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Short Term Impact of Financial Risks and Assets Efficiency on Profit Persistence

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1. Abstract:

Purpose: This study aims to determine whether financial risks and asset efficiency impact the profit persistence in Jordanian industrial companies, and whether it varies between different industrial companies in Jordan or not.
Methodology Design: This study relies on the descriptive analytical method and examines the hypothesis of this paper using the simple linear regression model. This study uses a sample of 41 companies chosen from a population consisting of 54 companies listed in the industrial sector of the Amman Stock Exchange between (2007 – 2016).
Findings: The results showed that, no statistically significant impact of financial risks – measured by liquidity ratios- on the of profit persistence in the short term. The study also showed no statistically significant impact of financial risks –measured by debt ratio- on the profits persistence. This study also, showed no statistically significant impact of Asset efficiency –measured by total assets turnover on the profit persistence. Whereas the study found a statistically significant difference at a level of ($0.05 \geq \alpha$) on the profits persistence between the industrial companies. The findings of this paper helps industrial companies in improving their profit persistence at short term levels.
Originality / Value: This paper is considered the first to investigate the profits persistence on Jordan industrial companies. The study produced some recommendations of which are; authorities should spread awareness on issues of profit persistence either in the long versus short run. Companies should be forced to report on the level of profits persistence in their governance reports to help investors and other stakeholders determine a company's ability to maintain current profit persistence.

Keywords: Earnings quality - Profits Persistence - Financial Risks – Asset Efficiency -

2. Introduction

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Finance theory assumes for the need of smoothing profits-or- losses fluctuations in the short run to show up a steadiness of its profit. Generally, financial analysts and accountants try to conduct smoothing revenues and expenses for the hope of improving their financial reporting.

Some companies' profitability is witnessing a problem of fluctuating above or below industrial normal average. To put its earning average back on industrial average, it may follow one mechanism mainly by raising products prices. Doing so ended by bringing new producers and high production level, lowered prices due to a new level of competition, lowered profit margins down to its normal levels and generated new level of profit persistence.
The other expected mechanism is mostly adapted when profit average is down. To smoothing it becomes a must to push it higher toward the normal average. Doing so may be accomplished through enhancing the company financial risk in order to fund new investments or by following a mechanism of better efficiency. High debt ratio may accomplish this issue.
Better efficiency allows for generating higher sales against each one dollar invested in total assets. Profits do not seem at a common rate of return all the time. The adjustment of profits to their firm-specific permanent values is rather at short or long differentials. It may reflect the persistence differentials of both efficiency and financial risks different levels.

Empirical evidence is build upon the relations between profits persistence, efficiency and financial risk. It is generally modeled as a function of past events. Both of financial risk and efficiency are cumulative values. Profits that persist above or below the norm for prolonged periods of time reveal a lack of different variables such as competition, systematic allocation of resources, financial risks and efficiency. The high persistence reveals how fast the exceptional positive or negative returns are highly adjustable or removed.

With profit persistence, companies' cash flows are stable and predictable. Enjoy many advantages such as clear or detailed strategies, good working policies, effective financial plans, insured the continuity and durability of the operational profit, better of both the financial risk management and productive resources allocation. At the same time, persistence reflects high self-resistance against rapid market fluctuations and low profit deviations from the industry average, (Shirvani & Sales, 2016) (Ruiz, 2016). This paper is to examine whether efficiency attempts and financial risk taking can improve earnings persistence, it is to utilize a sample of 41 over the period of 2007–2016 and analyzing it via simple regression.

3. The Problem

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Companies borrow money from a wide number of lenders, these funds can be used to invest in projects and grow the business, simply by selling goods and services for a profit. Those companies exposed themselves into two types of risks. One type is related to the debt. Too much debt can get a company into trouble. The second type is related to the efficiency which is the ability to avoid wasting materials and time in doing something or in producing undesired result, it reflects the ability to do things well, successfully, and without waste, results from the optimization of resource-use to the best serve.
Companies are in need rely upon both of financial sources and improved efficiency when shareholders' contributions alone is not suffice for covering low profit or financing new investments. Improving efficiency or increasing financial risk may play one of their options. However, profit persistence is expected to be improved via one of them, hopefully at short term level. The main problem of this paper is to investigate the attempts impact of both financial risks and efficiency on profit persistence.

