Earning per Share (Y) as the division of net income after tax over No. Of Subscribed Shares. This measure is adopted from a study Taani & Bany Khaled (2011).

### 3.2.2 Independent Variables

- Operating Cashflow attributed to Net Profit (X1), which is Cash flow derived from operating activities attribute to net income after tax (Eyisi and Okpe. ,2014)
- Operating Cashflow is attributed to Current Assets (X2), which is Cash flow derived from operating activities attribute to total assets (Matani et al,2009).
- Operating Cashflow attributed to Current Liabilities (X3), Cash flow derived from operating activities attribute to current liabilities (Eyisi and Okpe,2014)
- Investing Cashflow attributed to Net Profit (X4), Cash flow derived from investing activities attribute to net income after tax (Etale and Bingilar, 2016)
- Investing Cashflow attributed to Current Assets (X5), which is Cash flow derived from investing activities attribute to total assets (Etale and Bingilar,2016)
- Investing Cashflow attributed to Current Liabilities (X6), which is Cash flow derived from investing activities attribute to current liabilities (Etale and Bingilar,2016)
- Financing Cashflow attributed to Net Profit (X7), which is Cash flow derived from financing activities attribute to net income after tax (Bin Khalifa,2013).
- Financing Cashflow attributed to Current Assets (X8), which is Cash flow derived from financing activities attribute to total assets (Bin Khalifa,2013).

- Financing Cashflow attributed to Current Liabilities (X9), which is Cash flow derived from financing activities attribute to current liabilities (Bin Khalifa,2013).

### 3.3 Sample Size and Data Resources

The basicsThe study sample consists of Islamic banks in Jordan (i.e., Jordan Islamic Bank, International Islamic Arab Bank, Al-Safwa Islamic Bank, and Al-Rajhi Bank). Accessing the market share value of some banks is difficult. The researcher conducts the study on the Jordan Islamic Bank, International Islamic Arab Bank, and Al-Safwa Islamic Bank from 2005 to 2019 (15 years). Al-Rajhi Bank is excluded because it is a Saudi bank and does not list its shares in the Amman Financial Market. To test the study hypotheses, the researcher collects data from the following sources:

- Primary sources are the actual data from the financial statements and trading data for companies in the Amman Financial Market, Amman Stock Exchange, and the Securities Depository Centre; Secondary sources are reports, books, references, previous studies, and scientific articles that have dealt with the subject of the study to formulate the theoretical aspect of the study.

## 4. Results

### 4.1 Descriptive Statistical Analysis

The statistics summarised in Table 1 indicate that the Islamic banks in our sample perform well during the study period with an average return per share of 19.6% and have high levels of dividend distribution. The table shows the average cash flow from operating activities attributable to a net profit of -520%, assets of -3.5%, and obligations of -3.3%, indicating that the average cash flow from operating activities is -181%. Cash flows from investing activities are attributable to a net profit of -36%, assets of -1%, and liabilities of -1%, indicating that the average cash flow from investment activities is -12.7%. Cash flows from financing activities attributable to a net profit of 959%, assets of 7.5%, and liabilities of 12.4%, indicating that the average cash flow from financing activities is 326.3%. The average cash flow is from high financing activities and low operating activities. Before the correlation analysis, normal state testing is performed using deviation and kurtosis to ensure that the data are distributed to dependent and independent variables (Keller and Warrack, 2003).

Table 2. Descriptive statistics of variables

Variables	Mean	SD	Min	Max
Y	0.196	0.130	-0.046	0.433
X1	-5.200	19.800	-111.800	31.330
X2	-0.035	0.110	-0.310	0.267
X3	-0.033	0.180	-0.530	0.725
X4	-0.360	4.640	-13.850	16.100
X5	-0.010	0.030	-0.160	0.057
X6	-0.010	0.049	-0.270	0.090
X7	9.590	16.800	-29.400	65.920
X8	0.075	0.090	-0.160	0.379
X9	0.124	0.300	-0.250	1.920

### 4.2 Expected Results

By reviewing previous studies and the financial statements of Islamic banks, the researcher expects great cash flows from operating, investment, and financing activities attributable to the net profit, assets, and liabilities and the low earnings per share in Islamic banks in Jordan.

