

REPUBLIC OF TURKEY
ISTANBUL GELISIM UNIVERSITY
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Department of Economics and Finance

**THE IMPACT OF FINANCIAL MANAGEMENT
PRACTICES ON THE LOAN PERFORMANCE OF THE
COMMERCIAL BANKS IN BAGHDAD**

Master Thesis

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DECLARATION

I hereby declare that in the preparation of this thesis, scientific ethical rules have been followed, the works of other persons have been referenced in accordance with the scientific norms if used, there is no falsification in the used data, any part of the thesis has not been submitted to this university or any other university as another thesis.

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SUMMARY

Commercial banks strive to manage their working capital well while organizing their budgets to enhance their financial performance. Even though many studies have been done to figure out how well bank loans work based on different predictors, little progress has been made in studying the characteristics of loan performance in terms of loan cost effectiveness and default rates. As a result, the focus of this study was to find out the impact of financial management practices (risk management - working capital management - budgeting) on loan performance (loan cost efficiency - default rates) of commercial banks in Baghdad.

This thesis relied on the quantitative approach by distributing a questionnaire to the employees of some Iraqi banks. This study found that the better the working capital management and budget management, the higher the cost efficiency of the loan. As for risk management has little effect on the cost efficiency of the loan, and the better the risk management and working capital management, the lower the default rates.

Banks can improve the loan performance by incorporating financial management strategies to their operations. It may also help policymakers influence their policies and improve financial management approaches in banks as a way to improve loan performance.

Key Words: Risk management, working capital management, budgeting, cost efficiency, default rates, financial management practices and loan performance.

ÖZET

Ticari bankalar finansal performanslarını artırmak için bütçelerini hazırlarken işletme sermayelerini iyi yönetmeye çalışmaktadırlar. Çeşitli tahmin faktörlerini kullanarak banka kredilerinin performanslarını incelemek için birçok ampirik çalışma yapılmasına rağmen kredi performans maliyet etkinliği ve temerrüt oranlarıyla ilgili yeterli çalışma yapılmamıştır. Sonuç olarak çalışmanın amacı, Irak'taki seçili ticari bankaların finansal yönetim uygulamalarının (risk yönetimi, işletme sermayesi yönetimi, bütçeleme vb.) kredi performansına (kredi maliyet etkinliği, temerrüt oranları) etkisini bulmaktır.

Bu tez, seçili Irak bankalarının bazı çalışanlarına anket uygulanmış ve nicel bir yöntemle ele alınmıştır. Bu çalışma, işletme sermayesi yönetimi ve bütçe yönetimi ne kadar iyi olursa, kredi maliyet etkinliğinin de o kadar yüksek olacağı sonucuna ulaşılmıştır. Risk yönetimiyle ilgili olarak ise kredi maliyetinin etkinliği üzerinde çok az etkisi bulunmuştur. Risk yönetimi ve işletme sermayesi yönetimi ne kadar iyi olursa temerrüt oranları o kadar düşük olmaktadır.

Bankalar, operasyonlarına finansal yönetim stratejileri ekleyerek kredilerin performanslarını artırabilirler. Ayrıca, politika yapıcıların politikalarını etkilemelerine ve kredi performanslarını iyileştirmenin bir yolu olarak bankalardaki finansal yönetim yaklaşımlarını geliştirmelerine yardımcı olabilir.

Anahtar Kelimeler: Risk yönetimi, İşletme Sermayesi Yönetimi, Bütçeleme, Kredi Maliyet Etkinliği, Temerrüt Oranları, Finansal Yönetim Uygulamaları, Kredi Yönetimi.

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ABBREVIATIONS

AE	:	Allocating efficiency
BUD	:	Budgeting
CE	:	Cost efficiency
DR	:	Default Rates
FM	:	Financial management
FMEA	:	Failure Mode & Effects Analysis
FMECA	:	failure mode & effects criticality analysis
IASB	:	International Standards Board
IEA	:	International Energy Association
IFRS 9	:	International Financial Reporting Standard 9
IMF	:	International Monetary Fund
LCE	:	Loan Cost Efficiency
NPLs	:	Non-performing loans
NPV	:	Net present value
PAC	:	Public Accounts Committee
RM	:	Risk Management
SAP	:	Structural adjustment programme
TE	:	Technical efficiency
WCM	:	Workng Capital Management

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INTRODUCTION

Financial management practices are procedures that target a company's accounting systems, prepare financial reports, income statement, balance sheet, and other financial functions. They are the budgeting, asset management, and control operations conducted by accountants and financial officers. By creating responsibility and giving the instructions needed to perform duties, each aspect of the financial practices promotes the institution's policies and mission (Ahmad & Shah, 2015, pp. 55-58).

Financial management is a branch of business management that focuses on the strategic use of financial resources and the careful selection of capital sources that help a firm to accomplish its objectives. Investment administration provides a financial resource management process that includes budgeting, financial accounting, financial reporting, and risk management (Ahmed & Malik, 2015, p.574). One of the most important requirements for the effective management of loans and debt in the company is the ability to manage customer accounts effectively and well in relation to the granting of credit. Financial management practices, as well as effective management of human capital, are important to the success of loans from MFIs and even public banks in countries such as the United States, the United Kingdom, and Canada, as well as in developing countries. In Iraq, like in other emerging countries, banks are the primary source of finance for businesses, and credit policies play a key part in most financial institutions' loan management. According to Muturi (2016, p.6), loan performance in Iraq has continued to deteriorate despite an increase in the effort of expanding firm domination by enhancing investment into assets' competitive advantage.

Commercial banks, in addition to conventional banks, constitute the largest part of the financial institutions specialized in granting loans and credit facilities. As a result, the loans depend mainly on the productivity of the companies. Commercial banks take deposits based on financial savings in companies and then give credit to borrowers in the form of loans. The inability of the bank or any financial institution to pay its customers could lead to bankruptcy and a decrease in the market value of the bank or financial company. Deposits are the most important component of commercial banks' resources and loans constitute credit risk as they are used to generate revenue

from the interest earned. The failure of the borrower to fulfill his obligations to pay his debts to the bank leads to the formation of bad debts that lead to credit risks for the bank. These risks may include the risks of potential and actual profits arising from the borrower's failure to meet the agreed credit requirements. This requires banks to apply methods to detect, monitor, measure and control credit risk, i.e. the failure of borrowers to fulfill their financial obligations to the bank (Motori, 2016, p. 9).

Most banks determine the ratio of doubtful loans to total loans when granting any loan. Non-performing loans (NPL) are loans that the borrower fails to repay within the specified period as they are repaid after a period of at least 90 days. On the other hand, a leveraged loan is a loan in which principal and interest payments are not due for more than 90 days and continuous payments are expected, i.e. there is permanent liquidity for the bank. On the other hand, due to the risk of non-recovery of principal and interest, banks, as financial institutions, are trying to reduce the non-performing loan ratio. The ratio of non-performing loans to Iraqi commercial banks is generally higher than the global average. According to Palgova, Ness, and Plekhanov (2016), non-performing loans have continued to increase sharply over the past twenty years, despite increasing attempts to reduce them.

Many financial firms in emerging nations such as Iraq supply and rely on financial services like saving and credit to assist new businesses in growing and profiting. Nevertheless, the actions of these banks represent the high rate of credit risk of non-performing loans, high default rates, and lower borrowing cost effectiveness by commercial banks in Iraq in the last five years, a bad case that has had a significant effect on profits; in other words, even without efficiency of loan performance activities, these banks' sustainability is impossible. Commercial banks prefer to manage their working capital well while also regulating their budgets to overcome this scenario. Studies attempting to manage bank loan performance have failed to alleviate the problem. Despite the fact that several studies have been conducted to illustrate bank loan performance using various predictor factors, little progress has been made in studying the characteristics of loan performance in terms of loan cost effectiveness and default rates. As a result, the emphasis of this study is on the impact of financial management methods on loan performance, taking into account all of the factors (Muturi, 2016, p.9).

The following will be deemed noteworthy since the data obtained focused on the influence of financial management approaches (risk management, working capital management and budgeting) on bank loan performance (loan cost efficiency and default rates). According to the conclusions of this study, banks might improve their loan performance by adding financial management strategies into their operations. It might also help policymakers influence their policies and promote financial management approaches in banks as a way to improve loan performance (Muturi, 2016, p.10).

To accomplish the goals of this thesis are arranged as follows: the introduction will provide the problem, aims and objectives, the scope of the study, the significance of the study, and methodology of the thesis. The first chapter includes the theoretical background of financial management practices. The second chapter will be dealing with the concepts of loan performance and its relation with financial management practices. In the third chapter the research method and findings which includes the practical producers of the study and the results will be presented finally the conclusion, further implications, recommendations and limitations will be presented.

CHAPTER ONE

FINANCIAL MANAGEMENT PRACTICES

1.1 Financial Management Practice

Financial management creates a stronger understanding of the organization's financial concept, puts a greater emphasis on the meaningfully urgent, and promotes an understanding of rapidly changing circumstances. In this respect, strategic management is very important in manufacturing organizations because manufacturing companies have to work and compete in environments of risk and vulnerability. Bennouna, Meredith, and Marchant (2010, p.227), define strategic management in independent investments as a strategy development process that will guide an organization as it tries to achieve its vision, purpose, goals and objectives while keeping it on track. Furthermore, Enofe, Afiangbe & Agha (2017, p.11) states that strategic management behavior in industrial firms includes an effort to more meaningfully adapt to the enormous and increasing demands from external and internal sources, (1) it gives long-term impact to the organization in general; (ii) Define and try to implement a general idea of the organization; and (iii) generating, enabling, and constraining core methodologies and subsystems.

The necessity for strategic management concepts and processes to be used in manufacturing organizations may be ascribed to the changing conditions of doing business. Despite the fact that the researcher Demba (2013, p. 22), indicates that family or small and medium-sized companies face greater risks and weaknesses in the market than large companies, because the management style used in these companies is traditional and not strategic, that is, the owners of these companies do not depend Companies on the concepts of strategic management that require a change in the way of thinking so that liquidity and investments are determined according to modern scientific bases.

In this context, Ferreira & Vilela (2004, pp. 295-298) summarizes the potential favorable conditions for the basic view of the owner/managers of the industrial production organization, allowing the businessman or entrepreneur to evaluate and articulate the dream. study and research of the organization and its situation, try to promote the discovery of new horizons and recipes, and control the reconstruction of the project and try to control the decision-making procedures within the project.

The following research shows that the main causes of institutional failure are lack of financial planning, limited access to finance, lack of capital, unplanned urbanization, low strategic and monetary expectations, overvaluation of stable resources, and mismanagement of capital (Gill, Biger & Mathur, 2010, p.8). The concept of strategic financial planning exercises in projects is beginning to spread among academics.

1.2 Functions of Financial Management Practices

According to financial literature, optimal implementation and adherence to financial management methods result in improved corporate performance. Financially sound businesses are operationally efficient. Ineffective financial management that is not based on the principles of modern management generally leads to a lack of clarity of the organization's vision and therefore its strategic goals, which leads to poor performance in general and thus the lack of a competitive advantage as organizations continue to decline until disappearance (Fone & Young, 2005, pp.33-36).

1.2.1 Estimating capital requirements

The finance manager must create estimates of the organization's capital requirements. This will be determined by the expected expenses and profits of the organization and its future strategies and activities. All forecasts should be prepared in a way that will increase the earning capacity of the organization (Baker, 2016, p. 24).

1.2.2 Determination of capital formation

After carrying out the forecasting process, the elements of the capital structure and the proportion of each element must be accurately determined in terms of property rights and also the ratio of loans according to accurate scientific bases and by following modern financial management methods so that the organization can make the investment decision in the future correctly.

1.2.3 Selection of funding sources

The company may obtain additional cash in a variety of ways, including the issuance of stock and transferable securities, loans from banks and financial institutions, and public deposits in the form of bonds. The items selected will be determined by the relative pros and cons of each funding source and time (Adah & Mamman, 2013, p. 100).

1.2.4 Mutual funds

The CFO must determine how to invest cash in successful companies so that a safe and steady return on investment can be achieved.

1.2.5 Dispose of surplus

The financial manager must decide on the net profit. This can be achieved by following two methods: the first method is the announcement of the distribution of profits, which aims to determine the rate of profits that will be distributed and the bonuses as well; The second method is retained earnings, the exact size of which must be determined in accordance with the organization's investment and growth objectives (Adah & Mamman, 2013, p. 101).

1.2.6 Cash management

The financial manager must take decisions related to cash management by managing many operations, such as paying employee wages and salaries, paying energy and water bills, paying interest to lenders, fulfilling the company's interim obligations, maintaining sufficient stocks of materials and goods, and sufficient liquidity to purchase primary goods (Ajee Mensah, 2011, p. 378).

1.2.7 Financial controls

The financial manager must not only plan, obtain and use funds, but also implement financial management. Various strategies can be used to achieve this, including ratio analysis, financial planning, cost and profit management, and others (Ahmad & Shah, 2015, p.59).

1.3 Importance of Financial Management Practices

The importance of the financial management is as follows:

1.3.1 Financial Planning

Financial management assists in determining the financial requirements of an organization and leads to economic planning. Financial planning is an important aspect of business that aids in the marketing of an organization (Anthony, Robert & David Young, 2010, pp.76-79).

1.3.2 Acquisition of Funds

Financial management entails acquiring the necessary funds for the organization. Acquiring needed finances is an important component of financial management, which includes identifying potential sources of funding at the lowest feasible cost (Anthony et al., 2010, p.86).

1.3.3 Proper Use of Funds

Proper utilisation and distribution of finances lead to increased operational efficiency in the organization. When the financial manager manages the money well, they can lower the cost of capital while increasing the organization's worth.

1.3.4 Financial Decision

Financial management assists businesses in making prudent financial decisions. A financial choice will have an impact on the overall business operation of the organization, because there is a direct link between several department activities such as marketing, manufacturing, and others (Ajam & Fourie, 2016, p.275).

1.3.5 Improve Profitability

Profitability is only determined by the efficacy and correct use of finances by the organization concern. Financial management helps to increase an organization's profitability by utilising strong financial control devices such as budgetary control, ratio analysis, and cost volume profit analysis (Ajam & Fourie, 2016, p.277).

1.3.6 Increase the Value of the Organization

Financial management is critical in terms of boosting the wealth of investors and organization concerns. The ultimate goal of every organization is to maximise profits, and higher profits lead to more prosperity for both investors and the nation.

