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RESEARCH ARTICLE

The Effect of Capitalization of Retained Profits on the Financial Performance of Jordanian Public Shareholding Companies

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ABSTRACT

Current study aimed at examining the influence of retained profit capitalization on financial performance within Jordanian public shareholding organizations from multiple sectors between 2007-2022. The study adopted the quantitative methodology through sample t test which depended on annual financial reports from entities under study. The study hypothesized that there was no influence of retained profit capitalization on financial performance of organizations. Through quantitative and sample t test, results indicated that capitalizing retained profit is able to negatively affect financial performance of Jordanian public shareholding organization as results of annual financial reports indicated that retained profit capitalization can influence (ROA: Return on Assets, ROE: Return on Equity, ROI: Return on Investment, EPS: Earnings per Share). The negative effect of capitalizing retained profit was most apparent on ROE with a status before the capitalization that was better than after capitalization of retained profit. Study recommended taking a deeper in more aware steps when choosing to capitalize retained profit as an approach to preserve organizational profit for investment and other effective decisions.

INTRODUCTION

Financial management is the first and last guide to any business, regardless of its type, interest, or activity. Organizations usually resort to financing their business through two well-known methods, which are debt financing or equity financing (Yasir Saeed et al, 2018). Rahman et al. (2020) point out that the cost of debt financing is usually higher, and therefore organizations resort to equity financing, given that shareholders always seek to achieve a return on their investments, either in the form of payments, or in the form of regular profits, or even in the form of of to capitalize the stock price in the long term.

In general, and as according to Amuakwa-Mensah et al. (2018), the main objective of any active organization is to increase the return on shareholders by creating value for products, or investing in projects of positive net value. Kumar and Prakash (2019), however, pointed out that one of the most important objectives for organizations is to reach a high level of profits and to ensure the long-term sustainability of these profits by relying on the development of its internal and external activities and maintaining competitive precedents in order to continue to reach a higher market share.

The profits generated by the organization from its activities and investments usually pay its financial obligations from them, as well as their distribution to shareholders and the retention of a portion of them for new investments that generate more income (Kärenlampi, 2019). Javed and Shah (2015) confirmed that organizations tend to reserve a portion of their profits after making payments of financial obligations, which include employees, salaries, loans, grants or donations, especially shareholdings, in addition to withholding profits in the reserve to increase capital and obtain a higher market and equity share in the business environment. These retained profits tend to be a source of new investment for the organization that generates more profits, but many organizations sometimes tend to capitalized these profits, i.e. convert them into capital through which new shares are supplied to shareholders.

Finance is a constant demand for all businesses if they want to grow and continue, and there are many sources of finance where businesses can obtain the finance or capital they require. However, the financial manager cannot choose any type of funding randomly and without prior financial examination, since each type of financing has different advantages and disadvantages in terms of cost, availability, eligibility, legal limits, etc. The choice of the appropriate source of funding is therefore a challenge for each organization (Köster and Zimmermann, 2017). On the other hand, the use of the organizations' financial reserve is not easy, as it carries a lot of risks from a different rise or fall in the share price, exposure to environmental or political risks, as well as a different financial performance management mechanism for these organizations.

The problem of the study therefore stems from previous studies of Akabom and Ejabu (2018) and Oudat and Ali (2020) on the capitalization of organizational profits and their impact on the organization's financial and overall performance. Organizations are trying to increase their profits, their competitive advantage, and achieve a higher market share. With the significant evolution of global business markets, competition is intense and the organization needs to always be careful to maintain and even increase its market share, thereby maximizing profitability. Capitalization was one of the financial instruments that organizations adopted to increase their profits and obtain a higher market share, since capitalization of profits helped to increase capital by withholding part of the profits and reserves available to them in order to consolidate their financial position and keep pace with dramatic developments in the business market. (Maharani et al, 2020). Looking at the factors that help the organization survive, increase market share, increase its competitiveness and maximize its profits, one important method is to increase capital and support it in order to increase the resilience to the financial risks that can occur, especially that credit. (Hardiyanti et al, 2021). Therefore, it can be said that the importance of the current study stems from its being a mechanism for demonstrating the impact of capitalization in all its forms on the financial performance of organizations in terms of return on shareholders' equity and return on assets.

