

# Impact of effective working capital management and financial flexibility on the sustainable growth gap: an applied study of industrial companies in Iraq

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## ABSTRACT

The research aimed to analyze the impact of working capital management efficiency and financial flexibility in the sustainable growth gap, by applying it to a sample consisting of (6) Iraqi industrial companies listed in the Iraq Stock Exchange, and these companies constitute 25% of the research community and for a period (2005-2014). Four independent variables were used, two related to the efficiency of working capital management (cash transformation cycle, working capital turnover), and the other two to financial flexibility (financial leverage ratio, cash liquidity ratio), while the dependent variable is the sustainable growth gap (which is the difference between the sustainable growth rate and the actual growth rate). And based on the statistical download program (Stata-V6), the (Panel Data) load was adopted for multiple regression according to the (fixed effect model) to test five hypotheses related to the statistical significance of the impact of each of the indicators of working capital management efficiency and financial flexibility on the sustainable growth gap and its function indicators. The results of the statistical tests indicated that all hypotheses had a significant and blind effect according to the fixed effect model and according to the calculated F-test, which had a P-value of less than 5%. The research concluded with several results, the most important of which is that there is a significant effect of the working capital turnover and the financial leverage ratio in the sustainable growth gap. Based on this, the recommendation to the Iraqi industrial companies must take into account these variables when planning to make the sustainable growth gap in a state of balance.

## ARTICLE INFO

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## 1. INTRODUCTION

Because they have a direct bearing on the company's capacity to meet the financial requirements to finance its investments, the effectiveness of working capital management and the company's financial flexibility is regarded as significant elements of the shareholder businesses' finances. It relates to the management of all current assets and liabilities on a level of effective working capital management and the coordination of the objectives of liquidity and profitability in joint-stock businesses generally and industrial companies in particular. Therefore, effective working capital management focuses on structuring and managing current assets and current liabilities in a way that helps reduces the risk of not being able to pay short-term debts and credit risks, on the one hand, and prevents irrational investments in current assets, on the other. The idea of financial flexibility focuses on the organization's capacity to change the quantity and timing of its financial requirements to be able to adapt to unforeseen needs and opportunities. When a business is financially rigid, it finds it challenging to deal with unforeseen emergencies. As a result, it frequently restricts the funds available for expansion or debt repayment, which increases the risk of bankruptcy. The strategy most commonly accepted by businesses is to retain a portion of the current profits to finance future growth opportunities generally and to ensure sustainable growth in the wealth of owners. This is done within the framework of linking the effectiveness of working capital management and financial flexibility to the sustainable growth of the company. As a result, the retention rate and rate of return on equity (ROE), which is determined by dividing net accounting profit by equity, are the main determinants of sustainable growth rate. Based on the aforementioned, it is theoretically possible that both the effectiveness of working capital management and the company's financial flexibility has an effect on the sustainable growth rate gap. Therefore, the sustainable growth gap in the joint-stock companies has a direct reflection on the wealth of the owners, positive or negative. Based on the foregoing, both the efficiency of working capital management and the financial flexibility of the company, at least theoretically, have an impact on the sustainable growth rate gap. Therefore, the sustainable growth gap in the joint-stock companies has a direct reflection on the wealth of the owners, positive or negative. Based on the foregoing, both the efficiency of working capital management and the financial flexibility of the company, at least theoretically, have an impact on the sustainable growth rate gap. Therefore, the

sustainable growth gap in the joint-stock companies has a direct reflection on the wealth of the owners, positive or negative. (El-Ansary, O., & Al-Gazzar, H. 2021).

### 1.1 Problem of the Study

Within the context of connecting working capital efficiency The applied aspects of the research are where the challenge lies, as the financial manager in joint-stock companies strives to improve the company's financial flexibility and operating cash transformation cycle efficiency, both of which are crucial for working capital management and limiting the gap between sustainable growth and other forms of growth. To what extent the firm succeeds in managing working capital efficiently, as well as the soundness of the company's financial flexibility and the ensuing widening or narrowing of the sustainable growth gap, depends on the environmental factors surrounding the company.