### 4.3 Test of Hypotheses (Multivariate Analyses) and Research Model

The correlations between independent variables are tested to see whether a multicollinearity problem is encountered with the data. Tables 3, 4, and 5 present Pearson correlation coefficients for the variables at the 0.05 level of significance. The tables show that the correlation coefficients are low. The highest coefficient is -0.732, representing the correlation between the operating and financing cash flows attributed to the net income. Gujarati (2003) states that a multicollinearity problem only exists if the correlation coefficients between explanatory variables are above 0.8. The results of the multicollinearity test and the multiple regression test indicate no multiple linear correlations between the independent variables because the VIP value is greater than 1 and less than 10 (Drury, 2008).

Table 3. Correlations matrix for model1

Variables	Y	X1	X4	X7
Y	1			
X1	0.261	<i>I</i>		
X4	-0.063	0.204	<i>I</i>	
X7	-0.457	-0.732	-0.286	<i>I</i>

Table 4. Correlations matrix for model2.

Variables	Y	X2	X5	X8
Y	1			
X2	0.320	<i>I</i>		
X5	0.190	0.245	<i>I</i>	
X8	-0.524	-0.438	-0.412	<i>I</i>

Table 5. Correlations matrix for model 3.

Variables	Y	X3	X6	X9
Y	1			
X3	0.192	<i>I</i>		
X6	0.218	0.273	<i>I</i>	
X9	-0.373	0.366	-0.258	<i>I</i>

The study uses multiple linear regression analysis to analyze the relationship between earnings per share and the number of independent variables, including operating cash flow activities, investing cash flow activities, and financing cash flow activities. These flows are divided by the net profit in the first model, the total assets in the second model, and the obligations traded in the third model. Table 7 shows the results of multiple linear regression tests for these models.

The results of the first model test show an inverse relationship with statistically significant cash flow from operating, investing, and financing activities attributable to the net profit with earnings per share in Islamic banks. Sig = 0.006 and is less than 5%. F-value (4.849) is greater than F-table (2.44) and D. W (0.726) is less than the minimum value for the Watson table (dL = 1.338). Therefore, the model is appropriate. This result supports the alternative hypothesis (H1).

$R^2 = 0.262$  means that 26.2% of the changes in the profitability of shares in Islamic banks are explained by the cash flows from the operating, investing and financing activities attributed to the net profit. This result is consistent with the results of Abu Al-Rob (2019), which differ from the results of Al-Suleimani (2013) and Pouraghajan et al. (2013) by the absence of traces. The current study differs from Hamidi (2014), Dergham and Dergham (2010), Khanji and Siam (2015), Etale and Pingilar (2016), Taani (2011), Muthusi (2013), (Soewlgnyo and Soewlgnyo (2017), and Martani et al. (2009). It shows a positive relationship between cash flows attributable to the net profit and the earnings per share.

The results of the test of the second model indicate a direct relationship between cash flows from operating activities attributed to total assets and earnings per share and an inverse relationship with statistical significance between cash flows from investing and financing activities attributed to total assets and earnings per share in Islamic banks. Sig = 0.003 and is less than 5%. F-value (5.474) is greater than F-table (2.44) and D. W (0.677) is less than dL (1.338); thus, the model is appropriate. The result supports the alternative hypothesis (H2).  $R^2 = 0.276$  means that 27.6% of the changes in the profitability of shares in Islamic banks are explained by the cash flows from investing and financing activities attributed to the total assets. The current study participated in the study of Frank and James (2014), which shows a positive relationship between operating cash flows attributable to the total assets and future stock returns of New Zealand companies. The studies of Etale and Pingilar (2016), Eyisi and Okpe (2014), Taani (2011), Dastgir and Sajadi, and Akhgar (2009) are similar to the study of the current study, which finds a positive relationship between operating cash flows, and differ from the current study in cash flows from investing and financing activities attributed to assets.

