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# The impact of cash holdings on financial performance: Evidence from Iraq

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## *ABSTRACT*

The research paper aims to identify the effect of cash holdings on the financial performance of companies on the Iraqi Stock Exchange over a five-year period (2019–2023), as well as the correlation between cash holdings and financial performance. To achieve the research's objectives, an applied approach was adopted to evaluate the variables and analyze them using statistical tools on data collected from the Iraqi Stock Exchange for (16) companies using the program (E-views12). Through multiple linear regression equation coefficients, we test the main hypothesis of the study. The main conclusion of the study was that holding cash has a positive effect on the financial performance of companies listed on the Iraqi Stock Exchange. It also shows that holding a lot of cash in Iraq helps companies take advantage of profitable investment opportunities that may come up in the future, which also improves their financial performance. This suggests that maintaining high levels of cash holding helps companies in the Iraqi context to capitalize on profitable investment opportunities that may arise in the future, thereby improving their financial performance.

**Contribution/ Originality:** This study aims to enhance awareness among companies operating in and listed on the Iraq Stock Exchange regarding cash holding and its impact on their financial performance.

## 1. INTRODUCTION

Cash holding is one of the most controversial topics in both accounting and financial literature, which has been discussed since the global economic crisis in 2008. The focus has been on maintaining cash to improve cash management policies (Yilmaz & Samour, 2024). This has impacted the financial performance of companies and influenced corporate financial decisions (Yun, Ahmad, Jebran, & Muhammad, 2021). Companies maintain an optimal level of cash to play an important and pivotal role in facing crises and financial risks. This helps strengthen the production process, activities, and employment, which in turn reflects positively on investment decisions (Bick, Orlova, & Sun, 2018; Iftikhar, 2017). According to Wellalage, De Zoysa, and Ma (2023) the main motive for holding cash is preventive. However, excessive cash retention may lead to increased inter-agency conflicts and misuse of monetary resources for personal benefits, as confirmed by a study (Yilmaz & Samour, 2024). An analysis of companies operating in the European and American environments revealed that companies with high levels of cash tend not to effectively utilize their available resources, negatively impacting their financial performance (Amess, Banerji, &


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Lampousis, 2015). Various theories provide objective explanations about the reasons and motives behind companies holding cash. These theories include agency theory and free cash flow theory. One of the motives for cash holding is to support operational activities, which often require readily available cash (Lozano & Yaman, 2020). Another motive is to hedge against fluctuations in future cash flows or unforeseen circumstances. The last motive is the signal motive, where management aims to mitigate the negative effects of information asymmetry by providing users with a signal about the company's cash position.

The study addresses the challenge faced by companies in determining the optimal level of cash to maintain in order to maximize the benefits of holding cash. Deviating from this optimal level can adversely affect these benefits and, consequently, the company's overall performance. The trade-off theory emphasizes the necessity of balancing the benefits and costs associated with cash retention. Therefore, if companies can sustain the optimal cash balance, the relationship between cash retention and financial performance is likely to be positive. Operating below this level may lead to financial pressures, an increased risk of default, and higher transaction costs, all of which can impede the company's performance (Louis, Sun, & Urcan, 2012). This, in addition to the reliance of most previous studies in measuring the level of company performance on the accounting profits disclosed in the company's financial report, through a set of indicators such as: the rate of return on assets, and the rate of return on equity, without taking into account the cosmetic effects of freedom of action or discretionary authority available to management in recognizing the accruals that make up the accounting profit figure, which will be avoided in the current study, by removing the potential impact of practices related to earnings management from the disclosed or published profitability estimates by deducting the estimated optional accruals of those companies from their published profits before calculating those indicators, which makes those indicators more representative of the company's real financial performance. Perhaps this is what distinguishes this study from the rest of the previous related studies. This study is also different from others that have looked at cash retention because it used a more recent time period that spanned five years, from 2019 to 2023, when the financial performance of some companies listed on the Iraq Stock Exchange changed (Alnori & Bugshan, 2023) and looked at different economic sectors in the Iraqi stock market. Therefore, researchers aim to analyze the cash holding levels of companies listed on the Iraqi Stock Exchange and their impact on financial performance. In conclusion, the main question this study seeks to answer is: Is there a relationship between cash holding and the financial performance of companies listed on the Iraqi Stock Exchange?

