INTERNATIONAL JOURNAL OF
SUSTAINABLE BUSINESS (IJSB)
2026, VOL. 2 ISSUE No. 1

RESEARCH ARTICLE

Market capitalization and share price in frontier markets: evidence from the Jordanian banking sector

*Munther Al-Nimer[a] & Ahmed Mushref Salim Al-Omush[b]

[a]School of Management, Canadian University Dubai, UAE.

[b]Business School, The Hashemite University, Jordan.

**Corresponding author email:* munther.alnimer@cud.ac.ae

ABSTRACT

Valuation literature relies heavily on multivariate panel models, which obscures the baseline bivariate signaling power of firm size. We fill this gap by isolating and testing the direct effect of market capitalization on share price across all fourteen commercial and Islamic banks listed on the Amman Stock Exchange (ASE). Signaling theory and size-effect literature inform three complementary specifications (linear OLS model, log-log model and robustness check excluding sector leader Arab Bank). Using verified single-predictor cross-sectional testing, we find a strong, positive, and statistically significant effect of market capitalization on stock price (R^2 = 0.783; $p < .001$; log-log elasticity = 0.574), demonstrating that aggregate size serves as a first-order heuristic for equity valuation in markets with documented informational frictions. Share price and aggregate market capitalization are mechanically defined but empirically firm size is first order anchor for valuation. These results are benchmarks for equity investors and regulators but also remind us that concentration buffers need to be paired with stronger free floats if liquidity is going to be generated in tier two institutions.

ARTICLE HISTORY
Received 12 Sept. 2026
Revised 30 Oct. 2026
Accepted 8 Nov. 2026

SUBJECTS

Financial Economics (primary field); Capital Markets; Emerging and Frontier Markets; Asset Pricing and Equity Valuation; Corporate Finance

KEYWORDS

market capitalization; share price; frontier markets; Jordanian banking sector; Amman Stock Exchange (ASE); signaling theory; equity valuation; market liquidity

To cite this article: Al-Nimer, M. & Al-Omush, A. M. S. (2026). Market capitalization and share price in frontier markets: evidence from the Jordanian banking sector. International Journal of Sustainable Business, 2(1), 69-77.

https://www.cud.ac.ae/research/journals/international-journal-of-sustainable-business?tab=published_papers

1. Introduction

Market capitalization (the product of a company's current share price and total number of outstanding shares) remains the fundamental measure of firm size, institutional strength, and market value in emerging and frontier markets. In environments where informational asymmetries are pronounced and trading liquidity is volatile; the absolute scale of a financial institution serves as one of the strongest signals of value available to investors. While there is an extensive global finance literature on equity valuation in transitional economies, a methodological gap persists in recent work on the Amman Stock Exchange (ASE): most empirical studies of Jordanian banks (Jaradat, 2021; Shubita, 2023; Atari et al., 2026) rely almost exclusively on multivariate panel models. These highly parameterized models estimate only the marginal contribution of bank size alongside a dense set of control variables (such as internal profitability measures, dividend payout policies, and capital adequacy ratios) and macroeconomic indicators, leaving the raw bivariate strength of the market-capitalization-to-stock-price relationship unexamined. No targeted research yet isolates and quantifies this baseline signaling mechanism using full, current, and verifiable sector-wide market data.

This paper directly fills that gap. By examining the bivariate relationship across the complete census of ASE-listed commercial and Islamic banks, we establish a foundational valuation benchmark in a dynamic frontier market. ASE is perfect real-world setting for this study because even after corporate restructuring and rally (general index over 45 percent in 2025) banking subsector remains single largest component of total market capitalization on exchange (commercial and Islamic banking subsector accounts for almost 42% of total capitalization on Amman Stock Exchange alone). Structural stability and pricing efficiency of these financial institutions determine macroeconomic credit availability, systemic risk containment and national financial stability in transitional economy like Jordan; whether market capitalization is unadjusted valuation anchor therefore is not just an exercise in econometric parsimony but how macro stability and market resilience are signalled across data scarce highly concentrated financial hubs.