4. Literature

4.1 Financial risk

(Jesus Cuaresma, 2008) determined the main purpose of the profit persistence by how fast and to what extent the exceptional positive or negative returns are re-deuced and uncover their driving forces. Johan E. Eklund & Emma Lappi (2019) assured that profit persists above or below the average mean for prolonged periods of time reveals a lack of competition and imply a systematic misallocation of resources. The faster removing its deviation from the average allows to maintain it at normal levels. Hopefully, within a relatively short time period. Being on average, the rate of return will not happen until companies are capable to solve for its efficiency, better resources allocation and financial risk management. The competitive process produces outcomes in which the prices and the variety of products are set in different ways over time, governance mechanisms impact and competitive forces are enabling companies to be more capable in adjusting its profitability. However, different levels of financial risks and efficiency are expected to help companies in keeping its profit on normal average. Differences in profits either above or below averages in time t and t-1 may disappear over time due to each company performance.
Financial risk is a basic necessity in running any business. If a company wants its resources to expand, it will first need to secure the required finances. A business that has the right monetary resources is better protected from the market and operational risk. Higher risks create a series of negative consequences; all of them are derived whenever a company is unable to overcome one of them. (et al., 2014). Companies' capabilities to overcome

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financial risk negative consequences have its unique impact on its earning profit persistence.

Each company owns its unique flexible management, in terms of sufficient financial resources or hiring the right experts to provide crucial advice and guidance. In order to optimize earnings, they need to achieve many things such as, to ensure a smooth day to day operations and to anticipate future issues along with the regular ups and downs of the business cycle. Usually, financial risk is tighten with the following four basic Restrepo forms: Market risk, Credit risk, Liquidity risk and Operational risk. Jimmy Skoglund, and Wei Chen (2015).

Credit or financial risk refers to when clients unwilling or not always pay on time that disrupt businesses cash flow and profit persistence**.** It holds the possibility of a loss resulting from a clients' failure to meet contractual obligations. In this case, when this risk happens it results in an interruption of cash flows or increasing costs for collection and therefore hurts the profit persistence.

(LiMei Chenga,et.al 2020) assured that liquidity risk occurs when cash is locked up in some parts of the business, due to the inability to pay short-term debt obligations. When it happens a company may enforced to sell its product at a substantial discount resulting in a loss. Accordingly, it hurts if a company has a low cash flow and counted on their clients to cover its short-term debt. It ended by putting the business at risk to solve liquidity. At the same time, the high cash-intensive operation need to be adequately bitterly controlled and a proper strategic cash flow management may have its own impact on profit persistence.

Operational risk arises in the course of doing business. It attributes to the potential threats and hazards that are related to processes make the business capable to deliver its product or service, Bram Pieket Weeserik and Marco Spruit (2018). However, companies have different operational risk are depending upon its high rank experts capable in dealing with the type of threat. George Mihaylov, Ralf Zurbruegg (2020) confirmed that companies' attempts of minimizing their operational risks may affect profit persistence due to their different adapted strategies.

4.2 Asset Efficiency

Asset efficiency refers to how a company manages or utilizes its assets. Rate of total asset turnover and liquidity ratio are important indicators of a company's effectiveness. It indicates the management exploiting level of its assets to achieve its maximum revenue (Matar, 2016). Researchers choose the rate of asset turnover as an indicator of asset efficiency. it is an indication of the ability of total investments in assets to achieve sales (Al-

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Hayali, 2007).
Management efforts in achieving assets efficiency may lead to classify, analyze and understand the copability of asset expand its business successfully. At the same time, high management needs to achieve the best balance between liquidity and profitability to ensure the continual presence of current profitability level in the future, (Abu Mansor, 2011).

