The Effect of capital structure on the performance of Islamic banks

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Abstract

The objective of this study was to test the impact of capital structure on the performance of the Jordanian Islamic Banks, through the using multiple regression model. The model included a sample of two Islamic banks: Jordan Islamic Bank (JIB) and Islamic International Arab bank. The sample of the study relied on annual statements of Islamic bank for the period (1998-2012). By using several financial ratios represented the Independent variable: (Equity Ratio, Total Assets, Ratio of Financing to Total Assets, Ratio of liquid Assets of total asset and concentration Ratio “Index Hervndal”). The dependent variable is the performance was measured using a scale Tobin Q.

The results of study found a positive impact for each: (Equity Ratio, Total Assets and Ratio of financing to Total Assets) on performance. And the concentration Ration “Index Hervndal” had negative impact on performance, and there is no impact to the Ratio of liquid Assets of Total asset on the performance of Islamic banks in Jordan.

Keywords: Effect; Capital structure; Performance of Islamic banks

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Introduction

Funding from an Islamic perspective the job determines the available financial resources are legitimate sources and monitor the amounts required to finance the activities permitted and clarify the disbursement method to achieve predetermined objectives in line with the spirit of Islam and do not conflict with, Funding in economic profit is getting money from different sources of employment (invested) in certain areas to maximize the value of enterprise market.

Funding from an Islamic perspective is no different than this concept only controls derived from the Islamic law means of obtaining funds and invest, In the capitalist economy focuses attention on the physical aspects only to the economic project either in finance or investment, but in Islamic economy, the focus is on the physical aspects in the framework of Islamic controls of financing or investment Such an interest may not borrow or invest in illicit bond (Hendi, 2003).

The established bear certain costs in order to obtain money (funding) needed to carry out its activities. and Usually this cost will vary depending on the source of funding, The cost of funds obtained through the issuing new shares, for example, are different from those that will obtain them through the issuance of bonds or certificates of deposit, the costs incurred by the facility to obtain funds called a Cost of Funds or Cost Of Capital. Capital doesn’t consists of financing through ordinary shares or excellent, but it is financed through long-term debt, which is one of the most important forms are long-term bonds. It should be noted here that the concept of cost of funds in banks equivalent to the concept of the cost of capital in other companies, but bankers are using this term because it also includes the cost of the investment deposit.

Importance of the study

The importance of the study in its attempt to identify the effect of capital structure on the performance of Islamic banks and using some variables as (Equity Ratio, Size, appropriate financial ratio, Ratio of Financing to total assets ratio, Ratio of liquid assets to total assets, Hirvendal index of the banking concentration), In terms of Islamic banks and because of the privacy of these banks not fought in methods of traditional religion, which includes the payment of interest on the amount borrowed, the funding structure in Islamic banks is a phenomenon that deserves to stand on them to identify the sources adopted by those banks to obtain funds, Maximizing the value of a Bank is one of the administration goals, and financial structure may affect this value, so you must specify the appropriate structure which maximizes this value, hence this study to show how to use the Islamic banks to the capital structure in the sense does capital structure used to increase the profits of the Bank?

The problem of the study:

Islamic banks are based in all financing and investment activities on the principles and provisions of the Islamic law, which includes an integrated set of norms and the methods and ways that are consistent with the provisions of Islamic law, Perhaps the most important characteristic of traditional banks from Islamic banks (commercial) is that they do not deal in interest (usury) is not taking and giving, It relies on a system of Islamic investment formulas, including cost-plus, lease and participation and long-term sales and other. It is also know that the traditional sources of financing that get through which financial institutions and non-financial assets include the sources of debt and sources of property As the debt in its traditional form is not consistent with
the provisions of Islamic law to the including of the interest of the original amount, it would be a challenge to Islamic banks that prevents them from benefiting from the traditional sources of debt, leading it to search for other financing solutions in accordance with the provisions of Islamic law. Hence, the capital structure in Islamic banks must differ from traditional bank financing structures and will have a direct impact on financial performance indicators for those banks. Based on the above, this study is to explore the funding structures in Islamic banks in Jordan during the period (1998-2010) knowing the impact of capital structure on financial performance indicators for those banks, while the problem to know whether there is a relationship between capital structure and performance of Islamic banks, the study problem could be in the form of questions:-

* What is the effect of the percentage of ownership in the Jordanian Islamic banks, reflecting the structure of its funding on the financial performance indicators of the Jordanian Islamic banks?

- Is there an impact of the size of the Bank's financial performance indicators for the Jordanian Islamic Bank?

- Is there any trace of the proportion of funding to total assets on the financial performance indicators for the Jordanian Islamic banks?

- Is there any trace of the liquidity ratio to total assets on the financial performance indicators for the Jordanian Islamic banks?

