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## Measuring the Extent of Liquidity's Impact on the Financial Structure

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**Abstract:**

**Purpose:** The study aimed to know the most important measures of liquidity affecting the financial structure, and the study was conducted on the Asia Cell Communications Company in Iraq and data were collected for the period (2009-2019).

**Design/Methodology/Approach:** To achieve the objectives of the study, a time series analysis was conducted to find out the degree of financial stability, conducting autocorrelation relations, an analysis Simple linear regression, a number of hypotheses regarding the regression have been realized, and some of them were counterproductive, and the reasons for this were explained.

**Findings:** As for the most important finding of the study is that the financial structure of the company depends largely on debt, which makes it lose flexibility, and that cash liquidity is insufficient to meet the company's short-term obligations.

**Practical Implications:** The most important recommendation was to raise the market value of the company's shares and approve financing through stock offering.

**Originality/Value:** The need to appoint experts in the field of advanced financial analysis in the company in order to develop financial plans.

**Keywords:** Liquidity, cash flow, financial structure.

**JEL codes:** G20, G33.

**Paper Type:** Research study.

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## 1. Introduction

Liquidity is one of the important determinants of the financial structure, and many studies have confirmed the existence of a direct relationship between liquidity indicators and the financial structure. Funding and thus the company will be able to control its financial structure. As the financial structure consists of two sources of financing, either through issuing new shares or resorting to borrowing. When the company has an efficient management of liquidity, it will avoid the cost of issuing new shares and also avoid resorting to loans and paying interest on them (Abu Shaban, 2017; Abbas, 2018).

Therefore, we notice that there is a relationship between liquidity and the financial structure. It can be a positive relationship if the company is well controlling liquidity, or it may be a negative relationship if there is no efficient management of liquidity, but there may be external factors that affect this relationship and this is what we will try to reach. For example, recession, economic maturity, financial crises and monetary inflation may affect the stability of the time series of the study data and be a non-static or unstable series, making the influence process even if it is positive between liquidity and the financial structure, it will be a false influence relationship.

Therefore, every future study must take this matter seriously into consideration and find out the real reasons for the loss of stability in the time series. And to make sure of the regression relationships between the study variables, even if they are positive, and each country has variables and restrictions that affect the time series of data, which are reached through the use of modern statistical methods through which accurate and comprehensive recommendations can be made for the study.

## 2. Liquidity

Liquidity is easy to avoid, easy to define, but difficult to determine the degrees of liquidity for each segment of the assets and the degree of liquidity in one segment varies according to size, time, market condition and degree of saturation etc. The psychological, social and political state is also included as a factor in the degree of liquidity. Liquidity is a central concept in all commercial and financial dealings.

Therefore, understanding its nature and legalization contributes to the ease of dealing and enriching the economic debate so that the level of liquidity in the economy increases and translates into a higher commercial movement and rhythm to serve the economy and economic actors individually or institutionally. Liquidity refers to a business both for its ability to fulfill its payment obligations, in terms of having sufficient liquid assets, on these same assets (Soprano, 2015; Abbas *et al.*, 2019; Farahvash, 2020; Campello *et al.*, 2011) that liquidity includes two concepts, namely:

1. The quantitative concept (STOCK CONCEPT), which considers liquidity through the quantity of assets that can be converted into cash at some point in time. Based on this concept, liquidity, through a balance of assets that can be converted into cash, is based on the liquid needs of the bank. Blame for this concept is its narrowness, due to its reliance in evaluating liquidity on the amount of assets convertible into cash, and its failure to consider the liquidity that can be obtained from the financial markets, and from the clients' repayment of their loans and their interest.

2. The concept of flow (FLOW CONCEPT), a concept that is seen liquidity as the amount of the convertible assets into cash, plus what can be obtained from the financial markets, and to pay customers for their obligations to the bank, whether in the form of benefits was such payment, or loan installments.

Based on the two previous concepts of liquidity, several definitions have emerged, including:

1. Liquidity: is to have the cash when you need it.
2. Liquidity: It is the ability to provide funds at a reasonable cost to meet obligations when they are realized.
3. Liquidity: It is the ability to face withdrawals from deposits and the demand for loans.
4. Liquidity: It is the ability to convert some assets into ready cash within a short period without loss.

Liquidity also expresses the facility's ability to meet its short-term liabilities, both expected and unexpected, when due through the normal cash flow resulting from its sales and collection of its receivables in the first place, and by obtaining cash from other sources in the second degree.

Also, cash liquidity in economic teachings expresses the facility's ability to pay or make available means (the assets of the facility) in a liquid form in order to cover liabilities within a short-term period, and the essence of liquidity is to provide sufficient assets and assets to meet the obligations or the ability to make these assets liquid Within a short time (Wang, 2002).

The term liquidity is also used to express either the ready cash, the liquidity of the company, or the liquidity of the asset

Company liquidity means that the company has sufficient liquid funds (cash and quasi-cash), meaning that the company's liquidity means the presence of liquid funds at the right time and in appropriate quantities through which the company can pay its financial obligations at their due date, move its operational cycle and face emergency situations. It is no secret that the liquidity of the company as a whole depends mainly on the liquidity of its assets and assets.

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A company's liquidity can be defined as the company's ability to pay its obligations on time (Almeida *et al.*, 2014).

Liquidity of the asset means the ease and speed of converting this asset into ready cash without any losses. Accordingly, the assets or liquid funds are, for example, ready cash, current account with the bank, treasury bills and short-term bills that can be deducted with the bank and their value can be easily collected (Bianchi and Bigio, 2014; Gupta and Kashiramka, 2020; Ali and Abdulhassan 2015).

Liquidity deserves special attention from central banks and companies, and market liquidity can be affected by changes in the cash rate. Financial that is in line with the financial policies taken by the central bank in order for the company to maintain a safe level of liquidity through which it is able to face financial crises and economic recession, or if the state applies ill-considered financial policies that reflect on the performance of the market and weaken its efficiency to low levels, then companies with fragile liquidity It is the first to be affected and is unable to meet short-term financial obligations.

Abu Shaban (2017) indicated that the cash flow scale plays a major role in measuring the strength of the company's cash financial position and the extent of its ability to meet its obligations. And operating cash flow is a good measure of its role in determining the company's ability to generate a positive cash flow that is able to cover and pay the operational obligations facing the company, as well as the net investment cash flow is a measure of the company's ability to pay installments of loans and cash distributions to shareholders, as well as the case for flows from financing activities that have a role in enhancing cash liquidity.

Abbas *et al.* (2018) believe that liquidity, according to the economic concept, is represented in the supply of cash made up of cash and demand deposits. Liquidity has an abstract concept as it can be defined as the ability to provide funds to meet contractual obligations and non-contractual customer requirements at reasonable prices at all times.

Al-Asadi, (2005) believes that liquidity according to the economic concept is represented in the supply of cash consisting of cash and demand deposits. Liquidity has an abstract concept as it can be defined as the ability to provide funds to meet contractual obligations and non-contractual customer requirements at reasonable prices at all times. Speed is an important indicator of converting an asset into cash with the least loss in value. From that, we find that liquidity depends on two factors:

- The period required to convert the asset into cash.
- The loss resulting from the transfer (the risks involved in losing part of the asset's value) and based on this, cash is considered a fully liquid asset, while the rest of the other assets differ in terms of their degree of liquidity, but they are less liquid than government securities, which are like treasury bills.

Cash, while non-liquid assets (such as land, for example), the degree of their liquidity depends on the presence of the appropriate buyer.

He has the desire to buy and this process may require a time depending on the nature and type of the asset whose price changes from day to day according to its characteristics and the circumstances in which the asset is disposed of. As for short-term financial investments (publicly traded securities) such as treasury bills, they fall under semi-liquid assets.