4.3 Profits Persistence

It is the profit that persists above or below its average for prolonged period of time. High persistence focused upon the speed of adjusting. It is the ability to maintain current profit in the future at a high quality level, (Atashband et al., 2014). Profit persistence allows to determine if differences in level of profits between one company and its bear companies will disappear over time..

Profits that persist above or below the norm for prolonged periods of time reveal a lack of different variables impact such as competition, systematic misallocation of resources, financial risks and efficiency. The profit persistence on its normal average reflects a high quality and encompasses a strong indicator of predicting profits in the future (Eklund & Desai, 2013), (Amidu et al., 2016), (Keil, 2017).

It is a matter of companies choice to maintain profit stability within a specific time period, (Amidu et al., 2016). Profit persistence reflects a company's ability to survive in a competitive market due to its ability in achieving a steady returns (Keil, 2017).

Theories claim that fluctuations in profit rate might occur due to a consistent competitive edge, market strength performance and investors evaluations of stock prices (Keil, 2017), (Chen et al., 2013). By long-run, all companies, workers and consumers become able to adjust their output to all changes in technology or demand. With no barriers to entry or exit, capital is expected to flow from low profit companies to high profit ones. Output will increase in companies were capable in attracting new capital and at the same time output will decrease in companies with fleeing capital. Prices in both type of companies will adjust until the profit rates become in the same range. Such adjustments depend upon existing barriers to entry and exit.

Taking in consideration the previous theoretical assumptions, this study aims to enrich literature on how creating financial risks or improving efficiency may affect profit persistence. It helps management in making correct decisions in this regard.

(Segun Abogun, et. al. 2021) assured that market risk comes from the overall local business competitors due to their ability in affording low prices and more advanced products. (Ana Carolina Kolozsvari, et., al. 2016) focused upon the market risk impact on assets valuations and fund allocating decisions. Companies attempts of smoothing affected by their agency theory and ended by different management own efforts to affect profit persistence.

5. Methodology

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The methodology allows for the profit persistence parameter to vary over one year.This approach is to measure the short term parameter λi by applying the following regression model,

$\pi i,t = \alpha i + \lambda i \pi i,t-1 + \varepsilon i,t.$

(Gschwandtner & Hauser, 2016) assured that the short term profit persistence can be measured by the parameter λi. The data sample of 41 over the period of 2007–2016 was regressed based upon the previous equation to measure yearly profit persistence.

Where:

$\pi i,t$: Return on assets, measured by dividing net profit by the total assets of the company (i) in the year (t).

α_i: Rate constant.

λ_i: **The** Measurement of short term profit persistence between year(t) and year(t-1) return on asset.

$\lambda i \pi i,t-1$: Net profit divided by the total assets of the company (i) in the year (t-1).

(Kozlenko, 2015) assured that it is mandatory for the value of λi to range from 1 to -1, if λi = 1 then profit persistence is very high, the closer to zero is the lower the persistence for the short term level.

6. Study hypothesis:

H01: There are no statistically significant differences in the profit persistence between industrial companies.

H02: There is no statistically significant impact for financial risks as measured by liquidity ratio on profit persistence.

H03: there is no statistically significant impact for financial risks as measured by debt ratio on profit persistence.

H04: there is no statistically significant impact for asset efficiency as measured by total assets turnover on profit persistence.

The Study Model:

The study model can be formulated using the following formula:

$$\pi i,t = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

Each one independent variable (X_1, X_2, X_3) was regressed solely on the dependent variable ($\pi i,t$) in order to avoid any possibility of multicollinearity. The simple linear regression method through the (SPSS) program was used.