- Is there a trace of Hirvndal index, which reflects the Bank's market share to financial performance indicators for the Jordanian Islamic banks?

Objectives of the study:
The main objective of this study is to find out whether there effect of capital structure on the financial performance of Islamic banks and test the relationship between the capital structure and financial performance of these Banks during the period (1998 – 2012). Within this overall objective, the main objectives are:-

- Identify the nature of the capital structure of the Jordanian Islamic banks and debt levels compared with traditional Jordanian banks.

- The impact of the percentage of ownership in Jordanian Islamic banks, reflecting the structure of funding on financial performance indicators for the Jordanian Islamic Bank.

- The impact of the size of the Bank's financial performance indicators for the Jordanian Islamic Bank.

- Identify the impact of the funding ratio to total assets on the financial performance indicators for the Jordanian Islamic Bank.

- Identify the impact of the liquidity cash ratio to total assets on financial performance indicators for the Jordanian Islamic Bank.

- The impact of Hirvndal index, which reflects the Bank's market share to financial performance indicators for the Jordanian Islamic Bank.

The study hypotheses:-
The first hypothesis H0:- No statistically significant effect on the rate of property performance indicators Jordanian Islamic banks.
The second hypothesis H0: No statistically significant effect of size of the bank's performance indicators Jordanian Islamic banks.

The third hypothesis H0: No statistically significant effect of the proportion of funding to total assets on the performance indicators of the Jordanian Islamic Bank.

The fourth hypothesis H0: No statistically significant effect of the ratio of liquid assets to total assets on the performance indicators of the Jordanian Islamic Bank.

The fifth hypothesis H0: No statistically significant effect of the index Hervndal to banking focuses on the performance indicators for the Jordanian Islamic banks.

Previous studies

Arabic Studies:

1- (Shlash, AlBakom, and Alouf, 2006) study Entitled "determinants of the financial structure in businesses" applied case in Jordanian public shareholding companies listed on Amman Stock Exchange for the period (1997 – 2001). This study aimed to identify the most important determinants of the financial structure of the Jordanian industrial companies listed on the Amman Stock Exchange for the period (1997 – 2001).

The study found that the ratio of financial leverage in Jordanian industrial companies with an average (36%), This percentage is considered low compared to those in other countries such as the United States, Germany, and Eastern Asia where the ratio exceeding (80%), In addition to that there is a positive significant statistical relationship between financial structure and prior debt ratio at the level (1%), As well as having a significant negative relationship between statistical and financial structure and profitability, liquidity, and the growth rate at the level (1%).

The study recommended that the company's high level of profitability, and have the opportunity to capture profits to rely less on borrowed money and high degree on retained earnings.

2-(Al-Momani and Serugh,.2005) study Entitled "Comparing the performance of Islamic banks and conventional use of financial ratios in Jordan" This study aims to compare the performance of Jordan Islamic Bank with a performance of traditional banks in Jordan during the period (1992-2001) using a set of financial ratios were as financial ratios for the Jordan Islamic Bank as compared to pedigree for traditional banks

And the results of the study that there is no difference between the performance of the Jordan Islamic Bank and the performance of traditional banks in terms of Accounting value per share and earnings per share and return on equity and return on assets ratio and investment deposits.

English Studies:

1- (Al-Farisi and Hendrawan, 2012) entitled "The effect of capital structure on the performance of banks", the study aimed at testing the effect of capital structure on the performance of Islamic banks in comparison with conventional banks. Through the use of efficiency analysis, the study found that the efficiency of profitability for the Islamic banks were in advanced level where it was among the first 20% of top banks.
on the other hand, the study found that the ownership percentage had a negative impact on performance, especially for the Islamic banks.

2- Pratomo and Ismail, 2006 study, Entitled "the performance of Islamic banks and capital structure for looking at the composition of the capital of Islamic banks (debt and equity), The study has indicated the cost of agency theory which suggests that high debt or low proportion of property would reduce agency costs and increase the value of the company, The study also noted that high debt makes the capital closer to the optimal capital structure and thus lead to improved performance. study have used the return on equity as a measure of the performance of the bank While the proportion of the property used as an independent variable reflects the capital structure. And the study found that a high proportion of property adversely affects performance consistent with agency cost theory.

3- Izhar and Asutaya (2007), Entitled “The indicators of profitability and performance of Islamic banks”, as applied case to Indonesian Bank. This study aimed to test the profitability indicators and performance of Islamic Bank in Indonesia, where the survey found that investment funds that do not include benefits have no effect on profitability while the study found that the impact of inflation on the profitability of banks.

