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Universidad del Zulia
Facultad Experimental de Ciencias
Departamento de Ciencias Humanas
Maracaibo - Venezuela

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Evaluating the financial performance according to the traditional and modern financial indicators

Manal Hameed Majeed
Lecturer at Department of Public management, College of Administration and Economics, University of Baghdad, Iraq
info@ores.su,

Amal Noori Mohammed
Lecturer at Department of Accounting, College of Administration and Economics, University of Baghdad, Iraq
global@ores.su

Mokhalad Hamzah Jaddoa
Lecturer at Department of industrial Management, College of Administration and Economics, University of Baghdad, Iraq
info@prescopus.com

Abstract

The research aims to develop the general performance and improve the level of activity of private insurance companies in line with the current progress of the country via qualitative and quantitative comparative research methods. The results of the research show a great interest from the side of the management of companies in this concept. The research concluded that the added economic value is a broad concept that goes beyond the traditional performance evaluation process and is based on compound costs related to the cost of debt, the weighted average cost of capital and the profits realized.

Key words: Economic Value, Performance Assessment, Analysis.

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Evaluar el desempeño financiero de acuerdo con los indicadores financieros tradicionales y modernos

Resumen

La investigación tiene como objetivo desarrollar el desempeño general y mejorar el nivel de actividad de las compañías de seguros privadas en línea con el progreso actual del país a través de métodos de investigación comparativos cualitativos y cuantitativos. Los resultados de la investigación muestran un gran interés por parte de la gerencia de las empresas en este concepto. La investigación concluyó que el valor económico agregado es un concepto amplio que va más allá del proceso tradicional de evaluación de desempeño y se basa en costos compuestos relacionados con el costo de la deuda, el costo promedio ponderado del capital y las ganancias obtenidas.

Palabras clave: Valor económico, evaluación del desempeño, análisis.

1. INTRODUCTION

The evaluation of financial performance occupies a distinguished position at the present time for the great importance it has in determining the efficiency of the company and the extent to which it achieves its objectives by revealing its positives and disadvantages in performance during a specific period of study, and analyzing the causes and their correlation with the responsibility centers in order to strengthen the positive aspects and overcome the negatives, a matter that will contribute to raise the financial performance of the company in the future. The evaluation of financial

performance, the measurement of efficiency and the examination of various systems are often done in order to ensure that the available resources are properly exploited and to ensure that the company is able to achieve the desired objectives, including its ability to achieve future profits and the company's ability to achieve its plans. The problem of the paper revolves around an assessment of the traditional standards and their shortcomings as they no longer fit the new competitive environment, and the very fact that the insurance companies investigated in the private sector do not use modern criteria for evaluating financial performance in a new manner that differs from the traditional criteria used in the assessment process whose aim is to realize the goals of the insurance company by increasing the profit and liquidity and safety making them more efficient and active and that the data and information provided by financial reports prepared by the Iraqi insurance companies for the purpose of the evaluation of traditional methods do not provide full information on the financial position of the company. This leads to the inability of the companies to determine future policies in the best way and this, in turn, is reflected on the decisions of the future users of information about those companies.

2. LITERATURE REVIEW

One of the studies that dealt with the variables of the research is the study of Almuhtadi (2014), which aimed at analyzing the indicators of the traditional and modern financial instruments. The

research has concluded that the traditional financial performance evaluation criteria combined, have an explanatory potential to the variable that occurs in the market value of the shares. Therefore, the use of these criteria as a whole will be useful in explaining the change in the market value of shares. The study recommended that the companies in question which are interested in giving more attention to such indicators should identify the weaknesses of the company. A study by Lulu (2010) aimed at evaluating the financial performance of industrial companies in Syria by using the added economic value in the company under investigation, which is considered by adopting a balanced performance card. This study ended up with a conclusion that the added economic value index is one of the most modern financial indicators and more accurate in the evaluation of performance because it depends on complex costs which are wider than the traditional methods of evaluation. While the recommendations of the study stressed that the companies are required to give more priority to such indicators that would diagnose the weaknesses of the company. The study was also used to build the theoretical aspect and the research methodology.

The study of Flayyih (2015[a]) pointed out that the added economic value, which is a trademark of Stern & Stewart and its American partners, was used by many companies in order to extract the real value of the profit achieved by the company, as well as providing appropriate information for users of financial statements. This tool has been justified by financial management thinkers and writers because it is consistent with the principles of valuation, as it is

important for any analysis conducted by investors to the company. The research has reached a number of conclusions, the most important of which is that the added economic value combines the points of convergence between the economic profit and the accounting profit. The most important characteristic of it is the calculation of the cost of the capital.