1.3.7 Promoting Savings

Savings are only attainable when an organization's profitability and wealth are maximised. Effective financial management promotes and mobilises personal and corporate savings. Currently, financial management is often known as organization finance or corporate finance. Financial management is essential for the operation of any organization or corporate sector (Andrews, 2011, pp.140-147).

1.4 Challenges of Financial Management Practices

In fact, it must be said that we should not mention the benefits and advantages of expanding management and financial management practices in companies, nor should we mention the limits of this management that are linked to the company's goals. According to Butt, Hunjra & Rehman (2010, p. 998), the use of financial management techniques is particularly important in terms of its ability to bring together all the goals of an organization centered around profit and continuity, especially performance planning and performance planning. actual performance appraisal Despite their critical function, financial management procedures are not flawless. The public sector receives funding from the national budget, locally produced funds, taxes and other donations. However, the industry has many barriers to financing. Since it is not possible to give and receive incentives and rewards in a timely manner, and banks and other organizations cannot pay the dues on time due to financial pressures. Sometimes, due to mismanagement of capital and liquidity in the company within the framework of a project, capital is transferred to another project.

In the last ten years, many institutions in America and Europe have been asked to submit reports on the financial situation and the failure of some projects. This is evidence of financial mismanagement in the public sector, including higher education institutions.

Baker (2016, p. 132) highlighted a number of challenges in financial management procedures, particularly in budget preparation processes. The first of the five main issues he noticed was the up-to-dateness of financial management techniques. The issue of financial budgeting requires a great deal of time and effort to prepare an appropriate master budget that is free from duplication of activities and programs. Muthinji (2012, p. 90) argues that the creation of monthly budgets takes time and the people involved do not benefit from using technology to speed up the budgeting process. Also, concentrating on budgeting is a challenge in the sense that a company with too many budget units devalues the budgeting process and makes it harder for management to focus on it. In addition, Muthingi (2012) argues that determining how the financial budget amount will be distributed is problematic due to the limited resources available and the department that will generate the final budget.

According to Salehi, Rostami & Mogadam (2010, pp.190-192), there are a variety of obstacles that businesses face while producing financial management (FM) guides on budget concerns. The first issue is a lack of qualified personnel. They said that many institutions lack the necessary skilled personnel who truly understand financial procedures and compliance, which causes the financial management processing duration to be extended. Second, the capacity to apply budgeting data poses a barrier in financial budget planning.

This is because the institutions have various divisions and departments that must include all leaders and executive officers, some of whom are not accounting specialists and do not comprehend some financial management techniques, processes, and compliances. Third, there is an overemphasis on technical concerns. Another difficulty, according to Sadiq (2017, p.4), is a lack of financial assistance from the institution's treasury. Inadequate money may impede the implementation of appropriate financial management methods to meet the intended goals. If the committee of financial officers lacks motivation, they may arrange the financial systems in any case, which may have long-term consequences for the institution.

Another significant difficulty is the availability of facilities to assist in the maintenance of financial management system structures. Financial managers' actions might be hampered by a lack of facilities such as computers and other required equipment. Furthermore, the financial management systems need some unreasonable targets, which make it difficult to achieve. Furthermore, financial management methods are rarely strategic in nature, are sometimes inconsistent, and bring little value, particularly given the work necessary to create them. It also promotes gaining and unhealthy behavior based on unsubstantiated beliefs and guessing (Sadiq, 2017, p.5).

The key obstacles of financial management systems in many developing countries include a lack of commitment by organizational management to proper budgeting, a lack of qualified employees, substandard information creation and utilisation, and a lack of assistance from central agencies. Other issues include being regarded as a top-management pressure tool, departmental disputes, and difficulty integrating individual and organization goals. Achieve corporate results where fiscal strategy refers to a method to achieve and maintain business intensity and position an organization as a first-class business (Gulati & Higgins, 2003, pp.127-134).

Reviews have shown this despite the importance of strategic thinking and practice on financial management behavior in manufacturing organizations that must operate in high-risk and unstable environments with limited assets (Fontaine, 2015, p. 89). It states that the owners/managers of a manufacturing organization see production/service or marketing capacity as requirements which lead to poor financial management and in many cases business failure, especially during the start-up phase of new ventures. It has also been discovered that manufacturing business owners or business visionaries tend to ignore elements of strategic management, even though the lack of a strategic perspective on monetary matters poses a grave threat to the life of production. companies like many companies. Variables contributing to failure can be appropriately managed through systems and practices related to funds that drive development. In the financial management literature, many studies have focused on categorizing the basic financial management structures (Rathnasiri, 2014, pp. 67-74).

Adekunle (2013, pp. 160-168) studied financial management practices and methods in many industrial companies in developed countries in terms of the independent factor of financial management practices and reached the conclusion that financial management practices in manufacturing companies are not only related to the company, but rather it is a dependent variable. The institutional environment, the state, and the public order in the country, and they differ according to countries. Observational studies of manufacturing organizations from different countries have supported their claims by revealing a significant shift between key components of financial management techniques in different working contexts (Brigham, Earhardt, Nason & Gizaroli, 2016, pp. 114-128). For example, capital planning and financing methods have been identified as primary components defining financial management techniques for special operations in the UK.

On the other hand, Bryman & Bell (2015, p. 53) considered that financial management practices that are related to current assets, capital structure, financial information, reports on income, profits, and the budget are practices that are mainly related to the level of performance and efficiency in public and financial organizations alike. Brusca, Gómez-Villegas & Montesinos (2016) identified the variables that are considered the most influential in the framework of financial management practices, as they took into account liquidity policy, debt, profit distribution, and the limit allocated to working capital, which mainly affects the strategies for financial management. In addition, many studies revealed that business organizations in Turkey are similar in their vision about financial management and their practices related to banks and companies in general.

To date, no research work has attempted to separate changes in the functioning of financial management in manufacturing organizations into the different environments and pathways that lead to these practices from a strategic management perspective, using as a rule the impact of these practices on organizational performance (Mathiba, 2011, pp. 23-28).

1.5 The Practices of Financial Management

1.5.1 Working Capital

The term "working capital" refers to the funds needed by any organization to manage the expenses and expenses of its daily operational operations, such as securing the organization's needs of raw materials, salary expenses, energy expenses, and other daily expenses. The term working capital can refer to the total assets in circulation, while the term net refers to Working capital is the current assets minus the current liabilities. On the other hand, the concept of working capital reflects the efficiency of the organization in meeting the short-term financial obligations it faces. Current assets, in addition to cash, stocks and short-term bonds, also include inventory of goods and commodities and amounts due from others in favor of the company within one year. Current liabilities include accounts payable. The availability of a sufficient amount of working capital is a positive thing for the company and its continuation in its work in terms of fulfilling obligations and continuing operations. (Filbeck & Krueger, 2005, pp. 11-14).

1.5.1.1 The Role of Working Capital

Working capital is considered the basis on which daily operations are based and through which it takes place and is used by organizations in order to cover daily expenses such as purchasing stocks of raw materials and to pay fees and daily operating expenses such as licenses, insurance policies or guarantee payments (Aji Mensah, 2010, p. 56- 59). On the other hand, working capital contributes to meeting the requirements that are within a specific short-term period, as organizations generally start working before selling products, and therefore wages must first be paid and raw materials purchased (Ajam & Fawry, 2016, p. 281).

On the other hand, working capital is very important for the growth and continuation of the organization's work. It is considered important in order to provide the ability to expand sales and enter into new investments because the decision to invest and increase sales means a greater investment in goods and wages, directly or indirectly. In addition to what has been mentioned, working capital is used to maintain the competitiveness of the organization and enhance the market value of the share, because the ability of the organization to secure daily needs and fulfill its obligations

means, in one way or another, a good market reputation, and thus the growth of the share price, its market value, and the ability to compete, and thus working capital achieves expansion In working in frameworks integrating activities and small costs and meeting them (Drury, 2006, p.90-96).

1.5.1.2 Working Capital Definition and History

Working capital is considered the most dynamic and important element in the capital structure of any organization and has a direct impact on the work of the organization, its growth and its ability to compete. It can be seen through Figure No. 1, which mainly shows current assets, which are debts and stocks of raw materials, intermediate and finished materials, and cash as well. It shows current liabilities, which are mainly current liabilities (Gulati & Higgins, 2003, pp.140-143).

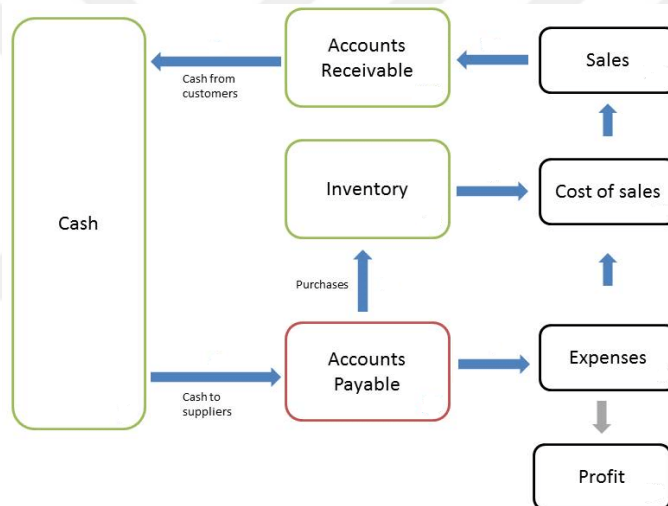


Figure 1. A Typical Working Capital Cycle

Source: (Gulati & Higgins, 2003).

Working capital is a widely recurring concept in corporate finance theory and is described as an essential component of the firm in Smith's (1776) book *The Wealth of Nations*. Inventories are classified as current assets due to the possibility of converting into cash during the year. Also, a company can have proper inventory management in place, as inventory investments often translate into significant capital expenditures. Drury (2006, p. 98) extended the previous inventory theory by saying that inventory costs should be minimized through purchasing and storage costs, which prompted many scholars to work on the inventory model thereafter. Commercial loan (figure 1)

should be mentioned when discussing receivables. Most transactions are not paid at the time of invoice, and commercial credit refers to the credit an organization extends to its customers to extend the repayment period.

Demba (2013, p. 93) pioneered commercial credit analysis to understand the relationship between monetary conditions and commercial credit. Customers can take advantage of commercial credit to redeem products before paying. The operating cycle of the company begins with the purchase of raw materials from suppliers and ends with the receipt of funds after customers purchase their goods. The cash cycle is a series of collections of money from consumers after paying suppliers. If there is no commercial credit, the transaction cycle is exactly equal to the monetary cycle. Businesses that offer commercial loans can attract more consumers, especially when there is a variety of products for customers to choose from (Rathnasiri, 2014, p.77).

Fontaine (2015, p. 87) suggests that delaying the payment of financial dues until costs are incurred may be a cheap and flexible source of funding for working capital. But this is mainly related to the policies on which the organization relies when making a decision regarding financing current assets in order to delay the financial payment abroad, that is, the payment of dues, and this is related to the organization's relationship with its customers. On the other hand, lenders may offer a discount in exchange for early payment, and this may put the company in a dilemma where the costs associated with the debt may increase significantly, making it preferable to pay dues quickly and this may put financial managers in the context of choosing to pay early and receive a certain discount, or to postpone payment and invest in cash.

Before the seventies, studies focused mainly on developing the concepts and elements of working capital. Nowadays, working capital management has become a business method that achieves profit or loss for the organization. While discussing working capital management methods today, the notion of the cash transfer cycle put forward by Hansen, Otley & Ven de Stede (2003, p. 17) has gained much importance. Where the cash conversion cycle expresses the number of days between the institution spending cash to purchase the raw materials used and obtaining the cash from selling the finished product to others. The cash conversion cycle is also defined by (Hansen et al., 2003, p.89-97) as the difference between the operating cycle and the duration of trade receivables, that is, the time interval between the conversion of a product. (As

stock) becomes a cash flow generating receivable. The collection and credit period that generates a cash outflow. Receivables, inventory and accounts receivable are included in this idea. An organization's overall working capital management status can be determined using only one indicator. The cash conversion cycle model is not about investments in general, but rather the process of improving a business's supplies. Since no component of working capital is isolated from the others, decisions and actions that affect one component must be coordinated with those that affect others (Fone & Young, 2005, pp. 45-55).

1.5.1.3 Working Capital Management

Working capital management is a part of financial management that deals with all aspects of finance in an organization; Not only the sources and uses of short-term financing in the company, but also the financial retrospective effect of investment, production, marketing or human resource management, as well as the overall performance of the organization. On the other hand, financial management is related to obtaining the appropriate amount of cash to finance the assets and activities of the organization, allocating these funds that are obtained within the framework of the priorities of the organization, and ensuring that these receivables are used effectively and economically in achieving the goals of the organization (Anthony et al., 2010, p. 65 -72). Financial management includes management of accounting systems, financial reporting and analysis, fixed assets management, capital formation management, etc., in addition to working capital management. It includes other management elements. Working capital management, on the one hand, reduces the risk of non-fulfillment of short-term liabilities due, on the other hand, means planning and organizing current assets within the framework of avoiding over-investment in these assets (Adah and Mamman, 2013, p. 105-108).

1.5.1.4 The Role of Working Capital Management

Management of working capital has become one of the most important purposes and practices of financial management in the organization. Many financial managers in organizations, whether public or private, face difficulty in making decisions that are mainly related to determining the levels of working capital so as to ensure the company's superiority and achieve a competitive advantage against other companies. For example, within the framework of achieving an optimal level of

inventory, many companies and managers have options in less inventory in exchange for the risks of stopping production or more inventory in exchange for freezing a larger part of the capital (Ratnasiri, 2014, pp. 102-109).

Either in terms of providing loans or granting commercial credit to customers, it can be useful in the event of a recession in the markets and a decrease in demand, in addition to helping the company in obtaining new customers. Trade credit from suppliers is also seen as an important source of financing that may compensate the organization for the funds retained in their inventories and receivables from customers. However, there is a potential additional cost if early bird discounts are offered. Depending on the amount of the discount and the duration of the discount, this cost can even go up to 20%. Previous research has examined the high cost of commercial credit to suppliers and has shown that organizations finance themselves using supplier credit when they cannot identify alternative economic sources of external financing (Filbeck & Krueger, 2005, pp. 11-15).