Hence, based on the study problem presented earlier, the current study seeks to determine the impact of the capitalization of retained profits on the financial performance in terms of (ROA, ROE, ROI, EPS) within Jordanian public shareholding companies. Realizing the main aim of current study was done through achieving the following objectives:

Understand the concept of capitalization of profits and its dimensions.

Define the concept of capitalization of retained profits.

Explain the impact of capitalization of retained profits on the financial performance of Jordanian public shareholding companies.

Based on the problem and importance of the study, in addition to the objectives it seeks to achieve, it can be said that the main aim of the current study is based on realizing the following hypotheses:

Main Hypothesis:

H.0.1: There is a statistically significant impact of the capitalization of retained profits on financial performance of Jordanian public shareholding companies.

Sub-hypotheses

H.1.1: There is no significant impact of retained profit capitalization on return on assets (ROA)

H.1.2: There is no significant impact of retained profit capitalization on return on equity (ROE)

H.1.3: There is no significant impact of retained profit capitalization on return on investment (ROI)

H.1.4: There is no significant impact of retained profit capitalization on earning per share (EPS)

Model of Study:

Independent Variable **Dependent Variable**

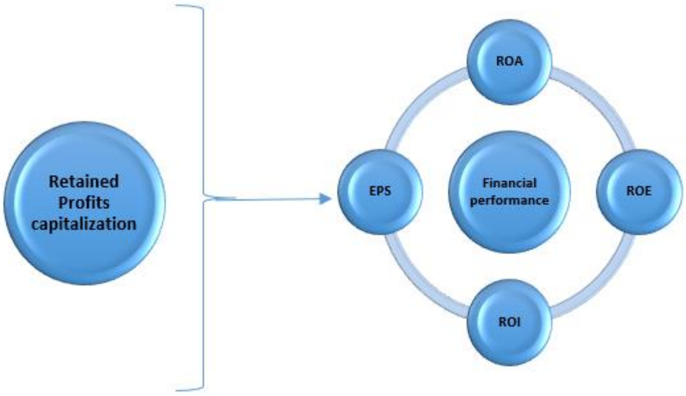

Figure 1. Study Model

LITERATURE REVIEW

In banking, capital is the first line of defense, the only protector of depositors' money and their trusts, and the only way to protect them from loss that banks may be exposed to. It is also an element that contributes to increasing customer confidence in the bank and a means of enhancing the bank's ability to continue in the business market such as investment, loans, and financing (Ukko et al, 2019). Paniagua et al. (2018) define capital as the sum of stocks, profits, and bank reserves, plus the banks' provisions to meet unexpected losses related to lending and investment.

Franco et al. (2020) viewed capital as the net assets in the bank, i.e. the difference between the value of assets and liabilities. The capital situation in banks differs from other organizations, as the bank, through capital, works to guarantee and protect depositors' funds from any risks they may be exposed to, in addition to financing the bank in order to practice other activities such as investment, lending, and financing on the basis of Banks deal commercially with depositors' money and not with capital (Assenga et al, 2018).

Profit Capitalization

Capitalization is a financial term that refers to the process of generating capital from another source. This source may be a return on investment, a return on profits, or a return on the organization's assets (Akabom and Ejabu, 2018). Kärenlampi (2019) sees capitalization as the creation of capital from the retained profits of the organization; therefore, it literally means that the retained profits of the organization are converted into capital stock that can be distributed to the shareholders of the organization.

