
The Impact of Return on Equity and Product Price on the Market Share of Jordanian Islamic Banks

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Summary

This current study examined the impact Return on Equity and product price on the market share of Jordanian Islamic banks, by following the descriptive analytical approach. The study was applied to financial sector institutions represented by Jordanian Islamic banks. There are (3) Jordanian Islamic banks, namely: "Jordan Islamic Bank, International Arab Islamic Bank, and Safwa Islamic Bank." Annual reports were used to collect data related to measuring variables for the period from 2011 to 2022. These sources were obtained by referring to the main websites of Jordanian Islamic banks, the Amman Stock Exchange website, and using E-Views software, which relies on financial data and descriptive metrics. The results reveals that there was no effect of Return on Equity and product price on the market share of Jordanian Islamic banks, and the study recommended that Jordanian Islamic banks reconsider the conditions for providing product price in order to increase their flexibility and suitability to customer requirements and needs.

Keywords

Return on Equity, product price, market share, Jordanian Islamic banks.

1-The General Framework of the study

1.1 Introduction

The banking sector, especially Islamic banks, plays a significant role in contributing to market share by opening prospects for expanding their scope, improving the quality of their profits, and increasing their services to reach the highest level of current and potential customers. Market share forms one of the industries that any organizational work relies on, as it is the measure of the impact of business on the market. Considering this, "Jordanian Islamic banks" aim to increase their market share by diversifying their products. Therefore, this research aims to uncover "The impact of return on assets and product price on the market share of Jordanian Islamic banks."

1.2 Questions & Problems

The "Jordanian Islamic banks" face numerous challenges due to scientific and technological advancements. They need to expand their scope, update their profit levels, and maintain their services in the market to reach customers. This is connected to the necessity of increasing their market share, which is related to the analysis of "return on assets and product price." From this perspective, the researchers see that "the research problem is embodied in the following questions":

This sets a clear direction for the study by pinpointing the challenges and emphasizing the importance of market share in the context of return on assets and product pricing.

1. **What is the impact of return on assets on the market share of Jordanian Islamic banks?**
2. **What is the impact of product price on the market share of Jordanian Islamic banks?**

1.3 The Importance of The Research

- 1- **Theoretical Importance:** The novelty of the subject and its outstanding importance in "Jordanian Islamic banks."
- 2- **Practical Importance:** The potential for Islamic banks to offer suitable product pricing, which could increase their market share and aim to improve their financial performance.

The researchers hope that the findings and recommendations will enhance and support decision-making processes within the banks.

1.4 Research Objectives

1. Clarify and analyze the impact of return on assets on the market share of Jordanian Islamic banks.
2. Statement and analysis of the impact of product pricing on the market share of Jordanian Islamic banks.

1.5 Research Hypotheses

- **Hypothesis (H01):** There is no statistically significant impact at the 0.05 significance level ($\alpha \leq 0.05$) of return on assets on the market share of Jordanian Islamic banks.
- **Hypothesis (H02):** There is no statistically significant impact at the 0.05 significance level ($\alpha \leq 0.05$) of product price on the market share of Jordanian Islamic banks.

These hypotheses are formulated to test whether the return on assets and the product price have a measurable effect on the market share of Jordanian Islamic banks. Statistical analyses will be conducted to confirm or refute these hypotheses.

2- The Theoretical Framework & Previous Studies

2.1 Return On Assets (ROA)

The return on assets is measured by dividing net income by total assets, reflecting the profitability of the bank relative to its total assets. This indicator is considered a measure of the bank's efficiency and management in effectively using its assets to achieve shareholders' goals, which include increasing returns. The return on assets heavily depends

on the type of activity and the amount of assets used in production. This indicator is used to compare financial performance among banks in similar sectors, to evaluate the extent of returns achieved from asset investment. Thus, the return on assets ratio provides a clear idea of the bank's efficiency in converting invested funds into effective profits (**Tomi and Al-Masoud, 2021**).

2.2 Product Price

The importance of product pricing lies in its practical framework, as it is one of the three main factors that directly affect profitability, cost, and revenue. It plays an effective role in shaping customer decisions and contributes to determining the value they expect to obtain from the products offered by Islamic banks (**Al-Kaabi and Ali, 2016**).

Based on the financial data obtained, the researchers will use the product price in Islamic banks, represented by the Murabaha price, as it is the most widely used in financing. It represents the cost of financing that the Islamic bank receives from the customer in exchange for providing the financing and includes the profit margin agreed upon between the customer and the bank when providing financing in the form of Murabaha. It is measured using the following formula:

Product Price Ratio = (Product Price for the Current Year ÷ (Product Price for the Current Year

– Product Price for the Previous Year)) × 100%

2.3 Market Share

Market share for banks is a component of profit generation, often reflected as capital gains which may surpass distributed profits in value. This reflects the banks' potential for rapid growth in the market, thereby increasing their overall value and supporting their financial position (**Orazio & Popoyan, 2018**).