The study's applied problem's nature can be used to represent the issue by the following questions:

- What metrics represent how well joint-stock enterprises with public listings in Iraq manage their working capital?
- What is the telltale signs of the joint-stock enterprises listed on the Iraq Stock Exchange's financial resilience?
- Is the sustainable growth gap impacted by measures of the company's effective working capital management and financial flexibility? For the joint stock businesses registered on the Iraq Stock Exchange?

### 1.2 Importance of the Study

The study's significance may be summed up in the fact that sustained growth is correlated with the wealth of the owners of the Iraqi industrial enterprises listed on the Iraq Stock Exchange, which is a result of the nature of the issue and its criteria. Regarding tying the study's variables to the gap of sustainable growth and in terms of financial flexibility, the Iraqi library's lack is a reflection of the study's significance.

### 1.3 Objectives of the Study

- Review of significant advancements in modern financial theory, focusing on financial flexibility.
- Clarifying the cognitive aspects of sustainable growth and their connection to owner wealth.

- An explanation of how a company's financial flexibility and effective working capital management affect the sustainable growth gap

#### 1.4 Hypothesis of the Study

- There is no statistically significant effect of working capital management efficiency and financial flexibility in growth rate.
- There is no statistically significant effect of working capital management efficiency and financial flexibility on the growth rate permanent.
- There is no statistically significant effect of the efficiency of working capital management in the sustainable growth gap.
- There is no statistically significant effect of financial resilience in the sustainable growth gap.
- There is no statistically significant effect of working capital management efficiency and financial flexibility in the growth gap sustainability.

#### 1.5 Samples of the Study

The research community is represented in the public shareholding companies listed in the Iraq Stock Exchange, which numbered eighty-eight companies, according to the published statistics for the year 2013, and the industrial sector was chosen because this sector applies to it the indicators of the study in a clear degree, which numbered (25) industrial companies listed. A deliberate sample of (6) industrial companies was drawn (see Table 1), which constituted approximately 24% of the research community. In which conditions were met during the period under study and analysis (2005-2014), wishing that the companies be profitable during the period. And with continuous trading in the stock exchange and published data, in addition to the absence of a merger of the companies of the study sample or that they are under liquidation during the time limits of the research.

**Table 1.** Sample distribution

Name of the Company	Contribution type	Est. Date	Capital (Iraqi Dinar)
Modern chemical industries	private	19/06/1964	180,000,000
Al-Mansour Pharmaceutical and medical supplies	private	19/04/1989	6,469,267,350
Al-Kindi for the production of veterinary vaccines	mixed	10/01/1990	5,940,000,000
Iraqi carpets and furnishings	private	02/10/1989	500,000,000
Al-Iraqiya for engineering works	mixed	01/10/1985	15,000,000,000
Baghdad for soft drinks	private	18/07/1989	133,000,000,000

Source: Iraq Stock Exchange

Reliance has been placed on books, periodicals, theses, research, and articles, in both Arabic and English, to enrich Theoretical aspects of the research aimed at collecting the data necessary to calculate the study variables on the financial reports As it is used for Annual (financial position statement, income statement, cash flow statement, and statement of change in equity) for companies Representative of the research sample for the period (2005-2014), which is published on the website of the Iraqi Stock Exchange.

#### 1.6 Statistical methods and methods used to test research hypotheses

The research adopted the statistical program (V6-Stata) to analyze and test the hypotheses of the study, specifically a test the effect of the fixed model among the variables and the data on the study variables are included under the name of Panel data. Data includes both the Data Series Time and Sectional data dimensions Data Section-Cross (which contributes to avoiding defects in both time series and cross-sectional data). (Gujarati, 2003, 636-637).

- Cross-sectional data deals with specific units as a group of companies on the basis that they have the same characteristics and factors affecting them, ignoring that these characteristics and factors can vary from one company to another.
- Cross-sectional data ignore the time component, although some independent variables may change over time.
- Cross-sectional data are sometimes available, with few observations, thus negatively affecting the efficiency of the estimated coefficients.