The concept of capital structure:
Capital structure refers to the way in which the company's assets are financed through a combination of equity and debt for the company's activity. And the capital structure of the company calculated the average leverage of the company, and is intended to leverage the company's ratio of debt to property rights. The higher the ratio of indebtedness to property rights has increased the leverage effect on the company's profits. In General, the high leverage leads to high for both return and risk, and vice versa, the decrease in leverage leading to decline in both return and risk, the amount or degree of leverage means the amount of blending between long-term indebtedness and property rights, and capital structure directly related to the average cost of capital, and it is one of the elements of business valuation. Modigliani Miller's theory considers the source to the modern concept of the capital, a group of private financing sources funds belonging to the owners of the company and these funds are the most important sources of financing of the company to finance investment spending (Atef, Andrews, 2005).

The importance of capital structure:
In order to achieve the objectives of the financing of any company, it must be a funding process suited in harmony with company goals, through the identification of the optimal mix of financing, the capital structure which will lead to the maximum possible value, valuable sources of funding include a mix of debt and equity, will finance projects through debt commitment and responsibility which results in an effect on cash flows, regardless of the success of the project. The significance of the capital as following:

1- A measure of performance.
2- An important factor in the employment.
3- A factor in stock value.
4- Limits size of businesses.
Components of the capital structure of banks:
There is no doubt that the decision to finance investments and that is important and has a close relationship with the investment decision, taking into account available funding sources at the time. And available funding sources can be defined: as a set of methods, tools and techniques needed to cover current investment activities of the Bank depending on the structure of the financing project depends on funding sources available in the markets and the financial environment, and compare the cost of the funding source with other available sources and do what's necessary through detailed study of return and expected cash flows and the payment and risk… etc.
Funding sources might be internal or external, what concerns here is long-term funding, which increases the duration of a financial year, as well as a rational combination of long-term funding sources and the optimal mix of sources of long-term funding based on sound financial analysis because of its many benefits,

The Capital consists of a set of the components as:-
First: The ordinary shares:
It is the most common, and is the primary source of financing for the company, there is no discrimination between the holders of those shares are equal rights in the profits, and identifies the stock as: document title deed issued in the name of its owner, and represents the common share of the company's assets and shareholder has several rights, Get a profit and return on funds invested in the company. The contributing company characterized as limited liability shall not exceed the amount of the shareholder's liability has been subscription. For example, if the company lost, that the loss will not affect his own money and is the responsibility of the shareholder is only limited the nominal value of the shares.
For the ordinary share three values the nominal value written on the instrument (document version)
And Accounting value it is a value equal to the nominal value in the absence of retained earnings,
And market value is the value that is determined by the interaction of the forces of supply and demand in the financial market, they represent the true value of the company, especially if the financial market enjoys a high degree of efficiency and impartiality.

Second: The preferred shares:-
Resemble ordinary shares, nominal value, market value, and the Accounting value that the difference lies in that the owners of the preferred shares have priority over ordinary shareholders upon liquidation of the company after bondholders, and they dot have the right to vote in the General Assembly because they do not carry the same risk of common equity holders, and have a fixed percentage of the distributions even if there is a distribution that is not right but deferred to future years, the Accounting value of these shares by dividing In the records on the number of blue-chip exporters and does not add any amount of funds in reserves and retained earnings, because it's not really them, Islamic banks do not deal in the shares of inviolable legitimacy.

Third: The bonds:
The bond is a negotiable instrument issued by the company or the State and represents a long-term debt from the bond loans, usually resorting to issuing either lotus is their business or to fulfill its obligations, the company usually resort to such bonds when the shareholders of this company does not want to enter new partners with them,
instead of offering new shares and new partners sharing the profits with them, Resort to such versions, and Islamic banks are financing through bonds is forbidden according to Islam because they receive the benefits of specific fixed in advance.

**Fourth:** Reserves and retained earnings or retained:
Given the nature of the work of banks, whether traditional or Islamic, as financial institutions must take all necessary measures to cope with any emergency could affect the work of those banks therefore there is what is known optional precautions along the mandatory precautions imposed by the laws of the Central Bank and to support and protect capital from any losses, such precautions as a barrier to absorption of the capital as well as guarantee for depositors, The source of these reserves are profits derived from the Bank's business and not distributed and are a source of internal financing, and considered part of the shareholders' rights (property rights) for being in the original profits should be distributed.

The precautions Take its legitimacy in Islamic banks from having to preserve the capital and compensation for any loss it may suffer from retained earnings, retained Profits are distributed part of the profits to shareholders during the previous financial year, it is the right of shareholders and the primary goal of these profits be distributed is the re-employment of these funds and invest them in order to return to the company and contributed ports (Al shabeb, 2007)

**Methodology of the study**

**Society and the study sample:**
The study population consists of all Islamic banks operating in Jordan's banking sector, the study sample was confined to (Jordan Islamic Bank for finance and investment, and the Islamic international Arab Bank) and time period (1998-2012) where Islamic banks were excluded at least its founding ten years such as Al Rajhi Bank and Dubai Islamic Bank (2009), lack of data covering the period of study. The study Will be based on annual data from the Central Bank and the Banking Association, and the annual reports for Islamic banks for the period from 1998-2012, the study will include two Islamic banks represent all Islamic banks in Jordan during the period of study and will utilize set of books, periodicals, scientific papers, thesis and PhD on the topic of study in the theoretical framework of the study.