On the other hand, the method by which the working capital is managed has a significant impact on the profit of any organization and achieving profit within the framework of the organization's practice of its work must achieve a balance between profit and liquidity as well as risk. Since the company, if it does not give importance to profit, may fail and its market value may decrease over the long term, but if the organization ignores the liquidity factor, it may reach final bankruptcy. Also, working capital management is especially important for medium and small-sized organizations that do not have full access to capital markets. Through working capital management, organizations can finance their needs through trade credit, bank loans, inventory. (Matheba, 2011, p. 69. -75).

1.5.1.5 Importance of working capital management

Working capital management refers to planning and organizing in order to maintain optimal working capital levels for an organization and is not linked to any particular management framework. It deals with short term financing decisions rather than long term. It also includes decisions relating to credit granted or obtained by suppliers. Such short-term financing decisions are crucial to the long-term viability of the organization as they affect liquidity and profitability. On the other hand, the signal of financial health through short-term resilience and short-term liquidity is vital to an

organization's long-term financing, as it affects the organization's ability to obtain attractive long-term financing (Anthony et al., 2010, pp. 30–38).

An organization in poor financial health is likely to have a greater cost of capital than an organization with strong financial resources due to increased credit risk. Businesses that rely heavily on working capital may face financial constraints or even go bankrupt if working capital conditions do not meet expectations. Organizations must take steps to effectively manage working capital. According to the evidence cited by Ahmed & Shah (2015), working capital can be temporarily negative if a company is depreciating goods faster than they can be replaced or tightening credit standards.

Efficient management of working capital increases the company's cash flows, reduces the need for external financing and debt, and thus reduces the possibility of business failure. Enofe et al. (2017, p. 13) discovered that by reducing the time frame for debt collection and increasing inventory turnover, organizations can increase the profit they get. Bryman Bell (2015, p. 27) also found that a shorter cash conversion cycle led to higher operational performance in a sample of Japanese and Taiwanese organizations. Sadek (2017, p. 7) also shows that organizations that have a lower and faster cash flow cycle. When faced with a shortage of working capital, organizations and companies may be forced to borrow at high interest rates to continue their operations, which mainly affects the company's ability to pay interest and profits. However, a high level of working capital indicates that a large amount of liquidity cannot be well invested, which means that enterprises' potential expansion may be hampered.

Agyi-Mensah (2010, p.153) examined the conditions of more than one hundred thousand Chinese companies using the working capital tool to reduce the effects of financing restrictions on fixed capital investment between 2000 and 2007. They reached an important conclusion that the existence of more liquidity i.e. More working capital is not a sign of inefficient working capital management in an organization, and they suggest that effective and efficient management of working capital can help organizations reduce the effects of funding constraints on fixed investment. There are two ways to manage working capital: aggressive and cautious.

Weinraub and Fisher (1998, p. 153) studied the aggressive and conservative working capital management strategies of American companies in various industries and

concluded that when a company adopts an aggressive financing policy, the risks will be high and thus the profits will also be high. A cautious strategy as opposed to an aggressive policy is to have plenty of cash, semi-liquid assets and commodities. In this case, it is unlikely that a liquidity crisis will occur, at least in the short term, but profitability, that is, the return on investment, may be affected in the long term. According to Garcia & Martnez (2007, p. 173), the selection of working capital strategies should be based on an assessment of “the balance between expected profitability and risk”. In contrast to their findings (Grigoroudis et al., 2012, pp. 113–120).

Rathnasiri (2014, p. 19) used panel data from 1998 to 2005 to examine fiscal policies and their impact on profits. While they discovered a negative correlation between the profitability of the organization and the degree of aggression of working capital investment and savings policies, they concluded that a conservative working capital policy was positively associated with the profitability of the organization.

Articles on empirical research approaches to working capital in Iraq are mostly based on working capital policy of listed companies in Iraq. According to Gulati & Higgins (2003, p. 23), the moderate policy type is most common in working capital management for listed companies in Iraq. Sadiq (2017, p. 8) used cluster analysis and weighted average cluster analysis to examine current assets, current liabilities, working capital requirements ratios and average rates of return on invested capital, and came to the conclusion that current working capital management strategy is: The ratio of assets to short-term debts and working capital is high. Investment policies and financial working capital management are transitive in nature. This disparity over time shows some consistency. Listed Iraqi entities that implement a strong working capital investment plan are also not required to be selected to adopt a conservative working capital financing strategy.

1.5.1.6 Determinants of working capital

This section discusses the many aspects that can affect working capital management. Brusca et al. (2016, p. 62) advocate the integration of multiple implementation factors and external variables to create a strong relationship between working capital management and organizational performance. Previous research has focused on leverage, sales growth, volume, tangible assets, GDP, etc. found that a combination of

factors can affect working capital measures (Brusca et al., 2016; Bryman & Bell, 2015; Demba, 2015).

Leverage

When resorting to borrowing to finance working capital, it is expected that companies will pay a higher risk premium according to their leverage when managing the cost of borrowing working capital. If working capital through borrowing is available, many organizations resort to it. As a result, organizations that rely heavily on debt have higher working capital based on borrowing. According to Adah & Mamman (2013, p. 104), an organization with a high debt ratio should focus more than one with a low debt to working capital. . Andrews (2011, p. 153), studied the structure and composition of working capital and corporate performance for 131 companies traded on the Athens Stock Exchange between 2001 and 2004 and found that increasing reliance on financial leverage led to lower profits in companies. Other research (Bryman & Bell, 2015; Grigoroudis et al., 2012; Reuer et al., 2012), found a significant negative relationship between increasing working capital and the amount of business efficiency.

Sales Growth

Working capital management can be affected by the variable that measures sales growth. According to Salehi et al. (2010, pp. 200-205), this variable can affect inventory investment as well as corporate commercial loans issued and received. Through the transitional order theory, we can find that the company that expects greater growth potential in the future will need more financing and working capital, which will require more internal financing. Mathiba (2011, p. 51), found that increased sales are primarily associated with an increase in the cash conversion cycle. This means that organizations seek to maintain higher levels of inventory to meet future sales and growth. In such a case, organizations will seek to set an optimal limit for working capital as well, because increasing it means sacrificing long-term investment for organizations. This non-positive relationship between working capital and growth rate for the organization has also been emphasized. (Rathnasiri, 2014, p.125).

Measurement

The size of the organization affects the working capital strategy and approach. Most previous studies have identified a positive relationship between working capital and turnover. This is likely due to the cost of financing, as smaller organizations have more information asymmetry and larger organizations can afford less receivables and inventory. Ferreira & Villa (2004, p. 22), discovered a similar relationship, which is consistent with the finding from the gratuitous payment hypothesis. This is because, as Ferreira & Vilela writes (2004, pp. 300-312), small firms suffer from financial constraints more than large firms and may want to increase their level of business credit given the difficulty in obtaining alternative sources of financing.

Tangible Fixed Asset

Some empirical data, such as that provided by (Agyei-Mensah, 2011, p.43) indicates that tangible fixed assets are adversely associated to working capital management. To demonstrate the relationship between tangible fixed assets and working capital management, Andrews (2011, p.154), used two alternative perspectives. However, fixed asset investment competes with working capital investment for the limited resources available; on the other hand, the information asymmetry problem makes it difficult for organizations with more intangible assets to obtain money. In other words, organizations with more tangible fixed assets will be able to obtain financing more easily or at a reduced cost, resulting in greater cash conversion cycle.

Gross Domestic Product

Previous research, such as that of Bryman & Bell (2015), reveals that GDP may be an external factor influencing working capital, particularly during recessions. It is probable that an organization could have difficulties collecting receivables and disposing off goods, which would result in a larger demand for working capital. As a result, working capital investment should be maintained to enable smooth daily operations. According to Enofe et al. (2017, p.17), findings using Malaysian data, GDP is positively associated to the working capital indicator, and companies' investment in net operational working capital grew as the economy improved. Investigated the relationship between working capital and GDP, but their level of

significance was not significant. It has been decided that during the period of economic prosperity, financing is abundant, and organizations are not interested in the amount of working capital.

Industry Factor

Many academics investigated the relationship between industry and the structure of its working capital assumed that organizations in the same industry share greater similarities than companies in other sectors (salehi et al., 2010, p.190). These industries have a comparable degree of debt throughout time. According to Reuer et al. (2012, p.670), the industry influence on short-term debt ratio is greater than the industry effect on long-term debt ratio in all industries.

Controller type

This may be a distinguishing feature of Chinese businesses. Debt financing is one of the most significant methods of corporate financing in Iraq, and the influence of an organization's controller type will indicate the organization's capacity to finance. In Iraq, information asymmetry is a major issue due to an inadequate legal framework and corporate governance. Strict monitoring and supervision by banks or other organizations is required to mitigate the substantial risk posed by knowledge asymmetry (Reuer et al., 2012, p.673).

1.5.2 Capital Budgeting

Capital planning is one of the most important roles played by higher education administrators and boards. According to some experts in the research field, capital budgeting is also referred to as investment valuation. When an organization makes a capital investment, it pays cash now for future benefits. The capital budget must be carefully studied by small organizations as they lack access to public markets for financing and this is more important for small organizations than for large ones, as well as accurately defining working capital and its limits (Anthony et al., 2010, p. 88), Brigham et al. (2016, p. 39) conducted a survey in the United States and Canada, where he came to the conclusion that most organizations used the present value method to evaluate new investments or expand existing investments. However, when choosing a source of investment, they focus more on the size of the organization with what influences the decision of the organization.

In the beginning, in order to agree to expand the existing investment project or to start a new project, the organizations first resort to measuring the financial flows that the project can achieve at the present value, what is meant here is the net cash flows. There are two techniques for preparing the capital budget, the undiscounted cash flow technique and the discounted cash flow techniques, where the present value of cash plays the basis in that. It is also important to study and evaluate both the required time and the net profit achieved from each investment alternative. When choosing an investment, many people often choose the investment with the fastest payback period. (Anthony et al., 2010, p.109).

When comparing investment alternatives, the cost-benefit ratio is measured, and it is calculated by following the present value method, where each investment possibility is divided by the expected cost of making such an investment. The rate of return on investment compares the after-tax revenue of each project to calculate the net profit on the investment. This strategy is an investment valuation alternative that relies on average revenue accounting data rather than cash flow projections. On the other hand, discounted cash flow analysis with the internal rate of return or interest rate allows investment analysis by predicting future cash flows while calculating the time value of money.

The discounted cash flow approach includes consideration of the payback rate and net present value (NPV). On the other hand, the discounted payback period also takes into account the time required for the investment, after deducting the cash flows from the cost of capital (Brusca et al., 2016, p. 64).

1.5.2.1 The Budget Meaning

The term budget is derived from the Latin word bulge, which meaning purse. However, it acquired its connotation in England over two centuries ago, when the finance minister carried the state accounts in a leather briefcase known as the bowgette (English version of bulge). The briefcase's name was transferred to the content, which received the connotation we know today (Demba, 2013, p.56).

A budget, according to Enofe et al. (2017, p.17), is something that indicates expectations and obligations inside an organization regarding financial ramifications for an approaching time period. It is critical to emphasise that budgets are articulated

expectations. The budget, as Mathiba (2011) points out, attempts to estimate assets, liabilities, and cash inflows and outflows, i.e. forecasting the future based on a set of criteria and events of the financial past. It may also be seen as a choice, because when executive management adopts a budget, they instantly determine what should be done in the near future, which the prediction does not have (Mathiba, 2011, p.38). Furthermore, the definition specifies that budgets are linked to financial implications, which does not necessarily imply that they must be stated in a currency; non-financial components, such as the amount of labor hours, can also be included in the budget. Historically, the budget has always been expressed in monetary terms, and monetary terms remain the primary focus when developing the budget. The third component of the definition refers to time, implying that the budget covers a defined time period, which applies to all budgets, including those that cover a single product or consumer (Grigoroudis et al., 2016, pp.113-117).

1.5.2.2 The Purpose of the Budget

According to Raudla et al. (2015, p.49), the budget serves two opposing purposes: planning and control. Different perspectives on the aim of budgets might be inconsistent, for example, due to differing perspectives on the individual. Even though management considers the person as rational, people who use budgets to control do not automatically believe that the individual would act on their own to fulfil the organization's goals unless they are controlled. They can, however, be complimentary, like when an organization uses the budget to manage operations while also controlling staff. There are several different sub-purposes that the budget might have under both planning and control, which one is more or less significant will rely on various elements inside the individual organization, such as the instability of the business climate, the organization's size and industry, or the management's guiding ideology (Raudla et al., 2015, p.960).

1.5.2.3 Budget for Planning

The decision theory, which holds that one of the key activities inside a corporation is decision-making, influences the use of budgets for planning. The decision maker is assumed to be reasonable, and the decision will have an impact on the organization. According to Muthinji (2012, p.77), formal rationality in management refers to selecting the best and cheapest alternative that would achieve

the given goals through analysis and logical reasoning. This does not, however, mean that the reasonable decision will be the same for every organization.

In this respect, Sadiq (2017, p.27), identifies five major functions of the budget that are especially important when it is utilised for planning:

Resource allocation: Resources have to be dispersed as efficiently as feasible in order to fulfil the objectives; special considerations are made between short-term and long-term investments.

Forecasting: Before deciding on a budget, multiple choices are assessed to provide projections encompassing various situations and implications.

Coordination: By projecting income, the budget assures that an organization has the capacity to actually offer the items or services required, therefore coordinating among various roles inside the organization.

Control: If the budget represents a standard, comparisons between the actual outcome and the standard can immediately alert management that something is amiss. For example, if the expenditures of an activity are significantly higher than planned, the disparity may be analysed, allowing management to take the appropriate steps.

Understanding Development: When a budget is produced, it naturally pushes the makers to think on all elements of an organization, therefore boosting total knowledge of the organization. The same is true when follow-ups are performed and the results are analysed.

1.5.2.4 Budget for Control

When budgets are utilised for control, they become a tool that guides personnel toward achieving the organization's goals. The goal is to be able to delegate decision-making, which is especially critical in larger organizations to expedite the decision-making process. This is accomplished as the budget outlines broad goals, breaks those goals down, and designates who will be accountable for achieving them. When budgets are used for control, the purposes of budgets are different from the budgets that are used for planning (Salehi et al., 2010, pp.186-190):

Commitment: When the budget is finalized, the responsible management commits to meeting the goals as long as the necessary resources are available.

Performance review: If an evaluation of the responsible manager's performance is to be made, it is critical that it be taken into account while creating the budget, because the goals must be accessible while enabling the responsible management to influence the outcome. According to Rathnasiri (2014), the evaluation might be linked to an incentive system, thereby linking bonuses to the budget.