The results of testing the third model indicate a direct relationship between cash flows from operating activities attributable to the current liabilities and earnings per share and an inverse relationship with statistical significance between cash flows from investing and financing activities attributed to the obligations traded and

earnings per share in Islamic banks. Sig = 0.005 and is less than 5%. F-value (4.919) is greater than F-table (2.44) and D. W (0.555) is less than dL (1.338). Thus, the model is appropriate. This result supports the alternative hypothesis (H3).  $R^2 = 0.263$  means that 26.3% of the changes in the profitability of shares in Islamic banks are explained by cash flows from investing and financing activities attributed to current liabilities. The current study is similar to previous studies. Eyisi and Okpe (2014) and Soewlgnyo and Soewlgnyo (2017) show a positive relationship between cash flows from operating activities and differed and cash flows from investing and financing activities attributable to current liabilities. The study of Hamza (2014) is similar to the current study in the cash flows from operating and financing activities and differs in the cash flows from investing activities.

Table 6. Multiple regression results of model (1, 2, 3)

Model	Variables	Coefficient	t-Statistic	R <sup>2</sup>	Sig	F	D-W
First	Constant	0.235	11.752	0.262	0.006	4.849	0.726
	X1	-0.001	-0.818				
	X4	-0.006	-1.513				
	X7	-0.005	-3.159				
Second	Constant	0.250	11.626	0.276	0.003	5.474	0.677
	X2	0.141	0.785				
	X5	-0.159	-0.276				
	X8	-0.673	-3.125				
Third	Constant	0.232	12.006	0.263	0.005	4.919	0.555
	X3	0.280	2.469				
	X6	-0.060	-0.151				
	X9	-0.222	-3.323				

## 5. Discussion

The increase in the ratio of cash to net profit resulting from the decrease in cash used in the operating, investing, and financing activities leads to a decrease in the net profit and thus a decrease in the return on a share and an increase in the risk of not investing in Islamic banks. Therefore, the inverse relationship between the cash flows from operating, investing, and financing activities attributed to the net profit and earnings per Share in Islamic banks is a result of the first model test. The high ratio of cash to the total assets indicates an increase in cash balances in the bank despite the increase in the operating process to the assets. However, the investing and financing of assets are ineffective in achieving the personal interests of the manager, which leads to a decrease in the net profit and thus a decrease in the return on a stock in Islamic banks. This interpretation is identical to the results of the test of the second model. A positive relationship exists between the operating cash flow activities attributed to the assets and the return on a stock, and an inverse relationship exists between the cash flow from investing and financing activities attributed to the total assets with the return on a stock in Islamic banks.

The ratio of cash to current liabilities measures the bank's ability to meet obligations in emergency circumstances and the extent of coping with demand for withdrawals. Therefore, a direct relationship exists between cash flows from operating activities attributable to the current liabilities and the return on the stock, and an inverse relationship exists between the cash flows from investing and financing activities attributed to the current liabilities and the return on the stock in Islamic banks as a result of testing the third model. nature of the relationship is negative for cash flow and return on the stock, except for cash flows from operating activities attributable to the total assets and current liabilities, whose relationship changed to positive with the return on the stock in the second and third models. The increase in the operations of unused cash does not affect the size of the assets or obligations to increase or decrease and leads to an increase in profits and thus an increase in the return on the stock. The previous discussion mentioned that the bank's position is sensitive to the amount of cash available without exploitation. The high volume of cash increases the safety of investors and dealers with the bank and the bank's reputation in the market because it gives the bank the high ability to face any risks but lowers investing and financing operations, which are the two main factors in increasing profits. Therefore, profits are low, and investors move away from the demand for the bank. As a result, the bank's administrators must adjust the amount of cash such that any risk that the bank faces from withdrawals or financing operations does not affect the growth of investing and financing operations, which increases the bank's earnings.