The added economic value is used as a tool and a criterion for evaluating performance. It provides several indicators of the performance of the economic unit. The researcher suggested a set of recommendations including the need to apply the added economic value as a tool to enhance the financial disclosure of companies. As for the study of Flayyih (2015b), it aimed to calculate the real value of the profit achieved by the company, as well as providing suitable information to the users of the financial statements. The research reached a number of conclusions, the most important of which is that the added economic value combines the points of convergence between the economic profit and the accounting profit, and the most important feature of it is the calculation of the cost of the capital. Moreover, the added economic value is used as a tool for evaluating performance, it provides many indicators of the performance of the economic unit. The researcher suggested a set of recommendations including the need to apply the added economic value as a tool to enhance companies financial reporting.

Lulu (2010) aimed at evaluating the performance of some of the companies listed in the Iraqi Stock Exchange involving 20 companies

in order to identify the weaknesses and deviations and evaluate them well for the sample companies. The results pointed out that the instability of the external environment coupled with the economic environment of the companies investigated leads to inevitable fluctuations in profitability and this may expose them to loss. The main recommendations for companies are to provide an internal control system to evaluate the financial performance and to work on the review and evaluation periodically. This study is made use of in this paper in building the theoretical side and methodology research.

Jaddoa et al. study (2017) aimed to investigate the causes of irregular risk, & then to reveal their reflection on the profitability of investment in shares according to the nature of the circumstances surrounding the company. The study reached a number of conclusions and recommendations. The most important of these were the following: the high coefficient of variation as a measure of the systemic risk of the companies in the investigation sample of the research indicates a greater volatility in their returns compared to the companies in the research sample in which the levels of systemic risk were low due to the limited volatility of investment returns. Among the most prominent recommendations of the research is that for the investor to maximize the benefits of investment he should not take into consideration the earnings per share as the basis for measuring the irregular risk but also take into account other factors related to the risk of irregular companies

It is noted that all the previous studies have dealt with the concept of performance evaluation, especially the financial performance, whether for Iraqi studies or Arab studies, but what is different with this study is that it includes the variables of the traditional indicators and those of the indicators of modern economic values added together. The previous studies, however, did not address private sector insurance companies in Iraq, so this study will serve as a guide for this vital sector in the Iraqi economy because such companies provide services to the community and they have their own responsibility towards this society. Therefore, evaluating its performance and diagnosing deviations are necessary to help this sector work in a well thought out manner using the traditional and modern tools for evaluating performance. This study is the first of its kind at the level of the sector studied (Iraqi private sector insurance) and includes years from 2011 to 2015.

3. THE CONCEPT OF FINANCIAL PERFORMANCE ASSESSMENT

Alkasabeh (2011) defined the assessment of the financial performance as comparing the actual performance with specific indicators in advance of the deviations and then follow the necessary corrective steps whenever possible and often the comparison is made between what is actually achieved and what is targeted at the end of a certain time period which is usually a year. Lulu (2010) explained that we must mention that performance evaluation is a function of modern

financial management, with stable scientific practices, which aims to complete the planning process to the fullest, compare the actual performance of the scheme, and determine the size of the deviations between them, and know the reasons, taking the appropriate corrective measures (Zubaidi, 2016). Marjoushi (2008) as well defined it as the integrated system of the output produced by the work of the company in light of its interaction with the elements of its internal and external environment. Aljabouri (2012) stressed that Performance evaluation is a process aimed at measuring what has been achieved by the company over a specified period of time, compared to what has been planned in quantity and quality, using a set of criteria and indicators, identifying the shortcomings and deviations, if any, and ways of treating them in the present and future.

4. FINANCIAL ANALYSIS USING RATIOS

Financial analysis using the ratios is one of the oldest and most common methods of financial analysis and helps to give the correct and accurate judgment. The ratios can absorb huge amounts of financial data to facilitate the use of financial analysis. There are six main groups of the financial analysis using financial ratios classified by writers and researchers, and they are as following: liquidity ratios, profitability ratios, activity management ratios, loan ratios, progress ratios, evaluation ratios. The researchers will focus on (rates of profitability and valuation ratios) and these ratios will be taken into account in measuring the financial performance of the companies

under investigation illustrates these measures. The evaluation will be based on these two groups, and Table (1).