Motivation: The budget may establish clear goals, and employees might become more motivated to attain those goals by participating in the budget process.

Communication: The budget allows for the distribution of goals and aims from the top all the way down in the organization. These tasks enable decentralisation, and because operational choices may be made at a lower level, the responsible manager's appraisal will be focused on whether the budgeted goals are met rather than how the daily job is executed (Reuer et al., 2012, p.680).

1.5.2.5 Budget as a Work Process

Concerning the budgeting process, it is argued that much time and effort is expended in creating a budget that becomes overly detailed. According to Ferreira & Vilela (2004), up to 30% of management's time is spent on the budget process, resulting in a waste of resources, as Demba (2013), referred to the budget. Moreover, if the budget is to be motivating, more time and effort must be invested in it, as more people must be involved in the process. Due to added time restrictions, the budget is frequently hurried in order to reach the deadline, resulting in less time spent on studies and debates. Another concern stated is that budgets are often based on a calendar year, which may have little to do with how the organization functions, as other times may be more important to the organization. Instead of a precise budget, organizations want more motivated managers who try to do their best (Demba, 2013, p.109).

1.5.2.6 Budget as a Product

The budget as a product is mostly criticised for its basic flaw that it cannot fulfil the reasons for which it is created. Perhaps the most common objection to the budget is that it is out of date once it becomes operational. Enofe et al. (2017), for

example, note that it might take up to 18 months from the start of the budget process to the end of the fiscal year, so a lot can happen during that period. Another argument advanced by Anthony, Robert & David Young (2010, pp.63-68), against the budget is that it is sub optimized, which may lead to rivalry among units because each unit only thinks about itself and not to the entire organization. It is also said that the budget might spark an internal political game. This leads to a single meaning that rather than focusing on doing good business, it becomes more necessary to spend the money in the budget, because it is believed that if there is money left over at the end of the year, the unit would receive less the following year (Bennouna et al., 2010, p.243).

Both Ajam & Fourie (2016, p.280), claim that sticking to the budget, even if it is incorrect, is problematic since it prevents the organization from responding to market developments in real time, owing to the budget's conservative characteristics. Andrews (2011, p.154), contends that the benefits of a fixed budget are diminishing as markets change quicker. Becker (2016, p.233), refers to this transformation as the third wave, alluding to a new era of knowledge that marked the end of the industrial period. Along with this transformation, the budget is no longer capable of fulfilling the needs of the growing more competitive economy since it is bureaucratic and restrictive. It provides only a false feeling of security, because the essential resources are no longer financial capital as they were throughout the industrial age, but rather intellectual capital. Moreover, as the intellectual capital cannot be easily assessed in financial terms, it is frequently overlooked when a budget is overly centralised.

Bryman & Bell (2015, pp.69-75), suggest that using the budget as a foundation for performance evaluation is ineffective; instead, incentives should be linked to relative aims, as budget targets are "... empty promises to investors...". In this regard, Shim (2008) goes on to explain that fixed objectives might cause managers to establish moderate goals and be rewarded, but those who set aggressive goals are penalised if they are missed, which inhibits innovation.

1.5.3 Definition of Risk Management

Risk management, sometimes referred to as "uncertainty management," is a systematic technique used by an organization to reduce the risk of contingencies occurring in order to increase revenue. Many authors in the literature have defined risk management as risk management because risk is an uncertain thing. The most common

definitions of risk management are provided by (Butt, Hunjra & Rehman, 2010, p.996).

According to Fone & Young (2005, p. 135), the systematic identification, assessment and management of project risks. It includes maximizing the potential and impact of positive events while minimizing the likelihood and impact of bad events on project objectives. A process in which decisions are made and/or steps are accepted or evaluated to accept risks to reduce consequences or the likelihood of recurrence.

Although both organizations define risk management in the same way, the main difference is Butt et al. (2010) thinks that taking risks is sometimes positive. According to Gill, Begger, & Mathur (2010, p. 5-9), positive risks can also increase success or profit, although they create uncertainty, and therefore should be considered together with negative risks in risk management plans.

Others define risk management as minimizing adverse risk events that cause loss to the organization. Risk management is the identification, assessment and control of each exposure to risk that threatens the success of the project. He identified four fundamental principles of risk management: (1) minimizing the adverse effects of risk in a business; (ii) Identifying, assessing and controlling risks that hinder business success and profit. (iii) determining the most appropriate method to deal with major and minor risks to company profits; and (iv) a procedure to adapt to the effects of progress (Fontaine, 2015, pp.88-94).

According to Gill, Biger & Mathur (2010), risk is an essential component of RM, with the primary objective being to reduce or maintain risk to an acceptable level for the organization. RM is similar to creating a map of the potential risks and harms they can cause; The map can then be used to address the problems caused by the hazards according to their origin. According to García-Teruel & Martínez-Solano (2007), risk management is essential for any organization, but it does not guarantee the success of the project.

Gulati & Higgins (2003, p. 147) defines risk management in terms of two response variables: risk identification and risk analysis. A clear understanding of the risks facing the organization is essential in order to maximize available resources and minimize time consumption in the risk management process. Depending on the

industry, almost every organization faces different types of risks (risks). In this sense, every organization should focus on identifying the specific risks it faces and implementing a competent risk response strategy. However, Ferreira & Villa (2004, pp. 304-309) argue that risk management is a tool that helps organizations cope with change. On the other hand (Asbury, García-Teruel & Martínez-Solano, 2007), they state that a risk is harmful or good in that it hinders or aids the achievement of the organization's purpose. Therefore, risk management is a process that identifies the opportunities and risks faced by a project or organization in its early stages and then takes action in line with an appropriate response plan to reduce or capitalize on the risks for business success. Because both risks and opportunities are unpredictable, risk management is sometimes called uncertainty management.

1.5.3.1 Risk Management Techniques

Various writers present methods for risk management strategies, for example, they created a theoretical framework for selecting project risk management strategies based on the project life cycle and the organization's risk maturity. Gill et al. (2010, pp.10-12), classify 31 distinct project risk management strategies based on other proposals from the literature. As a result, the list of classified techniques in their framework is extensive. Several modifications might be made to the recommended methodologies by Gill et al. (2010), to make them more suited for a research group. A few of the approaches above might be integrated into a single item. For example, the 'what-if analysis' and 'standardised what-if analysis' are both utilised (SWIFT analysis). The latter is an improved, standardised form of the 'what-if analysis.' The same might be said for 'Failure Mode and Effects Analysis' (FMEA) and 'Failure Mode and Effects Criticality Analysis' (FMECA). The failure mode and effects criticality analysis just add probability and severity elements to the failure mode and effects analysis, allowing for the collection of quantitative data. The use of the 'risk breakdown matrix' for quantitative risk analysis but not the 'probability and impact matrix' is questionable, as the results would be nearly identical. Unfortunately, Filbeck & Krueger (2005, pp.11-13), do not specify which strategies are the best ideal for the many types of application areas, such as banking, insurance, production, research, and so on.

CHAPTER TWO

LOAN PERFORMANCE OF THE COMMERCIAL BANKS

2.1 The Scope of Banking Sector

It has been established that banking dates back to antiquity. Despite the fact that there was no organized banking at the time, banking activity continued to exist, as ancient as money itself, lending and borrowing are considered to be. The Italian word "banco" is the source of the term "bank." Banco, according to Macleod, is the accumulation of cash or shares. The financial mediator between the depositor and the loan seeker is what a bank is, in a nutshell. Only when the depositors deposit a particular amount in the bank and the bank has a positive relationship with its customers can a transaction take place between the bank and the depositor (Ataullah & Le, 2006, p.660).

Only when the bank is able to promptly return the depositor's money will be able to maintain strong relations with its customers. When a bank accepts deposits from the general public, corporate entities, and private organizations and invests those deposits for profitable purposes in the form of loans and advances, there is an instance of intermediation. The bank has been offering a lot more services to its clients, including letter of credit, bank guarantees, and money remittance. Banking activity is the general term for the operations that banks conduct. Accepting deposits and lending or investing money are both aspects of banking as a profession. By offering money and certain services that aid in the exchange of products and services, it encourages commercial activity (Pančurová & Lyócsa, 2013, pp.155-160).

A bank is an establishment that provides the individuals such advances of money or other method of income as may be necessary and safety made and to which individuals commit money or method of income when not needed by them for use. A commercial bank is described as a bank or a branch of a bank that focuses largely on accepting deposits from and making loans to major firms and enterprises. This is what people often refer to as a "bank." In order to distinguish it from an investment bank, the name "commercial" was employed. Investment banks were only permitted to engage in capital markets operations, whilst commercial banks were only permitted to engage in banking activities (accepting deposits, disbursing loans, and providing other

fee-based services). It raises money by obtaining deposits from customers and companies through time, savings, and checkable deposits. (Al-Sirafi Mohammed, 2007, p.90).

Deposits make up its main obligations, whilst loans make up its main assets. Actually, commercial banks receive deposits from both individual and institutional clients, which they subsequently utilise to grant other clients' credit. By collecting more interest from borrowers than they pay to the people whose deposits they accept, they are able to generate income. According to Burki & Niazi (2006), commercial banks are "institutions that employ the money their clients have trusted them with to provide loans to businesses and consumers and distribute profits to the banks shareholders." Commercial banks are organisations that exchange money, receive deposits, give loans, and carry out commercial banking tasks; they are not banks intended for cooperatives, agriculture, industries, or other such particular purposes.

Banking may often be divided into retail and corporate banking. Utility bill payment, consumer loans, credit card use, checking account opening, and other financial services are all included in retail banking, which is aimed to fulfil the needs of individual clients and promote savings. On the other hand, corporate banking meets the needs of business clients by providing services including managing cash, establishing letters of credit, and discounting invoices (Burki & Niazi, 2006, p.32).

Today, banking is a crucial component of our economic structure. Without the provision of proper financial services, modern trade and business would be all but impossible. Investments are promoted by banking. The money that banks receive is easily invested in business, agriculture, and commerce. They either directly invest it or lend money to more investors. According to Felix & Claudine (2008), the banking industry is going through significant changes as a result of the government's economic reform efforts from ten years ago. It has produced new, strong client banks as well as new private and joint venture banks. Bankers have difficulties in using new, developing technologies to offer their current products and services in a creative and economical manner. Challenges brought on by competition include cross-selling, product positioning, and market segmentation. The bank must restructure its branch network, save costs, and hire talented executives. The banking industry is expanding quickly (Felix & Claudine, 2008, pp.150-156).

To draw in depositors, banks must be effective and competitive enough both with other participants in the banking sector and with non-banking financial organisations. To improve and stabilise the financial system, the banks must promote responsible banking practises. The position of the bank's balance sheet demonstrates how well management has been able to control the loan-granting process to borrowers. According to the Simson & Hempel (1999), there are primarily two categories of risk that the banking industry must manage.

2.2 Iraqi Financial System

The development of the Iraqi economy in the past few years, and the gross domestic product of Iraq has increased dramatically, and the stable political and economic environment has provided the way for the expansion of the Iraqi economy. Many Iraqis believe that the development of the gross domestic product is mainly due to the increase in global oil prices, as the Iraqi economy depends mainly on oil. According to the International Energy Association (IEA), Iraq will be able to produce over 45% of the world's additional oil supplies this decade. Also, Iraq is expected to become the second largest oil exporter in the world after twenty years. There are more than 50 Iraqi banks owned by the state and the private sector operating in Iraq, with total assets of this sector amounting to 66 billion US dollars. Of which 7 are state-owned, 15 are international, and 11 are banks specializing in Islamic banking services. In terms of the branch network, Iraq currently has about 920 bank branches spread across many governorates. The total value of banking assets in Iraq in 2016 amounted to more than \$66 billion. In general, the Iraqi banking system is not sufficiently developed, and this, in addition to the expected economic development of the country, makes it an unattractive market for regional and international financial companies (Hyavi, 2015, p. 41).

The Iraqi banking sector is characterized by low penetration, high asset density and limited branch/ATM network. As a result, the International Monetary Fund expects Iraq's GDP to increase at a compound annual rate of 8.3% throughout 2018, making it one of the fastest growing economies in the world. Despite Iraq's recent economic progress, the country's financial system remains one of the least developed in the Middle East and North Africa region. Low loan-to-GDP ratio of 9 to 10 percent compared to 55 percent in the Middle East and North Africa region. While the rules

of the Central Bank of Iraq allow banks to lend eight times their capital and solid reserves, if the total credit of the bank's capital and solid reserves does not exceed (Badr, Muhammed, Aref & Hassan, 2008, pp. 35-39).

Banks' high liquidity levels, which may reach 60%, represent the industry's incapacity to invest its assets and deposits to support the national economy on the one hand, but can negatively impact bank profitability and waste investment possibilities on the other. Private Banks have capital adequacy ratios that are greater than the Basel II minimum of 8 percent and exceed the central bank's maximum of 12 percent, once again demonstrating the industry's reluctance to deploy its assets (Hayawi, 2015, p.45).

The interest rates on fixed deposits and credits in Iraqi banks differ significantly. Fixed deposit and savings interest rates vary from 2 to 7 percent, while credit interest rates range from 10 to 15 percent, leaving an 8 percent or more difference between the two rates. This is significant in contrast to the (5%) rate that prevails throughout the Middle East and North Africa. There is no question that this increase in interest rates hurts the amount of credit extended and makes it more difficult to borrow money for development (Saied, 2017, pp. 12-15).

2.3 Loan Meaning

A loan is an agreement to provide a certain amount of money with interest for a certain period of time and sometimes for a certain purpose. The main feature of a loan extended by a bank is that the bank imposes a certain amount (a) for a certain period of time and (b) as a loan at a certain interest rate, the approved loan is also fully repaid, not in installments, the entire amount is transferred to the debit side of the account and the debit begins to collect interest from the date of entry to the party (Chong, 2010, p. 150). With the loan amount allocated, a loan account is created on behalf of the borrower and the consumer can transfer money from the loan account to the checking account, but loan installments are not allowed. However, tolerance depends on the bank's decision (Derban, Binner & Mullineux, 2005, p.320).

Taking deposits and making loans are the two main activities of the bank. Taking a deposit does not involve any risk, because the banker is obliged to repay it when requested. On the other hand, giving a loan is always risky as there is no guarantee of

repayment. However, the banker's primary source of income is lending. The banker must be very careful when lending, as he does not lend from his own capital. Public deposits make up the bulk of borrowed funds. Most of these deposits are repaid on demand (Essendi, 2013, pp. 123-128).