Köster and Zimmermann (2017) defined capitalization as creating value using an asset, i.e. converting short-term profits into long-term profits. As for Kreß (2019) defined profit capitalization as a way to determine an organization's market value by calculating the value of its expected profits based on current profits and expected future performance. Yang et al. (2021) confirmed that this method is achieved through reaching net present value (NPV) of predicted future profits or cash flows, and dividing it by cap rate as it is an income approach used in appraisal to provide the value of a business using current cash flow, annual rate of return and value of the business expected.

Li (2019) defined the capitalization of profits as the conversion of an organization's retained profits into capital shares that can be issued as a form of dividends to shareholders or additional shares for them in the organization. For his part, Yang (2019) defined profit capitalization as converting profits retained in the organization into capital that can then be issued to the organization's shareholders in the form of profits or shares. Usually - Pavone (2019) - organizations prefer to grant shareholders shares rather than pay them dividends, as a way for the organization not to use its cash reserves in order to pay dividends to shareholders, and therefore, capitalization takes place in the form of issuing and granting shares.

Oudat and Ali (2020) confirmed in their study that the board of directors may from time to time decide to "capitalize" all or any part of the profits in the credit of any reserve or fund available for distribution or in the credit of any share premium account, and accordingly such amount shall be free for distribution among Shareholders or any class of shareholders who are entitled to receive it if it is distributed by means of dividends and in the same proportions, on the basis that it is not paid in cash but is distributed in the form of shares or bonds to shareholders, each according to his proportion. Akabom and Ejabu (2018) indicated that capitalization is the process of converting a company's retained profits, which represent the profits retained in the business over time, into capital stock. The process of capitalizing profits includes issuing stock dividends or bonus shares granted to current shareholders in proportion to current shareholder ownership levels.

In the case of capitalization, it is worth noting that the distribution of bonus shares is not able to change the shareholder ownership percentage in the organization or even the total book value in it, as the distribution of bonus shares is like a dividend distribution similar to cash dividends, meaning that it is possible for the shareholder to sell these shares. shares and receive cash for the stock (Bichler and Nitzan, 2018). Kärenlampi (2019) confirmed that capitalization occurs if the share price is assumed to be stable in the markets before the stage of issuing bonus shares to shareholders, but it is necessary to take into account the possibility of an increase in the market price of the share after the distribution process.

Calculate Capitalization Rate

It is worth noting here that capitalization of profits may help investors determine the potential risks and returns on assets. Köster and Zimmermann (2017) stated that the process of arriving at the capitalization rate for a business is research intensive and requires one to have detailed knowledge both about the type of business as well as the interests in the organization. In the case of small organizations, the rates generally range between 20% and 25%; and buyers mainly seek the ROI. When identifying the organization to be purchased. Here, the new owner is expected to get a salary, but this is not part of the ROI calculation hence, must be in a different column. For instance, a small organization earns $500,000 per year and reimburses the owner FMV of $200,000 per year; thus, it allocates $300,000 per year for the valuation of the organization.

Oudat and Ali (2020) pointed out that when all these parameters are identified, the capitalization rate is computed in the simplest way of operating income divided by the purchase price where it is necessary to arrive at the annual gross investment income. Following that, the operating expenses have to be subtracted to obtain the net operating income and there after net operating income divided by the cost of investment/property to arrive at the capitalization rate.

Impact of Capitalization on Organization

Dinh (2020) points out that there are limits to dividend capitalization that include cost, as for organizations that use bonus shares or dividend capitalization as an alternative to paying dividends, capitalization can be costly. The organization may avoid paying dividends for one year by issuing bonus shares but in the long run, therefore, the organization has to pay additional dividends on the shares issued using this method.

Retained Profit

Yemi and Seriki (2018) defined retained profits as the profits retained by the organization over a period of time, and if these profits are converted into capital, it can be paid as bonuses to shareholders or issued as additional shares to them, thus the retained profits are capitalized. Yusra et al (2019) point out that often, organizations capitalize dividends when they want to pay dividends to shareholders or issue a number of newly created shares to shareholders so that the distribution of these shares is in line with shareholders' ownership levels, i.e. the percentage of company shares they own.