Table (1) the Traditional Financial Ratios

No.	Measure Name	Measure	Source	Clarification
1	$Pr = \frac{\text{Net profit after tax}}{\text{Sales Revenue}}$	Profitability Measure	(Abu-Hamed and Qadoory, 2000)	This ratio measures the relationship between net profit and sales. If the ratio decreases, the company is unable to make profits and therefore the returns to the shareholders are reduced.
2	$ROE = \frac{\text{Net income}}{\text{Property right}}$	Return of the Property Right		It measures the return produced by the investment of the owners' funds and discloses management performance and the high rate of return on the right of property.
3	$ROA = \frac{\text{Net Profit before tax}}{\text{Total assets}}$	Return of the Assets		It is expressed as a change in the value of the investment and investors generally assess the return in proportion to the rate of return realized
4	$\text{Price ratio to profitability} = \frac{\text{The stock price in the financia}}{\text{Earnings per share}}$	Price Evaluation Ratio	(Al-A'amery ,2013)	This ratio measures the price at which the investor is willing to pay, and the higher the percentage, the greater the growth in these companies. This percentage is calculated according to the following equation
5	$= \frac{\text{Market value on the carrying value of Stock market price}}{\text{Book value of the share}}$	Ratio of the Stockmarket Evaluation	(Al-Rawy, 2000)	This ratio is measured by dividing the market value by the book value

5. MODERN FINANCIAL INDICATORS (THE ADDED ECONOMIC VALUE)

5. 1. The Concept of the Added Economic Value

It is interpreted as one of the management tools of the company that works to create value for the company. It is also interpreted in particular as a measure considered by accountants and financial managers as a basis for calculating the value of shares traded in the market. And recently an indicator has been used to measure the performance of business units which is known as the Added Economic Value or abbreviated as (EVA). Anil & Satish (2010) pointed out that the added value is a measure of the increased return on investment over the market rate of return, so EVA can be considered as net operating profit subtracted from the company's invested capital fees. EVA is an estimate of real economic profit in which profits exceed or fall below the minimum required amount of return that shareholders can obtain through investment in currencies. The added economic value as a measure of financial achievement to estimate the remaining profit is linked to a maximizing of the shareholders' wealth over time (the difference between adjusted net operating profit after taxes and the cost of the capital owned and the borrower). The underlying concept behind the added economic value (EVA) is that if the actual return of the company is greater than expected, the value will be generally added and that EVA is a measure of the economic profit of the company. This is based on the remaining profitability that is calculated by net operating profit after taxes and subtracting the alternative cost of the invested capital (Nguyen, 2013).

The added economic value (EVA) is the return of the investment that exceeds the expected or desired return, and the added economic value seeks to identify the lines that create value for the company. It is the net returned income subtracting the capital cost of certain business multiplied by the business capital; EVA balances the maximum cash flow limits of the profit and the net worth (Madhu, 2008). Nemanja (2012) stated that AEV is a measure of the economic profit and is calculated as the difference between net operating profit after taxes and the cost of the capital invested. The cost of the capital is determined on a weighted average basis and the cost of the property rights and working capital, as well as the capital, used. Anne et al. (2004) added that the added economic value is an estimate of the company's real economic profit that differs from the accounting profits in the following three ways:

1. EVA integrates operational efficiency and asset management into one that can be easily understood.

2. The EVA shall be capitalized at a rate that compensates investors for the provision of the necessary capital for the operations.

3. EVA adjusts reported accounting results to eliminate accounting distortions. The added economic value is the management technique that emphasizes the establishment of the remaining wealth in the company after loading all the costs and expenses including the cost of the company concerning the invested capital. The AEV measures the economic value by dollar taking into consideration the cost of debt and capital. EVA can be

defined as the change in net profit after profit tax minus the change in the cost of the capital used. EVA is mainly based on the company's operating profits, taxes, debt level, and cost of the capital. Vladimir (2014) emphasized that the AEV calculates financial requirements as specific assets (the generalized adjusted balance), multiplied by the probable average of the capital cost. It is a long-term indicator, taking into account the total capital cost according to investors. EVA also shows some accounting errors that must be corrected in order to simulate cash flow.

5.2 Financial Analysis According to the Conventional and Modern Financial Indicators

The research aims to develop the general performance and improve the level of activity of private insurance companies in line with the current progress of the country, and even evaluating financial performance to diagnose weaknesses and strengths in the companies under investigation and then developing some appropriate solutions. The deviation in the financial performance of the research sample was revealed by measuring the various accounts of the company.