A loan is the lending of money by a person, group or organization to another person, group or organization in the financial world. A note that the principal amount of the money borrowed, the interest rate charged by the lender, and the details of the return date are proof of a loan, which is a loan made by one legal entity (institution or individual) to another entity at an interest rate. It is a requirement of the loan to reallocate the subject asset(s) between the lender and the borrower during the term of the loan. The cost of the loan is often expressed as interest on the loan, which gives the lender an incentive to extend the loan. Both of these responsibilities and limitations in a legal loan are placed in a contract that may subject the borrower to additional restrictions known as loan agreements (Godquin, 2004, p.194).

2.3.1 Loan Management

A bank's fundamental business is lending, which greatly boosts its bottom line. The lending practices of banks are often controlled by a few guiding principles. Due to the fact that lending operations require deposits that are repayable upon demand. The safety and security, risk diversification, liquidity, profitability, and lending purpose are all upheld by the bank. In brief, managing loans and advances is loan management. The successful administration of loans is essential to the banking industry. One of the main contributing factors to bank collapse throughout the world has been shown to be subpar loan management. Thus, managing loans is a difficult work that never goes away in the banking industry since it entails risk related to credit operations (Kiplimo & Kalio, 2012, pp.25-29).

The goal of loan management is to reduce risks that are either directly or indirectly related to the lending process. For the majority of commercial banks, lending is their main source of income since it yields the best returns in terms of interest on loans and advances as well as fees on non-fund-based credit operations. Banks often use a portion of their loan proceeds to fund lending to underserved areas of society. The fundamental factor to a bank's safety and soundness is the efficient administration of the credit function and loan portfolio. The technique of managing

and controlling the risk that is inherent in the lending process is known as loan management. In other words, developing and putting into practise lending rules is what loan management is involved with. The administration of the credit portfolios of bankers and financial institutions is what Kisala (2014), defines as credit management in his book "Principal of Banking". Profitability and liquidity of the organisation are impacted by loan management. In order to ensure that the interest and principal on loans are punctually recovered without any problems and liquidity, banks take care while evaluating the creditworthiness of the borrowing customers (Kisala, 2014, pp.40-48).

2.3.2 Types of Loan

Credit is a type of product that can be developed based on the terms and conditions requested by the credit agreement between the bank and the borrower, according to Njoku, (1997) it fits into the category of:

1. Funded loan: This term describes a loan that is paid back in cash or another form of payment. When a bank makes a loan and the money leaves the bank right away, the loan is said to be funded.

2. Non-funded loan: the bank must agree to a conditional payment rather than making a cash payment. Letters of credit, guarantees, and acceptance are a few types of unfunded loans.

3. Working capital: Working capital loans are defined as loans that are issued for the acquisition of long-term assets over a period of more than a year and are returned in fixed installments. Project loans, housing loans, hire purchase loans, etc. are a few instances of working capital loans.

4. Personal or business loans: These loans are those that are given for consumption purposes, and they are based on collateral and projected cash flow. Auto loans and personal loans are two examples.

The bulk of a bank's assets are loans. Loans often provide the bank a greater interest rate than securities do. Yet, there is danger involved with loans. The bank will suffer if it provides poor loans to individuals or companies since they won't be repaid. Understanding a bank's ledger of loans is essential since loans are its main source of

income. Only a small portion of assets are other assets, such as real estate and machinery. A bank may make significant profits with a minimum of tangible assets. In some other businesses, plant, assets, and equipment is a significant asset. Surprisingly, cash only makes up approximately 2% of assets (Sindani, 2012, pp.20-28).

This is due to the bank's desire to invest its funds somewhere where they may make income. The bank cannot turn a profit if it merely stashes its cash in a locker and forgets about it. As a result, a bank retains the majority of its funds invested in loans and other financial instruments known as "earning assets" in the banking industry because they generate interest. Because the return on fixed-income securities is not as great as the revenue from loans, banks dislike investing their assets in them (Acquah & Addo, 2012, p.148).

2.3.3 The Loan Policy

Every credit manager aspires to close the most lucrative loans in the quickest amount of time with the fewest bad debts. It is impossible to lend money just to customers who are solvent in this fiercely competitive market for market share. Trading with clients that pose a significant credit risk must be lucrative. Because this bank needs to have sound policies. A standard and standards for lending choices and actions are called loan policies. Board of directors' decisions on loans should be communicated inside the organisation. Therefore, two crucial components of credit policy are loan mobilisation and recovery. "A loan officer's choice to lend money to a customer is guided by his or her credit policy. It is crucial for everyone to be dedicated to the implementation of credit policy and to be aware of what they are doing, why they are doing it, and the repercussions if it is not done (Collier & Katchova, 2011, pp.100-112).

However, borrowing policies have to be adaptable. Lending practises vary from bank to bank and are predicated on optimising profits for institutions and national economic growth. Some banks take a highly cautious approach to credit, only lending to clients who have a solid financial foundation. Growth-oriented banks may take a more aggressive approach to lending, making loans to clients who have higher repayment risks. It offers a structure for attaining asset quality and profits goals, establishes risk tolerance ranges, and directs the bank's lending operations in line with

the bank's strategic orientation. A realistic depiction of the bank's desired position should be provided in the policy. Policies should be reviewed and updated on a regular basis to reflect changes in the bank's strategic direction, level of risk tolerance, and market environment. Therefore, the bank must determine how to spend the money it receives from stakeholders, depositors, and other sources. The regulations provide consistency in lending operations (Heiat & Sah, 2013, pp.43-47).

2.3.4 Loan Process

Controlling the loan approval process and achieving loan quality are the two main goals of loan management. To attain quality in credit at the moment of origination, suitable controls should be included to every loan approval procedure. The procedure should be consistent with the bank's credit policies, risk profile, and lending capabilities. The bank's credit committee decides whether to approve a loan. The application procedure, which is handled by a loan officer, is the first stage in the commercial and industrial loan process, according to Moti & Masinde (2011, p.18). The loan officer first gathers as much information as they can regarding the borrower's circumstances, for instance, a person's past credit history, current debt balances, current financial situation, and source of income. The credit agency's credit analysis comes as the second phase.

The corporation's economic data is compared and historically analysed by the loan officer, who then receives a report from an internal analyst recommending whether or not to approve the loan. The third stage involves the loan officer obtaining the credit analysis report and assessing whether it correctly depicts the borrower's attributes and borrowing ability. The loan operation is the fourth phase. Here, principal notes, agreements, and collateral or non-collateral agreements must be prepared. The loan operation is concluded and the loan proceeds once the loan officer has the borrower's signatures and receives the collateral in the fifth stage (Heiat & Sah, 2013, p.55).

The loan is recorded in the sixth stage by the loan operation and credit department employees, who also determine whether the loan complies with the lending policy or not. An employee of the credit department, a loan officer, a financial analyst, and a loan operation operator carry out the seventh phase, which is loan servicing and administration. The employee in charge of loan operations is in charge

of receiving regular payments from borrowers and preparing loan payment letters to alert the borrower. The loan officer may get periodic delinquent information during the eight phases and will need to follow up with borrowers on this (Collier & Katchova, 2011, pp.105-108).

The loan officer must also modify the loan's terms and circumstances as thought essential, and if non-collectible processes and loan foreclosure are carried out, legal action must be taken. The output of the complete lending process includes the loan's profit-earning status, which is also used to gauge the effectiveness of the lending process. The 6C (care, compassion, competence, communication, courage and commitment) principles serve as a foundation for wise financing selections. Character, capability, cash, collateral, conditions, and control, sometimes known as the "6 C's," are crucial benchmarks that banks use to determine whether or not a borrower is creditworthy while doing a credit analysis. In short, the bank engages in some activities like (Loan evaluation, Approval of the loan, Approval of the loan, Monitoring loans and credit recovery) while authorizing a loan (Prakash Thapa & St. Xavier's College, 2001, p.28).

In the lending process, the loan officer should take into account the borrower's financial strength and character, as well as the purpose of the loan, the source of repayment, the length of the loan's maturity, the borrower's ability to repay the loan, the quality of the financial statements and accounting procedures, the borrower's ability to meet current obligations, the management's competence, the thoroughness of the documentation, references, and past credit history (Kisala, 2014, p.65).

2.3.5 Theories of Loan

1-Liquidity Theory of Credit

John Maynard Keynes first introduced the concept of liquid in 1989. The liquidity preference hypothesis is another name for this notion. When an investment is more liquid, it may be quickly sold for its full value. The demand for liquidity is explained by three factors: The transactional motive states that people desire liquidity to enable basic transactions because their income is not always available; the precautionary motivation states that people want money on hand in case of

unanticipated social needs that might result in outrageous costs (Damaris Mumbi Geitangi, 2012, p.14).

People want more money when interest rates decline to retain until they rise, which lowers the price of an existing bond to keep its yield in line with interest rates. The number of lending institutions is rising along with the need for money. A commercial bank that extends credit to customers might run into default issues, particularly if the borrowers are unable to make their loan payments on schedule. In order to identify the credit risks that borrowers are exposed to, this encourages banks to employ risk-rating components. As a result, the study enables management in developing risk management procedures to lower the rate of loan default by borrowers by helping to identify and classify risk according to importance. This idea contends that the bank must ensure that borrowers are creditworthy before extending credit in order to reduce the amount of loans risk (Moti & Masinde, 2011, p.170).

2-Asymmetric Information Theory

According to the principle of information asymmetry, not all persons participating in an endeavour have access to pertinent information. Acquah & Addo (2012, p.8), show that in these marketplaces, intertemporal links are a part of competitive behaviour. According to the idea, perceived information asymmetry causes moral hazard and adverse selection, or mistakes in lending choices, which are two issues for the financial institution. The hypothesis behind the study is that commercial banks can reduce the loan payback rate if they share information about their clients' credit worthiness. Credit reference bureaus improve credit risk management strategies, such as credit ratings, by reducing information asymmetry between borrowers and lenders. As a result, banks make loans to creditworthy borrowers, leading to an increase in total lending and a decrease in default rates (Heiat & Sah, 2013, p.45).

3-Transaction Cost Theory

Williamson established the transaction cost hypothesis in 1975. Williamson (1984) extends Robert Couse's previous research showing that every time a product or service is exchanged on two technically different interfaces, a transaction occurs. Market management requires significant costs and expenses, and some marketing

expenses can be reduced by establishing an independent administrative unit that is supervised by a successful administrator. On the other hand, since the manager of the organization can obtain inputs related to production at a lower cost through market studies and research, he must perform his duties at a lower cost (Chua & Lianto, 1996, pp. 170-180).

Due to the bank's high credit risk, transaction costs resulting from information disparities between banks and borrowers can have an impact on a bank's lending decisions. Williamson (1986) created a model of credit rationing in which borrowers face a moral problem. The bank has an informational advantage when assessing a customer's credit worthiness. As banks gather information, monitor the buyer, and preserve value in existing assets, they can better monitor and enforce loan repayments. Although an increase in loan costs increases the lender's expected return, it also increases the likelihood of the borrower going bankrupt. According to this theory, banks function as a form of government. (Chung, 2010, p. 157).

4-Portfolio Theory

Harry Markowitz created portfolio theory for the first time in 1952. He arrived at a portfolio's projected rate of return and expected risk measure. According to Markowitz (1952), the variation of the expected rate of return was a useful indicator of portfolio risk given reasonable assumptions. The link between the returns for assets in the portfolio is crucial since the returns from the whole range of investments must be taken into account because they all interact. By carefully selecting the quantities of various assets, portfolio theory seeks to maximise anticipated return for a given level of risk or, conversely, limit risk for a given level of return. The choice of portfolios that maximise expected returns while maintaining the individual's tolerable levels of risk is the subject of portfolio theory. Its primary fundamental premise is that, for a given amount of risk, investors frequently desire to maximise returns on their assets (Ataullah & Le, 2006, pp.660-663).

Every bank should look for the best strategic options that will enable it to significantly reduce its overall credit risk while maintaining its ability to make money through lending. This hypothesis is relevant to the study because a portfolio of high-quality performing assets demonstrates a positive credit culture with consistent credit standards. New markets suitable for the existing culture are selected. Internal risk

monitoring and control, which monitors credit discipline, credit policies, approval rules, exposure to facility risk and portfolio level, credit terms, and lending policies to borrowers with the lowest default risk, is evidence of successful credit risk management (Bourgi & Niazi, 2006, p. 44-49).

2.4 Credit performance

The ratio of non-performing loans to the entire portfolio is called credit performance. An advance or default loan is a portion of the loan when the interest and principal payments are at least six months late.

According to a study conducted by the Bank of Iraq in 1992, 10% is considered NPL and the higher the ratio, the weaker the performance of the loan. The cost-effectiveness and default rates of the loan can be used as performance indicators. Rapid portfolio expansion and high ratio of loans to total assets can be early warning signs of credit quality problems, which may mean collapse (Vital, 2015, p. 90).

Through this, it can be said that the comparison between two groups of borrowers may not be real in the context of credit performance if there are no expected return distributions close to each other. On the other hand, if the credit-efficient borrowers are more than the ratio of the less credit-efficient borrowers, default rates may be lower, and this represents the difference in the average creditworthiness of the two groups of borrowers and does not reflect, in any doubt or other, the real situation of credit. Simple bivariate correlations indicate that the probability of default is highly correlated with the borrower. For example, larger loan-to-value ratios, lower salaries and smaller loan amounts appear to be associated with higher default rates. Another caveat is that for lending costs to be effective, the basic theoretical prediction that cost-effectiveness leads to an improvement in the actual relative performance of the loan is assumed to remain true (Said, 2017, pp. 56-60).

According to Kalluru & Bhat (2009, p. 11), the commercial and industrial loan process consists of eight steps: application, loan analysis, resolution, document preparation, closing, registration, service, administration and collection. Kumar (2013, p. 15) finds that banks rely on six elements that serve as important criteria for banks when assessing a borrower's credit worthiness and the overall evaluation factors used in the credit process. The ability to evaluate the value or quality of the output depends

on the accuracy and completeness of the data collected under the 6C standards (Kumar, 2013, p. 143).

The most difficult problem for loan officers applying the principles is determining how subsequent developments will affect the institution's finances and ability to repay loans. This is especially true for capacity and status. Therefore, the loan officer's accurate and comprehensive data collection on capacity and status can result in a high visit report (Kumar, 2013, p. 165).