Where $\pi i,t$ is the dependant variable of profits persistence, measured through the parameter

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λi at a company level on yearly basis.

a: Constant variable.
X_1: Liquidity risk, measured by the current ratio, dividing current assets over current liabilities.
X_2: Debt risks, measured by comparing the ratio of total debt on total assets.
X_3: Efficiency, measured by using the asset turnover ratio, equals net sales over total assets.
e: Percent error.
The study population is composed of 54 industrial companies listed in Amman stock exchange. For the sample, 41 companies were randomly selected included as the study sample. The duration of this study was lasted from 2007 – 2016.

7. Data presentation

Table 1: Study sample data

No.	Company	Asset Turnover	Debt Risk%	Liquidity Risk	Persistence of Profits (λ)
1	Pearl Sanitary Paper Converting Co. Plc	0.124	17.392	4.067	0.003
2	Akary for Industries & Real Estate Investments	0.381	27.136	2.510	0.029
3	Arab Electrical Industries	1.942	33.045	2.195	0.050
4	National Aluminum Industrial Co.	0.744	29.142	2.222	0.083
5	Investments & Integrated Industries Plc Co.	0.205	93.426	0.911	0.119
6	Arab Aluminum Industry (ARAL)	0.794	29.398	2.115	0.163
7	Dar AlDawa for development & Investment (DADI)	0.549	36.052	2.357	0.224
8	intermediate petrochemicals industries co. ltd	0.348	30.099	1.350	0.229
9	The Arab Pesticides & Veterinary Drugs mfg. co.	0.635	30.609	2.571	0.230
10	International Silica Industries Co	0.328	13.545	6.968	0.250
11	Arab Potash Co	0.541	17.622	4.453	0.252
12	Al Quds Readymix Co	0.629	19.490	2.041	0.255
13	AL-Mutasadira Business & Projects	0.285	52.892	0.141	0.268
14	National steel industries	0.664	60.563	0.863	0.268
15	Century Investment Group	0.008	24.240	2.436	0.270
16	United Iron & Steel	0.881	38.909	1.922	0.316
17	Union Tobacco & Cigarette Industries	0.637	48.223	1.254	0.349

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18	Jordan Phosphate Mines Co.	0.703	30.188	2.559	0.365
19	ELZAY Ready Wear Manufacturing Co.	0.636	56.389	1.290	0.386
20	National Poultry Company	0.877	20.395	2.721	0.398
21	Jordan Worsted Mills	0.113	3.344	8.859	0.449
22	Arab International Food Factories & Investment Co	0.017	0.873	1.100	0.476
23	Jordan Wood Industries Company	0.753	25.546	2.034	0.491
24	Jordan Chemical Industries Co.	0.708	47.895	1.380	0.511
25	Jordan Dairy Co.	1.290	23.414	2.079	0.536
26	Arabian Steel Pipes Manufacturing Co	0.598	19.298	3.991	0.537
27	National Chlorine Industries Co	0.549	21.433	2.709	0.538
28	Philadelphia Pharmaceuticals Co.	0.674	26.739	3.024	0.561
29	Nutridar	0.852	57.531	1.524	0.572
30	*Middle East* Pharmaceutical & *Chemical* Ind. & Medical Appliances Co.	0.342	66.926	0.905	0.598
31	General Mining Co	0.550	15.950	5.450	0.656
32	Ready Mix Concrete & Construction Supplies Co.	0.745	42.044	0.746	0.672
33	Jordan Cement Factories	0.703	42.299	1.061	0.691
34	Jordan Poultry Processing & Marketing Co., Ltd.	0.533	77.951	0.966	0.696
35	Al-Eqbal Investment Company PLC	1.026	37.203	2.258	0.771
36	Universal *Modern* Industries Co. Ltd.	1.650	14.641	7.254	0.771
37	Jordan Vegetable Oil Industries Co	1.003	43.974	2.507	0.804
38	Arab Weavers Union Co. PLC	0.495	17.868	4.299	0.838
39	Jordanian Pharmaceutical Manufacturing Co	0.400	46.034	2.340	0.848
40	Hayat Pharmaceutical Industries Co	0.494	12.071	4.835	0.858
41	Al Ekbal Printing And Packaging Co.	0.856	29.168	2.712	0.925

Table (1) presents the study data of annual short term profits persistence (λ), financial risks of (Debt and liquidity risks) as well as efficiency of total assets turnover ratio. It is widely established fact that profit persistence and other variables vary significantly among companies. These differences can be viewed as random events, economic developments or managerial ability. Its values are varied between the lowest level of .003 and the highest one of .925.