**The objectives of the study:**
This study aims to identify the capital structure its impact on the performance of Jordanian Islamic banks during the period from 1998 to 2012, in order to achieve this goal has been using a statistical method called Pooled Data Regression, Depending on the statistical package program (EViews 5.0).
And the benefit of this method is that it fits the data in the form of time series for several companies.
In this Pooled Data Regression used the White’s heteroskedasticity-consistent standard errors and covariance, 1980 technique.
In order to eliminate the problem of heterogeneity of variance and that may include data, so that homogeneity contrast is one of the basic assumptions underlying the regression analysis. There is also another important assumption of regression is the lack of a serial link between the values of the dependent variable, Autocorrelation. This will also be automatically corrected for the analysis is based on residuals and not
on the actual values of the variables, and finally, assuming no plurality of linear variables is automatic as mentioned previously, the analysis is based on residuals and not on the actual values of the variables.

Model of the study:
The basic model can be formulated that this study used to estimate as follows

Perf=f(X, Z)

Where the (PERF) is financial performance indicators for Islamic banks include the Tobin's Q-Index, while X is the variable of the capital structure which includes percentage of a property, and Z refers to a set of control variables, which include Bank size and the proportion of funds to total assets ratio of liquid assets to total assets and Hervndal scale model will be applied to the sample of the years under examination and analysis.

Based on the above, we can formulate a detailed model of this study to test the model differences in the independent variables and the dependent variable control (ROA) as follows:-

TobinQ=α+β1EQ+β2LTA+β3FR/TA+β4LAR/TA+β5HI+e………….(1)

Tobin Q: - the ratio of operating income to the Bank I for the period T.
EQ: - the ratio of the Bank's property I for the period T.
LTA: - the size of the Bank to the Bank I for the period T.
FR/TA: - the ratio of funds to total assets of the Bank I for the period T.
LAR/TA: - the ratio of liquid assets to total assets of the Bank I for the period t
HI: - Hirvendal is a pointer to the Bank I for the period T.

Define the variables of study

Dependent variable:
The performance measures of Jordanian banks
Although there are a number of standards used in evaluating the performance of Islamic banks, but the most commonly used standards in the previous studies is the rate of return on assets ( Aqbal and Molyneux, 2005).
In this study, will be relying on the TobinQ scale to measure the performance of Islamic banks in Jordan.

1- TobinQ :- Tobin's Q is –known as the market value of the company divided by replacement value of the assets of the company, and to calculate the values of Tobin’s Q-There are important elements to be calculated:

A. The market value of the company.
B. Replacement value.

Where the market value is the total value of common shares and preferred stock and long-term loans, never forget that the preferred shares do not exist in Jordanian companies. And ordinary shares are the stock price on the last trading day of the year of the company's shares listed at the Amman Stock Exchange. And the cost of replacement as set by (Lendneperg and Ross, 1981):
RCt = Tat + RNPt – HNPt + RINVt – HINVt

Where is the:
Tat :- Total assets per year T.
RCt :- Replacement cost.
RNPt :- The net value of the equipment and machinery at replacement cost per year T.
HNPt :- The net value of historical equipment and machinery.
RINVt :- The net replacement cost of inventory value per year T.
HINVt :- The net value of inventory of historical value per year T.

To avoid the problem of the lack of information on replacement costs when calculating the Tobin's Q, this study will use what called the Tobin's Q Approximation, It is the most commonly used variable in studies of ownership structure which avoids the difficulties of calculation in the original Tobin's Q, which is calculated according to the following equation

Tobin's Q Approximation = (TMV+DEPT)/TA

TMV: - The company's market value, which is equal to the total subscribed shares multiplied by the share price on the last trading day in the year.
DEBT: - The Accounting value of the company's indebtedness.
TA: - The Accounting value at the end of the year of the company's total assets.

Economically if Tobin is greater than (1) one it means that the market values of the assets of the company are more than the actual cost. This means that the status of the company is good. And vice versa, the high value of index Tobin means that companies have good advantage of investment as the market evaluates each unit of investment more than its worth actually, the low value of Tobin reduced the advantage of the investment and but encouraged profit by the stock market because investors are paying an a sum of assets in the financial market that would cost less to replace it in the market.

The main reason for choosing this standard in this study that the scale most commonly used in experimental studies conducted in Europe and America which examined the effect of ownership on industrial companies. This study represents the ownership structure in developing countries markets than we are able to use it for comparison with those studies, which is a measure of market performance was used to examine the impact of family ownership structure on performance measure for obstacles and options and to judge this effect without any biases.