According to Chipembere (2009, p. 16), banks are the most important institutions that have a significant impact on the economy of any country, regardless of their size. The study also found that the economy grows faster when more loans are made because well-functioning banks can provide opportunities for other economic sectors to flourish and record steady growth rates. Lending is the lifeblood of the economy.

Kiage, Musyoka & Muturi (2015, p. 29) noted that there was a significant decline in lending approvals at commercial banks, which had an impact on loan volume. I propose this as an academic research topic that specifically addresses debates about factors that influence lending decisions because there is no agreement among many studies about the direction of these effects.

In a study focused on banks, Malede (2014) revealed that banks often try to provide conveniences, i.e. facilities that act as the main source of income for banks are aimed at different sectors to use all available financial resources for tracking purposes. profits that ultimately lead to maximizing the value of the bank. According to this report, customers' default on their loans at banks slows economic growth in the country. The high rate of inconsistency in loan repayments, some of which results in non-performing loans, affects the lending performance, which is the primary responsibility of commercial banks (Ahmed, 2015, p. 115).

According to Taya, Talo and Adam (2013), who researched 18 Tunisian banks to determine the effects of some internal and external factors on bank credit, the volume of loans was significantly affected by internal factors. He discovered that commercial banks were giving out more loans than borrowers were eligible to take. The study also explored the effects of one-year deferred variables to determine the impact of this

delay on credit and discovered that return on assets did not affect credit growth, while delay reduced credit growth and lead to delays in limited liability partnerships. reverse effect. Here, the effect of the change in the money supply shows the opposite effect one year later (Al-Ta'i, Talo, & Adam, 2013, pp. 100-102).

Using multiple regression analysis, Ayieyo (2016) explores the effects of deposit size and interest rates on total loan applications on a ten-year sample of nine commercial banks. The results showed that interest rates were inversely proportional and significantly affected total loan applications. In addition, the number of deposits had a significant impact on the total amount of loans granted, and banks were advised to adopt fees and commissions as alternative sources of income after decreasing interest yields (Akinlo & Oni, 2015, p. 44)47).

In addition, Ntiamoah, Egyiri, Fiaklou & Kwamega (2014) examined 8 commercial banks in Ethiopia between 2005 and 2011 using descriptive survey research methods and ordinary least squares method. They found that the significant decline in loans at that time had an impact on the capital and liquidity of these banks, which eventually led to their closure. In an attempt to identify the components of bank credit, Ntiamoah et al. (2014) examines 24 years of financial data from 146 countries. They discovered that a country's economic growth has an impact on bank loans and credit availability. They also noted that the bank's progress depends on the strength of the existing banking system and that reliance on foreign capital exposes the banking sector to the whims of environmental shocks.

In 1986, prudent banking regulations came to the fore after the implementation of the Structural Adjustment Program (SAP), which facilitated tightly controlled banking procedures by bank regulators. Banks have used these precautionary guidelines as a result of avoiding distress and increasing profitability. In these regulations, factors such as bank type, capital base, deposit base and density, as well as the internal policies of the said banks and the fact that advances constitute the largest part of a bank's total assets were effective (Chung, 2010 p. .157).

2.5 The Loan Performance Indicators

2.5.1 The Cost Efficiency Meaning

Both academics and decision-makers find it vital to evaluate the effectiveness of economic systems. A well-defined measurement of the idea must serve as the foundation for scholarly discussions and debates about the relative effectiveness of various businesses and sectors. If the policy maker can ascertain the relative efficacy of the beneficiary units, he will see the allocation of resources to various purposes as being the most economically sensible. The policy consequences of research on economic efficiency in the banking sector, in particular, "stretch beyond both the micro and macro-economic levels. It is conceivable to calculate how much banks may be anticipated to increase their services by suitable reorganisation or alteration of the regulatory environment without absorbing extra resources overall if the efficiency of different groupings of banks is measured. One might also make conclusions about which financial system is preferable in terms of policy suggestions (Hassan & Sanchez, 2009, p.14).

The reality of the lack of productive resources is the cause of this issue for all resource managers, whether they are at the level of the economy, an industry, a corporation, or academics. All in all, some measurement tool based on a pretty well-defined idea of efficiency is required in order to be able to handle resource allocation problems. Despite being crucial from both an academic and practical perspective, the definition of efficiency in the research has remained vague. Today's notion might have several meanings depending on the situation and the person using it (Byusa & Nkusi, 2012, p.87).

Economic efficiency is, in the words of, "an elusive term in which the analyst, the engineer, and the policy maker all have considerable stakes." For instance, the cost accountant measures productive efficiency using the conventional cost-to-actual cost ratio as a percentage. A machine's efficiency is measured by an engineer's machine's output in proportion to its theoretical capacity, expressed as a percentage. According to an economist, a company's or industry's economic efficiency may be divided into two distinct parts: "price efficiency" and "technological efficiency." The success of a business in selecting an ideal set of inputs is measured by the former, while its success in creating the greatest amount of output from a particular set of inputs is measured

by the latter. Efficiency, however, "becomes a somewhat more nebulous concept once the adjective 'economic' is fallen, meaning only 'success in achieving planned objectives,' what they may be" (Coelli, Rao, Donnell & Battese, 2005, pp.56-60).

2.5.1.1 Efficiency in banking

A wide variety of academic studies have examined the different shapes, sizes, and organizational structures of banking systems, as well as economies of scale, operational efficiency, and efficiency (Cummins, Tennyson & Weiss, 1999; Cetorelli & Gambera, 2001; Kalluru & Bhatt, 2009). These studies were almost entirely carried out in developed countries. Most previous research has focused on estimating and evaluating banks' effectiveness in terms of operational cost functions. The profit function has only recently received more attention. In a recent article, Kalluru & Bhat (2009, p. 47) tried arguably the most comprehensive description of economic efficiency in banks. It is a definition that recognizes that technical and pricing efficiency work together to create economic efficiency in the banking industry.

2.5.1.2 Scope of cost effectiveness

Efficiency is the optimal use of resources to achieve the best quality results. It is defined as the decision between which options use the least amount of input to produce the specified result. Efficiency measures how well a bank is performing against a benchmark at a given time. It shows how effectively the bank is transforming its resources into high-quality goods and services at the lowest possible cost. Only banks that are successful in the market can benefit from the competitive environment. When banks operate at maximum efficiency, they can increase their profits, which gives them the assurance of covering large risks. In addition, a strong banking system encourages economic expansion and financial stability in the economy (Byusa & Nkusi, 2012, p. 118).

The effectiveness of the financial system is critical to the well-being of society as a whole, as it helps to provide innovative and high-quality services to society at the lowest possible cost. Therefore, the bank's ability to reduce costs is its most important goal. In other words, the bank must be cost-effective. Cost effectiveness bases its assessment of the Bank's ability to control costs on an input-oriented approach. Cost effectiveness compares a bank's performance to a best practice bank that produces the

same outputs at the lowest operating cost while tackling similar technical challenges. It indicates how similar the bank's cost is to the cost of a best practice bank producing the same level of output. In other words, cost effectiveness shows how much a bank can reduce costs while providing the same level of service (Kiage et al., 2015, pp.36-44).

The actual cost incurred in manufacturing a given bundle of output is compared to the lowest absolute cost required to produce the same bundle under the concept of cost-effectiveness. It is the ratio of the actual costs of a given bank or bank with estimated efficiency to the cost of a perfectly efficient bank (i.e. a bank operating at the effective cost limit) with the same output and input prices. . It can be written as the ratio of the minimum cost to the observed cost (Burki & Niazi, 2006, p. 44).

According to Farrell (1957), bank cost effectiveness (CE) consists of two parts: technical efficiency (TE) and allocation efficiency (AE). Technical efficiency (TE) and allocation efficiency (AE) are combined twice to form cost effectiveness (CE), where $CE = TE * AE$ (Farrell, 1957). While technical efficiency over inputs focuses on the quantities of inputs, efficiency allocation over inputs focuses on the costs of inputs. For a bank to be fully cost-effective, it must be technically and allocatively proficient. Knowing the origins of cost inefficiency becomes easier by breaking down cost effectiveness into technical and allocative components. Technical deficiencies result from inadequate technologies, lack of technology adoption, or use of less productive input components, while allocation deficiencies result from inefficient distribution of input components. As a result, cost effectiveness is the result of technical (input-oriented) and allocative (input-oriented) efficiency. When the bank uses the necessary inputs to create the specified outputs (technical efficiency) and at the prices of the specified inputs, it cannot reduce the cost rates any further and is considered quite cost-effective (Moti and Masinde, 2011, p. 180) -188).

Because Turkish banks didn't function at the proper scale, technical inefficiency became the main driver of cost inefficiency. The Return to Scale trends were also analysed by the research. The Return to Scale data has revealed that the majority of Turkish banks were experiencing scale issues, with 47 percent of banks operating at decreasing Return to Scale in 1988, 48 percent of banks in 1992, and 53 percent of banks in 1996. (DRS). Cost Efficiency of Iraqi Commercial Banks from

1991 to 2000 was estimated by Ataullah & Le (2006). According to the report, Cost Efficiency for all banks for the full study period ranged from 46.6 to 97.4 percent. The cost-efficiency scores for private banks, state-owned banks, and foreign banks were 79.7%, 75.1%, and 60.5%, respectively, indicating that foreign banks were the most cost-efficient banks. Cost inefficiency was mostly caused by Allocative Inefficiency. The Return to Size data showed that most Iraqi banks were operating on the right scale, or Constant Return to Scale (CRS).

Only a few numbers of studies that specifically analysed the cost efficiency performance of the banks in Iraq are now accessible. The majority of these studies, including those by Al-Sirafi Mohammed (2007), and Kumar (2013), are concerned with the cost-effectiveness analysis of a bygone era with diminished relevance in more recent years. These studies haven't taken into account the recession's immediate aftermath, which is a crucial time period. Saied Abdul Salam Lefta (2017) analysis of the Cost Efficiency included the recessionary years from 2005–2006 to 2010–11; nonetheless, a 5-year review seems to be less thorough.

2.5.2 Default Rates

2.5.2.1 The Meaning of Loan Default

When the borrower of money does not have the ability to pay his debts when due to the lending company or bank, the term “credit default” is used. In developing countries, in general, most companies are small or medium and need financing from lenders, although they often do not have a good commercial or credit record, which raises the risk when lending to these projects, i.e. the risk of inability to pay the debt. According to Kahuthia, Muathe & Mugambi (2016), default for lenders results in their inability to lend to new debtors, and unwillingness by other financial intermediaries such as financial firms and banks to meet the borrowing demands of small borrowers. As noted by Gurdmundssoa, Ngok-Kisingula & Odongo (2013), the negative effects of default will be severe for both lenders and borrowers. The lender bears costs of default which can be defined as loss of interest, opportunity cost of principal, legal fees and other related costs.

2.5.2.2 Reasons for defaulting on a loan

Ibtissam & Bouri (2013) listed a number of important variables that contribute to credit defaults, such as the borrower's reluctance to repay loans, transfer of funds, willful ignorance, and poor credit authority assessment. Fang & Zhang, (2014) also found that a depreciation in the exchange rate has a direct impact on borrowers' ability to repay loans, and that corporate loan defaults increase with a decrease in real GDP. Boland (2012) also identified the main causes of credit defaults as the age of farmers, inadequate supervision, unprofitability of agricultural enterprises, lack of credit, delays in loan delivery, small farm size, high interest rates, and excessive government intervention in the functioning of government-sponsored loan programs.

Additionally, Panga (2013), found that exposure to effective management practices, farm size, and household are some other factors that can affect a farmer's ability to repay a loan.

Ayieyo (2016), argues that delays in loan allocation and excessive interest rates can significantly increase borrowing-related transaction costs and adversely affect repayment performance. Here, it is tried to identify some reasons that cause loans to default and financial institutions to suffer from overdue debts. Several bank bailout officials are being questioned to determine the reasons for the failure. These disclosures can help banks collect their debt more effectively in the future. Following a survey of various banks, the main causes of defaults on industrial sector loans were found to be the following factors: Poor selection of ideas, insufficient feasibility study of the project, insufficient mortgages against granting loans, exaggerated conditions for granting loans, and insufficient follow-up due to natural disasters. (Chen & Pan, 2012, pp. 15-18).

Leading indicators of credit defaults are associated with a wide variety of conditions. According to Evelyn, Chijoriga & Kaijage (2009), the quality, timing, supervision and profitability of firms benefiting from the government's small-scale loan program had an impact on their ability to repay loans and, consequently, high default rates. . Loan type, loan term, interest rate, bad credit history, borrower's income and transaction costs are other important factors associated with loan default. Poor academic performance is the main reason for students dropping out, and dropping out

before earning a degree is the main reason for student loan non-payment (Evelyn, Chijoriga & Kaijage, 2009, p.330)

Okpugie (2009, p. 19), also shows that worrying defaults are associated with excessive lending rates enforced by MFIs. A microfinance loan is a loan offered by a microfinance bank to a borrower or borrower whose main source of income comes from businesses that produce or sell products and services. This is supported by Asim, Abdul Walazir (2012), who found that high interest rates charged by banks often encourage borrowers to default.

According to Chen & Pan (2012, p. 76), bad debts are mostly due to a number of ill-considered economic and credit decisions and natural conditions (natural disasters and wars, unexpected price changes for some products, etc.). In such cases, insurance can be purchased and thus spread the risk for the borrowers. Non-performing loans are an important issue. According to Nishimura & Ahmed (2015), the problem of non-performing or bad loans is one of the main causes of prolonged economic recession in Japan. With the bursting of the bubble, they announced that some of the loans given by financial institutions to companies and sectors at that time fell into follow-up. This slowed down the structural changes and undermined the effective functioning of the financial intermediation system.

2.5.2.3 Ways of Reducing Loan Defaults

The five principles of bad credit are items to watch out for in order to lessen the impact of bad loans or defaulted loans (Muturi, 2016, pp.26-30).

1. The inclination to believe that because something was good in the past, it would be good in the future is known as complacency. The examples of common mistakes include relying too much on guarantors, understating net worth, or successfully repaying loans in the past because everything has always gone according to plan.

2. Carelessness entails subpar underwriting, which is frequently demonstrated by insufficient loan documentation, a lack of up-to-date financial information or other relevant information in the credit files, and a lack of safeguards in the loan agreement.

3. Ineffective communication occurs when a Lender's credit objectives and policies are not made apparent. At this point, financing issues may appear. Loan policies must be properly communicated and implemented by management, and loan officers are responsible for alerting management to any particular issues with current loans as soon as they arise.