Based on the above, the current study analyzed and evaluated the level of cash holdings and their impact on financial performance. The applied study focused on a sample of companies listed on the Iraqi Stock Exchange for the period from 2019 to 2023. The study used the E-Views 12 application program to find that having a lot of cash on hand (measured by cash and cash equivalents divided by total company assets) is good for financial performance (measured by the return on equity ratio).

The study organizes the remaining sections as follows: Section 2 presents an analysis of previous research relevant to the current study. The researchers talk about the hypothesis in Section 3 by looking at a set of financial performance indicators that they got from the study sample and from other research. Section 4 outlines the study methodology, while Part 5 details the descriptive statistics and results of hypothesis testing, accompanied by a discussion of these results. Finally, Section 6 concludes the study by summarizing the key findings.

## 2. LITERATURE REVIEW

There have been many studies presented by accounting thinkers on the subject of cash holding since the topic began to attract the attention of researchers in the past two decades. Such studies were initially concerned with exploring the motives that make companies maintain high levels of cash. These studies classified the motives and behavior of companies in retaining cash. Some of these reasons are to lower the cost of financing or keep assets from being sold when cash is needed quickly, to improve the efficiency of how companies manage their investment policies, for speculative reasons to make sure they have cash on hand to take advantage of profitable investment opportunities



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that may come up in the future, and for tax reasons to make sure companies make as much money as possible. Foreign-affiliated multinational companies may choose to keep profits made in cash instead of repatriating them to the home country and paying taxes when the tax rate in the foreign-affiliated countries is lower than in the home country. Additionally, there is an agency motive due to high agency problems resulting from conflicts of interest between management and owners. Management may prefer holding cash rather than distributing profits to shareholders to achieve personal interests at the expense of the owners (Bates, Kahle, & Stulz, 2009; Ferreira & Vilela, 2004; Fresard, 2010; Hall, Mateus, & Mateus, 2014). Based on the above studies' findings about the factors or determinants that affect the cash retention policy as one of the accounting conservatism policies, they didn't look into what happens when the levels of those factors and determinants change, making it harder to find the best amount of cash to keep and the level where the benefit of keeping cash is highest. This is because going below or above the best amount of cash to keep decreases the benefit of keeping cash.

Over time, studies have tended to investigate the extent to which certain phenomena and changes in financial markets, whether local or international, affect the decision to hold cash. One of these phenomena is the high level of competition in the product market. In this regard, the results of a study by Lyandres and Palazzo (2016) indicate that competition in the product market positively influences the levels of cash held by companies. This finding suggests that companies retain cash in response to intense competition to maintain market share and sustain their presence in the business environment. By utilizing the cash held internally, companies can invest in developing products and present them in a more innovative manner than their competitors. This interpretation is supported by the results of a study by Sabherwal and Thai (2019) which established a direct relationship between competition in the product market and cash retention levels. Companies resort to retaining cash as a defensive strategy against product market competitors, leading to this outcome. Through the cash reserves, companies can invest in modern technology or leverage innovative advancements to gain a competitive edge over rival firms.