Weak profit persistence means the less than average companies and the strong enough to

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eliminate differences in profits within one year. The researchers believe that such companies may be capable to eliminate differences at short term level via taking more financial risks and capable to use efficiency for enhancing profit persistence in Jordan industrial sector.

Table 2: Descriptive Analysis of the Study Variables

Variable	Type	Mean	Standard Deviation	Lowest Value	Highest Value
(Profit Persistency (λ	Dependent	0.449	0.256	0.003	0.925
Liquidity Risks	Independent	2.655	1.842	0.141	8.859
Debt Risks %	Independent	34.049	19.180	0.873	93.426
Asset Turnover Rate	Independent	0.616	0.389	0.008	1.942

Table (2) shows the descriptive analysis of short term profit persistency (λ) and financial risks. The highest profit persistence value was 0.925, and the lowest one was 0.003, bringing the overall mean of short term profit persistence to 0.449 and standard deviation of 0.256.

The highest value of liquidity risks was 8.859 ratio meaning that current assets are 8.8 times current liabilities, and the lowest ratio of 0.141, the standard deviation is 1.842 percent reflecting the variations between companies. The overall mean of liquidity risks was 2.655, meaning that most of the sample companies are capable of fulfilling their short term obligations.

The highest value of debt risks, calculated by dividing total debt over total assets was (93.426%) and the lowest one was (0.873%) which means that the companies are depending on its equity to operate and achieve goals. The overall mean of debt risks was (34.049%) and the standard deviation between companies is 1.842% showing up that companies are with similarity in this regard.

Regarding the rate of asset turnover, the highest value is (1.942) times, signifying a high level of efficiency in using assets to generate sales, it is an acceptable rate in industrial companies. Its average mean is .616 and standard deviation of .389. There is a big differences between the highest and lowest levels.

8. Data validity, using the normal distribution test

Before starting our one sample (t) test and the simple regression test, we should make sure that the data is suitable for statistical analysis and statistical parametric tests (Field, 2013), so it was assumed the sample data through the normal distribution test using the (Kolmogorov – Smirnov) test as depicted in

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the following table.

Table3: Normal distribution test for study variables

Variable	Type	(Sig)
Persistency of Profits (λ)	Dependent	0.063
Liquidity Risks	Independent	0.052
Debt Risks %	Independent	0.068
Asset turnover rate	Independent	0.059

Table (3) shows the results of the normal distribution test for the sample data, and by using the decision rule which states that sample variables are distributed normally if the value of (Sig ≥ 0.05) and that any other results show that the data is not normally distributed. The results in the table show that the value of (Sig) exceeds 0.05, and that means that all variables meet the requirements of normal distribution, and that this data can be used in analyzing and testing the study hypothesis.

9. Correlation Matrix

The researchers utilized Pearson's correlation matrix to determine the relations between independent variables, as well as their relation to the dependent variable as follows:

Table 4: Pearson's Correlation Matrix

Variables	Profits Persistency (ʎ)	Liquidity Risks	Debt Risks	Asset Turnover Rate
ʎ) Profits Persistency	***1***			
Liquidity Risks	***0.168***	***1***		
Debt Risks	***-0.038***	***-0.656****	***1***	
Asset Turnover Rate	***0.143***	***0.007***	***-0.025***	***1***
****. Correlation is significant at the 0.01 level (2-tailed).** ***. Correlation is significant at the 0.05 level (2-tailed).**				

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Table 4 presents statistical results of Pearson's Correlation Matrix for the study variables showing that:

1. There is no statistically significant relations across variables of Asset Turnover and both of liquidity ratio and debt risks..
   2-There is no statistically significant relations –using correlation coefficient- between profits persistence and financial risks measured by debt ratio, liquidity risks and the total assets efficiency measured by asset turnover rate.
   .