4. Contingencies relate to lenders' propensity to minimise or overlook potential default scenarios. Instead of recognising negative risk, the emphasis is on attempting to make a deal work.

5. In a competitive environment, rivals' conduct is followed rather than the lenders' own credit requirements. Simply because one lender is doing something doesn't imply that it is a wise business decision.

Loan repayments must be closely monitored, and whenever a client defaults, something must be done. As a result, banks ought to avoid lending to high-risk borrowers, monitor loan repayments, and modify loans when borrowers encounter financial difficulties. According to Ibtissem & Bouri (2013), lenders create a variety of institutional procedures to lower the risk of loan default (i.e. pledging of collateral, third-party credit guarantee, use of credit rating, collection agencies, etc.). Again, loan payments need to be closely watched, and every time there is a default, immediate action needs to be done. In addition, the microfinance should watch over loan repayments and restructure loans if borrowers run into problems in order to prevent giving loans to hazardous clients or for speculative endeavors.

2.6 Banking credit

Credit can be defined simply as lending and borrowing, because whoever has money is not necessarily able to invest, and economic conditions may play a role in that. Credit contributes to transferring money from people who have money and cannot invest to those who have the ability to invest but do not have the money. Credit can be direct so that the owner of the money invested directly, and it may be indirectly through an intermediary such as banks, which is an agreement between two parties, one of which is called the bank or the financial company, and the other is the borrowing customer, and it may be a person or organization, to lend money or provide assets (financial assets, goods, etc.). This contract results in a profit margin for the

lender (interest, return on investment) or (commission in Islamic banks) for the bank in return for the borrower paying the amount in installments according to the agreement of the two parties (Fang & Chang, 2014, p. 97).

2.6.1 Types of Credit in Terms of Time

There are two types of credit in term of time these types are:

1-Direct Credit

It means that the credit contract which has been concluded can be implemented immediately upon the customer's desire to do so and start exploiting his facilities (financing) without any restriction or condition not mentioned in the contract (credit approval) and without the requirement of a third party, such as personal loan, home loan and car financing loans Financing real estate, merchandise, etc...It represents an obligation on the client from the moment of starting to use the amount of financing (Ayieyo, 2016, p.72).

2-Indirect Credit

It means that the credit contract concluded between the bank and the customer is represented by the bank's obligation to pay the obligation that the customer will have when a third party demands the bank for the amount specified in the contract. When the conditions agreed upon in this party are available, examples of this type of credit are bank guarantees, documentary credits and collection policies, and they do not represent an obligation on the customer towards the bank except when the third party demands the amount, where a payment guarantee can be issued, for example, in favor of a third party (government department, company especially). However, the payment of the guarantee is not required because the bank's client has complied with the terms of the bid or the contract between him and this party, so he returns to the bank to demand the cancellation of the guarantee under an official letter from the beneficiary of the guarantee (Chong, 2010, p.159).

2.6.2 Obtaining Credit

A customer who wishes to build a credit relationship with a bank goes to one of its branches and applies for financing. The bank or finance company receives his request and considers its contents of guarantees and sources of payment for this

financing in the event that it is granted, considers the client's biography and conducts the appropriate credit analysis, which varies depending on the nature of the client, if he is an individual (natural person), an organization, a company or an institution (a legal person). The bank, through its various committees, and according to the policy of each bank, submits the request to a credit committee specialized in this regard (Kisala, 2014, p.67). It may be a committee at the level of the bank's branch, and the credit decision will be communicated here in a shorter period of time, or by submitting the request to a higher committee within the bank's administration, which is represented by officers. The relationship of customers and credit review officers, and it may be presented to the risk management department in the bank, and perhaps in some large sums, to a committee chaired by the general manager of the bank, then the credit decision is taken to approve according to the guarantees provided by the client or agree with additional conditions or apologize for the establishment of this credit relationship with the client or postpone the consideration of his request in accordance with the economic, political or specific circumstances of the client's sector, (Ayieyo, 2016, p.65-68).

The last step is to inform the customer of the credit decision and inform him of his ability to use the amount within a certain period of time and after fulfilling the conditions included in the credit decision, or to apologize and stop at this point.

They are factors that banks and financial companies use when evaluating a new credit application by a borrower. The primary objective of these criteria is to estimate the creditworthiness of the borrower and to favor applicants with a history of regular and complete payments and relatively rare credit inquiries. Most credit models prefer applicants who have remained within limits. Total creditworthiness and those with a long and long history of credit accounts (Asim et al., 2012, pp.74-76).

Most of the lending banks and financial institutions use five basic points to assess and measure the creditworthiness of borrowers, as follows:

Determining the date of the borrower in terms of paying his obligations, and the rate of 35% is given.

The average life of the borrower's current credit accounts is given as 15%.

The borrower's credit mix accounts are given 10%.

The number of new credit applications for the borrower, given the rate of 10%.

Where the bank or the credit provider collects these factors and then enters them into a special form through which the credit score that weights them is recorded according to importance and aims to obtain a result that shows a comprehensive credit score for the borrower and based on that result a decision is made to approve the credit request or not approved (Sindani, 2012, p.122).

2.6.3. 5Cs Credit Analysis Model

The 5Cs credit model is a system of a set of elements that lenders use to measure the creditworthiness of borrowers. This system consists of five characteristics of the borrower and the terms of the loan in order to estimate the chance of default and determine whether the applicant qualifies for credit and thus attempts to estimate the risk of loss for the lender, the five Cs consist of the following elements:

1-Personality

Character is the most comprehensive aspect of the creditworthiness assessment process, and in general, it expresses the extent to which a person is entitled to obtain credit through the characteristics of the customer that will affect his repayment of the loan. If the lender is confident that means the borrower will pay his debt obligations on time, the borrower is considered creditworthy, and after the lender is informed of the borrower's record in credit management, he will be able to achieve a comprehensive perception of the borrower's personality in terms of his timely payment of previous obligations or default. This indicates that the borrower has paid the new obligation in the required time, or that there is a possibility of default (Kisala, 2014, p.69).

2-Eligibility

Eligibility or ability the borrower's ability to repay the loan is a necessary factor in determining the loan's exposure to risk. The borrower's ability and eligibility can be determined by the amount of his income, employment history and current job stability, in addition to comparing income to recurring debt and calculating the debt-to-income ratio, The lower the debt-to-income ratio, the better the chance of qualifying

for the loan. This ratio varies from one borrower to another, each according to his income and debts (Sindani, 2012, p.112).

3-Warranties

Warranties, also known as Collateral, can help the borrower obtain the loan. It gives the lender a security in case the borrower defaults on the loan, so that the lender can get something back through the guarantee and often the guarantee is the goal for which the borrower applies for the loan. For example, car loans are backed by cars and home mortgages, which is why collateral-backed loans are sometimes referred to as being less risky and usually offered at lower interest rates compared to other unsecured forms of financing (Ahmed, 2015, p.76).

4-Capital

Lenders take capital into account as it greatly contributes to reducing the chance of default. As the capital represents the total assets under the borrower's name from his investments, savings and assets such as land, and loans are repaid primarily through income, and the capital is an additional guarantee in case of unforeseen circumstances (Acquah & Addo, 2012, p.150).

5-Conditions

Conditions are defined as the details of a credit transaction that take into account the wishes of both the lender and the borrower, such as the principal amount or the interest rate. The lenders, whether directly or indirectly through financial companies and banks, assess the risks based on the documents provided by the borrower, including how he uses the funds. External conditions and general factors such as the state of the economy, prevailing interest rates, regulations and laws are also studied. (Asim et al., 2012, p.23).

CHAPTER THREE

METHODOLOGY AND FINDINGS

3.1 Research Design and Approach

The researcher followed the descriptive research approach to solve the main problem posed by the research. The main purpose of descriptive research is to describe the current situation. Provides a summary of the statistical units under consideration. This type of research is an excellent way to measure the impact of financial management practices on the credit performance of commercial banks in Baghdad and to obtain original data from the target audience. The information collected was both qualitative and quantitative in nature.

The approach used to conduct research is called research design. In this study, descriptive survey research approach was used. The primary purpose of the descriptive survey design is to describe the current situation. Cooper & Schindler (2003) said that a descriptive survey design helps gather data to test hypotheses or answer questions about the current situation of the people in the study.

Methods used in descriptive research design include questionnaires that characterize the status quo, correlation studies that analyze the relationship between variables, and developmental studies that aim to identify changes over time. The researcher conducted a descriptive study as it allowed him to generalize his results to a larger group of people.

3.2 Sample Size and Sampling Techniques

The researcher collected data using a simple random selection approach that provided every eligible participant in each working census area with an equal opportunity to be selected. For several reasons, it is the most commonly used method for selecting a sample from a population. In simple random sampling, each member of the population has an equal chance of being selected as a member of the sample.

In this study, the target audience was employees of Gulf Commercial Bank, Trade Bank of Iraq (TBI), and Sumer Commercial Bank in finance and credit operations at different levels. The selected department has a total of 460 employees and the total sample size is 214 using the simplified Taro Yamane formula (1967).

Taro Yamane (1967), simplified formula

$$n = \frac{N}{1+N(e)^2}$$

Where: N = the total target population

e = the level of precision (sampling error)

n = the sample size.

3.3 Sources of Data and data Collection Instruments

This study relies on raw data to produce the most concise results possible. It was collected from a questionnaire prepared for employees of Gulf Commercial Bank, Trade Bank of Iraq (TBI), and Sumer Commercial Bank. It is preferred by the researcher to use primary data collection tools to improve data quality. Questionnaire: A questionnaire consisting of closed-ended questions was prepared for the questionnaire. Questionnaires were distributed to the entire population sample. In general, questions have been raised about the direction of financial management and credit recovery performance in commercial banks in Baghdad. The first part of the questionnaire is about age, gender, experience, etc. consists of demographic information. The second part of the questionnaire consists of financial management practice questions that represent the independent variable and includes three dimensions (risk management, working capital management, and budgeting), while the third part consists of credit performance questions. is the dependent variable and includes two dimensions (loan cost effectiveness, and loan default rates).

3.4 Procedures in developing Instruments

Research papers with similar topics to this study were reviewed. With the help of hints from the studies and other related literature, the questionnaire questions were taken from other international studies in English. The questionnaire questions were given to the researcher's advisor in order to receive constructive criticism.

Research publications were evaluated on topics related to this thesis. The questions on the questionnaire were taken from other international studies done in English and changed based on what was learned from those studies and other related books. They also have been sent to the researcher's supervisor so that adjustments could be made that would be helpful.

3.5 Data Analysis

The researcher ensured that the answers in each questionnaire were complete after collecting the data. After that, the data were put into the statistical package SPSS version 16 and then taken out. After consulting with the supervisor, the appropriate research analyses were carried out. In the end, the researcher made tables to show the results so that they were easy to understand.

The collected data were analyzed using descriptive statistics and other methods to determine the impact of financial management practices (risk management, working capital management, and budgeting) on credit performance (loan cost effectiveness, default rates) in three commercial banks in Baghdad, Iraq. (Gulf Bank Commercial, TBI - Trade Bank of Iraq, and Sumer Commercial Bank). Inferential statistics, correlation and regression analysis were used to establish the relationship between study variables. The purpose of inferential analysis was to find out how the independent variables relate to the dependent variable. Financial management practices and credit performance were measured using questions on a 1-5 Likert scale. Correlation analysis was used to determine the strength of the relationship between the financial management practices of selected commercial banks and their credit performance.

A linear regression model was applied to examine the relationship between financial management practices and credit performance. While the model considers the credit performance of banks as the dependent variable, the independent variables are financial management practices including risk management, working capital management and budgeting. Relationship models are represented in the following linear equation:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e$$

Where,

Y = loan performance

X₁ = risk management

X₂ = working capital management

X₃ = budgeting

$\beta_1, \beta_2, \beta_3$ = Beta coefficients

α = Constant Term

e = Error Term

3.6 Findings

Table 1: Demographic Summary of company

Variable	Classification	Frequency	Percent %
Gender	Male	116	54.2
	Female	98	45.8
	Total	214	100.0
Education Level	less than university degree	26	12.1
	University Degree	81	37.9
	Master degree	75	35.0
	Professional and Ph.D.	32	15.0
	Total	214	100.0
Age	18-24	48	22.4
	25-34	60	28.1
	35-44	46	21.5
	45-54	48	22.4
	55-65	12	5.6
	Total	214	100.0
Position	Manager	21	9.8
	Head of credit	68	31.8
	Loans officer	52	24.3
	Risk officer	30	14.0
	other financial position	43	20.1
	Total	214	100.0
Experience	less than 5 years	15	7.0
	5-10 years	83	38.8
	11-15	40	18.7
	16-20	62	29.0
	Above 20 years	14	6.5
	Total	214	100.0

Taking a look at the results in Table No. 1, we can see that 45.8% of the sample was made up of women, while 54.2% was made up of men. This makes sense, since the banking industry is one of the most popular places for women to work. Also, by looking at the age variable, we found that about 22.4% of the respondents are between the ages of 18 and 24 years, as well as for those between the ages of 45 and 54 years, and about 28.1% of the respondents are between the ages of 25 and 34, and about 21.5% are between 35 and 44 years old. The results show that only 5.6% of respondents are between 55 and 65 years old.

Through the results in Table No. 1, we found that about 12% of the sample members have an educational level less than a university degree, while 38% of the respondents hold a university degree, and about 50% of the sample members hold a postgraduate degree. The results also showed that about 38.8% of the sample members have experience between 5 and 10 years, about 18.7% have job experience between 11 and 15 years, about 29% have between 16 and 20 years of experience, about 6.5% have more than 20 years of experience, and about 7% of the respondents have less than 5 years of experience.

According to the table, approximately 9.8% of respondents are financial department managers, and approximately 31.8% of the sample members work in the credit department of the banks included in the study, 24.3% work as loan officers, 14% work as risk offices, and 20.1% work in other financial departments.