Independent variables

1- Ownership Equity:
The ratio of property rights to the total assets of the Bank, is supposed to increase the Bank's ownership indicates how the solvency of the Bank making it easier to obtain external funding sources, and thus higher profits. And this percentage is expected to impact positively on profits, so the higher the ratio the higher profits of the Bank property, (Ben Naceur and Goaied, 2001).

2- Log Total Assets (LTA)
the natural logarithm of the size of the Bank's assets, this variable has been adopted as a measure of the size of the Bank to take into account the economies of scale, that
larger-sized banks usually take advantage of their large size to achieve the cost savings which enhances the profitability of those banks. (Ben Naceur and Goaied, 2001).

3- Ratio of financing to total assets
A percentage of the financing granted by the Bank to total assets. Funding is the main source of income, and thus is expected to have a positive impact on profits.

4- Ratio of liquid assets to total asset
A cash and net balances with the Central Bank, and the net assets and deposits in local and foreign banks and Government securities, thus increasing liquid assets are expected to have a negative impact on profits.

5- Index Hervndal
the degree of concentration of the banking sector, and is considered an important indicator of competition between banks, concentrated banks generally tend to monopoly in the banking market, which leads to raise the prices of service and the relationship between performance and index is a direct correlation, measured by the market share for Islamic banks all banks or assets or deposits or Islamic banking facilities during a given year to the total assets or deposits or all facilities banks during the same year.

The results of statistical analysis and hypothesis testing
Below we review the results of the descriptive analysis of these variables, based on the descriptive statistics in table No1.

Table 1
Descriptive statistics for the variables of the study during the period 1998-2012

<table>
<thead>
<tr>
<th></th>
<th>TOBQ</th>
<th>EQ</th>
<th>LTA</th>
<th>FR/TA</th>
<th>LAR/TA</th>
<th>CONC-AS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>1.015</td>
<td>0.1008</td>
<td>8.9246</td>
<td>0.3969</td>
<td>0.4008</td>
<td>0.0023</td>
</tr>
<tr>
<td>Median</td>
<td>1.007</td>
<td>0.0823</td>
<td>8.9736</td>
<td>0.3781</td>
<td>0.4213</td>
<td>0.0018</td>
</tr>
<tr>
<td>Maximum</td>
<td>1.254</td>
<td>0.2284</td>
<td>9.4621</td>
<td>0.8524</td>
<td>0.5124</td>
<td>0.0059</td>
</tr>
<tr>
<td>Minimum</td>
<td>0.944</td>
<td>0.0520</td>
<td>8.2963</td>
<td>0.1611</td>
<td>0.0684</td>
<td>0.0002</td>
</tr>
<tr>
<td>Std. Dev.</td>
<td>0.312</td>
<td>0.0420</td>
<td>0.3150</td>
<td>0.1696</td>
<td>0.1286</td>
<td>0.0018</td>
</tr>
<tr>
<td>Skewness</td>
<td>2.4689</td>
<td>1.3990</td>
<td>0.2065</td>
<td>1.1642</td>
<td>-1.7008</td>
<td>0.4413</td>
</tr>
<tr>
<td>Kurtosis</td>
<td>12.682</td>
<td>4.8314</td>
<td>2.2767</td>
<td>4.0407</td>
<td>4.8123</td>
<td>1.8226</td>
</tr>
<tr>
<td>Jarque-Bera</td>
<td>10.248</td>
<td>11.182</td>
<td>0.6937</td>
<td>6.5048</td>
<td>14.8553</td>
<td>2.1652</td>
</tr>
<tr>
<td>Probability</td>
<td>0.0024</td>
<td>0.0037</td>
<td>0.7069</td>
<td>0.0387</td>
<td>0.0006</td>
<td>0.3387</td>
</tr>
<tr>
<td>Observations</td>
<td>30</td>
<td>30</td>
<td>30</td>
<td>30</td>
<td>30</td>
<td>30</td>
</tr>
<tr>
<td>Cross sections</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
</tbody>
</table>
1- A Percentage of operating revenues
Tobin index averaged during the study period (1998-2011) for Islamic banks of Jordan 1.015%, and a standard deviation of $ 0.321% and reached highest 1.254% while the lowest rate was 0.944%, on the other hand, statistics standard deviation and the maximum value and minimum value reflects differences in the profitability of the Jordanian Islamic Bank from one year to another and from one bank to another, which emphasizes the differences between the performance of Islamic banks.