1. Time: The speed at which an asset can be converted into cash.
2. Risk: It is the possibility that the value of that asset may decrease or the possibility of defaulting or neglecting the product in some way in this area.
3. Cost: The financial sacrifices and other sacrifices that must be present in the process of implementing that change. The importance of liquidity is evident through the variables that affect it, namely: the nature and composition of liquid assets, and the maturity dates of loan installments submitted by the bank to the company.

### **3. Financial Structure**

Ghosh (2017) believes that the capital structure refers to the debt and equity owed to the company. It allows the company to understand the type of financing the company uses to fund its activities and its growth in general. In other words, it shows higher debt ratios, subordinated debt, and property rights in financing. The purpose of the capital structure is to provide an overview of the company's level of risk as a general rule. The higher the debt financing ratio the company has, the greater its exposure to risk.

Kassem and Jamil (2009), Majid, (2015), and Abbas *et al.* (2021) added that the financial structure is the sum of the sources of funds through which the assets of the company are financed and includes borrowed financing and proprietary financing or sources of external funds, represented by the various types of loans that the company obtains from external parties and the sources of self (internal) funds, which are represented by property rights Or what is known as the owner's capital or shareholders' equity. Or the rights of the owners of the project, and the latter includes five paragraphs (paid capital, preference paid capital, capital reserves, undistributed retained earnings, issuance bonuses).

Alzubaidi and Salameh (2014) indicated that the relationship between the basic variables for the formulation of the capital structure, represented by financial leverage, financing structure and weighted cost of funds, as well as factors that determine the capital structure such as tangible assets, profitability, size and other factors that determine their link and influence on the market value for the company, this topic is one of the important topics that still raises a lot of scientific controversy.

According to Talberg (2008, 183-185), the capital structure is usually expressed as a debt-to-equity ratio or debt-to-capital ratio. Debt and capital are used to finance business operations, capital expenditures, acquisitions and other investments. There are trade-offs that companies have to make when they decide whether they want to increase debt or equity and managers will strike a balance between the two attempts and find the optimal capital structure.

The optimal capital structure for a firm is often defined as the ratio of debt and equity that leads to the firm's weighted average cost of capital (WACC). This definition is not always taken into practice and companies often have a strategic or philosophical view of what the capital structure should be.

Jiang (2019, 1-2) noted that capital structures can vary drastically by industry. For example, industries like mining are debt-friendly because their cash flow profiles can be unpredictable and there is a great deal of uncertainty about their ability to pay off debt. Other industries such as banking and insurance may use massive amounts of leverage and their business models require large amounts of debt. Companies may have a more difficult time using debt on equity, especially small businesses that need personal guarantees from their owners.

Korajczyk *et al.* (2019, 258), Korajczyk and Levy (2003, 77), and Al-Masoodi *et al.* (2020) have found that a country's macroeconomic conditions have a material effect on the choice of capital structure. This is clear on stock prices and their impact on the economic situation. And that the targeted leverage is opposite to the economic cycles of unrestricted firms, but favorable to the cyclical cycles of firms that suffer from constraints. That is why macroeconomic conditions are important for choosing the appropriate time to offer new shares in the financial markets when economic conditions are favorable, while listed companies cannot.

Fernandes (2014) argues that a firm's capital structure is the formation or "structure" of its liabilities. For example, a company that owns \$ 20 billion in equity and \$ 80 billion in debt is said to be financing 20% of equity and 80% of the debt. In this example, it is referred to as the company's financial leverage. In reality, the capital structure can be very complex and includes dozens of sources of capital.

Miglo *et al.* (2014), Jadah *et al.* (2020) claimed that there are many factors that are not taken into consideration that will affect the company's capital structure policy. Factors such as comparative firms, problem control, life cycle, debt theory, and discipline. Rasoul (2014) argues that the capital structure is a force in and of itself that governs the extent of failure or success of the company. In order to achieve the company's financing objectives, any investment must be appropriately funded.

Multiple financing can affect the evaluation due to the effect of both the interest rate and cash flow, and thus the risk percentage to which the company is exposed, and then the management must determine the optimal mix of financing, which is the

capital structure to achieve the maximum possible benefit. Hassan and Alhaddb (2017) added that companies must make the decision to finance their activities in light of what is known as the concept of the optimal financing mix. Which makes the average weighted cost of the dinar collected from various financing sources a minimum.

Thus, the capital structure is the real force that governs the success or failure of the company. Whereas, good product, service, and management do not guarantee success, and the way in which companies make decisions related to the capital structure is one of the most important things in the field of financial management.

Ahmed and Wang (2011), Bauer (2004), Abdel Fattah (2014), and Al Saadi (2012) pointed out the most important determinants of the capital structure, which are:

1. Competition: Increased competition between companies leads to a decrease in the company's profitability, and thus less ability to obtain loans and resort to private funds, because debt service depends on profitability and the volume of sales. That is, there is an inverse relationship between competition and the company's ability to borrow from other companies if it wants to enter into large investment projects and finance them.
2. Degree of stability: There is a direct relationship between the degree of stability in providing corporate services and granting loans. The greater the degree of stability, the more the company can achieve profits and pay the obligations arising from it with the least possible risk and vice versa.
3. Growth rate: Companies that achieve high growth rates resort to external financing to cover their various expansion needs, unlike other low-growth companies that may resort to issuing shares.
4. Financial flexibility: It is the company's ability to face the various changes that occur, and accordingly amend its financing plans to suit its different financial needs, as financing by borrowing provides more flexibility than financing through property money.

Borrowing is available in multiple types, with varying dates, and in quantities that suit the company's conditions better than financing through equity, and the volume of new shares issuance is high to justify bearing the trouble, costs and procedures of issuance, in addition to the effect of borrowing on the erosion of profits is less compared to capital, because the right.

The lender is limited to the interest, part of which will be absorbed through the tax, and thus does not participate in the distributed profits unlike the property rights that lead to an increase in the taxable profit distribution base.

5. Asset structure: There is a relationship between the asset structure and the absorptive capacity for borrowing, as the company's ability to borrow decreases when the ratio of fixed assets to total assets is high and this means that the ratio of fixed costs to total costs is high, which means that the company is characterized by a high degree of operational leverage and a high-risk ratio. Operating leads to a high profit sensitivity to any small change in the sale of services to the company.

6. Timing: Timing is important in choosing different funding sources, so the company must use the appropriate source at the right time, by following up on the various financial changes and addressing them in a timely manner.

7. The life cycle of the company: It is divided into four basic stages: the entry stage, expansion, maturity and deterioration, and the financial structure of each varies according to the stage it passes through.

8. The size of the company: the size of the company greatly affects the structure of the automated structure. Small-sized companies depend on internal sources for their financing, while large-sized companies depend on borrowing from other financial institutions.

9. Management trends: The choice of funding sources in the company is influenced by the attitudes of administrators through two directions, the first is control and control through resorting to borrowing, and the second is the danger through resorting to private funds.

10. Lenders' trends: The lender plays an important role in determining the composition of the financial structure of the company, because the lender is the one who first approves the ratio of borrowing requested by the company.

11. Trade-off theory: It indicates a positive relationship between profitability and financial leverage because high profitability encourages the use of debt and provides an incentive for companies to benefit from the tax shield on interest payments. The pecking order theory assumes that firms prefer to use internally generated funds when available and choose debt over equity when external financing is required.

Hence, this theory indicates that there is a negative relationship between profitability (source of internal funds) and financial leverage. Several empirical studies have also reported a negative relationship between profitability and leverage.

12. Tangibility: Firms may find it beneficial to sell secured debt because there are some costs associated with issuing securities that company managers have better information about than outside shareholders. Thus, issuance of debt secured by the property of known values avoids these costs. This conclusion indicates that there is a positive relationship between tangibility and financial leverage because companies



owning assets can offer these assets to lenders as collateral and issue more debt to take advantage of this opportunity.