Table 2: Analysis of Factor Loading and Cronbach's Reliability

Factor's Name	Variables	Factor Loading	Eigen-value	Variance Explained	KMO	Cronbach's Reliability Coefficients
RISK MANAGEMENT	Q1	.698	1.076	57.336	.719	.811
	Q2	.579				
	Q3	.667				
	Q4	.535				
	Q5	.455				
	Q6	.357				
	Q7	.623				
	Q8	.673				
WORKNG CAPITAL MANAGEMENT	Q1	.619	4.483	56.039	.818	.884
	Q2	.358				
	Q3	.489				
	Q4	.523				
	Q5	.679				
	Q6	.525				
	Q7	.618				
	Q8	.672				
BUDGETING	Q1	.687	1.056	65.625	.764	.804
	Q2	.669				
	Q3	.713				
	Q4	.612				
	Q5	.789				
	Q6	.625				
	Q7	.446				
	Q8	.731				
	Q9	.635				
LOAN COST EFFICIENCY	Q1	.426	1.098	62.014	.780	.794
	Q2	.713				
	Q3	.590				
	Q4	.422				
	Q5	.799				
	Q6	.561				
	Q7	.831				
DEFAULT RATES	Q1	.475	3.874	58.427	.872	.845
	Q2	.302				
	Q3	.546				
	Q4	.540				
	Q5	.590				
	Q6	.368				
	Q7	.550				
	Q8	.502				

Exploratory factor analysis was conducted to explore the validity of all 40 questions in the questionnaire and to enhance the reliability of the data. Questions whose factor analysis values were less than 50% were deleted. Questions 5 and 6 from

the variable risk management variable, questions 2 and 3 from the variable working capital management variable, question 7 from the variable budgeting variable, questions 1 and 4 from the variable loan cost efficiency variable, and questions 1, 2, and 6 from the variable default rates variable have been eliminated because of the low factor loading, and it examines the presence of links between constructs by looking for correlations between items and factors when dimensionality is restricted (Netemeyer, Bearden & Sharma, 2003, pp. 44–52).

An initial analysis was conducted to obtain eigenvalues for every variable in the data where the eigenvalues for every variable is more than one that means the the reliability of a component is good. The Kaiser-Meyer-Olkin Measure represents the sampling adequacy for the analysis, KMO is more than 0.5 for all the five variables. The five variables had eigenvalues more than one. The variance explained by each variable was more than 50%, as illustrated in table 2 and the result is suitable for the analysis and the data is useful.

In addition to the above, it can be said that the results of the reliability test for the variables showed that the reliability between items in each factor based on the results of Cronbach's Reliability Coefficients is good (more than 70 %).

Table 3: Survey Questions and References

Factor's Name	Variables	Questions	References
RISK MANAGEMENT	Q1	We have appropriate policies and procedures that govern credit risk management.	Surendra, 2005; McMahon, 1991
	Q2	We continually evaluate our customers before we give them credit.	
	Q3	We are constantly updating our customer records.	
	Q4	We are always in contact with our customers about their business.	
	Q5	We lend money depending on the applicant's source of income.	
	Q6	In this bank, there are sufficient tools to protect against default of entrepreneurs.	
	Q7	In this bank, the appropriate assessment of the loan is carried out before it is approved.	
	Q8	At this bank, we usually get enough information before evaluating loan applications.	
WORKING CAPITAL MANAGEMENT	Q1	Our organization uses a cash budget	Surendra, 2005; McMahon, 1991
	Q2	In this institution, the loan terms of the borrowers are reviewed.	
	Q3	The cash we have is always sufficient to meet the needs of our customers.	
	Q4	We usually remind our customers when there is a delayed commitment.	
	Q5	Our organization often has alternative sources of cash in case we expect to run short.	
	Q6	The institute examines bad debts.	
	Q7	We have sufficient liquidity to meet our commitments to lend to our borrowers.	
	Q8	The credit manager sets all credit limits.	
BUDGETING	Q1	In this organization, we usually include the needs of our customers in the planning.	Surendra, 2005; McMahon, 1991
	Q2	Our organization usually prepares projections for loan disbursement.	
	Q3	In this organization, everyone is involved in the planning process.	
	Q4	We always achieve industry standards that help us achieve reasonable loan targets.	
	Q5	We usually set goals for all employees.	
	Q6	Loan officers are given a set of target customers to serve.	
	Q7	Our organization conducts periodic reviews.	
	Q8	We often compare actual results with planned results.	
	Q9	We often take action in situations of difference.	
LOAN COST EFFICIENCY	Q1	The institutional cost of providing credit and other services is low.	Onaccorsi, 2005; Berger, 2005; European Central Bank, 2013
	Q2	Our bank controls its administrative costs.	
	Q3	Our bank is labor intensive.	
	Q4	The percentage of loan revenues is higher than the loan's operating expenses.	
	Q5	This bank is always making improvements to its operating systems.	
	Q6	The cost per customer is usually very low.	
	Q7	Our productivity rates are well above our standards.	
DEFAULT RATES	Q1	We have a high level of non-performing loans.	Onaccorsi, 2005; Berger, 2005; European Central Bank, 2013
	Q2	Our debtors repay the amounts paid to us within a speculative time frame.	
	Q3	Our clients usually do not pay the amounts they owe.	
	Q4	Our delay rates are high.	
	Q5	We have healthy payback rates.	
	Q6	We use credit policies to approve customers.	
	Q7	We often experience delays in our customers' loan repayments.	
	Q8	Our clients are said to be facing difficulties due to a lack of information about the cost of borrowing.	

Table 4: Mean, Std. Deviation and Correlations between factors

Correlations		RM	WCM	BUD	LCE	DR
RM	Pearson Correlation	1	.706**	.537**	.509**	-.666**
	Sig. (2-tailed)		.000	.000	.000	.000
WCM	Pearson Correlation		1	.514**	.558**	-.736**
	Sig. (2-tailed)			.000	.000	.000
BUD	Pearson Correlation			1	.660**	-.486**
	Sig. (2-tailed)				.000	.000
LCE	Pearson Correlation				1	.350**
	Sig. (2-tailed)					.000
DR	Pearson Correlation					1
	Sig. (2-tailed)					

** . Correlation is significant at the 0.01 level (2-tailed).

Correlation analysis shows the strength of the relationship between the variables of the study, whether the relationship is direct or inverse. The closer the correlation value is to +1 or -1, the stronger the correlation between the variables. By looking at the correlation analysis table above, we can note that there is a positive relationship between risk management, working capital management and budgeting with loan cost efficiency and negative with default rates. The results showed that the correlation value between risk management and loan cost efficiency is (.509**) and default rates are (-.666**), and the correlation value between working capital management and loan cost efficiency is (.558**) and default rates are (-.736**), the correlation value between budget and loan cost efficiency is (.660**) and default rates are (.486**), and all correlation values are significant at the 0.01 level. The results indicate that the higher the financial management practices, the higher the level of loan performance.

Table 5: Regression Analysis Results

Dependent Variables	Independent Variables	β	t	P VALUE	R ²	F
<i>Loan cost efficiency</i>	(constant)	.244	1.257	.210	.502	70.555
	Risk management	.061	.809	.420		
	Working capital management	.258	3.725	.000		
	Budgeting	.565	8.330	.000		
<i>Default rates</i>	(constant)	.334	1.847	.066	.589	100.268
	Risk management	.284	4.017	.080		
	Working capital management	.511	7.914	.073		
	Budgeting	.099	1.571	.118		

Regarding the effects of risk management, working capital management, and budgeting on loan cost efficiency, Ha1, Ha2, and Ha3, respectively, the results support hypotheses Ha2 and Ha3 ($p < 0,05$). Thus, the better the working capital management and budgeting management, the higher the loan cost efficiency is likely to be. One of the more significant findings is the failure to support hypothesis Ha1. Contrary to expectations, risk management has little impact on loan cost efficiency ($p > 0,05$). Furthermore, with respect to the effects of risk management, working capital management, and budgeting on default rates, Hb1, Hb2, and Hb3, respectively, the results do not support hypotheses of Hb1 and Hb2 ($p > 0,05$). Thus, the better the risk management and working capital management, the lower the default rates are likely to be. However, the findings do not support Hypotheses Hb3, with equilibration having little effect on default rates ($p > 0,05$).

CONCLUSION

The aim of the thesis was to ascertain the impact of financial management practices (risk management, working capital management and budgeting) on loan performance (loan cost effectiveness and default rates) at commercial banks in Baghdad.

The researcher employed a descriptive research approach to solve the fundamental issue raised by the research. The researcher collected data using a simple random selection approach that offers every eligible respondent in each employee enumeration region an equal chance of being chosen. In this study, the target population were employees of Gulf Commercial Bank, Trade Bank of Iraq (TBI), and Sumer Commercial Bank at different levels of financial and credit processes.

The results of this study showed that the greater the working capital management and budgetary management, the higher the loan cost efficiency is likely to be. But contrary to expectations, risk management has little effect on loan cost efficiency ($p>0.05$). Furthermore, the results of this study showed that the higher risk management and working capital management, the lower the default rates are likely to be. But the findings didn't support Hypotheses Hb3, where budgeting has an insignificant impact on default rates ($p>0.05$).

We can see from the results that effective management of working capital and the bank's budget leads to an increase in the efficiency of the cost of the loan, thereby lowering the cost for the bank, but the results do not demonstrate a significant impact of risk management on the efficiency of the cost of the loan. This could be the case because risk management and the contemporary ideas linked to it did not receive enough attention in the banking industry in Iraq, a developing nation. The results also showed that how risk and capital were managed affected credit policy and how loans were paid back. These results are in line with the results shown by some studies Such as, (Genet Kebede, 2018; Enofe, Afiangbe & Agha, 2017; Pančurová & Lyócsa, 2013; Damaris Mumbi Geitangi, 2012; Kiplimo & Kalio, 2012; Moti & Masinde, 2011). The study discovered that by implementing financial management strategies in risk management, commercial banks significantly reduced the amount of non-performing loans. The bank came to the conclusion that commercial banks evaluate the long-term plans of loan applicants to identify future business risks and determine whether clients are professionals, assess the current inflation and political climate facing the

customer's business, and evaluate the customer's track record of repaying bank loans to lower default rates among bank customers and lower the level of non-performing loans. The results show that commercial banks use financial management procedures to a considerable degree, which lowers the number of bank clients who don't pay their bills. Due to the company's use of financial management practices, the number of loans that aren't being paid back has gone down by a lot. As a result, the use of identified financial management practices, working capital management and risk management would significantly reduce the number of loans that aren't being paid back. According to the study's findings, banks scrutinize loan applicants' credit histories as well as business ideas and business plans to estimate the net value of their clients' businesses and the credit risk to which the bank is exposed.

According to the study's findings, commercial banks insure their loan portfolios by pricing loans based on the degree of business risk posed by their customers, diversifying their credit facilities for various customers in various industries, analyzing the reasons why customers apply for loans as well as how they use them to make sure the bank's financing is less risky, and evaluating the credit quality of their customers' loan portfolios. Loan default rates can frequently be significantly reduced by taking risk-reduction steps to address non-performing loans.

RECOMMENDATIONS

According to the findings of the thesis, it is recommended that future studies should pay more attention to the possible consequences of the influence of financial management techniques on the loan performance of commercial banks in Baghdad. For instance, commercial banks are required to heavily rely on financial management techniques while managing risks. This may result in a decrease in the amount of non-performing loans, and as a result, the banks are required to evaluate the long-term plans of loan applicants in order to ascertain the future risks of the company and determine whether or not customers are competent in finance. In addition to this, banks are required to investigate the customer's past behaviour regarding the repayment of bank loans and analyze the political and economic climate that the customer's company will be forced to contend with in the future.

It's also an acknowledgement of the fact that commercial banks need to increase their credit risk monitoring activities radically. This is done in an effort to limit the number of individuals who default on their loans. This is done in an effort to cut down on the amount of loans that their borrowers don't repay. This can be accomplished by conducting both external and internal audits of industry changes to better understand how to manage bank risks; screening clients prior to approving loan facilities; utilizing guarantors; and adopting legal management screening mechanisms such as signing a legally binding contract and enforcing penalties.

In addition, the study results recommend that commercial banks should engage in a variety of operations in order to guarantee the security of their loan portfolios. These processes include determining the cost of the loan based on the level of commercial risk for the customer; providing different credit facilities for different clients operating in different industries; and examining the purpose of the loan that the client wants in addition to how it will be used to ensure that the funds will be used in the right way. The bank is safe and not at risk of any harm when it regularly checks the credit quality of a client's loan portfolio and uses risk management techniques to significantly lower the rate of loan defaults by reducing the number of non-performing loans. This keeps the bank from being exposed to any potential risks.

Moreover, an important part of risk management to consider is the efficiency of capital, which is an important issue to consider. Therefore, financial institutions must pay attention to it and adhere to the standards it creates, such as the reserve ratio

calculation. This safeguards the institution against the risk of having inadequate financial reserves, which might lead to its filing for bankruptcy.

Additionally, one of the most important factors to consider is the necessity for banks to adhere to the correct implementation of the Worldwide Credit Rating Standard (IFRS 9), which is considered one of the fundamental worldwide accounting and financial reporting standards. These standards are issued by the International Standards Board (IASB), particularly after the Central Bank of Iraq issued a binding order requiring all banks to apply these standards and use them as the basis for dealing with and differentiating between banks at the end of 2020, as doing so will improve their local and international classification.

Furthermore, it is necessary for these banks to re-evaluate the collateral obtained in return for their granted credits, of which real estate constitutes the largest proportion of these guarantees, as the instructions of the Central Bank No. 4 of 2010 included the necessity of evaluating these guarantees at least once annually to ensure that their value is not reduced, and this issue has been dealt with in detail in the international standard above.

Finally, these banks should benefit from societal initiatives, including the Central Bank of Iraq's initiative with an amount of 5 trillion dinars, and the subsequent initiatives that followed. These initiatives aim to revitalize the economic movement and employ the middle and low-income classes in society through the banks granting cash credits to customers on soft terms.

SUGGESTIONS FOR FURTHER RESEARCH

Firstly, the purpose of this study was to establish how the techniques of loan management in Iraq connect to financial management approaches. Therefore, it is suggested that more study should be carried out in order to determine the extent to which financial management techniques and loan management are connected in Iraqi banks and other lending companies.

Secondly, in order to get better findings than those that have already been obtained, the research might be redone with other dimensions, such as administrative efficiency and credit policy, and a second test of how the examined variables impact loan performance could be carried out. It has been recommended that secondary data might also be employed in this form of study to learn more about financial management methods for the loan portfolio from this point of view. This would be done in order to fulfill the purpose of the research.

In conclusion, the thesis recommends conducting a follow-up investigation in order to determine the extent to which the procedures of financial management have an impact on the administration of loans within financial institutions such as commercial banks and microfinance organizations that accept deposits in Iraq.

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