Accordingly, this study addresses this gap in three ways. First, it isolates and tests the direct statistical effect of market capitalization (independent variable) on stock price (dependent variable), deliberately excluding financial confounding variables to capture the pure size-signaling effect. Second, it situates this relationship within a theoretical framework that explicitly accounts for frontier-market informational frictions by contrasting classical market efficiency with behavioral signaling theory. Third, it resolves data transparency gaps by independently verifying the research sample against aggregate exchange-reported figures, providing a reproducible empirical benchmark for future multivariate research.

2. Theoretical background

The theory of equity valuation starts usually with Fama's (1970) efficient market hypothesis (EMH): prices fully reflect all information. The semi-strong form of efficiency posits that firm size, financial stability, and public metrics are seamlessly impounded into stock prices. However, applying EMH uncritically to frontier markets like the ASE is problematic: Mustafa (2024) and Scalamonti (2025) show that the ASE and other transitional markets frequently fail weak-form efficiency tests due to information frictions, thin trading, and structural segmentation. Regional macroeconomic shocks add another layer here too where price adjustments to fundamental data are delayed and imperfect (Shubita

2023).

To explain pricing mechanisms in such an environment we combine EMH with signaling theory (Ross 1977). In a frontier market characterized by pronounced information asymmetry between bank insiders and outside investors, frictionless price discovery does not occur. Large, easily observable heuristics—specifically firm size and market capitalization—serve as low-cost, continuous signals of underlying institutional quality, survivability, and regulatory compliance. In data-poor frontier markets, firm size mitigates operational frictions through concrete structural channels. Larger banks attract greater institutional analyst coverage, stricter Central Bank oversight, standardized regulatory disclosures, and higher continuous trading liquidity. Larger banks also attract higher institutional analyst coverage Central Bank oversight and standardised regulatory disclosures Higher continuous trading liquidity These channels reduce information asymmetry much better than line items accounting so aggregate size is an efficient heuristic for institutional quality

Furthermore, this theoretical synthesis is supported by the size-effect literature in Fama and French's (1992, 1993) asset pricing models. If market capitalization acts as an organizing variable for cross-sectional differences systematically linked to risk and liquidity, then size should correlate strongly with share price levels. Classical valuation frameworks, from Miller and Modigliani's (1961) dividend irrelevance and valuation propositions to Gordon's (1962) growth model, establish how payout policies and risk profiles shape equity pricing, with larger institutions typically exhibiting lower equity betas and more stable dividends. In the ASE, Twairesh (2025) empirically demonstrates that institutional scale fundamentally determines dividend payout stability. Mechanically that lowers discount rates, so equity valuations are higher. Combining these classical paradigms with regional evidence today logically not mechanically this study explains why absolute size is primary independent anchor of valuation in imperfectly efficient markets.

3. Literature review and hypotheses development

The relationship between size and equity valuation is well known but recent work on Jordanian banking sector shows another path which leads to our central hypothesis. Almumani (2018) found that profitability influences market capitalization, though observable bank scale remains the dominant market signal; similarly, Almanaseer (2022) identified key internal bank-specific factors—including size and capital structure—as primary drivers of commercial bank profitability in Jordan. Building on these foundations, Jaradat (2021) and Shubita (2023) employed multi-year panel regressions spanning up to fifteen years and showed that bank size (alongside leverage and ROA) strongly determines market value. Atari et al. (2026) also showed capital adequacy — direct correlate of aggregate market size — boosted stability and performance of banks during shocks. Literature on MENA region shows post 2023 macroeconomic shocks, changing central bank interest rate policies and regional liquidity movements introduce external noise into equity valuation (e.g. Scalamonti, 2025; Atari et al., 2026). Transitional markets like Jordan after pandemic reallocation of liquidity and institutional trading constraints muddy share price movements so observable institutional scale is stabilizing signal against external volatility.

However, literature heavily reliant on multivariate modeling across ASE sectors (Saymeh & Salameh, 2021; Al-Dwiry et al., 2022; Alrwashdeh et al., 2024) leaves an important question unanswered: in a frontier market where price discovery is delayed (Scalamonti, 2025), does the raw, unadjusted scale of a bank independently drive its per-share valuation? Evidence from other emerging markets (Indonesia and Pakistan) shows that

firm size has standalone positive effect on stock returns (sometimes overriding fundamental profitability metrics when liquidity and visibility trump granular accounting details).