13. Earnings volatility: Several empirical studies have shown that the optimal level of a company's debt is to reduce the volatility function in its earnings. High volatility in earnings may indicate an increased likelihood that the firm will not be able to meet its contractual demands as they fall due.

The firm's debt capacity may also decrease as its earnings volatility increases, indicating a negative relationship between earnings volatility and financial leverage. Various empirical studies have shown a significant negative relationship between financial leverage and profit volatility.

14. Liquidity: Swap theory suggests that firms with higher liquid ratios should borrow more due to their ability to fulfill contractual obligations on time. Hence, this theory predicts a positive relationship between liquidity and financial leverage. On the other hand, the chain demand theory predicts a negative relationship between liquidity and financial leverage, because a company with large liquidity prefers to use internally generated funds while financing new investments.

## **4. Research Methodology**

### **4.1 The Study Problem**

The studies differed in finding the effect of liquidity on the financial structure, some of them indicated a positive effect, while the other section indicated a negative impact, and this indicates that the different financial situation of any organization will have different results from other organizations even if they are working in the same field and from here comes our role in knowing the reasons that lead to the emergence of a positive or negative impact of liquidity on the financial structure of the company and to determine the most important steps that must be followed to address the defect, if any.

Hence, the study problem focuses on knowing the extent of the impact of liquidity on the financial structure of the company operating in the telecommunications sector.

### **4.2 Objectives of the Study**

The purpose of this study is to identify the most important liquidity indicators that are frequently used in most previous studies and to know the extent of their impact on the financial structure, in addition to clarifying the concept of the financial structure and knowing the most important theories explaining the financial structure.

### 4.3 The Importance of Studying

The issue of the financial structure is one of the important pillars for the survival of companies in light of the recurring financial crises and the large number of competitors in the same field. Liquidity indicators also affect the financial structure, especially in light of the current trends in which the importance of owned capital is equal with the borrowed capital and thus liquidity is Who will determine the type of capital that the company will rely on in order to reduce the costs of issuing new shares or even resorting to loans. When effective liquidity management is achieved, the company can be free to develop a financial structure commensurate with the company and the economic situation it is going through.

### 4.4 Study Sample

Asia cell Communications Company was taken in Iraq, and it is one of the important companies and has a variety of services provided. In addition, there are two communication companies in Iraq, namely Zain and Asia cell. But we found that Asia cell is the only company registered in the Iraq Stock Exchange and therefore most of its data are available on the market's official website and are also available on the Securities Commission's website, and the years 2009-2019 have been studied (i.e., included only 11 years).

#### 4.4.1 Study Metrics

A number of measures were relied upon, which most studies agreed upon, and they are as shown in Table (1)

**Table 1.** The measures adopted to measure the results of the study

| Items            | Type         | Dime-nsion | Ratios   | Sources  |
|------------------|--------------|------------|--|--|
| Liquidity Ratios | Independende | X1         | Net working capital= Current Assets - Current Liabilities  | (Abu Shaban, 2017); (Brigham & Houston, 2021); (Brigham, & Ehrhardt, 2016) |
|                  |              | X2         | Current Ratio = Current Assets / Current Liabilities   |  |
|                  |              | X3         | Quick (Acid-Test) Ratio= (cash + marketable securities + accounts receivable)/ current liabilities |  |
|                  |              | X4         | Cash ratio (doomsday ratio) = cash/ current liabilities  |  |
|                  |              | X5         | Cash burn rate= current assets/ average daily operating expenses                                   |  |
|                  |              | X6         | Flow to Total Assets Ratio = Net Cash Flow / Total Assets  |  |
|                  |              | X7         | Flow to Total Equity Ratio = Net Cash Flow / Total Equity  |  |
|                  |              | X8         | Ratio of Operating Flow to Total Assets = Net Operating Flow / Total                               |  |

|                            |           |    |  |  |
|----------------------------|-----------|----|--|--|
|                            |           |    | Assets   |  |
|                            |           | X9 | Profit Flow Ratio = Net Cash Flow / Net Profit |  |
| Financial Structure Ratios | dependent | Y1 | Ratio of short debt / total assets             | (Özçelik, Arslan, 2019); (Mohsin et al, 2018); (Abbas et al, 2018) |
|                            |           | Y2 | Ratio of long debts / total assets             |  |
|                            |           | Y3 | Ratio of total debt / total assets             |  |
|                            |           | Y4 | Ratio of total liabilities/ total equity       |  |
|                            |           | Y5 | ratio of total equity / total assets           |  |

Source: Own study.

#### 4.4.2 Study Hypotheses

**The first hypothesis:** There is a stable time series for the indicators of the variable liquidity and financial structure.

**The second hypothesis:** There is a positive autocorrelation between liquidity indicators and financial structure indicators

**The third main hypothesis:** There is a significant influence relationship between liquidity and financial structure.

And branched from the third hypothesis nine sub-hypotheses:

**The first sub-hypothesis:** There is a significant impact relationship between the net working capital and the financial structure.

**The second sub-hypothesis:** There is a significant impact relationship between the current ratio and the financial structure.

**The third sub-hypothesis:** There is a significant impact relationship between the Quick ratio and the financial structure.

**The fourth sub-hypothesis:** There is a significant influence relationship between the Cash ratio and the financial structure.

**Fifth sub-hypothesis:** There is a significant impact relationship between the Cash burn rate and the financial structure.

**Sixth sub-hypothesis:** There is a significant impact relationship between the ratio of flow to total assets and the financial structure.

**The seventh sub-hypothesis:** There is a significant impact relationship between the flow rate to total equity and the financial structure.

**The eighth sub-hypothesis:** There is a significant impact relationship between the ratio of operating flow to total assets and the financial structure.

**The ninth sub-hypothesis:** There is a significant impact relationship between the profit flow ratio to total assets and the financial structure.

#### 4.5 Practical Side / Liquidity Indicators

##### 4.5.1 Working capital

The results of the above table indicate that the company achieved negative working capital for all the years of study, and this is in fact something expected in terms of the company's pursuit of a policy of deferred purchase and delaying the periods of repayment of the debts resulting from those purchases parallel to the lax in collecting the amounts of its debt in a way that led to a major shortage in terms of its

cash liquidity, and as a result, this has affected its current liabilities on its current assets.

Negative working capital describes a situation when current liabilities exceed current assets. In other words, there is more short-term debt than short-term assets. It is noticed from Table 2 the emergence of working capital negatively and over the previous years, where we notice an increase in working capital negatively from the beginning of 2009, but it witnessed a big boom in 2014 and 2015, after which the negativity began to decrease in 2018 and 2019

**Table 2.** *Net working capital*

| <b>Years</b> | <b>Net working capital (numbers in thousands) (X1)</b> |
|--------------|--|
| <b>2009</b>  | -499,441,017   |
| <b>2010</b>  | -704,522,277   |
| <b>2011</b>  | -434,932,913   |
| <b>2012</b>  | -294,071,723   |
| <b>2013</b>  | -337,417,000   |
| <b>2014</b>  | -679,592,000   |
| <b>2015</b>  | -710,666,000   |
| <b>2016</b>  | -389,069,000   |
| <b>2017</b>  | -293,483,000   |
| <b>2018</b>  | -131,730,000   |
| <b>2019</b>  | -53,263,000  |

*Source: Own study.*

Working capital demonstrates the company's ability to fulfill its obligations during the financial period and its ability to manage operations and also clarifies the liquidity position. Therefore, its negative appearance means the facility's inability in the current period to fulfill its short-term obligations and that it suffers from liquidity problems. It means that the facility cannot fulfill its obligations in the short term and all reserves must be taken and work to get the company out of its financial failure quickly, and the management must reconsider its monetary and credit policy.

Among the things that lead to the emergence of negative working capital is the inefficiency of accountants in performing their role in the accounting field by not restricting accounting operations, delaying recording accounting entries and deporting them, insufficient disclosure by the owner of the company about the capital. Negative working capital could be a sign of the distress that could grow.