Data separately (as is the case in the current research) so that it provides a greater number of observations, which increases the Accordingly, the use of the (Panel Data) data model will contribute to enlarging the sample size when there is not enough data of the type of time series or the type of sectoral degrees of freedom (Degree of Freedom) and improve the efficiency of econometric estimation. It also

takes into account the disparity of companies in terms of characteristics and factors influencing each company, in addition to dealing with the element of time.

#### 1.7 First - straight variables

##### 1.7.1 Working Capital Management Efficiency

It means the best employment of current assets, and for the purposes of research, the efficiency of working capital will be measured according to the following (Gitman, 2012)

##### 1.7.2 The Cash Conversion Cycle (CCC)

Represents the period between payment for goods inventory and collection of the total sales value , minus average payment period Accounts payable.

##### 1.7.3 Working Capital Turnover (WCT)

Turnover represents the ability of working capital to generate sales and is measured by dividing net sales by total working capital (which is the difference between current assets and current liabilities). The higher the rate, the more evidence of efficient working capital management and vice versa.

##### 1.7.4 The financial flexibility of Company

It is the company's ability to adjust the amount and timing of its financial needs to meet unexpected investment opportunities in a way that contributes to increasing its value. For the purpose of the research, the following indicators were used to express financial flexibility (Jamshidinavid, Abasi, and Parvizi, 2015).

##### 1.7.5 Second - the dependent variable

The sustainable growth rate gap (SGRG) is meant for the purposes of the study as the difference between the actual growth rate and the sustainable growth rate, and each of them is measured according to the following ((Moeinfar and Mousavi, 2011).

##### 1.7.6 A- Actual growth rate (AGR)

It is the highest rate of growth that the company can achieve without resorting to external financing. is calculated according to the following:

$$AGR = (ROA * b) / (1 - ROA * b) \dots\dots (1)$$

##### 1.7.7 B- The sustainable growth rate

It is the highest growth rate that the company can achieve without an increase in equity and by maintaining a constant percentage of the debt value.

To the right of ownership and according to the following:

$$SGR = (ROE * b) / (1 - ROE * b) \dots\dots\dots (2)$$

## 2. LITERATURE REVIEW

Deloof (2003) entitled "Does Working capital management effect profitability of Belgian firms?"The tagged study aimed to test the relationship between working capital management and corporate profitability in Ainu. It included (1009) Bulgarian non-financial companies during the period (1996-1992). The repayment period for the balances of suppliers' accounts (in days) as indicators for measuring the commercial credit policy and the audio inventory policy, while the cash turnover cycle was used as a comprehensive measure of working capital management. The study concluded that there is a significant negative correlation between total operating income, average collection period of accounts receivables, inventory turnover rate, and average payment period (accounts payable) in the Bulgarian study sample companies. This study has been used to measure the efficiency of working capital management through the cash transformation cycle index expressed by it. Al-Qaisi (2016) titled "Evaluating the impact of adventurous working capital management policies on the company's profitability and its added market value".

This study aims to examine the impact of working capital management policies on the profitability of the company and its added market value. In the same way, it included all (93) industrial joint-stock companies listed on the Amman Stock Exchange, according to the statistics announced by (Amman Stock Exchange for the year 2011). And during the period (2011-2001), where the traditional measures of profitability, which are the return on investment (ROI) and the return on equity (ROE), were used to assess the impact of these policies, in addition to the market value added (MVA) as one of the modern accounting measures. Through the statistical analysis, the descriptive statistics method was used to show the characteristics of the research variables and the Pearson correlation matrix to measure the direction of the relationship between the variables, while the multiple regression method was used to study the effect of the independent variables on the dependent variable.