It is concluded from reviewing the study of Lyandres and Palazzo (2016) and Sabherwal and Thai (2019) In the field of the relationship between competition in the product market and the level of cash retention, it became clear that they depend on the direct relationship without taking into account the test of the operational characteristics of companies as control variables in order to control the relationship between competition in the product market and the level of cash retention, as the operational characteristics of companies are considered the cornerstone for increasing the competitive ability of companies, which makes them more efficient in determining the optimal level of cash retention, which in turn helps companies survive in the product market and continue in the business environment. In a different context, numerous studies have focused on examining the impact of cash retention levels on financial performance based on various theories and motives. It is important to note that the findings of studies in this area have been inconsistent. There is a link between a company's performance (as shown by return on assets, industry-adjusted return on assets, and the market value-to-book value of assets ratio) and its cash retention (calculated as cash and cash equivalents divided by its total assets). This link was found by La Rocca and Cambrea (2019). This study analyzed 261 companies listed on the Italian Stock Exchange. People who looked at the results thought that keeping a lot of cash on hand gives companies a lot of benefits, such as fewer financial worries, protection against going bankrupt during tough times, and lower transaction costs, all of which improve company performance. In the same way, Wibawa and Nareswari (2020) study of 176 companies in the Indonesian stock market showed a link between cash retention (calculated as cash and cash equivalents divided by the company's total assets) and company performance (measured as return on assets). The findings were attributed to the perception of investors that holding cash serves as a precautionary measure and adds value to the company, particularly in emergencies and unforeseen circumstances that may limit access to capital markets. Doan (2020) study of 186 companies in the Vietnamese market found a link between keeping cash at the same level and better company performance, as measured by returns on assets and equity. This suggests that companies that maintain an optimal cash level are more likely to achieve an optimal investment level, leading to improved company performance. Another study by Dimitropoulos,



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Koronios, Thrassou, and Vrontis (2020) used the same metrics to back up these results and found that the continuity variable also affects the link between keeping cash on hand and how well a business does. This study focused on medium-sized and small companies in the Greek market, revealing that higher levels of retained cash enhance company performance by providing a cushion against future liquidity shocks.

Unexpectedly, cash plays a crucial role as a tool for securing liquidity in the absence of market equilibrium. In the Saudi case, Alnori (2020) study found a link between a company's cash holdings (calculated as cash and cash equivalents divided by its total assets) and its performance (measured by return on assets and return on equity). This conclusion is backed up by the claim that companies with large cash reserves, which can be used for transactions, financial flexibility, and effective cash management, tend to do better and be worth more. In the same way, Yun et al. (2021) looked at 2,575 companies and found a direct link between their cash on hand and their performance, as shown by their return on assets, return on equity, and the market value to book value ratio of their assets. The China Securities market posits that accumulating cash provides companies with growth opportunities, facilitating investments in projects with positive net present value. Khan (2021) corroborated this finding using the same metrics for cash retention and company performance in a study of 35 companies listed on the Pakistan Stock Exchange. This result was explained by the idea that companies with large cash reserves are more likely to improve their performance, especially when future cash flows become riskier because they want to be safe. In 12 Arab countries and a study with 414 companies, Jabbouri and Almustafa (2020) found a link between keeping cash on hand and the performance of the business, as measured by return on assets and return on equity. This conclusion was further validated by Kimunduu, Mwangi, Kaijage, and Ochieng (2017) who reached similar results by measuring cash holdings through the index of cash and cash equivalents divided by total assets and assessing company performance via return on assets in a sample of Greek companies. By dividing cash and cash equivalents by total assets and then by net assets excluding cash, Alnori and Bugshan (2023) looked at how much cash a company had and how well it was doing by measuring return on assets and return on equity for a group of companies.

Six countries within the Gulf Cooperation Council observe jurisprudence concerning Islamic Sharia and its non-compliance. A study revealed a positive correlation between two measures of cash holdings and company performance among firms compliant with Islamic Sharia. However, companies that do not adhere to Islamic Sharia did not show a similar relationship. Similarly, a study conducted by Ahmed and Tahir (2024) indicated a positive relationship between cash retention—measured as cash and cash equivalents divided by the company's total assets—and company performance, expressed as return on assets. 81 companies listed on the Pakistan Stock Exchange identified this correlation.

In contrast to the findings of the previously mentioned studies, research conducted by Aslam, Kalim, and Fizza (2019) shows the opposite of what the other studies found: there is an inverse relationship between cash retention (measured as cash and cash equivalents divided by the company's total assets) and company performance (measured as return on assets and earnings per share). When looking at a group of companies that follow Islamic Sharia rules, however, there is a positive relationship between the amount of cash they have on hand and how well they do (as measured by Tobin's Q ratio and market share price). Another study by Shemshad and Imeni (2022) found that among 91 companies listed on the Tehran Stock Exchange, there was a negative relationship between cash retention (calculated as cash and cash equivalents divided by a company's total assets) and company performance (expressed as return on equity). This finding suggests that the costs associated with maintaining excess cash outweigh the benefits, leading to managerial opportunism and agency problems, which ultimately result in lower company performance. Another study from Wellalage et al. (2023) also looked at 2,500 companies in the Hind Securities market. They discovered that holding cash was linked to worse company performance, as shown by return on assets and the market value to book value ratio. This study suggests that companies with a lot of cash on hand are more likely to have agency problems and may act in ways that hurt the company's performance, like buying other companies when it's not financially feasible to do so.



