

Does Free Cash Flow Matter? Implications for Financial Performance in Jordanian Firms

Khaled Erieh Aburisheh

Department of Accounting and Accounting Information System, Amman University College, Al-Balqa Applied University, Salt, Jordan

Ahmad Abdelrahim Dahiyat

Department of Accounting and Accounting Information System, Amman University College, Al-Balqa Applied University, Salt, Jordan

Walid Omar Owais

Department of Accounting and Accounting Information System, Amman University College, Al-Balqa Applied University, Salt, Jordan

Abstract

This research examined the effect of Free Cash Flow (FCF) on the financial performance of specific Jordanian companies listed on the Amman Stock Exchange throughout five years from 2017 to 2022. Both descriptive statistics and correlation analysis are used to investigate the relationships between FCF, ROA, ROE, and NPM in this paper. Moreover, multiple regression models were employed to facilitate researchers answering these research questions. The findings provide evidence of a significant positive association between FCF and the performance measures. Higher FCF at most companies usually equates to improving profitability and asset efficiency as well as better returns for shareholders. The explained variation of FCF in ROA and ROE among regression findings that have been measured for the predicted model has been shown to be significant, with its strong influencing effect in predicting the financial variable to be observed with regard to ROE. The link with NPM is not substantially stronger than in the previous figures, suggesting that excess cash can still be helpful for margin improvement. The empirical research affirms that FCF is an important factor for corporate financial performance. Headwinds: Actual use of capital and excess FCF— Except for the first study, which suggests that excess FCF is beneficial in similar ways as high R&D, the other studies warn that too much uncontrolled FCF will be suboptimally used (cf. Hedvall et al., 2016). This reiterates to us that strategic control over how companies use cash flows from their operating activities is necessary to maximize long-term value.