Bouchani and Ghanebari (2015) Entitled "the ratio of book value to market value in Tehran listed firms "The relation between financial flexibility and financial performance with. The aim of this research is to study the effect of financial flexibility and financial performance of companies on the ratio of book value to Market value, for example, is made up of (50) companies listed on the

aviation stock market during the period (2009-2013), and in this context, most researchers focused on two types of criteria for evaluating the performance of companies, which is performance based on value and performance evaluation by traditional methods (financial ratios), in addition, financial flexibility plays an important role that Enables companies to benefit from future investment opportunities. The financial leverage ratio and the liquidity ratio were used to express the financial flexibility of companies, and the operational cash flow ratio and return on assets (ROA) to express the financial performance variable. To examine the test between financial flexibility and financial performance of companies, statistical methods were used, namely the least squares method (EGLS) and the generalized momentum method (GMM). The results that were reached showed that there is a positive relationship between the financial leverage ratio, the liquidity ratio (the measures that express the financial flexibility variable) and the operational cash flow ratio. In addition, there is a negative relationship between the return on assets ratio (the indicator that expresses the financial performance variable) and the value ratio.

Mousavi and Moeinfar (2011) "Exchange Sustainable Growth Rate and Firm Performance: Evidence Iran Stock "The tagged study examined the relationship between the growth gap (the difference between the actual growth rate and the sustainable growth rate), return on assets (ROA), prices to book value (P/b), trading ratios and quick liquidity ratios in a sample of (54) companies from The companies listed in the Aviation Stock Exchange for the period (2006-2009), the study used the regression analysis method as a statistical measure to examine the relationship between the variables. Through the study, it was found that there is a strong correlation between the sustainable growth gap (i.e. the difference between the actual growth rate and the sustainable growth rate), the return on assets, and the market value to the book value. In the context of the current study, the sustainable growth gap variable, which is the difference between the actual growth rate and the sustainable growth rate, was adopted as a dependent variable.

## 2.1 Scope of benefit from previous studies

Benefit of formulating the study model in building some of the contents of the conceptual framework for the study variables.

- Using some of the qualitative and quantitative measures that have been reported and demonstrated by earlier research to examine and measure them. The factors used in the study to accomplish the goals outlined in the study.
- The empirical evidence for many of the cognitive truths in the topic's framework and how to get at these facts was presented in the prior studies with clarity and logic, and the current study was based on this empirical data in the production of the Structure.

## 2.2 Current search site from previous studies

- This is the first study, as far as the researcher knows, dealing with the efficiency of working capital management in the Arab library. Three variables together (efficiency of working capital management, financial flexibility of the company, sustainable growth gap).
- The current study attempts to show the recent intellectual contributions in the field of the financial flexibility of the company and its relationship to a gap in Sustainable growth, which is considered an initiative by the current study in framing the subject in the Iraqi environment.
- The research is an attempt to complete the previous efforts that help clarify the interrelationship between the variables.

## 3. ANALYSIS AND RESULTS

### 3.1 Descriptive statistics of the study variables

Table (1) presents the descriptive statistics of the study variables in terms of the arithmetic mean, the largest value, the lowest value, and the standard deviation. 2.51), and for the leverage ratio (16.97%), with a standard deviation of (15.22), and for the cash flow ratio (35.29%), with a standard deviation of (25.19), and for the actual growth rate (4.91%), with a standard deviation of (5.47), and for the sustainable growth rate (6.42%), with a standard deviation of (7.17), and for the sustainable growth gap (1.51%) with a standard deviation (3.42). The large dispersion of the data is noted through the standard deviation, which is the most used value among the statistical dispersion measures to measure the extent of statistical scattering, that is, it indicates the extent of the extension of the fields of values within the statistical data set. The standard deviation is usually symbolized by the lower case Greek letter  $\sigma$ , the mean squared deviation of the data from the mean. The standard deviation is the square root of the variance for the statistical data set. The variance or standard deviation is affected by diverging or extreme values, but it is not affected much by changes in the sample, and this can be seen from Table No. (2).