Market share in banks is defined as the bank's share or its revenue percentage compared to the total revenues of competing banks (**Pairoa & Rachruk, 2022**).

The study perceives the market share of Islamic banks as the percentage of their revenues compared to the total revenues of the Islamic banking sector, which indicates the bank's strength in the market. It serves as a tool to differentiate between successful banks and those facing difficulties. These banks operate based on Islamic Sharia principles and offer financial services free from interest and usury.

2.4 Previous Studies

- **A study by Sunaryo (2024)** examined the impact of Return on Investment (ROI) and financial risks on stock prices before the COVID-19 period. The study population consisted of automotive and spare parts companies listed on the Southeast Asia Stock Exchange for the period (2012-2018). The results indicated that ROI and financial risks significantly affect stock prices.
- **A study by Al-Taie and Al-Shukrji (2022)** aimed to use traditional Similarly profitability indicators, such as the rate of return on equity, rate of return on assets, net operating profit margin, earnings per share, and net profit margin. The study sample

included ten private commercial banks in Iraq for the period (2004-2019), concluding that these indicators have a strong relationship with the market value of the banks.

- **The study by Salah (2022)** aimed to uncover the impact of market share, represented by loaned deposits, on the profitability of banks listed on the Amman Stock Exchange for the period (2016-2020), consisting of 15 banks. It revealed that combined factors affect market share and that the return on total assets has a positive relationship with the market value of the stock in Jordanian commercial banks.
- **Another study by Pratiwi, Soemitra, and Dalimunte (2022)** sought to understand how the priority strategy to increase the market share of Sharia Banks in Indonesia affects the market in North Sumatra. This was done by presenting and discussing the implemented internal and external conditions with experts. The SWOT analysis results illustrate the diversification strategy within the Strength-Threat (ST) strategy.
- **Finally, A study by Al-Amri and Al-Hakimi (2021)** aimed to determine the impact of pricing strategies on increasing market share in the Amran Cement Factory. The findings indicated a statistically significant positive impact of pricing strategies on increasing market share.

3. Research Methodology

3.1 Research Method

The research was based on the "descriptive analytical method." Data was collected by referring to the annual reports and financial statements of Jordanian Islamic banks for the period (2011 to 2022).

3.2 Research Population & Sample

The study population consisted of institutions from the financial sector, represented by Jordanian Islamic banks. According to statistics from the Central Bank of Jordan, the study sample included three Jordanian Islamic banks: **Jordan Islamic Bank, Arab Islamic International Bank, and Safwa Islamic Bank.**

3.3 Methods of Measuring Variables

3.3.1 Methods of Measuring the Independent Variables

- **Return on Assets (ROA):** It is measured as the percentage of the current year's return on assets relative to the change in return on assets. This can be represented by the mathematical formula:

$$ROA_{i,t} = \frac{ROA_{i,t}}{ROA_{i,t} - ROA_{i,t-1}} \times 100\%$$

- **Product Price :** It is measured as the percentage of the current year's product price relative to the change in product price. This can be represented by the following mathematical formula:

$$PP_{i,t} = \frac{PP_{i,t}}{PP_{i,t} - PP_{i,t-1}} \times 100\%$$

3.3.2 Methods of Measuring the Independent Variables

It is measured as the percentage of the Islamic bank's revenue relative to the revenue of the banking sector. This can be represented by the following mathematical formula:

$$\text{Market Share} = (\text{Bank Revenue} / \text{Total Banking Sector Revenue}) * 100\%$$

4. Data Processing, Analysis, and Hypothesis Testing

4.1 Description of Research Variables

4.1.1 Description of the Independent Variable

Return on Assets (ROA)

Table (1): Description of Return on Assets in Jordanian Islamic Banks

Measure	ROA
Mean	0.929
Standard Deviation	0.504
Highest Value	0.504
Lowest Value	-1.290

The values in Table (1) indicate significant differences among Jordanian Islamic banks in the return on assets ratio for the period 2011-2022. The mean was 0.929, and the standard deviation was 0.504. This is further confirmed by the extreme values, with the highest value recorded at 1.527 and the lowest at -1.290. This variation in the return on assets ratio among Jordanian Islamic banks may be attributed to differences in the methods and formats of Islamic financing and the available investment tools, which affect the performance of financed projects and returns; thus, impacting the return on assets ratio. To detail these values in Jordanian Islamic banks, the following table was prepared:

Table (2): Description of Return on Assets by Jordanian Islamic Banks

Measure	Mean	Standard Deviation	Highest Value	Lowest Value
Jordan Islamic Bank	1.197	0.112	1.375	0.977
Safwa Islamic Bank	0.464	0.610	1.527	-1.290
Arab Islamic International Bank	1.127	0.252	1.495	0.639
Total Islamic Banks	0.068	0.504	1.527	-1.290

The values in Table (2) confirm the differences between Jordanian Islamic banks in the return on assets ratio for the period 2011-2022. It appears that the Jordan Islamic Bank achieved the highest return on assets ratio during the study period, with a mean of 1.197 and a standard deviation of 0.112. Conversely, Safwa Islamic Bank recorded the lowest return on assets ratio during the study period, with a mean of 0.464 and a standard deviation of 0.610. The highest value was also observed at Safwa Islamic Bank, which was 1.527, while the lowest value recorded there was -1.290.

- **Product Price**

Table (3): Description of Product Price in Jordanian Islamic Banks

Measure	Product Price
Mean	0.045
Standard Deviation	0.008
Highest Value	0.075
Lowest Value	0.033

The values in Table (3) indicate a relative consistency and stability among Jordanian Islamic banks regarding product pricing for the period 2011-2022. The mean value was 0.045, with a standard deviation of 0.008. This stability can be attributed to the similarity of their Islamic financing products, such as Musharaka, Ijara, and Murabaha, in terms of conditions and application, which limits price variation.

However, the extreme values suggest some differences in product pricing, with the highest value recorded at 0.075 and the lowest at 0.033. This variation in product pricing among Jordanian Islamic banks may be attributed to differing pricing policies. These banks adopt different product pricing strategies based on their profit goals and customer acquisition strategies.

To provide a detailed analysis of these values among Jordanian Islamic banks, the following table has been prepared:

Table (4): Description of Product Price by Jordanian Islamic Banks

Measure	Mean	Standard Deviation	Highest Value	Lowest Value
Jordan Islamic Bank	0.432	0.045	0.497	0.346
Safwa Islamic Bank	0.157	0.156	0.528	0.001
Arab Islamic International Bank	0.890	0.533	1.776	0.189
Total Islamic Banks	0.493	0.438	1.776	0.001

The values in Table (4) illustrate the differences among Jordanian Islamic banks in the product price ratio for the period 2011-2022. The Arab Islamic International Bank achieved the highest product price ratio during the study period, with a mean of 0.890 and a standard deviation of 0.533. On the other hand, Safwa Islamic Bank recorded the lowest product price ratio, with a mean of 0.157 and a standard deviation of 0.156. The highest value observed was at the Arab Islamic International Bank, reaching 1.776, while the lowest value recorded was at Safwa Islamic Bank, at 0.001.

4.1.2 Description of The Dependent Variable

Table (5): Description of Market Share in Jordanian Islamic Banks

Measure	Market Share
Mean	3.224
Standard Deviation	2.056
Highest Value	7.330
Lowest Value	0.290

The values in Table (5) reveal significant disparities among Jordanian Islamic banks in terms of market share for the period 2011-2022. The mean value was 3.224, with a standard deviation of 2.056. These differences are further highlighted by the extreme values, with the highest recorded at 7.330 and the lowest at 0.290.

This variation in market share can be attributed to several factors, including the competitive capabilities of the banks, their market reputation, customer trust, and the variety and comprehensiveness of the products and services they offer. These banks differ in their ability to meet customer needs and requirements, as well as in their size, market expansion, and the reach of their operations. These factors collectively influence the size of their customer base and deposit volumes, ultimately impacting their market share.

To provide a detailed analysis of these values among Jordanian Islamic banks, the following table has been prepared:

Table (6): Description of Market Share by Jordanian Islamic Banks

Measure	Mean	Standard Deviation	Highest Value	Lowest Value
Jordan Islamic Bank	5.829	0.790	7.330	4.442
Safwa Islamic Bank	1.207	0.447	1.819	0.290
Arab Islamic International Bank	2.638	0.660	3.583	1.387
Total Islamic Banks	3.224	2.056	7.330	0.290

The values in Table (6) confirm the differences among Jordanian Islamic banks in market share for the period 2011-2022. It is evident that the Jordan Islamic Bank achieved the highest market share during the study period, with a mean of 5.829 and a standard deviation of 0.790. Conversely, Safwa Islamic Bank recorded the lowest market share, with a mean of 1.207 and a standard deviation of 0.447. The highest value was observed at the Jordan Islamic Bank, which was 7.330, while the lowest value recorded at Safwa Islamic Bank was 0.290.