2- Ownership ratio
The average percentage of ownership in Islamic banks in Jordan during the study period (1998-2011), about 10% of total assets, with a standard deviation of 4.2% and reached the highest ownership of 22.8% while the lowest ownership of 5.2%. The ownership percentage of Islamic banks close from the average percentage of ownership among banks operating in Jordan, which amounted to 10% during the same period, according to indicators financial strength of banks licensed by the Central Bank of Jordan, on the other hand, statistics standard deviation and the maximum value and minimum value reflects the varying proportion of ownership between the Jordanian Islamic banks which confirms the existence of differences between the size and structure of Islamic banks.

3- The logarithm of the assets
The average natural logarithm of the size of the assets of Islamic banks in Jordan during the study period around 8.92 an asymmetric (equivalent to 1062 million dinars), and a standard deviation of $ 0.315 logarithm (730 million) and the highest asset size 9.46 logarithm (2,898 million) while the lowest volume of assets 8.3 logarithm (197 million dinars) and through statistics can noticed a big differences between the sizes of the Jordanian Islamic banks.

4- Funding to total assets ratio (FR/TA)
An average proportion of funds to Islamic banks in Jordan during the study period, about 39.7% of total assets, with a standard deviation of approximately 17% and reached the highest proportion of funding to 82%, while the lowest percentage of funds 16.1%. through the above, can be observed moderately Islamic banks in financing for its customers in the form in which it maintains its profitability and liquidity without excessive risk resulting from the expansion of investments as well as a funding gap can be observed from one year to another and from one bank to another that confirmed the existence of Differences between investment funds for Islamic banks of Jordan.

5- Indicator of concentration Hirvendal Hershman(CONC-AS)
Hirschman Index averaged concentration of Islamic banks in the banking market of Jordan about 0.23%, equivalent to the average market share of 4.8% of the banking market as a whole has the highest value of the index Hirvendal Hershman 0.59% (equivalent to a 7.7% of the market as a whole) while the lowest index value 0.02% (1.4% of the market) and it is clear here that centering of Islamic banks is low in the Jordanian banking market and therefore the ability to influence or control prices are weak but nevertheless considers the market share for Islamic banks is good and higher than the average of the number of operating banks in Jordan and which does not exceed 4%.
6- Other statistics
Skewness & Kurtosis Statistics show form of distribution of the study variables where it can be noted that the variables percentage ownership and funding and liquidity ratio was suffering from Skewness & Kurtosis, which means that an abnormal distribution of these variables, all other variables have been suffering from simple Skewness & Kurtosis which makes them closer to a normal distribution.

Statistics of Jarque-Bera
its importance: these statistics confirms on the distribution of the variables percentage ownership and funding and liquidity ratio was abnormal, while the distribution of the return on assets and return on equity and asset size concentration was normal.
Total number of views for each of the study variables 48 Watch (24 x banks), while the number of sectors (banks) two Islamic banks

The correlation matrix between variables of the study

The following review of the results of the analysis of the link between all the variables of the study. The significance of this correlation matrix in that they give us an initial idea about the relationship of variables to each other and the relationship between each variable and another.
Although this matrix may give an idea of the diversity of linear between independent variables (multicolinearity) -by showing the a correlation between variables which is one of the conditions of regression. However, the statistical method that will be used here is regression analysis to solve all problems that might appear in the data, such as the problem of pluralism linear or normal distribution (Normality) or Hetroscedasticity, because it is based primarily on the regression analysis of the residuals and not through the original values of variables
Table 2
Matrix of Pearson correlation between variables of the study

<table>
<thead>
<tr>
<th></th>
<th>TOBQ</th>
<th>EQ</th>
<th>LTA</th>
<th>FR/TA</th>
<th>LAR/TA</th>
<th>CONC-AS</th>
</tr>
</thead>
<tbody>
<tr>
<td>TOBQ</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EQ</td>
<td>-0.299</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LTA</td>
<td>0.2115</td>
<td>-0.523</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FR/TA</td>
<td>0.332</td>
<td>-0.220</td>
<td>0.348</td>
<td>1.000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>LAR/TA</td>
<td>-0.042</td>
<td>0.163</td>
<td>-0.303</td>
<td>-0.658</td>
<td>1.000</td>
<td></td>
</tr>
<tr>
<td>CONC-AS</td>
<td>0.331</td>
<td>-0.503</td>
<td>0.541</td>
<td>-0.056</td>
<td>0.171</td>
<td>1.000</td>
</tr>
</tbody>
</table>

Through the table (2), note that the correlation was negative between measurements of profitability and ownership, and that may have been caused by the high proportion of ownership increase financing costs on banks and thus reduce their profitability. There was a positive correlation between measurements of profitability and the size of
assets, reflecting the increased size of banks increase proficiency and generate economies of scale and savings range reflected positively on profitability. While the liquidity ratio was negative, but relatively weak with measurements of profitability and this may be due to high liquidity of Islamic banks. The correlation between measurements of profitability and the concentration ratio that there is positive and strong correlation between them, which means that a greater proportion of concentration increase profits.