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By analyzing the studies that addressed the relationship between cash retention and financial performance, it became clear that there is almost complete agreement among those studies on the positive impact of the level of cash retention on financial performance, with the study of Aslam et al. (2019); Shemshad and Imeni (2022) and Wellalage et al. (2023) finding a negative impact in this regard, which may be due to the difference in the application environments of those studies, their methodologies, and their time frame. Despite the studies' logical conclusions, they did not find the best amount of cash to keep on hand that would also help the company's finances the most. This could be because the agency theory suggests that the issue of cash retention policy depends on the opportunistic behaviors of corporate management. This is why the studies should have included the opportunistic behaviors of executives in the relationship between the level of cash retention and financial performance. This relationship is affected by the biases left by the intervention adopted in the financial reporting process by management to influence the disclosed profitability estimates.

Researchers have found that previous studies in the academic accounting field primarily focused on analyzing the determinants influencing cash holding policies while neglecting to explore how variations in these determinants affect company performance. This gap is particularly evident in studies conducted in foreign contexts. The current study aims to address this void by providing empirical evidence from the Iraqi market, an emerging economy with significant investment opportunities.

## 3. HYPOTHESES DEVELOPMENT

Many previous studies have examined the relationship between cash holdings and a company's financial performance. A study by Iftikhar (2017) confirmed that the level of cash holdings at the beginning of the twenty-first century, prior to the financial crisis, positively impacted return on assets (ROA). Kimunduu et al. (2017) also observed that cash holdings affect a company's financial performance. This study indicates that maintaining cash can reduce the costs associated with raising funds from external financing sources, making internal financing less expensive, which is reflected in the company's overall performance. The findings were further supported by research conducted by Banafa, Muturi, and Ngugi (2015) which confirmed that maintaining cash has a positive impact on a company's financial performance (ROA). The research suggests that cash assets significantly influence a company's performance. Yilmaz and Samour (2024) argue that holding cash in Middle Eastern countries positively influences performance. Increasing the level of cash assets can help enhance performance. The study formulates its objectives, issues, and main hypothesis as follows: (There is a relationship and a moral significance between cash holdings and the financial performance of companies listed on the Iraqi Stock Exchange.) Exchange.

## 4. METHODOLOGY AND DATA COLLECTION TOOLS

To test its hypotheses and analyze them, adopt research methods and data collection tools according to the following study themes:

### *4.1. Research Approach*

Based on a quantitative analysis of the study variables from the financial reports of the sample companies and the Iraq Stock Exchange bulletins for the years 2019–2023, the method used was chosen. They belong to four homogeneous non-financial sectors during that period, including the tourism sector, agricultural sector, industrial sector, and service sector. In addition to using a quantitative inferential approach and inferential statistical analysis tools to test and analyze the study hypotheses, the study results will show what kind of relationship there is between companies keeping their cash and how well they do financially. The nature of the study data takes the form of panel data, so the analysis was carried out using the pooled OLS model through the EViews12 program, as it is the best program for dealing with this type of data.



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### *4.2. Sample Selection*

The study community consists of companies listed on the Iraq Stock Exchange for the period (2019-2023). The study chose this period because it had the data the researchers needed, and some Iraq Stock Exchange companies' financial performance fluctuated during that time. During that time, the stock market bulletin was used to find companies whose financial performance was changing. It was possible to find sixteen companies with changing financial performance on the Iraq Stock Exchange, which is 15% of all listed companies (excluding banking, insurance, and non-banking financial services companies). The reason is that the capital structure of these companies differs from non-financial companies, and the requirements for maintaining cash for financial and non-financial companies are different, as financial intermediaries are required to maintain the minimum level of cash reserves according to the requirements of the Central Bank.