EVA = residual income + accounting income adjustments

$$EVA = NOPATt - Ct \times WACCt$$

$$KE = RF + (RM - RF) * \beta$$

$$\beta = (COV (yx)) / (VAR\ x)$$

W (E + D) * KE + D (E + D) * KD (1-T)

The added economic value contains complex calculations because it consists of compound costs. It represents the differences between the net profit after tax and the cost of the invested capital which includes both the calculation of the cost of debt financing and the cost of the property financing and thus calculating the weighted average cost of capital. This section identifies the compound costs sequentially as a basis for calculating the added economic value in terms of the compound costs mentioned above and then determining the added economic value for the companies of the research sample.

6. RESEARCH METHODOLOGY

The significance of this research comes from its attempt to ensure that the resources available to private sector companies are made more efficient and used to the best and creating a spirit of competition between the company's divisions and other similar companies in order to improve the financial performance. This helps to identify weaknesses in the companies in question so that they can develop appropriate solutions. Therefore, a clear picture can be given of the companies under investigation to improve the planning process by taking advantage of the performance evaluation results after relying on traditional and modern indicators.

The research has been carried out on a number of insurance companies in the private sector for the period extending from 2011 to 2015 to include the financial performance assessment study using the traditional financial indicators (the financial ratios analysis) and the modern indicators (the added economic value). The data were obtained from their preliminary sources which are issued by the financial reports of the companies in question and the directory of companies issued by the Iraqi Stock Exchange Market and the statistical publications issued by the Central Bank of Iraq for the period covered in this research.

7. Presentation and Analysis of the Study Results:

7.1 Financial analysis according to traditional financial indicators:

This section focuses on presenting the results of the financial performance measurement and analyzing its contents and interpretation at the level of the companies subject to the investigation and analysis including two main parts, one of which is devoted to presenting the results of financial performance measurement and discussion using profit indicators, as for the second part of the research, it presents and discusses the results of the analysis of the financial performance of the companies in question using market indicators and then the average for the five years will be extracted, allowing researchers to develop a diagram of these ratios:

7.1.1 Profitability Indicators

7.1.1.1 Profit Net Margin of Sales

Table (1) Net profit margin of the sample research companies

No.	Company Name	2011	2012	2013	2014	2015	Mean
1	Ahliya for Insurance	0.32	0.25	0.20	0.29	0.30	0.27
2	Dar Al-Salam for Insurance	0.24	0.27	0.26	0.25	0.21	0.25
3	Hamraa Insurance	0.22	0.37	0.26	0.07	0.14	0.21
4	Al-Ameen for Insurance	0.45	0.27	0.42	0.51	0.07	0.34
5	Gulf for Insurance	0.01	0.05	0.26	0.20	0.29	0.16
Mean		0.25	0.25	0.28	0.26	0.20	0.25

Table (1) concerned with the results of the calculation of the net profit margin of the studied company's shows a significant difference. The net profit margin ranged between the highest value (0.15) in Al-Ameen insurance company, reflecting the higher contribution of current revenues to net profit (0.26), and the rest of the years, especially after achieving the highest net profit margin compared to the other studied companies, and the lowest average of this percentage reached (0.01) in the Gulf Insurance Company (2011) and throughout the period studied the company scored the lowest average which is (0.16) reflecting a relative decline in this regard after the decline in its performance in terms of net profit margin reaching the lowest level compared to the rest of the companies during the evaluation years, as for the results of the financial performance evaluation of the rest of the companies under investigation, they range between these two levels of

performance. This apparent difference in the net profit margin of sales at the level of the studied companies may lead to a contrast in the performance of those companies as far as the profitability is concerned and in accordance with the scale used.

7.1.1.2 The Return on Investment in Assets

It seems evident from Table (2) concerned with the results of the calculation of the return on investment in assets of the studied companies that a significant difference is shown. The return on investment in assets ranged between the highest value (0.34) in the Gulf Insurance Company (2015) as a result of the rise in the company's average of profitability during the period of research against the amounts spent on investment in its assets compared to the rest of the studied companies, reaching the highest average (0.19), especially after achieving the highest rate of return on investment in assets in this company, the lowest average of this ratio was also (01.0) In the Gulf Insurance Company, which might affect the decline in profitability of this company against the amount of investment in assets for all the other companies and it was less than the average of the companies for the year (2011). As for the results of the financial performance evaluation of the rest of the sample companies, these ratios ranged from a year to year between the two abovementioned ratios.