**Table 2.** Descriptive statistics of the study variables

Variable statistics measurement	X <sub>1</sub>	X <sub>2</sub>	X <sub>3</sub>	X <sub>4</sub>	Y <sub>1</sub>	Y <sub>2</sub>	Y <sub>3</sub>
mean	132.1	1.46	16.97	35.3	4.91	6.42	1.51
maximum	868.9	14.52	76.2	83	22.81	30.73	21.6
minimum	-538	-7.91	-1.1	1.5	0	0	-5.3
St. deviation	268	2.51	15.22	25.2	5.47	7.17	3.42

### 3.2 Results of testing the first study hypothesis

Table (3) presents the results of the static impact test according to the regression analysis. It is clear that the coefficient of determination R<sup>2</sup> amounted to 32%, which means that the independent variables explain 32% of the decisive changes in the actual growth rate (R) Which is a good ratio and that the working capital turnover variable Y<sub>2</sub> Less than 5%, which amounted to 0.019%, which means that the efficiency of working capital management affects the actual growth rate through the number of times the working capital turnover during the company's fiscal year. Since it relates to revenues from sales relative to working capital, the more it increased, the more this increase was reflected in the actual growth rate. As for the rest of the variables, accepting their effect on the actual growth rate is at different levels. Regarding cash liquidity, the P-Value has a significant effect. The significance of the effect of this variable confirms the actual growth rate because the value of X<sub>4</sub> at a significant level of 13% and the leverage is X<sub>3</sub> The calculated results are 2.58, with a probability value of less than 5%, and the correlation coefficient for the hypothesis is 0.56. Accordingly, the results of the test indicate the rejection of the F hypothesis at the level of significance of 37%, and this is a natural thing due to the high level of significance of these variables as a result of what the Iraqi economy is going through from the conditions of the financial crisis and its impact on the cash levels of companies. As for the suitability of the fixed effect model, it was significant, as the value of H<sub>0</sub> And accepting the alternative hypothesis H<sub>1</sub> Hence, there is an effect of working capital management efficiency and financial flexibility on the actual growth rate, and according to the fixed effect.

**Table 3.** Presents the results of the static impact test according to the regression analysis

Variables	B	t-test	P-value
cons	2.558	1.212	0.231
X <sub>1</sub>	0.0045 -	1.055-	0.296
X <sub>2</sub>	0.7284	2.420	0.019
X <sub>3</sub>	0.0644 -	-0.906	0.369
X <sub>4</sub>	0.0726	1.526	0.13
squared R <sup>2</sup>	Correlation R	F fixed	P-value
0.317	0.56	2.58	0.016

### 3.3 Results of testing the second study hypothesis

Table (4) presents the results of the static impact test according to the regression analysis. It is clear that the coefficient of determination R<sup>2</sup> Amounted to 42%, and this means that the independent variables explain what percentage of 42% of the decisive changes in the sustainable growth rate, which is a good percentage, and that each of the working capital turnover X<sub>2</sub> (and cash flow ratio) X<sub>4</sub> Less than 5%, which amounted to 0.004% and 0.036%, respectively. This means that the efficiency of working capital management affects the rate of sustainable growth through the number of turnover of working capital during the company's fiscal year. It relates to venues from sales to working capital, which is the greater the increase, this increase is reflected in the rate of sustainable growth. On the other hand, the effect of financial flexibility appears in the rate of sustainable growth through the increase in the cash liquidity ratio of the company, as it relates to the amount of cash available to the company, which provides it with the ability to pursue profitable investment opportunities, increase its sales and the number of available funds. As for the rest of the variables, the acceptance of their impact is at different levels, as for the monetary transformation cycle, the P-value has an effect. X<sub>1</sub> at the level of significance of 36% and the leverage ratio X<sub>3</sub> The calculated value is 3.99, with a significance level of less than 5%, and the correlation coefficient for the hypothesis is 0.65. Accordingly, the results of the test indicate the rejection of the F hypothesis at the level of significance of 34%. As for the suitability of the fixed effect model, it was significant, as the value of H<sub>0</sub> and accepting the alternative hypothesis H<sub>1</sub> Evidence that there is an effect of the efficiency of working capital management and financial flexibility on the rate of sustainable growth.