## References

- Abdullah, A. (1995). The Determining Factors of Share Price of Joint-Stock Companies in The Kingdom of Saudi Arabia, Yarmouk University. *Yarmouk Research Journal*, 11(1), 140-141,
- Abu Al-Rob, L. (2019). The Impact of Financial Ratios Drawn from Operating Cash Flows on Earnings Per Share. Unpublished Master Thesis, Middle East University, Amman, Jordan.
- Al Zararee, A., & Al-Azzawi, A. (2014). The Impact of Free Cash Flow on Market Value of Firm. *Global Review of Accounting and Finance*, 5(2), 56-63. <https://doi.org/10.21102/graf.2014.09.52.04>
- Al-Halaby, N. (2006). The Role of Information, Cash Flows in Making Investment and Borrowing Decisions in Syrian Private Companies, An Applied Study, Damascus University. *Journal for Economic and Legal Sciences, Damascus, Syria*, 22(1), 215-216.
- Al-Sulaymani, K. (2013). The Impact of Net Operating Cash Flows in Public Shareholding Companies in Kuwait on Their Profits, Unpublished Master Thesis, Middle East University, Amman, Jordan.
- Ang, J. S., Cole, R. A., & Lin, W. J. (2000). Agency Cost and Ownership Structure. *Journal of Finance*, 55(1), 81-106. <https://doi.org/10.1111/0022-1082.00201>
- Bin Khalifa, H. (2013). The Role of the Cash Flows Statement in Evaluating the Corporation's Financial Performance: A Case Study of Edimma-el Oued Agricultural Distribution and Maintenance, Unpublished Master Thesis, University of Mohamed Khader-Biskra, Algeria.
- Br-Bukit, R., & Iskandar, T. M. (2009). Surplus Cash Flow, Earnings Management, and Audit Committee. *International Journal of Economics and Management*, 3(1), 204-223.
- Dastgir, M., Sajadi, H. S., & Akhgar, O. M. (2010). The Association Between Components of Income Statement, Components of Cash Flow Statement and Stock Returns. *Business Intelligence Journal*, 3(1), 921-922.
- Dechow, P. M., & Ge, W. (2006). The Persistence of Earnings and Cash Flows and The Role of Special Items: Implications for The Accrual Anomaly. *Review of Accounting Studies*, 11(2), 253-296. <https://doi.org/10.1007/s11142-006-9004-1>
- Dergham, M., & Dergham, S. (2009). The Relationship Between Cash Flows and Dividends According to International Accounting Standard No. (7). *Arabian Journal for Management*, 30(2), 1-44.
- Drury, Colin (2008). *Management and Cost Accounting* (5th ed.). U.S.A: Thomson.
- Etale, L., & Bingilar, P. (2016). The Impact of Cash Flow on Stock Price in the Banking Sector of Nigeria. *Business, Management and Economics Research*, 2(7), 136-140.
- Eyisi, A., & Okpe, I. (2014). The Impact of Cash Flow Ratio on Corporate Performance. *Research Journal of Finance and Accounting*, 5(6), 149-159.
- Frank, B. P., & James, O. K. (2014). Cash flow and Corporate Performance. *European Journal of Accounting Auditing and Finance Research*, 2(7), 77-87.
- Garrison, r., Noreen, E., & Brewer, P. (2015). *Managerial Accounting* (15th ed.). New York: McGraw-Hill.
- Gujarati, D. N. (2003). *Basic Econometrics* (4th ed.). New York, McGraw Hill.
- Gul, F. A. (2001). Free Cash Flow, Debt Monitoring and Managers' LIFO/ FIFO Policy Choice. *Journal of Corporate Finance*, 7(4), 475-492. [https://doi.org/10.1016/S0929-1199\(01\)00037-2](https://doi.org/10.1016/S0929-1199(01)00037-2)
- Hamidi, K. (2014). The Impact of Operating Cash Flows on The Company's Value. *Muthanna Journal of Administrative and Economic Sciences*, 3(7), 65-87.
- Hamza, M. (2014) The Relationship Between Informational Content of Cash Flows Statement and Stock Returns from Accounting Perspective of IAS (7): An Empirical Study. *European Journal of Accounting Auditing and Finance Research*, 2(10), 67-84.
- Jensen, M. (1993). AFA Presidential Address: The Modern Industrial Revolution Exits and The Failure of Internal Control Systems. *Journal of Finance*, 48(3), 830-881. <https://doi.org/10.1111/j.1540-6261.1993.tb04022.x>
- Keller, G., & Warrack, B. (2003). *Statistics for Management and Economics* (6th ed.). London, Pacific Grove, CA: Duxbury Press.
- Khanji, I. M., & Siam, A. Z. (2015). The Effect of Cash Flow on Share Price of the Jordanian Commercial Banks listed in Amman Stock Exchange. *International Journal of Economics and Finance*, 7(5), 109-115.