Table (2). The Return on Investment in Assets of the Sampled Companies

No.	Company Name	2011	2012	2013	2014	2015	mean
1	Ahliya for Insurance	0.15	0.07	0.02	0.06	0.09	0.08
2	Dar Al-Salam for Insurance	0.07	0.07	0.07	0.07	0.06	0.07
3	Hamraa Insurance	0.09	0.10	0.05	0.02	0.06	0.06
4	Al-Ameen for Insurance	0.04	0.02	0.04	0.06	0.01	0.03
5	Gulf for Insurance	0.01	0.05	0.29	0.27	0.34	0.19
Mean		0.07	0.06	0.09	0.10	0.11	0.09

Table 2 shows the extent of the apparent difference in the ratio of the return on investment in assets at the level of the studied companies, which may lead to a different variation in the performance of these companies as far as profitability is concerned and in accordance with the scale used, and this clearly reflects the volatility of this ratio in the companies studied as averages over the period of the research.

7.1.1.3. The Return on the Property Rights

Table (3) shows that there is a clear difference in the rate of return on the property of the surveyed companies. The return on property ranged (0.37) and it was among the highest in the Gulf Insurance Company as a result of higher profits for the company compared to the companies studied, especially after it has achieved the highest return on the property for the years 2013, 2014 and 2015. This

gives an initial impression of the company's good utilization of its available resources. The minimum value of the average return on property at the level of the surveyed companies was (0.01) in the Gulf Insurance Company also compared to other companies for the year (2011), which indicates a decline in the profitability of this company over the property right.

Table (3). The Return on the Property Rights of the Sample Companies

No.	Company Name	2011	2012	2013	2014	2015	mean
1	Ahliya for Insurance	0.20	0.09	0.02	0.09	0.10	0.10
2	Dar Al-Salam for Insurance	0.08	0.07	0.07	0.07	0.07	0.07
3	Hamraa Insurance	0.10	0.11	0.06	0.07	0.07	0.08
4	Al-Ameen for Insuranc	0.04	0.02	0.04	0.04	0.01	0.03
5	Gulf for Insurance	0.01	0.05	0.36	0.22	0.37	0.20
Mean		0.09	0.07	0.11	0.10	0.06	0.09

7.1.2 Market Indicators

7.1.2.1 Earnings per Share Multiplier

It is clear from Table (4) that the earnings per share calculation for the surveyed companies shows that there is a significant variation. The earnings per share ratio ranged from the highest of (55.00) to Al-Ameen Insurance Company. This indicates a surge in the earnings per share of this company as an average during the research period compared to the rest of the surveyed companies. The lowest average

was (3.54) in Al Ahlia Insurance Company against the decline in earnings per share to the lowest level compared to the rest of the companies during the year (2011).

Table (4) Earnings per Share Multiplier of the Sampled Companies

No.	Company Name	2011	2012	2013	2014	2015	mean
1	Ahliya for Insurance	3.54	9.79	34.62	17.43	8.08	14.69
2	Dar Al-Salam for Insurance	18.10	22.64	43.50	30.00	21.00	27.05
3	Hamraa Insurance	5.63	7.65	14.30	29.67	11.38	13.73
4	Al-Ameen for Insurance	21.74	55.00	22.45	12.78	21.00	26.59
5	Gulf for Insurance	30.93	53.57	19.28	27.78	15.07	29.33
Mean		15.99	29.73	26.83	23.53	15.31	22.28

Table (4) shows a clear difference in the earnings per share multiplier at the level of the companies in the sample due to variation in the performance of these companies which may be related to the profitability and the scale used.

7.1.2 .2. The Book Value of the Share Multiplier

Table (5) related to the results of the book value calculation for the listed companies indicates that the book value of the share has varied between the highest of (8.06) as an average in the Gulf Insurance Company and thus reflects a rise in the book value for these companies compared to the other companies studied, especially after achieving the

highest book value per share for the years (2011-2015) in comparison to the rest of the companies in the research sample. The lowest average of this value was (0.69) in the Ahliya Insurance Company, which reflected a decline in the book value per share to the lowest level compared to the rest of the companies.