**Table 4.** The results of the fixed effect test of the second hypothesis

Variables	B	t-test	P-value
cons	1.5311	0.6	0.511
X <sub>1</sub>	0.0047 -	0.916-	0.036
X <sub>2</sub>	1.1129	3.058	0.004
X <sub>3</sub>	0.0826	0.961	0.341
X <sub>4</sub>	0.142	2.155	0.036
squared R <sup>2</sup>	Correlation R	F fixed	P-value
0.418	0.65	3.99	0.0007

### 3.4 Results of testing the third study hypothesis

Table (5) presents the results of the static impact test according to the regression analysis. The coefficient of determination R<sup>2</sup> amounted to 30%, which means that the independent variables explain 30% of the decisive changes in the sustainable growth gap, which is a good percentage, and that the monetary transformation cycle X<sub>1</sub>. The results of the analysis reveal that there is a difference and discrepancy between the sample companies in the length of the cash transfer cycle, and this is due to the nature of the company's work in terms of obtaining raw materials to manufacturing the final product and selling it either in cash or on this account on the one hand, and a discrepancy in the payment of credit accounts on the other hand. Thus, the increase in the length of the operating cycle without a corresponding increase in the period of postponing the payment of accounts payable results in an increase in the length of the cash cycle due to the increase in the rate of storage and accounts receivable about sales, which leads to an increase in net working capital. As for the working capital turnover variable, the P-Value has an effect that confirms the significant effect of this variable on the sustainable growth gap, because the value of calculated value is 3.15, with a significance level of less than 5%, and the correlation coefficient for the hypothesis is 0.55. However X<sub>2</sub> the results of the test indicate the rejection of the F hypothesis, accepting its effect is at the level of significance of 36% for the conditions that the Iraqi economy is going through, which contributed to slowing down the business cycle of most companies, which may, in turn, affect the company's revenues. Therefore, each of the monetary transformation cycles and working capital turnover has an impact on the sustainable growth gap, which in turn is reflected in the sustainable growth rate and the actual growth rate. As for the suitability of the fixed effect model, it was significant, as the value of H<sub>0</sub> and accepting the alternative hypothesis H<sub>1</sub>. Evidence that there is an effect of the efficiency of working capital management in the sustainable growth gap.

**Table 5.** The results of the fixed effect test of the Third hypothesis

Variables	B	t-test	P-value
cons	2.303	2.313	0.025
X <sub>1</sub>	0.0067 -	3.219-	0.025
X <sub>2</sub>	0.1631	0.922	0.036
squared R <sup>2</sup>	Correlation R	F fixed	P-value
0.2981	0.55	3.15	0.074

### 3.5 Results of testing the fourth study hypothesis

Table (6) presents the results of the static impact test according to the regression analysis. The value of the coefficient of determination R<sup>2</sup> amounted to 44%, which means that the independent variables explain 44% of the changes in the sustainable growth gap Y<sub>3</sub>. Which is a good ratio, and the leverage ratio variable X<sub>3</sub> amounted to 0.0%, which is less than 5%, and this indicates that the financial leverage ratio is high, which reflects the extent to which the company relies on debts to finance its investments for growth and achieving the highest profits. The degree of financial risk and business risk as for the P-value, the variable of the cash liquidity ratio confirms the significant effect of this variable on the sustainable growth gap, because of the value of X<sub>4</sub>. The calculated percentage is 5.84, and the level of significance is less than F. The acceptance of its effect is at the level of significance of 3.4%, that is, the reason for the high level of significance is due to the conditions that were diagnosed and built by the Iraqi economy. As for the suitability of the fixed effect model, it was significant, as the value of However, the results of the test indicate the rejection of the hypothesis H<sub>0</sub>. And accepting the alternative hypothesis H<sub>1</sub>. Confirming that there is a significant effect of financial flexibility in the sustainable growth gap.