Perhaps the primary problem is lower sales, which reduce accounts receivable or impose a backlog in the accounts payable account (part of current liabilities) as the company finds it more difficult to pay its bills on time.

Passive capital indicates the company's inability to invest and grow. Continuity over many years with the emergence of negative working capital indicates that if the

company faces financial crises or changes in economic conditions, this will not be in its interest. But the strange thing is despite the accuracy in collecting data from reliable sources, which is the Iraq Stock Exchange. This raises a question that the company is not characterized by transparency in presenting its data. Because over the past years, the company has achieved great growth in all Iraqi governorates, and its services have diversified despite the emergence of negative working capital, and there is a kind of contradiction.

#### ***4.5.2 Indicators used to measure circulation ratios***

The results of Table 3 indicate that the company achieved the study sample to different results regarding the current ratio indicator, which means that every dinar invested in current assets is supposed to be able to pay one dinar in current liabilities, as all these results lead to the advancement of current liabilities on the assets. Traded, which made these assets weak in terms of countering those liabilities, as the lowest results were achieved in 2010 and the highest in 2019, which witnessed a noticeable improvement in the current ratio index.

In terms of the quick ratio, it went in the same direction as the circulation ratio, and this is logical as long as the company does not have a specific strategy for the storage policy as a result of its excessive purchase and the term is matched by the weakness of the company in terms of payment, and this is what the results of applying the cash ratio indicator showed as the cash amount for the company is very weak as a result of the company's policy of planning to collect its debt with stagnant activity in general, especially in 2010, and as a result, this, in turn, affected the results of applying the cash-burning rate shown in the above Table 2.

#### ***4.5.3 Current ratio***

It measures the number of times current assets cover current liabilities. The current ratio can be calculated by dividing the company's current assets by the current liabilities. It is an indicator of the company's ability to pay short-term liabilities.

Traditionally the appropriate and adequate circulation ratio for business establishments, in general, represents - in the opinion of many financial analysts - that the current assets are twice the current liabilities, and if the ratio is greater than that, this may mean that the establishment invests more money than necessary in its current assets that do not achieve The desired return, but if the percentage is less than that, this may be an indication of the establishment's inability to pay its short-term obligations on their due dates. It measures the company's ability to pay current liabilities such as credit balances, short-term debits, etc.

Current liabilities are used as a denominator because it represents the most outstanding debt during the operating cycle or one year, whichever is longer. Current assets are taken as the numerator and represent the most liquid assets to meet these liabilities. This ratio is considered a good indicator for measuring short-term liquidity, although there are some limitations. Some items such as prepaid expenses

that represent the early settlement of future liabilities are not considered a potential source of cash. Likewise, receivables and inventories may not be really liquid. And some companies with very high trading rates may not be able to fulfill their current liabilities. The reason may be the poor quality of receivables (as a result of poor credit policy) or slow-moving stocks that can only be sold at discounted prices.

Thus, it is necessary to use another measure in addition to the trading ratio, such as cash flow from operations and liquidity from other assets. When this percentage increases, this indicates the ability of the company to face the risks of sudden settlement of current obligations without the need to liquidate any fixed assets or obtain a new borrowing.

However, we go back to pointing out that the ratio cannot be deafly read, so the increase in the ratio is a good thing, but the increase can be acceptable to a certain degree. The cash item is exaggerated, which indicates that the company is not using its liquidity well and reduces profitability as a result, or perhaps because of the increase in the accumulation of the clients' item and inflated as a result of not using good policies in the collection and follow-up of the debtor customers.

This ratio is considered a good indicator for measuring short-term liquidity, although there are some limitations. Some items such as prepaid expenses that represent the early settlement of future liabilities are not considered a potential source of cash.

Likewise, debits and stocks may not be really liquid. And some companies with very high trading rates may not be able to fulfill their current liabilities. The reason may be the poor quality of receivables (as a result of poor credit policy) or slow-moving stocks that can only be sold at reduced prices.

Thus, it is necessary to use another measure in addition to the trading ratio, such as cash flow from operations and liquidity from other assets. We notice that the circulation ratio was low in the early years, but it began to improve, albeit slightly in 2018 and 2019. This proves that the company is unable to fulfill its short-term commitment.

#### ***4.5.4 Quick ratio***

The quick ratio or the so-called (quick repayment ratio) measures the project's ability to pay short-term current liabilities by current assets without resorting to selling inventory. Here the stock is subtracted from current assets because it is considered the least liquid component of these assets and because it achieves the largest amount of loss in the event of liquidation compared to the other components of current assets.

This ratio shows the extent of the possibility of paying short-term liabilities within a few days. The inventory item is avoided due to it being one of the least liquid elements of current assets and also because it is difficult to dispose of it within a

short time without achieving losses. It is noticed from Table 3 that there is a significant decrease in the fast liquidity ratio and its instability from 2009 to 2016.

However, it started to rise, albeit slightly from 2017 to 2019. Nevertheless, the rapid circulation ratio is considered very low despite the exclusion of storage, as it is not subject to liquidity quickly. However, the rest of the percentage is low, which confirms to us that there are weaknesses in the company's policies and its inability to take correct decisions to address this decline over the previous years.

**Table 3.** Scales used to measure circulation rates

| years | Current Ratio (X2) | Quick (Acid-Test) Ratio (X3) | Cash ratio (doomsday ratio) (X4) | Cash burn rate (X5) |
|-------|--------------------|------------------------------|----------------------------------|---------------------|
| 2009  | 0.276              | 0.259                        | 0.207                            | 0.245               |
| 2010  | 0.261              | 0.250                        | 0.184                            | 0.235               |
| 2011  | 0.346              | 0.327                        | 0.256                            | 1.239               |
| 2012  | 0.577              | 0.559                        | 0.419                            | 0.295               |
| 2013  | 0.591              | 0.574                        | 0.357                            | 0.332               |
| 2014  | 0.521              | 0.508                        | 0.390                            | 0.481               |
| 2015  | 0.475              | 0.461                        | 0.345                            | 0.453               |
| 2016  | 0.692              | 0.678                        | 0.476                            | 0.671               |
| 2017  | 0.795              | 0.782                        | 0.595                            | 0.845               |
| 2018  | 0.910              | 0.899                        | 0.710                            | 1.102               |
| 2019  | 0.964              | 0.953                        | 0.745                            | 1.163               |

Source: Own study.

#### 4.5.5 Cash ratio (Doomsday Ratio)

It is the most conservative measure of a company's ability to pay off its short-term obligations. The name is derived from the assumption that if the company is on the verge of bankruptcy, can it pay its bills at the moment, and the ratio is not actually used for this purpose, but rather to determine the adequacy of the amount of cash available. The ratio is especially useful in order to know whether the amount of cash stock is decreasing over time, indicating a possible liquidity crisis in the near future.

A company using this metric is likely to adopt the most conservative cash management practice, in order to enhance the amount of cash available at all times. In addition, the company manages the company's funds more tightly and has good cash forecasting capabilities by investing excess funds in tools that cannot be easily converted into cash, leading to a lower Doomsday ratio.

This measure monitors the risk of running out of funds. Many studies have indicated that a ratio of 1.0 indicates the ability to pay all current obligations in cash, but most companies consider this rate very strict and consider that a ratio of .75 or more is the best and is considered sufficient to meet short-term obligations. Therefore, we note from the table that the Doomsday ratio was very low from 2009 to the end of 2017, and this confirms the company's inability to fulfill current liabilities, especially

short-term current liabilities, but from 2018 to the end of 2019 the ratio began to gradually improve.

#### **4.5.6 Cash burn rate**

Combustion rate is commonly used to describe the rate at which a new company spends its investment capital to finance overheads before generating a positive cash flow from operations. It is a measure of negative cash flow. The burn rate is usually determined in terms of cash spent monthly.