Table (5). The Book Value of the Share Multiplier of the Sampled Companies

No.	Company Name	2011	2012	2013	2014	2015	mean
1	Ahliya for Insurance	0.69	0.85	0.81	1.10	0.78	0.85
2	Dar Al-Salam for Insurance	1.44	1.66	3.10	2.46	1.32	2.00
3	Hamraa Insurance	0.58	0.82	0.86	0.85	0.81	0.78
4	Al-Ameen for Insurance	0.91	0.97	0.93	0.91	1.16	0.98
5	Gulf for Insurance	3.88	4.52	6.91	8.06	5.50	5.77
Mean		1.5	1.82	2.52	2.68	1.91	2.09

The obvious difference in the book share value multiplier at the level of the surveyed companies may lead to a variation in the performance of these companies as far as profitability is concerned depending on the scale used. The data above indicate that the financial analysis using financial ratios is no longer adequate for the process of evaluating the financial performance and with the emergence of modern financial indicators, including the added economic value, it became necessary to carry out modern assessments according to modern financial indicators to identify deviations and recognize the strengths and weaknesses to evaluate ending up with the best performance of the companies under investigation for the private sector insurance in Iraq.

7.3 The Financial Analysis of the Added Economic Value for the Insurance Companies Sector

Below is the method of calculating the added economic value:

7.3.1. The cost of debt financing

Most insurance companies resort to the use of debt to finance investments, in order to achieve tax savings as this cost decreases with the increase in the tax rate, because the interest is a fixed expense which is exempted of tax, and because increasing the tax rate will contribute to achieving higher rates of the company's tax savings. This leads insurance companies to use debt financing. The interest rates approved by the Central Bank for the companies were used during the research period (2011-2015). The tax rate was adopted for each company, which is taken from the financial statements of each one of these companies.

Table (6) Debt Cost Rates KD * (1-T) for the Sampled Companies from (2011-2015)

No.	Company Name	2011	2012	2013	2014	2015	mean
1	Ahliya for Insurance	0.118	0.087	0.090	0.063	0.058	0.083
2	Dar Al-Salam for Insurance	0.099	0.074	0.059	0.057	0.058	0.069
3	Hamraa Insurance	0.116	0.076	0.070	0.057	0.058	0.076
4	Al-Ameen for Insurance	0.164	0.135	0.126	0.118	0.119	0.132
5	Gulf for Insurance	0.118	0.123	0.117	0.104	0.101	0.113

The results of Table (6) above show the rates of debt financing costs recorded by the sampled companies during the period (2011-2015). The results indicate that there is a significant convergence between these rates among the insurance companies. The lowest of these costs belonged to the Gulf Insurance Company for the year (2015) scoring (0.101), and it even scored the highest of the costs amongst the most insurance companies in (2011), amounted to (0.143) excluding the two companies Al-Ameen for Insurance and Gulf for Insurance, which since they have scored lower costs.

7.3.2. The Cost of Property Financing:

It represents the minimum required rate of return demanded by investors to compensate them for the risks to which they are exposed to investment in the Company's shares. This is equal to the opportunity cost to investors as a result of their investments. This rate is directly linked to risk. The higher the risk, the higher the cost of the property as a direct result of what the shareholders demand of additional returns compensating them of taking the risks. The cost of the property is calculated by using the Capital Asset Pricing Model (CAPM) formula, which is the most widely used method in this field, and is expressed as follows:

Table (7) RF Risk Free Return for the Period (2010-2015)

Years	RF
2011	0.069
2012	0.070
2013	0.066
2014	0.051
2015	0.053

Source: Corporate Directory issued by the Iraqi Stock Exchange.

The annual returns of the market portfolio represent the change in prices between one year and another, and the annual market prices are reached based on the total monthly prices achieved by all insurance companies listed in the Iraqi Stock Exchange as shown in table (8) below:

Table (8) Average RM Market Return for the Period (2010-2015)

Years	Average market return
2011	0.347
2012	- 0.081
2013	-0.095
2014	-0.187
2015	-0.268

Source: Corporate Directory issued by the Iraqi Stock Exchange

The determination of the beta coefficient value requires measuring the sensitivity of the returns of the shares as a result of fluctuations in the returns of the market portfolio. The beta coefficient value can be calculated mathematically by the following equation: COV (yx) is the common variance between stock returns and market returns. VAR X represents the variation of the market portfolio and the share returns and market returns have been extracted based on the monthly prices of each company's shares and monthly market prices. The return of the single share represents the difference between the current share price and the previous share price divided by the previous share price for a single share. The same method is used in dealing with the returns of the market portfolio, we rely on monthly views for each of the stocks and market prices and then calculating the beta coefficient of the current research as it is evident in Table (9) below:

Table (9) Beta β Coefficient in the Sampled Insurance Companies for the period (2010-2015)