**Table 6.** The results of the fixed effect test of the Fourth hypothesis

Variables	B	t-test	P-value
cons	0.4366-	0.444-	0.659
X <sub>3</sub>	0.1319	3.992	0
X <sub>4</sub>	0.0549	2.176	0.034
squared R <sup>2</sup>	Correlation R	F fixed	P-value
0.2981	0.66	5.84	0

### 3.6 Results of testing the Fifth study hypothesis

Table (7) presents the results of the static impact test according to the regression analysis. It is clear that the coefficient of determination R<sup>2</sup> amounted to 51%, which means that the independent variables explain 51% of the changes in the sustainable growth gap Y<sub>3</sub>. Which is a good ratio and that both turnovers of working capital X<sub>2</sub> and the leverage ratio, X<sub>3</sub>. Less than 5%, which means that the efficiency of working capital management affects the sustainable growth gap through the number of times working capital turnover during the company's fiscal year. It relation revenues from sales to working capital, which, as it increased, reflected this increase in the sustainable growth gap. This is through the actual growth rate, as well as the effect of the financial leverage ratio P-value, which confirms the significant impact of these variables on the sustainable growth gap because the value of X<sub>3</sub> amounted to 0.0%, which is less than 5%, and this indicates the high leverage ratio of the company and the extent to which it relies on debts to finance its investments for growth purposes. Increasing the degree of its risks, therefore, the company should plan to reach the state of equilibrium in the sustainable growth gap, that is, the sustainable growth rate is equal to the Actual growth rate. The results also show that the percentage of cash liquidity has an impact because the P- value is less than 5%, which means an increase in the liquidity of companies, and because it relates to the amount of available cash, which provides them with the ability to track down profitable investment opportunities, increase their sales and the number of funds available to them to be able to meet their obligations. This in turn is reflected in the impact of the sustainable growth gap and thus in the sustainable growth rate and the actual growth rate, and that the increase in the financial leverage ratio means that the company relies on external sources to finance its investments and increase its profits, and this contributes to increasing the rate of sustainable growth and increasing the rights of shareholders, and on the other hand, the increase in turnover Working capital and cash flow ratio. X<sub>2</sub>, X<sub>3</sub>, X<sub>4</sub>. The calculated value was 5.67, with a significance level of less than 5%. However, the results of the test indicate the rejection of the F hypothesis, as the value was reached H<sub>0</sub> and accepting the alternative hypothesis H<sub>1</sub>. The conclusion is that there is a significant effect of working capital management efficiency and financial flexibility in the sustainable growth gap.

**Table 7:** The results of the fixed effect test of the Fifth hypothesis

Variables	B	t-test	P-value
cons	1.01517-	0.904-	0.37
X <sub>1</sub>	0.00026-	0.112-	0.911
X <sub>2</sub>	0.3864	2.413	0.02
X <sub>3</sub>	0.1467	3.88	0
X <sub>4</sub>	0.05056	2	0.05
squared R <sup>2</sup>	Correlation R	F fixed	P-value
0.5049	0.71	5.67	0

## 4. FINDINGS

- Based on the results of the multiple regression analysis of the independent variables and indicators of the efficiency of working capital management (cycle Monetary transformation, working capital turnover) and indicators of financial flexibility (financial leverage ratio, cash liquidity ratio) and for the dependent variable, the sustainable growth gap and the indicators expressing it (actual growth rate, sustainable growth rate). Working capital and financial flexibility in the sustainable growth gap
- It is clear from the results of testing the hypothesis of the first study that the largest explanatory power of the rate of growth of the snake is due to turnover Working capital This is due to the efficient use and operation of working capital by following up the movement of internal activities and operations of the company and its sub-

departments. The financial flexibility in the first hypothesis was to varying degrees for each of the cash flow ratio And the financial leverage ratio and the reason for this may be the general and unstable economic conditions, which would cause a lack of clarity in the vision of many economic and financial aspects and their impact on the cash levels of companies.