To close this theoretical and empirical gap in ASE we need to test isolated signaling power of market cap. If signaling theory is true in this friction heavy market, then aggregate size of an institution will systematically (independently of other latent variables) affect its stock price. Measuring that very relationship gives us what we don't have in literature — baseline. So, this study specifies a specific hypothesis to directly test bivariate relationship between market cap and stock price:

H0. *There is no statistically significant positive effect of market capitalization on the share prices of financial institutions listed on the Amman Stock Exchange.*

H1. *There is a statistically significant positive effect of market capitalization on the share prices of financial institutions listed on the Amman Stock Exchange.*

4. Methodology

4.1 Population and sample size

The study population is the whole census of fourteen commercial and Islamic financial institutions listed on Main Market of Amman Stock Exchange (ASE). Because the sample encompasses the entire active sector ($N = 14$ census), standard inferential statistics measure the relational strength within this specific sector, though the small sample size limits degrees of freedom. Given recent structural consolidations in the sector, a cross-sectional OLS design is preferable to a short panel, as it captures post-consolidation pricing behavior without structural-break distortions or time-series autocorrelation from pandemic-era regimes. Although market capitalization and share price are mechanically linked, cross-sectional variation in the number of outstanding shares across banks breaks this tautology and enables OLS to isolate the baseline size-signaling effect.

4.2 Variables of the study

Two main variables are isolated from the research to fill the gap directly. Dependent variable is Stock Price (final closing price of each bank's ordinary shares on ASE); independent variable is Market Capitalization (closing share price x total number of outstanding shares). This isolates absolute scale of institution to test its signaling power in market.

4.3 Data collection and estimation technique

Both variables were collected separately from publicly available ASE market data as of mid-2026. The total combined market capitalization of the sample (about JOD 12.05 billion) was compared to aggregate values of exchange so that banking sector value (42 percent of total ASE value) is not an outlier (see Figure 1).

To test the hypothesis OLS estimation technique is used (linear regression model $\text{Price}_i = \beta_0 + \beta_1 \cdot \text{MarketCap}_i + \varepsilon_i$). To ensure robustness and account for right-skewness caused by sector concentration (specifically Arab Bank), two additional specifications are estimated: a log-log (constant elasticity) model capturing proportional percentage changes, $\ln(\text{Price}_i) = \gamma_0 + \gamma_1 \ln(\text{MarketCap}_i) + u_i$, and a leave-one-out robustness check excluding the largest market participant.

5. Findings

The empirical analysis starts with descriptive statistics describing structure of Jordanian banking sector. Table 1 shows how wide is dispersion in bank size because market dominance by only one institution.

Table 1. Descriptive statistics of study variables

Statistic	Market Capitalization (JOD mn)	Share Price (JOD)
Mean	860.62	2.92
Standard Deviation	1,198.29	1.83
Coefficient of Variation	1.39	0.63
Minimum	90.20	0.82
Median	500.50	2.74
Maximum	4,770.00	7.45
N	14	14

Source: Authors creation

The standard deviation of market capitalization (JOD 1,198.29 million) exceeds its mean (JOD 860.62 million), yielding a high coefficient of variation of 1.39. Share prices are more clustered relative to one another but bivariate correlation between market capitalization and stock price is strong positive (Pearson r = 0.885).

Three regression specifications were run to test the hypothesis of study. Table 2 presents the regression results for all three models regarding the effect of market capitalization on share price and directly tests whether market capitalization affects share price or not.

Table 2. Regression results summarizing market capitalization's effect on stock price

Specification	R^2	Coefficient / Elasticity	t-statistic	F-statistic	p-value
Model 1: Linear (Baseline)	0.783	0.001351	6.582	43.325	< .001
Model 2: Log-Log	0.908	0.574	10.908	119.000	< .001

Model 3: Linear (Excl. Arab Bank)	0.799	0.002783	6.615	43.753	< .001

Source: Authors creation

Model 1 (baseline linear model) is statistically significant overall ($F(1,12) = 43.325$ $p < .001$), so market cap explains 78.3 percent of stock price variation. Slope coefficient (0.001351) is positive so H0 is rejected in favor of H1.