When the organization resorts to capitalization, it is necessary to convert retained profits into paid-up capital. This happens by converting the retained profits into capital stock, and then the capital is distributed to shareholders in the form of profits or additional shares (Fischer et al, 2019). Köster and Zimmermann (2017) confirmed that the capitalization of profits does not affect the organization's book value or even shareholders' rights. Paulo (2018) referred to retained profits as the organization's accumulated profits over time after distributing shareholders' dividends, while Ball et al. (2020) viewed retained profit as the profits that the organization retains in order to invest in specific activities and projects during an upcoming period is planned in advance.

Usually - Masood (2018) - shareholders prefer to have profits distributed to them in the form of cash, but the idea of retained profits can be useful as it increases the market values of the organization's shares, thus enabling shareholders to achieve gains by maximizing the value capital.

Characteristics of Retained Profit

Fischer et al. (2018) and Tirmizi et al. (2021) point out that there are several characteristics that distinguish remitted profits from others, which are as follows:

Long-term source of financing

Retained profits are a source of long-term financing for the organization because there is no mandatory maturity on them, such as long-term loans and bonds.

Floatation cost

Similar to other sources of financing, the use of retained profits helps avoid the cost problem.

Control

The use of retained profits avoids the possibility of dilution/enforcement of existing shareholders' control that results from the issuance of new issues.

Legal procedures

The use of retained profits does not require compliance with any legal procedures, only a resolution is required at the annual general meeting of the organization. As for the advantages of retained profits, Pibowei and others (2021) indicated that retained profits are useful for expansion and diversification, so retained profits are the most beneficial for expanding and diversifying business activities.

Ball et al. (2019) asserted that there is no fixed obligation, if equity financing has a feature that organizations have to pay out dividends and if there is the use of debt financing then organizations have to pay fixed interest charges, but when organizations are using the retained profits as sources of financing, there are no fixed obligations to be met. Concerning the payment of dividends or interests other than increase in the value of the stock when the organization uses retained profits as sources of financing its requirements financially, as the cost of capital is cheaper in this sense as compared to other sources of financing. Thus, the value of market share will rise.

Considering that every coin has two faces, retained profits have disadvantages, including (Borisovna, 2020):

Possibility of improper use of funds If the purpose of use of retained profits is not clearly defined, this may lead to unjustified spending of funds.

Over-capitalization, where retained profits lead to over-capitalization, because if the organization uses more retained profits, it leads to an insufficient source of financing.

Monopoly, where excessive use of retained profits leads to a monopolistic position for the organization.

Dissatisfaction among shareholders, as retained profits do not allow shareholders to fully benefit from the company's actual profits, which not only leads to dissatisfaction among shareholders, but also negatively affects the market value of shares.

Financial Performance (FP)

Financial performance according to Ichsan et al. (2021) is a term that states the overall financial health of an organization, it is based on quantifiable standards, but there is no unified method through which the organization's financial performance can be measured. For example, an organization may be rapidly increasing its revenues, but this does not mean that its FP is good, as to evaluate its FP, you will also need to consider its expenses, liabilities, and the amount of cash it has available (Maqbool and Zameer, 2018).

Ukko et al (2019) defined financial performance as a quantitative measure of how well an organization uses its assets and generates revenues and profits. As for Alshehhi et al. (2018), they viewed the concept of FP as the general financial position of the organization during a specific period. Awaysheh et al. (2020) defined it as the main performance used in evaluating business performance, where financial ratios (such as return on sales, return on assets, EBITDA margin, and cash flows from operating activities) are viewed as among the main indicators of the organization's financial performance.