10. Hypothesis Testing

H01: there is no statistically significant differences in the persistence of profits between industrial companies.
In order to accept or reject this hypothesis, It was utilized the One-Sample t-test in table 5 Variation is judged by the presence of differences in the mean from the lowest value of profit persistence (μ = .003) and the highest level (.925). The value (λ) varies from .003 up to reach .925 and t tested value of the mean (0.446), Statistical analysis assures the statistical significance differences at the (Sig ≤ 0.05) t-test. Calculated t value (11.159) was higher than the t-table value (2.021). Based on these results, it is possible to reject the initial hypothesis and present an alternative one: There is a statistically significant difference in profit persistence between industrial companies.

Table 5: Results of testing the first hypothesis

Sig) P-Value)	Calculated (T) Value	T) Table Values)	Standard Deviation	Mean
0.000	11.159	2.021	0.254	0.446

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.170[a]	.029	.004	.253968

a. Predictors: (Constant), Asset turnover risk

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.374	.078		4.784	.000

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Asset turnover risk	.113	.105	.170	1.076	.288

a. Dependent Variable: Profits Persistence

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H02: there is no statistically significant impact for financial risks –as measured by ratio of liquidity, on the persistence of profits in industrial companies.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.136[a]	.018	-.007	.255319

a. Predictors: (Constant), Liquidity risk

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.397	.070		5.671	.000
	Liquidity risk	.019	.022	.136	.857	.397

a. Dependent Variable: Profits Persistence

Table 6: Results of testing the second hypothesis

Calculated (T) value (T- statistics)	**Effects Coefficient of Determination (Beta)**	**Coefficient of Determination (R^2)**	**Adjusted Coefficient of Determination (Adjusted R^2)**
0.857	0.136	0.018	0.007-
0.734 = Calculated F-Value			
0.397 = (Sig)			

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Table 6 presents the results of simple regression analysis on Liquidity risks impact on profit persistence. The results show that the absolute value of the coefficient of determination was (0.136) and that the value of (Sig) is higher than (0.05) at a value of (0.397). Following the judgment rule, we accept the initial hypothesis and reject the alternative, meaning that there is no statistical significance of liquidity risks on the persistence of profits in industrial companies.
Based on the above results, and taking the Adjusted Coefficient of Determination value of (-0.007) into consideration, it was not possible to explain the changes in profit persistence using the changes in Liquidity risks.

H03: There is no statistically significant impact for financial risks –as measured by debt ratio- on the persistence of profits in industrial companies.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.019[a]	.000	-.025	.257664

a. Predictors: (Constant), Debt risk

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.455	.081		5.607	.000
	Debt risk	.000	.002	-.019	-.120	.905

a. Dependent Variable: Profits Persistence

Table 7: Results of testing the third hypothesis

Calculated (T) value (T- statistics)	**Effects Coefficient of Determination (Beta)**	**Coefficient of Determination (R^2)**	**Adjusted Coefficient of Determination) (Adjusted R^2)**

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-0.120	-0.019	0.000	-0.025
Calculated F-Value = 0.014			
(= 0.905 (Sig)			

The table above shows the results of a simple regression analysis of debt risks and its impact on the profit persistence. It is assumable to explains how much variability of one factor can be caused by its relationship to another related one. These results show the absolute value represented by the coefficient of determination of (0.019), calculate the strength of the relationship between the relative movements of two variables, is the proportion of the variance in the dependent variable that is predictable from the independent variable.
The degree of change in the outcome variable for every 1-unit of change in the predictor variable ended by (0.019) increase by the beta coefficient value and that confirms the value of (Sig) which is larger than (0.05), at a value of (0.905). Based on the rule of judgment, it was not possible to reject the initial hypothesis, meaning that there is no statistical significance for financial risks on the persistence of profits in industrial companies. Based on the results above, taking the value of the determination coefficient (-0.025) into consideration, which means that the changes in profit persistency is unexplainable through the changes in debt risks since this value is miniscule and cannot be used for the explanation.