Burn rate refers to the rate at which a company spends its cash over time. It is a negative cash flow rate, and it is usually set as a monthly rate. In some crisis situations, the burn rate can be measured in weeks or even days. The analysis of cash consumption shows investors whether the company is self-sufficient, and indicates the need for financing in the future.

Burn rate is a problem for startups that are usually unprofitable in their early stages and are usually in high growth industries. It can take years for the company to generate a profit from its sales or revenue, and as a result, it will need an adequate supply of cash on hand to cover the expenses. If the company's cash-burn rate continues over a long period of time, then the company is likely to operate on equity and borrowing capital funds. Investors need to pay close attention to the cash burning rate, especially if the company is seeking additional capital.

If companies burn money too quickly, they risk going out of business. On the other hand, if the company is burning money very slowly, it could be a sign that the company is not investing in its future and may fall behind in the competition.

It is noted from Table 3 that the company is barely able to pay operating expenses and that most of its money goes to operating expenses, which reduced its investments. We have noticed this by reviewing the company's balance sheet over the years of study that it has no investments in securities. But only in 2011, 2018 and 2019 there was a kind of improvement in the cash burn rate, but it was also insufficient in the event that the company faced sudden operating expenses. We conclude from these financial ratios that the level of the company's performance was weak over the years of study, and your plan did not take a strategy to address these crises. But there is some kind of slight improvement in 2019.

#### **4.5.7 Metrics used to measure liquidity through cash flows**

The results of Table 4 indicate that varying results occurred between the years of study and for all of the above indicators, although all were weak, and this is an issue expected to occur if the company's policy is pursued in this way. Indeed, some of them, such as 2010, 2011 and 2015, entered the area of fiscal deficit, this has taken the same direction when applying the net cash flow index to the total ownership of the company as well as the rest of the indicators.



In fact, what the company suffers from are two basic issues, namely excessive credit dealings with stock accumulation as well as poor liquidity, so the results came as shown in Table (4). In fact, some percentages appeared negative, and this confirms to us that the company during these years is unable to meet short-term obligations.

**Table 4.** Scales used to measure liquidity through cash flow

| years | Net cash flow to total assets (X6) | Net cash flow to equity (X7) | Net operating cash flow to total assets (X8) | Net cash flow to net profit (X9) |
|-------|------------------------------------|------------------------------|--|----------------------------------|
| 2009  | 0.0049                             | 0.0285                       | 0.0474                                       | 0.0487                           |
| 2010  | -0.0035                            | -0.0119                      | 0.0504                                       | -0.0268                          |
| 2011  | -0.0038                            | -0.0079                      | 0.0562                                       | -0.0905                          |
| 2012  | 0.0429                             | 0.0640                       | 0.2900                                       | 0.1833                           |
| 2013  | 0.0009                             | 0.0015                       | 0.3709                                       | 0.0050                           |
| 2014  | 0.0721                             | 0.1385                       | 0.2725                                       | 0.7543                           |
| 2015  | -0.0251                            | -0.0453                      | 0.1998                                       | -1.6350                          |
| 2016  | 0.0403                             | 0.0694                       | 0.1055                                       | 4.6120                           |
| 2017  | 0.0773                             | 0.1475                       | 0.1794                                       | 6.4732                           |
| 2018  | 0.0641                             | 0.1285                       | 0.0171                                       | 1.3637                           |
| 2019  | 0.0280                             | 0.0593                       | 0.0401                                       | 0.4911                           |

*Source:* Own study.

#### 4.5.8 Financial structure indicators

It is evident from the application of the indicators of Table 5 that there is a discrepancy in the results, the same as the results of the application of the previous indicators, as it is noticed from the application of the indicator of the ratio of the short-term debt to the total assets that the results are weak so that the short-term debts do not constitute a big thing in relation to total assets and the reason is due to the number. The large amount of long-term assets represented in idle investment in buildings and some lands without benefiting from them.

Also, the ratio of long-term liabilities to total assets was low, and this is something expected due to the increase in the amount of long-term assets. As a result, the ratio of total liabilities to total assets has tended with the same decline line, and as for the application of the ratio of total liabilities to total ownership of the company, the two sides of the ratio have converged.

Due to the high amount of current liabilities, the results of the application of the indicator of the ratio of ownership to total assets were also low, especially 2009 and 2010 due to the low activity of the company in these two years compared to the rest of the years of study, noting that the company has improved its position in relation to this indicator in most of the years of study despite the converging discrepancy. Among the results, and what follows a detailed explanation of them.

#### 4.5.9 The ratio of short-term debt to total assets

A ratio greater than (1) shows that a considerable portion of the assets is funded by debt. In other words, the company has more liabilities than assets. A high ratio also

indicates that a company may be putting itself at risk of defaulting on its loans if interest rates were to rise suddenly. A company with a high degree of short-term debt is finding it difficult to stay afloat during an economic downturn. Its short-term debt ratio was low, but it started to increase slightly in 2018 and 2019, and this may not constitute an obstacle to its very large assets.

#### **4.5.10 The ratio of long-term debt to total assets**

It is a coverage or solvency ratio used to calculate the amount of a company's leverage. The result is the percentage of assets the company will have to liquidate to pay off its long-term debt. The increase in this percentage is an indication of the financial instability of the company, and Table 5 shows that the percentages of the company were low and decreased significantly in 2019. We conclude that the company has the ability to develop long-term strategic plans in order to face these fluctuations, especially with regard to long-term debt.

#### **4.5.11 Ratio of total debt to total assets**

It represents the leverage ratio that determines the total amount of debt in relation to assets. This measure enables comparisons of leverage between different companies. The higher the ratio, the higher the degree of financial leverage (DoL) and, accordingly, the financial risk. Total debt to total assets is a broad ratio that analyzes a company's balance sheet by including long-term debt and short-term debt (loans mature within one year), as well as all assets - both tangible and intangible, such as goodwill. It is a measure of a company's assets that are being funded by debt rather than equity.

This leverage ratio shows how the company has grown and acquired its assets over time. Investors use the ratio not only to assess whether the company has sufficient funds to meet its current debt obligations but also to assess whether the company can pay a return on its investment. Creditors use the ratio to find out how much debt the company actually has and whether the company has the ability to pay off its current debt, which will determine whether additional loans are to be extended to the company.

Total debt to total assets shows the degree to which a company has used debt to fund its assets. The calculation takes into account all of the company's debt, not just outstanding loans and bonds, and looks at all assets, including intangible ones. The ratio of total debt to total assets is 0.4, and this indicates that 40% of its assets are financed by creditors, with owners (shareholders) financing the remaining 60% with equity. A ratio over 1 shows that a large portion of the debt is being financed by assets.

In other words, the company has more liabilities than assets. A high ratio also indicates that the company may be putting itself at risk of defaulting on its loans if interest rates suddenly rise. A ratio of less than 1 implies the fact that the greater part of the company's assets is being funded by equity. Through Table 5, we note that the

ratio for all school years is less than 1, and this indicates that the company is able to fulfill its financial obligations.

#### ***4.5.12 The ratio of total liabilities to total equity***

This ratio indicates the amount of debt and equity used to finance the company's assets, to see if the company's assets financing tends to debt or equity, and it also indicates the extent to which shareholders' rights can fulfill their obligations towards creditors in the event of a decline in commercial activity. The lower value of the debt-to-equity ratio indicates a lower volume of financing through debt and borrowing, as opposed to financing through equity, and a higher value indicates that the company obtains a lot of its financing through borrowing, which exposes the company to potential risks in the case of debt levels.

High, the more the company relies on borrowed money to finance its operations, the greater the risk of it being exposed to financial problems and bankruptcy, and the higher the ratio is greater than 1.25, the greater the potential risks that the company is exposed to as a result of borrowing, the more it may lose and its debts become complex and the company will not be able to repay it, which will ultimately lead to a decrease in its share prices and expose it to bankruptcy., Large debts may not always be a sign of danger, especially for industries with huge capital such as the automobile industry, where the debt-to-equity ratio is more than 2 and is considered a good thing.