On the other hand, Franco et al. (2020) and Assenga et al. (2018) viewed financial performance as a measure that indicates the extent to which an organization is able to leverage its financial resources and other assets to generate value (in monetary terms). Financial performance is often derived from cash flow measures (taking into account principal and derivative payments) and is usually reported in the context of decision making with a long-term planning horizon, in addition to frequently used profitability measures such as net present value (NPV) or return on investment (ROI) or total cost of ownership (TCO).

Financial performance in a general way, therefore relates to the extent to which financial goals are or have been met and is a key component of financial risk management. Broadly, it is defined as the task of evaluating the outcomes of organizational policies and activities in terms of money. This is applied to determine the total health of the finances of the organization within a specific time span. They can also be used to compare similar organization, for instance organizations in the same industry or to compare different industries or sectors (Le et al, 2018).

Metrics of Financial Performance

Financial performance metrics or Key Performance Indicators (KPI) vary by industry. Xie and Wen (2019) presented some important metrics that stakeholders need to consider when measuring financial performance, including:

Net Profit Margin

This type of profit margin indicates the percentage of revenue remaining after taking into account all costs, operating costs, taxes, and depreciation. Net profit margins vary greatly depending on the industry, but an organization with a net profit margin has better financial performance and greater competitiveness compared to its counterparts.

Net profit margin = net profit / revenue x 100

Liquidity Ratio

Liquidity ratios indicate level of cash and assets of an organization which can be converted into cash so the organization has to meet its obligations. Liquidity ratios appear in the form of a current ratio that measures an organization's ability to pay its current debts with existing assets.

Current Ratio = Current Assets / Current Liabilities

Also known as the Acid Test, the quick ratio excludes the stock of current assets and the current portion of long-term debt to show an organization's ability to meet its short-term obligations.

Quick Ratio = [Current Assets - Inventory] / [Current Debt - Current Long-Term Debt]

Financial Leverage

An organization's leverage ratio shows how much of its assets are financed through equity versus debt. An organization with higher equity leverage is more debt-reliant and, therefore, is typically viewed as representing a greater risk.

Leverage = Total Assets / Total Equity

Earnings per Share

Earnings per share show the amount of profit the organization earns for each share of its existing shares, as calculating the organization's earnings per share indicates profits provided that the organization does not issue new shares or repurchase large numbers of existing shares.

Earnings per share = net profits/shares outstanding

Price to Earnings Ratio

The price to earnings ratio also called PE ratio, is arrived at by dividing the current price per stock by the earnings per share. Within the value investment strategy, investors tend to search for firms with P/E ratios that are lower than those of their counterparts. Nonetheless, growth investors are typically not very interested in P/E ratios because they consider that the possibility of high growth rates suggests that the price is high.

P/E ratio = Market price / Earnings per share

Operating Cash Flow

Operating cash flow can be defined as the cash an organization has from its operations. If the number is positive the operation can sustain and expand itself, but if it's negative then more money is required to sustain the current level of operation.

Managing Financial Performance

Financial performance management is the aggregate of governance of the financial outcomes in an organization, and the objective of the financial performance management is to look at the actual results and contrast them with budget and forecast, and then, make corrections (Barauskaite and Streimikiene, 2021). Nizam et al., (2019) stated that financial performance is a specific capability, which encompasses the identification of the organization's key performance indicators, formulation of strategic plans and forecast, management of performance reports, enhancement of the financial operational performance and implementation at organizational level.

According to Iqbal et al (2019), the application of the financial performance management plays the role of increasing organizational capability to respond to the business events or working in an instability environment. Cantele and Zardini (2018) saw it as enabling better decisions because CPM systems integrated hard ware that include; scenario modeling, rolling forecast and "what if" scenario analysis.

On the other hand, Sardo et al. (2018) noted that financial performance management is valuable as it allows users to concentrate on analysis, as through employing financial performance management programmes in organisations, users employ less time in gathering and inputting the data, but Instead, they are able to employ their time in the useful activities like analysis of profitability, costs cutting, business partnerships with the executive decision makers and developing the strategies.