Because the sector is highly concentrated log-log specification (Model 2) fits better ($R^2 = 0.908$). Sub-unit elasticity (0.574) means for every one percent increase in a bank's market capitalization its share price increases by about 0.57%. Model 3 shows these results are not artificially driven by Arab Bank either: dropping it only marginally improves explanatory power ($R^2 = 0.799$) so there is no spurious sector-wide effect here either. In addition to excluding Arab Bank, we conducted Cook's distance and leverage diagnostics to rule out influential outliers. All remaining observations recorded Cook's distance values below 0.35 (well below the conventional 1.0 threshold) so no single mid-tier bank unduly biased the regression estimates. Breusch-Pagan test (homoskedasticity $p = .759$) and Shapiro Wilk (residual normality $p = .200$) were applied to OLS assumptions which structurally support interpretations.

The estimated model is:

$$\text{Price} = 1.756 + 0.001351 \times \text{MarketCap}$$

The slope coefficient is positive and highly significant ($t = 6.582$, $p < .001$), leading to rejection of the null hypothesis H_0 in favor of H_1. Each additional JOD 1 billion in market capitalization is associated with an estimated increase of approximately JOD 1.35 in closing share price, holding the cross-sectional relationship constant.

Figure 1. Scatter plot of market capitalization and closing share price for the fourteen ASE-listed banks, with the fitted linear regression line (Price = 1.756 + 0.001351 × MarketCap, $R^2 = 0.783$). Each point represents one bank, labeled by ticker.

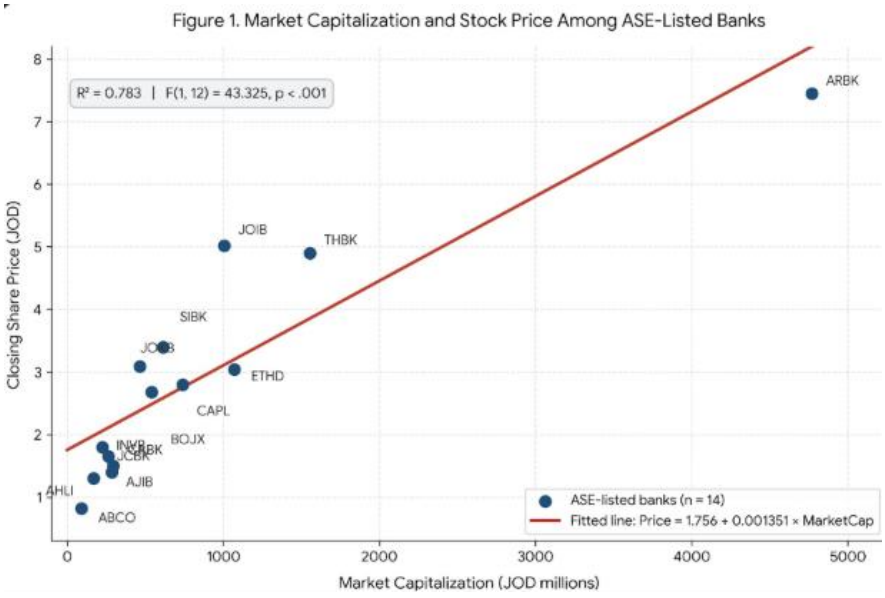

Figure 1 illustrates the relationship visually. Most banks cluster along the fitted line at market capitalizations below JOD 1.5 billion, with closing prices ranging from roughly JOD 0.8 to JOD 5; Arab Bank sits well to the right of the rest of the sample—both larger in market capitalization and higher in price—yet remains close to the regression line implied by the other thirteen banks. This provides visual confirmation of the robustness check reported in Table 2 (Model 3), where excluding Arab Bank leaves the fitted relationship essentially unchanged. The chart also makes visible the two banks (Jordan Islamic Bank and the Housing Bank for Trade and Finance) that trade modestly above the fitted line relative to their market capitalization, and the cluster of smaller banks (Jordan Commercial Bank, Arab Jordan Investment Bank, Jordan Ahli Bank, Arab Banking Corporation) that sit close to or slightly below it.