In contrast, software companies, for example, do not need expensive equipment to produce their goods, and thus the debt-to-equity ratio is higher. As low as 0.5, The debt-to-equity ratio indicates the method of raising capital in order to carry out the company's business, and it is an important financial measure because it indicates the stability of the company and its ability to raise additional capital for the sake of its growth.

Therefore, we note from Table 5 that it reached high rates in each of (2009, 2010, 2019) and this increases the seriousness of the situation, especially in 2019, as the world is witnessing a financial recession due to the Corona pandemic.

#### ***4.5.13 The ratio of total equity to total assets***

The Equity-To-Asset ratio is a measure of Solvency and is determined based on information derived from a company operations balance sheet. The term Solvency refers to the ability of a company to pay all of its debt if it were to have to immediately sell the company. The Equity-To-Asset ratio specifically measures the amount of equity the company has when compared to the total assets owned by the company.

This ratio is measured as a percentage. The higher the percentage the less of the company is leveraged or owned by the bank through debt. Any ratio less than 70% puts a company at risk and may lower the borrowing capacity that a company has.

A company that has an Equity-To-Asset ratio such as a .49 (49%) has 51% of the business essentially owned by someone else, usually the bank. If the Debt-To-Asset ratio and the Equity-To-Asset ratio are added together it should equal 100% (or 1.0). As indicated in Table (5), the company's position is not good because the percentage is very small.

**Table 5.** *The metrics used to measure the capital structure*

| years | The ratio of short debt to total assets (Y1) | The ratio of long debts to total assets (Y2) | The ratio of total debt to total assets (Y3) | Ratio of total liabilities to total equity (Y4) | The ratio of total equity to total assets (Y5) |
|-------|--|--|--|---|--|
| 2009  | 0.267  | 0.529  | 0.797  | 1.698   | 0.174  |
| 2010  | 0.329  | 0.342  | 0.797  | 1.225   | 0.295  |
| 2011  | 0.240  | 0.267  | 0.507  | 0.508   | 0.485  |
| 2012  | 0.188  | 0.083  | 0.272  | 0.367   | 0.670  |
| 2013  | 0.166  | 0.049  | 0.215  | 0.426   | 0.645  |
| 2014  | 0.309  | 0.072  | 0.381  | 0.756   | 0.520  |
| 2015  | 0.340  | 0.046  | 0.387  | 0.701   | 0.554  |
| 2016  | 0.312  | 0.036  | 0.349  | 0.646   | 0.580  |
| 2017  | 0.369  | 0.026  | 0.395  | 0.848   | 0.524  |
| 2018  | 0.415  | 0.013  | 0.429  | 0.975   | 0.499  |
| 2019  | 0.465  | 0.006  | 0.472  | 1.102   | 0.472  |

*Source:* Own study.

## 5. Statistical Tests

For the purpose of completing the statistical aspect, the (EViews 10) program has been relied on to complete the statistical analysis and a number of tests have been conducted, namely (time series stability test, autocorrelation test, simple linear regression test). All tests were performed at 5% significance level.

### 5.1 Time Series Stability Test

In order to test the stability of the time series, we have approved and tested the stability based on the model (KPSS unit root test), Which is adopted for testing short time series, because the current study series includes 11 years. The test was conducted at the level of significance of 5%, and the test was conducted for the unit root at (level), and the selection equation was within (trend and intercept).

The result was that the value of (LM), which represents the probability, was for most of the years less than the significant value of (0.1600) at the level of 5% significance, and this indicates stability, but we have had some anomalous and unstable ratios of the variables (X6, X7, X9) and this indicates the regression at these variables with the dependent variable will be false and cannot be actually relied upon in making an accurate decision as shown in Table 6.

**Table 6.** KPSS unit root test

| Scales  | LM       |
|---|----------|
| Net working capital (X1)                      | 0.101597 |
| Current Ratio (X2)                            | 0.212286 |
| Quick Ratio (X3)                              | 0.210078 |
| Cash ratio (X4)                               | 0.142951 |
| Cash burn rate (X5)                           | 0.116392 |
| Flow to Total Assets Ratio (X6)               | 0.500000 |
| Flow to Total Equity Ratio (X7)               | 0.500000 |
| Ratio of Operating Flow to Total Assets (X8)  | 0.145580 |
| Profit Flow Ratio (X9)                        | 0.500000 |
| Ratio of short debt / total assets (Y1)       | 0.179550 |
| Ratio of long debts / total assets (Y2)       | 0.162010 |
| Ratio of total debt / total assets (Y3)       | 0.144996 |
| Ratio of total liabilities/ total equity (Y4) | 0.211030 |
| ratio of total equity / total assets (Y5)     | 0.145918 |

Source: Own study.

## 5.2 Autocorrelation Test

It is a mathematical representation of the degree of similarity between a certain time series and its slow or lagging versions of itself over successive time periods. It is the same as calculating the relationship between two different time series, except that the same time series is used twice. Once in its original form and at a later time or in the form of larger periods of time. autocorrelation can also be referred to as slow correlation or serial correlation, as it measures the relationship between the current value of the variable and its previous value, when calculating the automatic correlation, the result can range from +1 to -1.

The autocorrelation +1 represents an ideal positive correlation where an increase in one time series leads to a proportional increase in the other time series. As for the autocorrelation 1- it represents an ideal negative correlation, and the increase that appears in one time series leads to a proportional decrease in the other time series. Autocorrelation measures linear relationships even if autocorrelation is small, and there may still be a nonlinear relationship between a time series and a later version of itself. The test was performed at 5% significance level (Durbin and Watson, 1950).

We note in Table 7 that the autocorrelation relationship between all independent and dependent variables has been tested, and there are some tests that have entered within the scope of uncertainty, and this means that it cannot be accepted and cannot be rejected, and they are as proven in Table 7 in the misleading squares and bear the symbol (Inconclusive = IN), Also, some of the tests came in which there is no autocorrelation as in Table 7 and shaded in dark color and bears the symbol (No autocorrelation = Na), meaning that the data for this year are not autocorrelation with the data of the previous year for some indicators and more precisely that the

current values of this indicator are not affected by the same values Index for the previous year. As for the rest of the tests in Table 7, they confirmed the existence of autocorrelation.

Autocorrelation can show whether there is a momentum factor associated with the study indicators. For example, If you know that an indicator historically has a high positive autocorrelation value and you see that this indicator has achieved a strong percentage over the past several years, you might reasonably expect that the movements over the next several years (the leading time series) will coincide with those in the later time series and move to Top.

Although some of the tests were not fulfilled, as it entered within the scope of uncertainty, the second main hypothesis was fulfilled as shown in Table 7 and indicated the existence of a positive self-correlation. This confirms that the data for each previous year affect the data for the current year and are interconnected with each other within the 11-year time series.