Previous Studies

The study by Javed and Shah (2015) hypothesized that there is an impact of retained profits on dividend yields within food and personal care production organizations listed on the Karachi

Stock Exchange. In order to determine the validity of this assumption, the studies used stock return variables (profit/loss yield, stock prices, and dividend distribution) and determined their relationship to retained profits. The analysis was conducted on 7 organizations operating in the field of food and personal care industries, and data was used for the period 2009-2014. Through the appropriate sampling method of the non-probability method, and the use of linear regression and Spearman correlation analysis, the study reached the conclusion that there is a weak and insignificant relationship between retained profits, cash earnings per share, and profit/loss return on capital. The study also concluded that there is a relationship Positive between retained profits and the stock's closing price. The study concluded that retaining profits has a weak relationship with stock returns. Accordingly, the study suggested that organizations must manage a large portion of profits because retaining profits does not contribute to enhancing stock returns.

The study by Köster and Zimmermann (2017) aimed to investigate the consequences of capitalization on the performance of banks in the European banking market, and using a sample of 2,504 European banks for the years 1992-2012, the researchers analyzed the impact of capitalization on bank risks and bank profitability with alternative accounting and market procedures, and showed all Accounting-based metrics show that increasing capital reduces a bank's risk and is associated with increased profitability. In contrast, market-based risk measures show higher bank risk which means there may be a different assessment of risk by capital market participants. This matter contributed to arriving at the conclusion that capitalizing profits would improve the performance level of banks during the crisis period, and the results were related to the performance of banks during the crisis periods more than to profitability.

The study by Nuryani et al. (2015) aimed to demonstrate the impact of capitalization on the determinants of operating leasing policies (financial constraints, asset value, growth, and size of the organization), and the results of the study showed that all determinants except financial constraints affect operating policies, but most lease contracts are interpreted operating lease is affected by factors other than economic determinants. This study also found that the capitalization of the operating lease significantly affects the company's financial ratios, which is considered useful in effective decision-making in order to reach a state of good financial/non-financial performance.

Pibowei et al. (2021) sought to establish the effect of retained profits in shaping the financial performance of the chosen Nigerian breweries during crises. The research design used in the study was a retrospective cross-sectional research of which measurement used interval scale and sampling done on the basis of the previous year. The study subject involved five (5) breweries firms that are publicly traded on the Nigerian Stock Exchange while the sample involved four (4) breweries firms in Nigeria with 9 years data from 2012 to 2020. Secondary data were collected from the published annual reports and from the brewery account. The study has presented descriptive data and analyzed and tested hypotheses using OLS model, ANOVA, F-test, and T test with the help of Num XL 2020, MS Excel 2019, and SPSS 20. In arriving at this conclusion, the study established that there does not exist a correlation between retained profits and Return on Assets at 0. 107, and thus, there is no relationship between retained profits and return on shareholders' equity for the mentioned firm at zero level of significance. 197, and the regression equation does not show a negative and significant relationship of retained profits with the profits per share on the 0. 776. Concluding the study, the capital structure through retained profits were not enough to enhance the return on the assets, return on equity as well as the per share profits. According to the study, breweries should minimize the probability of aggregated deficits in the subsequent periods.

What distinguishes the current study from previous studies is that it dealt exclusively with the issue of capitalization related to retained profits and linking it to financial performance by adopting the variables of return on assets and return on shareholders' equity as one of the variables of financial performance within Jordanian public shareholding companies. The current study is expected to demonstrate the actual effects of the decision to capitalize retained profits on the financial performance of Jordanian public shareholding companies based on the published reports of the entities under study.