No.	Company Name	2011	2012	2013	2014	2015
1	Ahliya for Insurance	0.628174	0.313689	0.797244	- 0.2899	2.231078
2	Dar Al-Salam for Insurance	-0.0202	-0.0654	-1.712246	1.63775	-1.68698
3	Hamraa Insurance	0.24804	0.104989	2.816704	3.724839	0.812398
4	Al-Ameen for Insurance	0.20674	0.148066	0.018155	1.795742	2.139218
5	Gulf for Insurance	0.692405	0.732593	3.472232	0.229942	0.05549

The possible explanations of beta-factor values can be illustrated by:

$\beta < 0$ Reverse correlation between stock returns and market returns

$\beta = 0$ There is no correlation between stock returns and market returns

$\beta > 0 < 1$ Positive correlation and change in stock returns is less than the change in market returns

B = 1 the correlation is positive as returns of stocks change with the same rate of change in market returns

β >1 Positive correlation and the change in stock returns is greater than the change in market returns

After all the CAPM model variables have been completed in the above three categories, the cost of property financing is calculated. Table (10) shows the results of the property cost incurred by the insurance companies for the period (2011-2015).

Table (10) Rates of Property Costs KE for the Sampled Companies for the years (2010-2015)

No.	Company Name	2011	2012	2013	2014	2015	mean
1	Ahliya for Insurance	0.506	0.276	0.013	0.024	0.120	0.286
2	Dar Al-Salam for Insurance	0.140	0.029	0.040	0.400	0.016	0.323
3	Hamraa Insurance	0.290	0.141	0.105	0.180	0.035	0.066
4	Al-Ameen for Insurance	0.034	0.168	0.058	0.577	0.243	0.236
5	Gulf for Insurance	0.262	-0.041	-0.494	-3.727	0.036	-0.631

The results of Table (10) indicate the cost of property financing for the insurance companies during the research period (2011-2015). When considering these results, the property cost rates were higher than the debt interest rates in Table (6) which means that the property financing charges the insurance companies with costs more than they pay for their debts. This is partly due to the realization of debt for the benefit of tax savings. The cost of interest-bearing debt is tax-deductible, ie, it reduces total profit before tax, in opposition to the property cost which is deducted from the net profit after tax, in

addition to the rise in the costs of the coefficients associated with issuing the company shares, and the property costs are associated with the risks of fluctuations in the prices of the company shares measured by the beta coefficient. The higher the value of this coefficient, the higher the property cost of the company. This is indicated by some of the results of the insurance companies as they attained a significant increase in the property cost due to the increase in the value of their beta coefficient indicating a significant rise in the risk of those insurance companies. The increase or decrease in the property cost of the insurance companies is associated with the risk rates that each company is exposed to as a result of the fluctuation in the market returns expressed by a beta coefficient for the systematic risk of the companies in the research sample. The risk to the company is low due to the low sensitivity of its returns to changes in market returns, especially in the case of low returns. Insurance companies are exposed to high risks when their beta values are greater than (1). This is because the change in market returns will cause a larger change in the returns of the company shares while the company is not exposed to any risks when its beta coefficient is equal to zero because any negative change in market returns will have no effect on the returns of the company shares a matter that is so evident in Gulf Insurance Company listed in table (10). It has a low average cost of property (-3,727), with a beta coefficient equal to zero in 2014, and recorded the highest rate of financing cost (0.577) in Al-Ameen Insurance Company (2014).

7.3.3 Weighted Average of Financing Cost (WACC)

After determining both the cost of debt financing and the cost of property financing, it is possible to calculate the weighted average cost of the capital, which is equal to the sum of the debt cost and the property cost multiplied by the debt and property ratios used by the company in its capital structure as shown in the equation in the following table (11) (E / E + D) is the proportion of property to the total invested capital, (D / E + D) stands for the ratio of debt to the capital, KE represents the rate of the property cost, KD is the rate of the debt cost, and (1-T) stands for the Tax Savings.

Table (11) Results of weighted average of the Cost of the invested capital WACC recorded by the sampled Companies

No.	Company Name	2011	2012	2013	2014	2015	mean
1	Ahliya for Insurance	0.184	0.131	0.051	0.078	0.146	0.107
2	Dar Al-Salam for Insurance	0.113	0.062	0.056	0.050	0.106	0.087
3	Hamraa Insurance	0.146	0.084	0.066	0.138	0.123	0.102
4	Al-Ameen for Insurance	0.067	0.160	0.072	0.0529	0.232	0.116
5	Gulf for Insurance	0.233	-0.066	-0.342	-0.296	0.496	-0.830

Determining the components of the compound costs in the added economic value equation and obtaining the necessary financial data for the net profit after tax and total capital invested from the financial statements of the sample companies, it is possible now to

determine the added economic value of the companies for the period 2010-2015 by the following equation (NOPAT) which is the net profitability after tax, IC is the invested capital, and (WACC) is the weighted average of the capital cost. The following table shows the added economic value for each of the 5 insurance companies during the period (2011- 2015).