**Table 7.** *The autocorrelation of the dimensions of the independent variable with the dimensions of the dependent variable*

| N. | Variable | Durbin-Watson | Type autocorrelation | N. | Variable | Durbin-Watson | Type autocorrelation |
|----|----------|---------------|----------------------|----|----------|---------------|----------------------|
| 1  | X1---Y1  | 0.934670      | IN                   | 29 | X5---Y5  | 0.562900      | Pa                   |
| 2  | X1---Y2  | 0.451098      | Pa                   | 30 | X5---Y   | 0.514272      | Pa                   |
| 3  | X1---Y3  | 0.367847      | Pa                   | 31 | X6---Y1  | 0.764719      | Pa                   |
| 4  | X1---Y4  | 0.587664      | Pa                   | 32 | X6---Y2  | 0.865446      | Pa                   |
| 5  | X1---Y5  | 0.454335      | Pa                   | 33 | X6---Y3  | 0.811858      | Pa                   |
| 6  | X1---Y   | 0.470407      | Pa                   | 34 | X6---Y4  | 0.657494      | Pa                   |
| 7  | X2---Y1  | 1.142609      | IN                   | 35 | X6---Y5  | 0.736462      | Pa                   |
| 8  | X2---Y2  | 0.614579      | Pa                   | 36 | X6---Y   | 0.658751      | Pa                   |
| 9  | X2---Y3  | 0.504668      | Pa                   | 37 | X7---Y1  | 0.860866      | Pa                   |
| 10 | X2---Y4  | 0.614178      | Pa                   | 38 | X7---Y2  | 0.753098      | Pa                   |
| 11 | X2---Y5  | 0.526891      | Pa                   | 39 | X7---Y3  | 0.697804      | Pa                   |
| 12 | X2---Y   | 0.528657      | Pa                   | 40 | X7---Y4  | 0.607131      | Pa                   |
| 13 | X3---Y1  | 1.145101      | IN                   | 41 | X7---Y5  | 0.634877      | Pa                   |
| 14 | X3---Y2  | 0.601352      | Pa                   | 42 | X7---Y   | 0.579931      | Pa                   |
| 15 | X3---Y3  | 0.510780      | Pa                   | 43 | X8---Y1  | 0.826276      | Pa                   |
| 16 | X3---Y4  | 0.615125      | Pa                   | 44 | X8---Y2  | 0.255141      | Pa                   |
| 17 | X3---Y5  | 0.528865      | Pa                   | 45 | X8---Y3  | 0.845199      | Pa                   |
| 18 | X3---Y   | 0.530857      | Pa                   | 46 | X8---Y4  | 1.347283      | Na                   |
| 19 | X4---Y1  | 1.185687      | IN                   | 47 | X8---Y5  | 0.877037      | Pa                   |
| 20 | X4---Y2  | 0.571971      | Pa                   | 48 | X8---Y   | 1.224180      | IN                   |
| 21 | X4---Y3  | 0.541146      | Pa                   | 49 | X9---Y1  | 0.771684      | Pa                   |
| 22 | X4---Y4  | 0.618317      | Pa                   | 50 | X9---Y2  | 0.462327      | Pa                   |
| 23 | X4---Y5  | 0.547443      | Pa                   | 51 | X9---Y3  | 0.549731      | Pa                   |
| 24 | X4---Y   | 0.545149      | Pa                   | 52 | X9---Y4  | 0.616942      | Pa                   |

|   |         |          |    |    |         |          |    |
|---|---------|----------|----|----|---------|----------|----|
| 25  | X5---Y1 | 1.379393 | Na | 53 | X9---Y5 | 0.558986 | Pa |
| 26  | X5---Y2 | 0.640183 | Pa | 54 | X9---Y  | 0.542515 | Pa |
| 27  | X5---Y3 | 0.522498 | Pa | 55 | X---Y   | 0.470407 | Pa |
| 28  | X5---Y4 | 0.571858 | Pa |    |         |          |    |
| Positive autocorrelation = Pa, No autocorrelation= Na, Inconclusive= IN significance= 5%, n=11, k=1, dl=0.93, du=1.32 |         |          |    |    |         |          |    |

Source: Own study.

### 5.3 Simple Linear Regression Test

#### 5.3.1 Measuring the Regression Coefficient between Net Working Capital and Financial Structure

The regression coefficient in Table 8 reveals that the independent variable represented by working capital explains the amount (0.031022) of the change in the financial structure, which is a significant relationship because the value of (p-value) is less than the level of significance of (5%) and the rest refers to other variables that did not It is included in the model or it is within the random variable, and this may be due to missing data or errors in the measurement.

Therefore, the random variable is the guarantor of this process, as for the value of (F) of (0.604433), it measures the quality of the model and is a non-significant test. The statistical analysis was consistent with the practical analysis that we conducted at the beginning, and this confirms that the company does not have an effective financial policy and is unable to meet short-term financial obligations and surprise. The first sub-hypothesis was fulfilled despite the fact that the impact rate is very weak due to the lack of a clear financial policy for the company.

**Table 8.** Regression test and model quality between net working capital and financial structure

| Variable           | Coefficient | Std. Error            | t-Statistic | Prob.     |
|--------------------|-------------|-----------------------|-------------|-----------|
| C                  | 0.408363    | 0.079273              | 5.151335    | 0.0006    |
| X1                 | -9.19E-11   | 1.71E-10              | -0.536781   | 0.6044    |
| R-squared          | 0.031022    | Mean dependent var    |             | 0.446182  |
| Adjusted R-squared | -0.076643   | S.D. dependent var    |             | 0.116148  |
| S.E. of regression | 0.120516    | Akaike info criterion |             | -1.231098 |
| Sum squared resid  | 0.130718    | Schwarz criterion     |             | -1.158754 |
| Log likelihood     | 8.771041    | Hannan-Quinn criter.  |             | -1.276701 |
| F-statistic        | 0.288134    | Durbin-Watson stat    |             | 0.470407  |
| Prob(F-statistic)  | 0.604433    |                       |             |           |

Source: Own study.

#### 5.3.2 Measuring the Regression Coefficient between the Current Ratio and the Financial Structure

The regression coefficient in Table 9 reveals that the independent variable represented by the circulation ratio explains the amount (0.101058) of the change in the financial structure, which is a significant relationship because the value of (p-

value) is less than the level of significance of (5%) and the rest is due to other variables not included the model or it is within the random variable, and this may be due to missing data or errors in the measurement.

Therefore, the random variable is the guarantor of this process. As for the value of (F) of (0.340755), it measures the quality of the model and is also a significant test. This confirms the second sub-hypothesis that there is a significant influence relationship between the current ratio and the financial structure, and the effect was very weak, and this confirms the company's inability to finance the current financial obligations.

**Table 9.** Regression test and model quality between the current ratio and the financial structure

| Variable           | Coefficient | Std. Error            | t-Statistic | Prob.     |
|--------------------|-------------|-----------------------|-------------|-----------|
| C                  | 0.535600    | 0.095538              | 5.606124    | 0.0003    |
| X2                 | -0.153496   | 0.152601              | -1.005869   | 0.3408    |
| R-squared          | 0.101058    | Mean dependent var    |             | 0.446182  |
| Adjusted R-squared | 0.001176    | S.D. dependent var    |             | 0.116148  |
| S.E. of regression | 0.116079    | Akaike info criterion |             | -1.306122 |
| Sum squared resid  | 0.121269    | Schwarz criterion     |             | -1.233778 |
| Log likelihood     | 9.183673    | Hannan-Quinn criter.  |             | -1.351726 |
| F-statistic        | 1.011773    | Durbin-Watson stat    |             | 0.528657  |
| Prob(F-statistic)  | 0.340755    |                       |             |           |

*Source: Own study.*

### 5.3.3 Measurement of the Regression Coefficient between the Quick Ratio and the Financial Structure

The regression coefficient in Table 10 reveals that the independent variable represented by the rapid Quick ratio explains the amount (0.097461) of the change in the financial structure, which is a significant relationship because the value of (p-value) is less than the level of significance of (5%) and the rest is due to other variables, not It is included in the model or it is within the random variable, and this may be due to missing data or errors in the measurement.

Therefore, the random variable is the guarantor of this process, as for the value of (F) of (0.349974), it measures the quality of the model and is also a significant test. This confirms that the third sub-hypothesis has been realized, but the effect is very weak between the Quick ratio and the financial structure. This is because the company relies heavily on debt.