METHODOLOGICAL APPROACH

Descriptive analysis approach was used in order to realize aim and hypotheses of current study. For that sake, an independent sample t test was chosen, and SPSS was used in order to mitigate numerical data which were collected from entities under study. Population of current study consisted of all Jordanian public shareholding companies in all sector which have capitalized its retained profits between 2007-2022. Analysis was done depending on annual and financial reports within different sectors in Jordan regarding companies which have capitalized its earned profits between 2007-2022.

ANALYSIS AND DISCUSSION

Depending on t test, annual and financial reports from different Jordanian public shareholding organizations were analyzed in order to test hypotheses and achieve study aim and its determined hypotheses. Results of test were as follows:

H.1.1: There is no significant impact of retained profit capitalization on return on assets (ROA)

The independent sample t test was used to test first null hypothesis. It was discovered that the ROA before capitalization of retained profits (5.09) was higher than the ROA after capitalization of retained profits (2.70). Additionally, it has been discovered that the t value of 3.589 was statistically significant at the 0.05 level. This meant that $H_{.1.1}$ was accepted and there is no statistical effect of retained profit capitalization on ROA within Jordanian public shareholding organizations from different sectors.

Table 1. H.1.1 Testing

		Mean	Std. Deviation	Std. Error Mean	T value	sig
Return on Assets %	pre	5.095	9.035	.57031	3.589	0.000
	post	2.7007	5.4295	.3461		

H.1.2: There is no significant impact of retained profit capitalization on return on equity (ROE)

The independent sample t test was used to test the second null hypothesis. It was discovered that the ROE before capitalization of retained profits (14.55) was higher than the ROE after capitalization of retained profits (9.88). Additionally, it has been discovered that the t value of 3.441 was statistically significant at the 0.05 level. This leads us to the full rejection of $H_{.1.2}$ on the bases that there was a statistical effect of retained profit capitalization on return on equity (ROE) within Jordanian public shareholding organizations from different sectors.

Table 2. H.1.2 Testing

	case	Mean	Std. Deviation	Std. Error Mean	T value	sig
Return on Equity %	pre	14.5464	16.1317	1.0182	3.441	0.001
	post	9.8779	14.0202	.8939		

H.1.3: There is no significant impact of retained profit capitalization on return on investment (ROI)

The independent sample t test was used to test third null hypothesis. It was discovered that the ROI before capitalization of retained profits (4.506) was higher than the ROI after capitalization of retained profits (2.578). Additionally, it has been discovered that the t value of 2.872 was statistically significant at the 0.05 level. This meant that the null hypothesis was rejected, and there appeared a statistical influence of retained profits capitalization on ROI within Jordanian public shareholding organizations from different sectors.

Table 3. H.1.3 Testing

	case	Mean	Std. Deviation	Std. Error Mean	T value	sig
Return on Investment %	pre	4.5062	9.1384	.5757	2.872	0.004
	post	2.5777	5.4220	.3457		

H.1.4: There is no significant impact of retained profit capitalization on earning per share (EPS)

The independent sample t test was used to test the hypothesis. It was discovered that the EPS before capitalization of retained profits (0.3187) was higher than the EPS after capitalization of retained profits (0.1866). Additionally, it has been discovered that the t value of 3.591 was statistically significant at the 0.05 level. This meant that the fourth null hypothesis was accepted, and it appeared that retained profits capitalization has an effect on EPS according to annual and financial reports of Jordanian public shareholding organizations from different sectors.

Table 4. H.1.4 Testing

	case	Mean	Std. Deviation	Std. Error Mean	T value	sig
Earnings Per Share (JOD)	pre	.31873	.50772	.03205	3.591	0.000
	post	.18656	.28380	.01809		

DISCUSSION

Current study aimed at examining and exploring the influence of retained profit capitalization on financial performance within Jordanian public shareholding organizations from multiple sectors. The study adopted the quantitative methodology through sample t test which depended on annual financial reports from entities under study. The study was built on premises that retained profits capitalization is able to influence financial performance on terms of (ROA: Return on Assets, ROE: Return on Equity, ROI: Return on Investment, EPS: Earnings per Share). Sample t test indicated that generally, retained profits capitalization is able to influence the adopted sub-variables in a positive approach.