- The results of testing the hypothesis of the second study showed that the greater explanatory power of the sustainable growth rate is due to turnover Working capital and the cash liquidity ratio, which means that the effect of working capital management on the sustainable growth rate is due to the number of working capital turnover times, which is related to sales and internal operations of companies, and on the other hand, the results showed that the effect of financial flexibility on the sustainable growth rate through the liquidity ratio Cash, which relates to the amount of available cash and provides it with the ability to track down profitable investment opportunities, as the efficiency of internal operating operations and the use of its assets, which are due to the turnover of working capital, provides the company with financial flexibility by obtaining financing and increasing the cash inflows of companies.
- It is clear from the results of testing the hypothesis of the third study that the greater explanatory power of the sustainable growth gap is due to length Cash Transformation Cycle This is due to the higher period of repayment of payables than the length of the operational cycle and indicates that most companies are late in paying credit accounts, which may make them exposed to large liquidity risks resulting from the lack of sufficient liquidity to pay their obligations as well as damage to the reputation of the credit company.
- Working capital, its impact on the sustainable growth gap was at varying levels for the study sample companies as a result of the unstable economic conditions, which contributed to the slowdown in the business cycle of most companies, which in turn affected the companies' revenues.
- The results of testing the hypothesis of the fourth study showed that the greater explanatory power of the sustainable growth gap is due to the ratio Cash liquidity and the financial leverage ratio, that is, the ability to generate cash and rely on debt to finance investments and track investment opportunities that achieve the highest profits for growth purposes and to achieve a sustainable growth gap.
- It is clear from the results of testing the hypothesis of the fifth study that the greater explanatory power of the sustainable growth gap is due to The working capital turnover and the financial leverage ratio, that is, the impact of the efficiency of working capital management in the sustainable growth gap was through the number of working capital turnover times, which reflects the efficient use of its internal assets and its ability to generate revenue from sales, and therefore the increase in this turnover is reflected in the growth gap sustainable growth, through the actual growth rate, and on the other hand, the effect of financial flexibility appears in the sustainable growth gap through the financial leverage ratio, i.e. the extent to which companies depend on external financing sources to finance investments, achieve profits, and increase growth opportunities, which enables them to retain part of their profits to finance future expansions Increasing the wealth of owners, which in turn is reflected in the rate of sustainable growth, which enables companies to achieve balance in the gap of sustainable growth.

## 5. RECOMMENDATIONS

Based on the results reached in this study, the most important recommendations can be summarized according to the following:

- The need for Iraqi industrial companies to adopt efficient administrative policies in the field of working capital management with variables The current study adopted inventory management, receivables, and payables, as important indicators to determine the length of the cycle of converting current assets into cash.
- The need for the Iraqi industrial companies to give special importance to balancing the goals of liquidity and profitability as they are These two objectives are inseparable, by monitoring incoming and outgoing cash flows and avoiding excess liquidity, and at the same time directing their investments to the basic goals for which they were established, without exaggerating expansion at the expense of liquidity.

- Emphasizing the need for Iraqi industrial companies to improve their ability to generate cash revenues from receivables Debit and excess of cash payments, that is, achieving inward cash flows that are greater than external cash flows, and considering it a strategy that guarantees survival, growth, and continuity in the field of business.
- Develop a strategic plan to monitor the performance of capital investment projects for companies, given their great importance in continuing And the growth of the company, and reduce dependence on external sources to finance its investments and avoid increasing debt, by working to invest the company's assets in investments that achieve profits and ensure that it achieves a sustainable growth gap.
- The general companies of the study sample were suffering from instability and tended towards the positive, and therefore the companies should It tries to apply strategies to improve inventory management and collection policies to ensure obtaining a negative cash turnover cycle, which provides additional cash to help it track investment opportunities, increase its profits and shareholder wealth, and enable it to retain part of it to finance future expansions, and this helps companies achieve a sustainable growth rate as it was It is expected every year in light of reaching the actual growth rate and thus achieving a balance in the sustainable growth gap.

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