## 5. DESCRIPTIVE ANALYSIS OF THE STUDY AND TESTING OF HYPOTHESES

### *5.1. Description of Variables*

The study's dependent variable is represented by one variable, which is "financial performance," and a main independent variable, which is "cash holding." Table 1 shows the study variables and how to measure them. Here are my agencies:

**Table 1.** Study variables and measures.

| Metrics | Variable name |
|---|---|
| It is measured by the rate of return on equity (ROE); it is measured by dividing net profit before tax by equity | Financial performance (Dependent variable) |
| It is measured by dividing cash and cash equivalents by total assets | Cash holding (Independent variable) |

As for testing the hypothesis of the study, we will rely on the multiple linear regression model. This model demonstrates the relationship between cash retention and the company's financial performance, considering control variables such as company size, financial leverage, and intangible assets. Previous studies, such as Iftikhar (2017) study, have extensively discussed these variables.

$$FPit = \beta 0 + \beta 1 CASH\ it + \beta 2 LEV\ it + \beta 3 SIZit + \beta 4 INT\ it + \cdots \ominus \iota$$

Whereas:

$\beta 0$= Regression.

$\beta 1$= Regression coefficient for the cash holding variable.

$\beta 2 - \beta 4$= Regression coefficients for control variables.

$Eit$= The statistical residual from the model estimate.

$FPit$= Financial performance.

$CASH\ it$= Percentage of cash held by the company.

$LEV\ it$= Financial leverage (A control variable) measured by (Total liabilities/total equity).

$SIZit$= Company size (Control variable) is measured by (Natural logarithm for total assets).

$TANg\ it$= Tangible assets (Control variable) are measured by (Asset ratio Fixed/total assets).

### *5.2. Results and Discussions*

Table 2 shows descriptive statistics that give a full picture of the study variables' central tendencies, dispersion, and range. Three groups categorize the data: cash retention, the company's financial performance, and the control variables. This table is crucial for grasping the fundamental characteristics of the data prior to conducting analyses. My agencies are the most intricate.



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**Table 2.** Descriptive statistics for study variables.

| Max. | Min. | Std. dev. | Mean | Obs. | Variable |
|---|---|---|---|---|---|
| 0.1521 | -0.036 | 0.065 | 0.033 | 80 | Fipe |
| 0.951 | 0.011 | 0.318 | 0.293 | 80 | Cash |
| 0.505 | 0.005 | 0.182 | 0.182 | 80 | Lev |
| 0.952 | 0.001 | 0.304 | 0.459 | 80 | Tang |
| 24.634 | 20.803 | 1.062 | 22.234 | 80 | Size |

The table above shows the number of observations for each variable, which is 80 observations for all variables studied. The table indicates that there are no missing values in the data set for the variables s.fi-pe, cash, lev, tang, and size. The first variable, the company's financial performance for the study sample, shows that the net income before exceptional items for a five-year period ranges between -0.036 and 0.152 of the total ownership rights, with an average value of 0.033 (of total equity) and a standard deviation of 0.0650118. As for the independent variable (holding cash) for the study sample, which represents the amount of cash and cash equivalents for a period of five years, the study period ranges between 0.011 and 0.951 of the company's total assets, with an average value of 0.293 of the company's total assets and a standard deviation of 0.318.

For the control variables, we calculated descriptive statistics for the ratio of total liabilities to equity within the study sample. Over a five-year period, this ratio ranged from 0.0055 to 0.50575, with an average of 0.182 and a standard deviation of 0.1827802. In terms of the ratio of total fixed assets to total assets for the study sample, it ranged from 0.001 to 0.952 over the same five-year period, with an average of 0.459 and a standard deviation of 0.304. The size of the companies in the study sample was measured using the natural logarithm of the companies' total assets over the five-year study period, which ranged from 20.803 to 24.634, with an average of 22.23462 and a standard deviation of 1.062. In summary, the table presents descriptive statistics for the complete dataset, emphasizing the central tendencies of mean, standard deviation, and the minimum and maximum values for each variable.