In other words, the study was able to achieve its aim, and results indicated that the process of capitalizing retained profits can influence financial performance in a negative approach leading to realizing that the situation before capitalization is better than after which was agreed on by Köster and Zimmermann (2017).

Study results indicated that retained profit capitalization, among many other variables, could very easily damage performance in several financial indicators. Initially in ROA (Return on Assets), if these retained profits do not get appropriately invested or put to use this can result to lower net income as a percentage of the total assets, and in it efficacious the decrease in the ratio. As for ROE ratio is concerned, capitalization of profit retention can have negative impact on the ratio in case of unnecessary owners' equity dilution or if the to-be generated earnings are insufficient. Such result agreed with Nuryani et al. (2015) Pibowei et al. (2021) who noted that capitalizing retained profits might lead to a decline in the net incomes relative to the existing equity (shareholders) and the resultant decrease in the ROE ratio.

Regarding Return on Investment (ROI) - the fact that the sum of profits given back to the company does not lead to satisfactory efficiency or that the investment projects which are funded by the retained amounts do not buy in return does not allow to increase the net profit, translating this into a lower ROI in relation to the investment amount. In regards to Earnings per Share of retained profits, what is its impact on decreasing EPS if the profits are not effectively utilized to increase earnings of shareholders? Inadequate usage of retained profits may adversely impact financial returns because the profitability of a company is decreased, thus the shareholders' capital is put into the weaker position and leads to lower return for the investors. This agreed on by Javed and Shah (2015).

Conclusion and Recommendations

Although benefits may exist in capitalization of retained profits, companies should take such strategy with carefulness and never make a decision on its basis only. The utilization of earned profits through capitalization can be a limiting factor for businesses with respect to the funds that can be invested in other activities like research and development, capital expansion, and debt compensation. It may confine an organization's capabilities to spot new market growth points, invest in technology - or innovations, or adapt to market changes. Also, some shareholders might be under the assumption that the company is not interested in shareholder-oriented approach and payments of the dividends if they are not presented in the end. Finding a harmonious place between keeping the profit to be reinvested and comply with investors requirement have some meaning to the overall stability and survival of the firm. Businesses should think through their strategies for capitalizing well, by considering on how best the retained profits can be allocated for growth impetus but at the same time shareholders' skin in the game is addressed.

Theoretical and Practical Implications

Current study was based on both theoretical and practical implications. From a theoretical perspective, is no doubt a useful approach that helps understand the interaction between retained profits and financial efficiency The results may therefore fill a research gap by highlighting the critical role of internal capital sources for financing corporations which may be attributed to profit retention. It would be also vital to distinguish between the practical frameworks in economics that include the pecking-order theory and the signaling theory; these frameworks are designed to explain the mechanisms that underpin the relations between capitalizing retained profits and the financial performance.

The practical significance of this research is that Jordanian public shareholding companies need to brood on the capitalization of all retained profits as one of the tactics to improve performance of these companies. Through the impactful deployment of retained earnings with the purpose of increasing equity base, firms certainly have an opportunity to potentially boost profitability dynamic, attract investors and make focus on sustainable growth evident. Recognizing that profits provide the capital necessary for investment and growth can inform financial decision-making, so companies may make a correct choice in either retaining profits for investment or distributing profits to shareholders. Also, the study gives key insights based on the context of the companies listed in Prime Jordanian market, which is beneficial such local firms can employ them in their capitalization strategies as per the unique financial situation.

Limitations Of Study And Future Research

Current study was limited to annual and financial reports of Jordanian public shareholding organizations in operating and registered in Jordanian chamber of commerce through fiscal year 2022-2023. Also, study analysis was limited to annual financial reports which were available online for the public through the internet.

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