6. Discussion

The results decisively fill the research gap by showing that raw market capitalization (no multivariate controls) has a strong positive statistically significant effect on stock prices in ASE (R^2 = 0.783 for baseline model and 0.908 for log-log specification). Size information is therefore a first-order driver of cross-sectional price differences, extending the empirical findings of Almumani (2018), Jaradat (2021), and Shubita (2023): before profitability or dividend yields are considered, absolute scale forms the foundation of valuation.

This fills the theoretical gap above. ASE is weak form inefficient (Mustafa, 2024; Scalamonti, 2025) so a pure efficient markets reading doesn't work here and results are consistent with signaling theory (Ross, 1977): in a market with informational frictions bank capitalization signals stability risk management regulatory health very strongly and persistently — investors reward that visibility mathematically. The sub-unit elasticity (0.574) further refines this contribution by demonstrating diminishing marginal returns to scale: once banks reach top-tier size (e.g., Arab Bank), scale continues to matter, but its proportional price impact softens relative to mid-cap institutions. Signaling theory by itself cannot explain nonlinearity. Microeconomics too enters play. Institutional ownership concentration in Jordanian top tier banks locks up free float equity so trading liquidity constraint dampens share price sensitivity to incremental capitalization growth.

This paper sets the tone for the literature because Atari et al.'s (2026) size effects on capital adequacy are reproduced in basic market equity pricing. That's what we isolate explicitly so that is the benchmark against which complex models hide; size is not a control variable in frontier banking sectors but an engine of investor behaviour and equity value.

7. Conclusion

In this paper we studied the fundamental relationship between market capitalization and share price in Jordanian banking sector which has not been studied in single predictor cross sectional studies. Linear, log-linear and robustness specifications indicate bank scale is positively statistically significant with stock price level. Asset pricing in data poor frontier markets (severe information asymmetry) heavily relies on visible structural anchors. These results indicate that aggregate bank scale functions as an essential, non-substitutable first-order valuation heuristic, advancing our understanding of asset pricing in transitional financial systems.

8. Implications and future directions

For equity analysts and institutional investors, these findings suggest that market capitalization serves as a low-cost screening heuristic for relative valuation in frontier markets. However, the confirmed non-linearity implies that investment strategies should account for scale: capital injections or mergers among mid-sized banks yield a larger marginal price impact than equivalent expansion by the largest sector incumbent. For bank executives, this empirical evidence supports strategic mergers and scale-building initiatives to capture a size-valuation premium. To correct index distortion by single dominant entity Central Bank of Jordan and Amman Stock Exchange should impose mandatory minimum free-float thresholds and capped weight sector indices (so tier two commercial banks have equal depth of market) as regulatory measures.

The study's dependence on one cross-sectional observation has to be broken. The simple model should then be extended to multiyear fixed effects panel (so bank vs within bank size dynamics over time can be disentangled) and multivariate controls (return on assets, dividend yields etc.) reintroduced against this baseline in future studies so that we can isolate how much of the size premium is behavioural vs fundamental justified.

Disclosure statement

No potential conflict of interest was reported by the author(s).

Funding

This research received no specific grant from any funding agency in the public, commercial, or not-for-profit sectors.

AI disclosure statement

Generative AI tools were used only for language editing and formatting. All research content and findings were developed by the authors.

Data availability

The data that support the findings of this study are publicly available from the Amman Stock Exchange (ASE) market reports and official statistical disclosures.

About the authors

Munther Al-Nimer is an Associate Professor of Accounting at the Canadian University Dubai, bringing over 17 years of academic and professional experience, including previous service as Head of the Accounting Department at The Hashemite University. His core research focuses on strategic management accounting, ESG integration, AI and blockchain in auditing, and IFRS adoption in emerging economies, backed by over 46 peer-reviewed publications and an H-index of 16. Alongside his scholarly output, he has held key leadership roles in AACSB accreditation, curriculum development, and editorial positions for international journals, while integrating advanced data analytics and learning technologies to foster student engagement and professional readiness.

Ahmed Mushref Salim Al-Omush is an Associate Professor of Accounting at The Hashemite University in Jordan, with extensive international academic experience including positions at the American University in the Emirates (AUE) and King Khalid University. He earned his PhD in Accounting and Finance from the University of the West of England (UWE Bristol). His research spans financial accounting, corporate governance, earnings management, and IFRS, with numerous publications in indexed international journals.

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