Table (12) Results of the Added Economic Value for the Sampled Companies for the Period (2010-2015)

No.	Company Name	2011	2012	2013	2014	2015	mean
1	Ahliya for Insurance	7616368914	115963675	2493594589	5697046555	147829001	2967178009
2	Dar Al-Salam for Insurance	1153451498	10000596486	16602061298	5163326822	43348493465	6555519966
3	Hamraa Insurance	7793594849	6661862406	5872312811	1825663792	-178687977	1576988137
4	Al-Ameen for Insurance	196446247	-119389285	- 793213210	-1038431372	-3513671011	-1053651726
5	Gulf for Insurance	-3250068	1107061	5089415	4668053	-8320709	8272306

An overview of the results of the economic analysis of the added economic value shown in Table (12) shows that there is a significant difference between the number of positive values and the number of negative values achieved during the five years of the research period. The total observations of positive values are (18) and (7) for the negative values recorded by the most insurance companies studied out of a total of (30) observations, including the averages of five observations per company and on average for the five years and the five companies. The detailed results presented in Table (12) and at

the level of each company show that there is one company that has not achieved a positive added economic value on a continuous basis, equivalent to 20% of the total number of insurance companies which is (5) and this percentage is quite low represented by the Gulf Insurance Company, as for the remaining four insurance companies, they have achieved an added economic value. This indicates that there are low rates of invested capital costs, with an increase in net profit after tax. This company is considered an efficient company. The Middle East Company has also achieved an added economic value but it was weak in comparison to the other insurance companies.

Table (13) Average Values and the Highest and Minimum Amount of the Added Economic Value

No.	Company Name	Highest	Lowest Value	Mean
1	Ahliya for Insurance	7616368914	147829001	2967178009
2	Dar Al-Salam for Insurance	43348493465	1153451498	6555519966
3	Hamraa Insurance	7793594849	-178687977	1576988137
4	Al-Ameen for Insurance	196446247	-1038431372	-1053651726
5	Gulf for Insurance	5089414	-8226525	8272305

The results of the analysis showed that according to conventional financial indicators, all companies have a good position and performance. The financial data and analysis of the performance through the added economic value, which includes compound costs, revealed that the companies have added economic value and other

companies will not achieve the added economic value, and this is in accordance with the above results. The results of the financial analysis of the added economic value shown in Table (12) indicate that there is a significant difference between the number of positive values and the number of negative values achieved during the five years of the research period. The total observations of the positive values are (18) against (7) observations recorded by most of the studied insurance companies out of a total of (30) observations, including the average of five observations per company, on average for the five years and the five companies. The detailed results presented in Table (13) and at the level of each company show that there is one company that has not achieved positive added economic value on a continuous basis, equivalent to 20% of the total number of insurance companies which is (5), this is a very low rate represented by the Gulf Insurance Company. The remaining four insurance companies achieved an added economic value. This indicates that there are low rates of the invested capital costs, with an increase in net profit after tax. This company is considered efficient and the Middle East Company has an added economic value but it is weak compared to other insurance companies.

8. CONCLUSIONS

The research aimed at developing the overall performance, improving the level of activity of private insurance companies in line with the current progress of the country, and evaluating financial performance to diagnose weaknesses and strengths in the sampled

companies and then developing some appropriate solutions. The deviation in the financial performance of the research sample was revealed by measuring the various accounts of the company. The research found that the process of evaluating the performance through modern financial indicators, including the added economic value, is broader than the evaluation according to traditional financial indicators because it is a process of analyzing compound costs including an interference of some variables inside and outside the company, for example trading indicators and return risk free. And that the process of evaluating the performance according to traditional indicators is not enough to disclose the performance of the research sample companies because they are joint stock companies, so they contain many variables such as stock returns and others. The researchers recommend that all financial and economic sectors should pay attention to the issue of the added economic value and it should be considered a comprehensive performance of the company and a measure of competition through the compound costs by which the added economic value can be calculated. And it is necessary to study the concept of economic value in other sectors, especially financial services because of their significant impact on the economy.

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