5. Testing Research Hypotheses

5.1 Results of the First Hypothesis Test

The first sub-hypothesis examines the impact of the return on assets on the market share of Jordanian Islamic banks. The hypothesis is stated as follows: "There is no statistically significant effect at the significance level ($\alpha \leq 0.05$) of the return on assets on the market share of Jordanian Islamic banks." The results are presented as follows:

Table (7): Results of Testing the Relationship and Impact of Return on Assets on Market Share in Jordanian Islamic Banks

Dependent Variable	R2 Coefficient of Determination	Calculated F Value	Sig (F)
ROA	0.432	1.460	0.201

The values in Table (7) indicate the absence of a significant effect of the model related to return on assets on market share. The calculated F value was 1.460, with a significance level (SigF = 0.201), which is greater than 0.05. Additionally, the R² coefficient of determination ($R^2 = 0.432$) suggests that 43.2% of the variance in market share can be explained by the return on assets.

Table (8): Results of Regression Coefficients of Return on Assets on Market Share in Jordanian Islamic Banks

Regression Coefficients			
Independent Variable	Coefficients (B)	Calculated T Value	Sig (T)
Constant	0.628	0.864	0.396
ROA	2.794	3.941	0.001

The values in Table (8) illustrate the results of the regression coefficients for the return on assets and its impact on market share. The coefficient value for return on assets is $B=2.794$, and the T value, which is 3.941, indicates a significant effect of return on assets on market share. The significance level (SigT=0.001) is less than 0.05, leading to the acceptance of the first sub-hypothesis, which states: (There is no statistically significant effect at the significance level ($\alpha \leq 0.05$) of the return on assets on the market share of Jordanian Islamic banks.)

5.2 Results of the Second Hypothesis Test

The second sub-hypothesis focuses on testing the relationship and impact of product price on the market share of Jordanian Islamic banks. It is stated as follows: "There is no statistically significant effect at the significance level ($\alpha \leq 0.05$) of the product price on the market share of Jordanian Islamic banks." The results are as follows:

Table (9): Results of Testing the Relationship and Impact of Product Price on Market Share in Jordanian Islamic Banks

Dependent Variable	R2 Coefficient of Determination	Calculated F Value	Sig (F)
Product Price	0.079	0.166	0.999

The values in Table (9) indicate the absence of a significant effect of the model related to product price on market share. The calculated F value is 0.166, with a significance level ($\text{SigF} = 0.999$), which is greater than 0.05. Additionally, the R^2 coefficient of determination ($R^2 = 0.079$) suggests that 7.9% of the variance in market share can be explained by product price.

Table (10): Results of Regression Coefficients of Product Price on Market Share in Jordanian Islamic Banks

Regression Coefficients			
Independent Variable	Coefficients (B)	Calculated T Value	Sig (T)
Constant	3.581	1.525	0.140
Product Price	-7.977	-0.154	0.879

The values in Table (10) indicate the results of the regression coefficients for the product price and its impact on market share. The coefficient value for product price is $B = -7.977$, and the T value, which is -0.154, suggests the absence of a significant effect of product price on market share. The significance level ($\text{SigT} = 0.879$) is greater than 0.05.

Based on these results, the second sub-hypothesis, which states: "There is no statistically significant effect at the significance level ($\alpha \leq 0.05$) of the product price on the market share of Jordanian Islamic banks," is accepted.

6. Findings & Recommendations

6.1 Findings

1. The absence of an effect of return on assets on the market share of Jordanian Islamic banks is due to the internal information of the bank, which is more important to investors and financial analysts than to customers. They do not rely on the bank's efficiency in using its assets to generate profits, especially since Islamic banks tend to offer financial products and services based on Murabaha and Ijara contracts, which achieve relatively fixed and stable returns. Instead, they focus on other factors related to the ease of obtaining banking services, their quality, prices, the bank's reputation, and reliability.

2. The absence of an impact of product price on the market share of Jordanian Islamic banks is due to customers focusing on more important criteria for their decisions related to the bank. They do not view the cost of financial services and products as a primary determinant for dealing with the bank,

but rather place greater emphasis on the bank's reputation, reliability, quality of services, ease of access to its branches, and availability of digital channels.

6.2 Recommendations

The study's recommendations are as follows:

1. Jordanian Islamic banks should offer innovative banking services to attract a larger segment of customers, increase their assets, and diversify their funding sources.
2. Design product pricing programs that are based on customer characteristics, traits, transaction volumes, and investment durations to enhance market share.

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