### *5.3. Hypothesis Testing*

This section deals with relationship testing and analysis between the main independent variable (cash holdings) and the main dependent variable (financial performance) by employing a linear regression model. To test the first main study hypothesis, which states that there is a positive and significant relationship between cash retention and the financial performance of the companies listed on the Iraqi Stock Exchange, the hypothesis of the first study will be tested according to the following steps:

1. Correlation Analysis: The Pearson correlation coefficient was used to test the relationship between the two variables, and the correlation coefficients are shown in Table 3.

**Table 3.** Results of the correlation coefficient between the study variables.

| Variable | VIF | 1/VIF |
|---|---|---|
| Cach | 1.89 | 0.529 |
| Lev | 1.82 | 0.551 |
| Tang | 1.16 | 0.863 |
| Size | 1.09 | 0.915 |

The table presents the VIF and the reciprocal of VIF (1/VIF) for each variable. Here is a detailed explanation of these results:

The VIF quantifies the extent to which multicollinearity inflates the variance of a regression coefficient. A VIF value of 1 indicates no correlation between the given variable and any other variables. Higher VIF values indicate greater multicollinearity. These VIF values are all below 5, suggesting that there is no severe multicollinearity among the variables.



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**Table 4.** Correlation values in the regression model.

| **chi2(1)** | **1.60** |
|---|---|
| Prob > chi2 | 0.205 |

Table 4 presents the correlation value in the regression model, which is measured by the Eviews 12 program. The Breusch-Pagan/Cook-Weisberg test is a special kind of statistical test used to find heteroscedasticity in regression models. It means that the data about the study variables are more likely to be consistent with each other. Heteroscedasticity happens when the errors' variance changes between observations. If this isn't fixed, it could lead to bad estimates and unreliable statistical conclusions.

In hypothesis testing, the p-value is compared to a predetermined significance level (typically set at 0.05) to decide whether to reject the null hypothesis. For the Breusch-Pagan/Cook-Weisberg test, the null hypothesis posits that the variance of the errors is constant, indicating homoscedasticity. Null Hypothesis (H0): There is no heteroscedasticity (the error variance is constant). Alternative Hypothesis (H1): There is heteroscedasticity (the error variance is not constant). Reason: Improved clarity and technical accuracy by refining vocabulary and sentence structure.

Given the p-value of 0.205, which exceeds the conventional significance level of 0.05, we fail to reject the null hypothesis. This indicates that there is insufficient evidence of heteroscedasticity in the model, as determined by the Breusch-Pagan/Cook-Weisberg test. In other words, the variance of the errors appears to be constant, suggesting homoscedasticity.

**Table 5.** Results of the correlation between cash retention and financial performance.

| **F(1,15)** | 13.232 |
|---|---|
| Prob > F | 0.002 |

Table 5 presents the results of the correlation between cash holding and financial performance; the Wooldridge test for autocorrelation is a widely utilized diagnostic tool for detecting the presence of first-order autocorrelation in panel data. Autocorrelation happens when a model's residuals (errors) are linked over time or across spatial dimensions. This can lead to estimates that aren't accurate and standard errors that aren't correct. In hypothesis testing, we compare the p-value to a predetermined significance level (typically 0.05) to determine whether to reject the null hypothesis. The null hypothesis (H0) states that there is no first-order autocorrelation.

Alternative Hypothesis (H1): There is first-order autocorrelation. A correlation exists between the cash retention variable and financial performance, suggesting that companies listed on the Iraq Securities Market retain cash, which enhances their financial performance.

Given the p-value of 0.002, which is significantly smaller than the conventional significance level of 0.05, we reject the null hypothesis. This provides strong evidence of first-order autocorrelation in the panel data. The presence of first-order autocorrelation indicates that the residuals of the model are correlated over time. This violation of the assumption of no autocorrelation has several implications for regression analysis: 1. **Inefficient Estimates** - While the ordinary least squares (OLS) estimates may remain unbiased, they will no longer be efficient, meaning they do not achieve the minimum possible variance. Reason: The revisions enhance clarity and technical accuracy while improving vocabulary and readability.