Table 3
Analysis of the results of the study sample

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>( \alpha )</td>
<td>-0.3344</td>
<td>-8.8394</td>
<td>0.0000</td>
</tr>
<tr>
<td>( \beta_1 )</td>
<td>0.1441</td>
<td>6.0969</td>
<td>0.0000</td>
</tr>
<tr>
<td>( \beta_2 )</td>
<td>0.0385</td>
<td>9.3644</td>
<td>0.0000</td>
</tr>
<tr>
<td>( \beta_3 )</td>
<td>0.0233</td>
<td>3.9274</td>
<td>0.0010</td>
</tr>
<tr>
<td>( \beta_4 )</td>
<td>0.0043</td>
<td>0.6006</td>
<td>0.5556</td>
</tr>
<tr>
<td>( B_5 )</td>
<td>-3.3130</td>
<td>-5.5350</td>
<td>0.0000</td>
</tr>
</tbody>
</table>

* Analysis has been using the technique White cross-section standard errors & covariance

Through table 3 Note:
The stable sector \( (\alpha) \) is negative and statistically significant, which refers to differences between the banks involved in the study sample, and the effect of the independent variables on the dependent variable of the Tobin's Q differs from one bank to another.
The coefficient \( a (\beta_1) \) is positive and statistically significant at the level of 1%, which means that a high percentage of ownership that will maximize the profitability of Islamic banks. This is due to the high percentage of ownership in Islamic banks will increase durability and strengthen financial position by increasing their ability to bear the risk of liquidity and credit risks, so the high percentage of ownership among Islamic banks assisted in the expansion of investment funds and can get more funding.
sources and relatively lower cost. Under the Islamic banks can improve their profitability and increasing revenue.

The coefficient of logarithm assets (β2) is positive and statistically significant at the level of 1%, which indicates that the higher the size of the Bank as could achieve greater profitability. This result can be explained by the large banks operating in accordance with the so-called economies of scale, where the big banks can exploit the structure of fixed costs to produce the largest possible number of services, this leads to lower the cost of service to the bank and thus achieve the so-called economies of scale.

As well as the big banks can achieve economies of the range, which includes the Bank shall develop and increase its income by offering other financial services, and that can be produced and sold without increasing costs to the Bank. Through the above can be said that the high volume of assets leads to improve returns achieved.

The coefficient of the proportion of funds to total assets (β3) is positive and statistically significant, meaning that a high proportion of funds granted by Islamic banks would increase their profitability and thus contribute to increasing the percentage of operating revenues.

This result is due to the fact that the major investment banks are granting various kinds of funding for individuals and companies and the various financing formulas that are compatible with Islamic laws, so these funds are the main source of income for Islamic banks, and the greater the proportion of funding could hire more of his money so he can achieve greater returns, and this gives the Bank greater dividends in the end.

The coefficient ratio of liquid assets to total assets (β4) is not statistically significant, which means that there was no trace of the proportion of liquid assets ratio on the rate of return on assets. This result is contrary to what is expected to be a negative liquidity impact on profitability to increase liquid assets would reduce funds and less returns. And this result can be explained by looking at the behavior of the ratio of liquid assets over time and that a continuing decline has been from 48.5% in 1998 to 24.4% in 2012, while Tobin's Q showed great volatility during the study period. Thus, the liquidity is not a reason for changing indicator Tobin's Q it is governed by the liquidity ratio change. This may reflect the high liquidity that banks had to learn to desire of the Islamic banks to maintain high liquidity and unused cash balances, but that the Islamic banks’ liquidity resulting from inadequate demand Islamic products in the years before the global financial crisis. But after the financial crisis saw the fluidity of Islamic banks decreased significantly as a result of the increased demand for products and proven strength and resilience in the face of crisis.

The coefficient of concentration ratio (β5) is negative and statistically significant, which means that the increased concentration of Islamic banks in the banking market (by measuring the concentration index Hershman Hirvendal) would reduce the profitability of Islamic banks. This result is contrary to what is expected for the increased concentration of banks in the banking market would reduce competition and drive prices to rise, which maximizes the profitability of banks with greater focus.