H04: there is no statistically significant impact for asset efficiency –as measured by rate of asset turnover- on the profits persistence in industrial companies.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.170[a]	.029	.004	.253968

a. Predictors: (Constant), Asset turnover risk

Table 8: Results of testing the fourth hypothesis

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Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.374	.078		4.784	.000
	Asset turnover risk	.113	.105	.170	1.076	.288

a. Dependent Variable: Profits Persistence

The above table shows a simple regression analysis impact of one variable asset efficiency on another the profit persistence. The coefficient absolute determination value was (0.170), R-squared (or R^2), assesses how strong the linear relationship is between both variables confirming a significant (Sig) impact with larger than (0.05), at a value of (0.905). Based on the decision rule, it was not possible to reject the initial hypothesis and accept the alternative, meaning that there is no statistically significance for asset efficiency –measured by rate of asset turnover- on the persistency of profits in industrial companies.
Based on the above results above and taking the value of the determination coefficient (0.004) into consideration, the changes in profit persistency is unexplainable through the changes in the asset turnover rate since this value is miniscule and cannot be used for the explanation. Therefore, no impact of financial risks (Debt risks, Liquidity risks) on the short term persistency of profits in industrial companies.

11. Conclusions:

It is to summaries the results as the followings:

1. It is found a statistically significant differences of profit persistency in Jordanian industrial companies at a level of (0.05≥α) and that these companies are formed of several categories that are different in activity, operations and the seasonal nature of their products and operations. This makes the presence of fluctuations in profits and persistence vary between companies.
2. There was no statistical significance at the level of (0.05≥α) for financial risks –measured by liquidity ratio- on the profits persistence in industrial companies. This is due to the fact that liquidity risks are based on the availability of cash and other current assets to fulfill a company's current obligations for the hope of indirectly affects profits. Taking in considerations that profits and persistency are affected mostly by net profit and total costs to profit ratio, therefore the unproductive explains the no significant impact of liquidity risks on the profits persistence. It is the case where the profitability of liquidity is not enough persistent due to its costs of financing.

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3. There was no statistical significant at the level of (0.05≥α) for financial risks measured by debt ratio on the profits persistence. It is well known that corporate profitability depends on the dynamics of its capital structure. sometimes the debt ratio is considered to be capable of either creating or destroying wealth. This is due to the fact that debt risks affect mostly liquidity and operations, so, if a company maintains a sufficient level of cash and current assets to fulfill its financial obligations but it is unable to maintain the effect of debt risks on profits due to the current assets profitability.

4. There was no statistical significance at the level of (0.05≥α) for asset efficiency measured by asset turnover rate on the profits persistence. This is due to the weak relationship between asset efficiency and profits.
   Companies stay efficient and competitive by keeping inventory levels productive, speeding up collection of receivables and utilizing its fixed assets. Efficiency ratios determine how productively a company manages are. The wide nature of operations explain the absence of any major impact of asset turnover rate on the profits persistence.

Recommendations:

Based on the results from this study, we have arrived at the following recommendations:

1. Appropriate authorities need to educate company management on the importance of short and long term profits persistence, and companies should be obligated to include it in its governance reports. Doing so will help investors and decision makers determine a company's ability to maintain its current level of profits and earnings quality.
2. Enforce the concept of profit persistence with owners and managers in industrial companies, and encourage them to place stricter standards.
3. Compel executives in industrial companies to improve asset management efficiency, asset effectiveness and motivate management.
4. Conduct more studies using other models to measure the persistence of profits.

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