Invalid Standard Errors: The standard errors of the OLS estimates will be biased, leading to incorrect test statistics and confidence intervals. This can result in misleading inferences about the significance of the coefficients. To address the issue of autocorrelation, several methods can be employed. However, in our study, we tend to employ cluster-robust standard errors that adjust for autocorrelation within panels, providing more reliable standard errors.



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**Table 6.** Results of regression equation coefficients for the study variables.

| Variable | Coefficient | Std. err. | P-value |
|---|---|---|---|
| Cash | 0.078 | 0.031 | 0.015 |
| Lev | 0.024 | 0.036 | 0.503 |
| Tang | 0.027 | 0.035 | 0.447 |
| Size | -0.011 | 0.006 | 0.132 |
| Cons | 0.219 | 0.151 | 0.152 |

Table 6 indicates the results among the variables listed, and it shows that only cash has a statistically significant effect on financial performance at the 5% significance level. The other variables (lev, tang, and size) do not exhibit statistically significant effects based on their p-values.

The correlation between cash and financial performance is positive and significant. The coefficient is 0.0785353, implying that a one-unit increase in cash corresponds to an increase of around 0.0785 units in financial performance while keeping other variables constant. Still, the effects of lev, tang, and size are not statistically significant, which means there is not enough proof to say that they have an effect on the dependent variable in this model.

The results of the study support the hypothesis, which posits a positive relationship between cash retention and the financial performance of companies. This suggests that high levels of cash retention among the sample companies effectively enhance their financial performance.

## 6. CONCLUSION

In the current study, it is aimed to test the extent to which cash holding has an impact on financial performance, or not, by applying it to the Iraqi environment during the period 2019-2023. To achieve the study's objective, the researchers used a sample of (16) joint-stock companies listed on the Iraq Stock Exchange and belonging to four homogeneous non-financial sectors during that period. The researchers used the multiple linear regression model to test the current study hypothesis. This is because the level of performance shown in the company's financial report is a function of both the level of cash retention and the control variables. The results of the current study indicate a positive relationship between cash retention and the financial performance of companies in the Iraqi environment.

These results indicate that high levels of cash holding in the Iraqi environment help companies exploit profitable investment opportunities that may occur in the future, thus enhancing the financial performance of companies. This makes cash retention valuable for companies in the Iraqi environment as one of the emerging economies that includes many investments and attractive investment opportunities. The findings of this study add to what is already known about accounting that tries to figure out why the amounts of cash kept in accounts change and how that affects the country's financial health. Many earlier studies, including (Ahmed & Tahir, 2024; Alnori, 2020, Alnori & Bugshan, 2023, Dimitropoulos et al., 2020, Doan, 2020; Jabbouri & Almustafa, 2020, Khan, 2021; La Rocca & Cambrea, 2019, Wibawa & Nareswari, 2020; Yun et al., 2021) have found similar things. These studies show that companies will benefit from lower transaction costs, fewer financial pressures, and keeping a lot of cash on hand. This helps companies do better by keeping all of their money safe. The current study's results diverge from those of previous studies conducted by Aslam et al. (2019); Shemshad and Imeni (2022) and Wellalage et al. (2023). These studies suggest that retaining a high level of cash can exacerbate agency problems and increase a company's vulnerability to management's opportunistic behavior. This behavior, which involves expanding purchases and acquisitions in deals that may not be economically feasible, can lead to a decline in the company's performance.

The different environments, methodologies, and time frames of these studies may explain this. In these environments, company management's opportunistic behavior may drive cash holding policy. This relationship may be affected by the biases left by the intervention adopted by management in the financial reporting process to influence the disclosed profitability estimates, as indicated by the agency theory. In light of the conclusions, the study recommends that company managers should take into account financial performance in their decisions related to cash



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retention policies. Decision-makers in the Iraqi Stock Exchange should also take into account the country's macroeconomic conditions when designing cash retention policies. Finally, companies should exert more effort to ensure that there are reasonable rates of cash retained by the company and to know the role of managers' ownership in reducing the agency cost related to cash balances.

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