The relationship between concentration and profitability of Islamic banks can be explained through the Jordanian banking market is dominated by commercial banks, where the share of the largest four commercial banks in terms of assets, deposits or facilities to 50% of the banking market as a whole. noted that the number of banks operating in Jordan reached 26 banks, and that the biggest four commercial banks
occupy half of the market, in order to attract a larger market share the Islamic banks need pricing their products competitively so they are competitive with traditional banks, which dominate the banking market. Hence, the negative relationship between the concentration ratio of Islamic banks and the Tobin's Q index due to the fact that Islamic banks seeking to increase concentration and development of market shares by imposing lower prices and competition from commercial banks, and this is what causes the low profitability of Islamic banks and the rate of return on assets. The adjusted R-squared for independent variables was around 70%, suggesting that the independent variables that were selected in the sample study are able to explain 70% of the variation in the dependent variable Tobin's Q index. The Prop. F-statistic is high and they statistically significant at the level of 1%. This reflects the Goodness of fit, and is valid for the prediction of the dependent variable through selected independent variables. Statistical value (Durbin-Watson) reached to 1.83, which is close to the optimal value 2. This refers to the lack of serial correlation problem in the values of the dependent variable and thus confirms the validity and appropriate data for regression method.

a full study period were adopted for the analysis of 1998 to 2012 by two Islamic banks, with no missing items to be the views of macro-analysis of 30 viewer.

First: The results:

- An average percentage of ownership in Islamic banks in Jordan during the study period about 10% of total assets, this is near the average percentage of ownership among banks operating in Jordan, which amounted to 10% during the same period, the results indicated discrepancies in the proportion of ownership between the Jordanian Islamic banks which confirms the existence of differences between the size and structure of the banks.

- An average funding of Islamic banks in Jordan during the study period, about 39.7% of total assets, which refers to moderately Islamic banks in grant funding to maintain its profitability and liquidity without excessive risks resulting from expansion in investment. There was also variation in the proportion of funding from year to year and from one bank to another that emphasizes the differences between investment funds for Islamic banks of Jordan.

- Average ratio liquid assets of Islamic banks in Jordan during the study period approximately 40.1% of total assets, this is a generally accepted medium where there is excessive liquidity and at the same time is considered sufficient liquidity to meet any potential withdrawals of deposits as there is variation in the liquidity ratio from one year to another and from one bank to another that emphasizes the differences between the Jordanian Islamic Bank liquidity.

- The results indicated that the concentration of Islamic banks is low in the banking market, and thus the ability to control or influence the price is low but the results showed that there is a steady rise in the ratio of concentration of Islamic banks which reflects the ability of and Islamic banks on the development of market shares in the Jordanian market, and high competitiveness compared to traditional banks, especially in 2008.
Equity Ratio had a positive impact and important statistical indicators of profitability for Islamic banks, which means that a high percentage of Equity Ratio that will maximize the profitability of Islamic banks, and this leads to the same previous conclusions, which confirms that the stability of capital structure of Islamic banks will strengthen solvency and its ability to take risks and improves their ability to grant funding, and ultimately contribute to improved profitability.

Asset size had a positive and statistically significant impact on profitability indicators for Islamic banks of Jordan, which indicates that the higher the size of the Bank as could achieve greater profitability.

Funds to total assets ratio had positive and statistically significant effect indicators of profitability for Islamic banks of Jordan, which means that a high proportion of funds granted by Islamic banks increase their profitability and thus contribute to increasing the rate of return.

Liquid assets to total assets had not any significant impact on the profitability of the Jordanian Islamic Bank indicators.

Concentration ratio had a negative effect and statistically significant indicators of profitability for Islamic banks, which means that the increased concentration of Islamic banks in the banking market (by measuring the concentration index Hershman Hirvendal) would reduce the profitability of Islamic banks.

Second: Recommendations:-

It is essential that Jordanian Islamic banks seeking to develop their profitability so as to maintain its attractiveness to investors and depositors alike, it does not mean the development of profitability here by banks to increase rates charged by cost-plus on account of others, but the best alternative is for the banks to control operational costs and try to reduce them to a minimum as well as banks try to expand its customer base into Jordan, through access to other groups that have not been highlighted dramatically yet, including corporate groups- Small and medium-sized enterprises and micro-enterprises.

It is necessary of Islamic banks of Jordan to quadruplets between the growth in the volume of assets and the growth in its property rights to maintain their structures and fixed capital and established rules in order to be able to bear any risks may appear at any time. as well as Islamic banks not excessive the use of borrowed funds including deposits to finance a major expansion of the. it is essential that the Islamic banks had to strengthen their capital structures through the strengthening and development of the capital and a positive impact on the level of It is essential that harmonized Returns and risks and improving overall profitability.

Despite moderate proportion of funds granted by Islamic banks, but the rate is considered low when compared with the ratio of financial placements of deposits granted by commercial banks of Jordan, this requires that the Islamic
banks to expand funding and access to new categories of customers and diversify its funding as the trade-off between risk and return.

- Despite high security achieved by the Jordanian Islamic banks maintain liquid assets but the excessive liquidity could affect the profitability of the Bank because it represents cash balances and underutilized and not achieve any return, so it is important that the Islamic banks to harmonies between liquidity and safety on the one hand, and the goal of profitability and risk, on the other hand. this can be achieved by the banks to determine their solvency in light of the estimates of the size of the actual and projected withdrawals and the size of their reserves and other Means.
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