<https://doi.org/10.5539/ijef.v7n5p109>

- Martani, D., Khairurizka, R., & Khairurizka, R. (2009). The Effect of Financial Ratios, Firm Size, and Cash Flow from Operating Activities in The Interim Report to The Stock Return. *Chinese Business Review*, 8(6), 44-55.
- Muhammed, O., & Rababaa, M. (2018). Performance Indicators Based on Cash Flows and Their Impact on the shares of companies listed in the Khartoum Stock Exchange, an applied study. *Journal of Economic Studies*, 29(2), 1-18.
- Muthusi, P. (2013). Effects of Free Cash Flows on The Profitability of Five Star Hotels in Kenya. Unpublished Doctoral Thesis, University of Nairobi, Nairobi, Kenya.
- Myers, S. C., & Majluf, N. S. (1984). Corporate Financing and Investment Decisions When Firms Have Information That Investors Do Not Have. *Journal of Financial Economics*, 13(2), 187-221. [https://doi.org/10.1016/0304-405X\(84\)90023-0](https://doi.org/10.1016/0304-405X(84)90023-0)
- Nandhu N., & Kumar, R. (2020). Effectiveness of Cashflow Ratios to Measure: The Performance Divergences of Selected Steel Companies in India. *International journal of scientific & technology research*, 9(1), 2691-2710.
- Nwanyanwu, L. (2015). Cash Flow and Organizational Performance in Nigeria: Hospitality and Print Media Industries Perspectives. *European Journal of Business, Economics and Accountancy*, 3(3), 66-70.
- Oroud, Y., Siam, A., & Ahmad, T. (2017). The Effect of Cash Flows on The Share Price on Amman Stock Exchange. *American Based Research Journal*, 6(7), 22-28.
- Pouraghajan, A., Mansourinia, E., Bagheri, S., Emamgholipour, M., & Emamgholipour, B. (2013). Investigation The Effect of Financial Ratios, Operating Cash Flows and Firm Size on Earnings Per Share: Evidence from the Tehran Stock Exchange. *International Journal of Economics and Finance*, 4(5), 1026-1033. <https://doi.org/10.5539/ijef.v4n7p41>
- Rahim, M. (2016). List of Cash Flows and Their Role in Evaluating The Financial Performance of The Jordanian Banking Sector. Unpublished Master Thesis, Al al-Bayt University, Mafraq, Jordan.
- Shaheen, A., Mahmoud, I., & Abu Al-Shawareb, S. (2004). Principles of Financial Accounting (Part Two) (2nd ed.). The Islamic University, Gaza, Palestine.
- Soewignyo, F., & Soewignyo, T. (2017). Basic Industry and Chemicals Subsector Cash Flow Ratios and Profitability. *Journal of US-China Public Administration*, 14(6), 321-329. <https://doi.org/10.17265/1548-6591/2017.06.003>
- Taani, K., & Bany, K. M. H. (2011). The Effect of Financial Ratios, Firm Size and Cash Flows from Operating Activities on Earnings Per Share: An Applied Study on Jordanian Industrial Sector. *International Journal of Social Sciences and Humanity Studies*, 3(1), 197-205.

### Copyrights

Copyright for this article is retained by the author(s). with first publication rights granted to the journal.

This is an open-access article distributed under the terms and conditions of the Creative Commons Attribution license (<http://creativecommons.org/licenses/by/4.0/>).