**Table 10.** Regression test and model quality between the Quick ratio and the financial structure

| Variable | Coefficient | Std. Error | t-Statistic | Prob.  |
|----------|-------------|------------|-------------|--------|
| C        | 0.531322    | 0.093213   | 5.700112    | 0.0003 |
| X3       | -0.149848   | 0.152001   | -0.985834   | 0.3500 |



|                    |           |                       |           |
|--------------------|-----------|-----------------------|-----------|
| R-squared          | 0.097461  | Mean dependent var    | 0.446182  |
| Adjusted R-squared | -0.002821 | S.D. dependent var    | 0.116148  |
| S.E. of regression | 0.116311  | Akaike info criterion | -1.302129 |
| Sum squared resid  | 0.121755  | Schwarz criterion     | -1.229784 |
| Log likelihood     | 9.161708  | Hannan-Quinn criter.  | -1.347732 |
| F-statistic        | 0.971869  | Durbin-Watson stat    | 0.530857  |
| Prob(F-statistic)  | 0.349974  |                       |           |

Source: Own study.

### 5.3.4 Measuring the Regression Coefficient between the Cash Ratio and the Financial Structure

The regression coefficient in Table 11 reveals that the independent variable represented by the Cash ratio explains the amount (0.049011) of the change in the financial structure, which is a significant relationship because the value of (p-value) is less than the level of significance of (5%) and the rest is due to other variables not included the model or it is within the random variable, and this may be due to missing data or errors in the measurement.

Therefore, the random variable is the guarantor of this process, while the value of (F) of (0.512977) measures the quality of the model, which is a non-significant test. This confirms that the fourth sub-hypothesis has been realized that there is a significant influence relationship between the Cash ratio and the financial structure, but it was very weak.

**Table 11.** Regression test and model quality between the cash ratio and the financial structure

| Variable           | Coefficient | Std. Error            | t-Statistic | Prob.     |
|--------------------|-------------|-----------------------|-------------|-----------|
| C                  | 0.503764    | 0.091893              | 5.482087    | 0.0004    |
| X4                 | -0.135227   | 0.198555              | -0.681054   | 0.5130    |
| R-squared          | 0.049011    | Mean dependent var    |             | 0.446182  |
| Adjusted R-squared | -0.056654   | S.D. dependent var    |             | 0.116148  |
| S.E. of regression | 0.119392    | Akaike info criterion |             | -1.249838 |
| Sum squared resid  | 0.128291    | Schwarz criterion     |             | -1.177494 |
| Log likelihood     | 8.874111    | Hannan-Quinn criter.  |             | -1.295442 |
| F-statistic        | 0.463835    | Durbin-Watson stat    |             | 0.545149  |
| Prob(F-statistic)  | 0.512977    |                       |             |           |

Source: Own study.

### 5.3.5 Measuring the Regression Coefficient between Cash Burn Rate and the Financial Structure

The regression coefficient in Table 12 reveals that the independent variable represented by the Cash burn rate explains the amount (0.011328) of the change in the financial structure, which is a significant relationship because the value of (p-value) is less than the level of significance of (5%) and the rest refers to other variables that did not It is included in the model or it is within the random variable,

and this may be due to missing data or errors in the measurement. Therefore, the random variable is the guarantor of this process, while the value of (F) of (0.755448) measures the quality of the model and is a non-significant test. This confirms the achievement of the fifth sub-hypothesis of the existence of a significant influence relationship between the Cash burn rate and the financial structure, but it was very weak.

**Table 12.** Regression test and model quality between the Cash burn rate and the financial structure

| Variable           | Coefficient | Std. Error            | t-Statistic | Prob.     |
|--------------------|-------------|-----------------------|-------------|-----------|
| C                  | 0.466788    | 0.073926              | 6.314305    | 0.0001    |
| X5                 | -0.032102   | 0.099967              | -0.321125   | 0.7554    |
| R-squared          | 0.011328    | Mean dependent var    |             | 0.446182  |
| Adjusted R-squared | -0.098524   | S.D. dependent var    |             | 0.116148  |
| S.E. of regression | 0.121735    | Akaike info criterion |             | -1.210978 |
| Sum squared resid  | 0.133374    | Schwarz criterion     |             | -1.138633 |
| Log likelihood     | 8.660379    | Hannan-Quinn criter.  |             | -1.256581 |
| F-statistic        | 0.103121    | Durbin-Watson stat    |             | 0.514272  |
| Prob(F-statistic)  | 0.755448    |                       |             |           |

Source: Own study.

### 5.3.6 Measuring the Regression Coefficient between the Ratio of Flow to Total Assets and the Financial Structure

The regression coefficient in Table 13 reveals that the independent variable represented by the ratio of flow to total assets explains the amount (0.032480) of the change in the financial structure, which is a significant relationship because the value of (p-value) is less than the level of significance of (5%) and the rest is due to other variables which were not included in the model or that they are within the random variable, and this may be due to missing data or errors in the measurement, and therefore the random variable is the guarantor of this process, while the value of (F) of (0.595924) measures the quality of the model and is a non-significant test.

This confirms the achievement of the sixth sub-hypothesis that there is a significant influence relationship between the flow rate to total assets and the financial structure.

**Table 13.** Regression test and model quality between the ratio of flow to total assets and the financial structure

| Variable           | Coefficient | Std. Error            | t-Statistic | Prob.     |
|--------------------|-------------|-----------------------|-------------|-----------|
| C                  | 0.462467    | 0.046863              | 9.868475    | 0.0000    |
| X6                 | -0.600915   | 1.093242              | -0.549664   | 0.5959    |
| R-squared          | 0.032480    | Mean dependent var    |             | 0.446182  |
| Adjusted R-squared | -0.075023   | S.D. dependent var    |             | 0.116148  |
| S.E. of regression | 0.120426    | Akaike info criterion |             | -1.232604 |
| Sum squared resid  | 0.130521    | Schwarz criterion     |             | -1.160260 |

|                   |          |                      |           |
|-------------------|----------|----------------------|-----------|
| Log likelihood    | 8.779323 | Hannan-Quinn criter. | -1.278207 |
| F-statistic       | 0.302130 | Durbin-Watson stat   | 0.658751  |
| Prob(F-statistic) | 0.595924 |                      |           |

Source: Own study.

**5.3.7 Measuring the Regression Coefficient between the Flow Rate to Total Equity and the Financial Structure**

The regression coefficient in Table 14 reveals that the independent variable represented by the ratio of flow to total equity explains the amount (0.007960) of the change in the financial structure, which is a significant relationship because the value of (p-value) is less than the level of significance of (5%) and the rest is due to other variables not included in the model, or they are within the random variable, and this may be due to missing data or errors in the measurement.

Therefore, the random variable is the guarantor of this process. As for the value of (F) of (0.794191), it measures the quality of the model and is a non-significant test. This confirms the achievement of the seventh sub-hypothesis that there is a significant impact relationship between the flow rate to total equity and the financial structure, and the impact ratio was very weak.

**Table 14.** Regression test and model quality between the ratio of flow to total equity and the financial structure

| Variable           | Coefficient | Std. Error            | t-Statistic | Prob.     |
|--------------------|-------------|-----------------------|-------------|-----------|
| C                  | 0.454382    | 0.047780              | 9.509816    | 0.0000    |
| X7                 | -0.157674   | 0.586722              | -0.268736   | 0.7942    |
| R-squared          | 0.007960    | Mean dependent var    |             | 0.446182  |
| Adjusted R-squared | -0.102266   | S.D. dependent var    |             | 0.116148  |
| S.E. of regression | 0.121942    | Akaike info criterion |             | -1.207578 |
| Sum squared resid  | 0.133829    | Schwarz criterion     |             | -1.135233 |
| Log likelihood     | 8.641677    | Hannan-Quinn criter.  |             | -1.253181 |
| F-statistic        | 0.072219    | Durbin-Watson stat    |             | 0.579931  |
| Prob(F-statistic)  | 0.794191    |                       |             |           |

Source: Own study.

**5.3.8 Measuring the Regression Coefficient between the Ratio of Operating Flow to Total Assets and the Financial Structure**

The regression coefficient in Table 15 reveals that the independent variable represented by the ratio of operating flow to total assets explains the amount (0.502346) of the change in the financial structure, which is a significant relationship because the value (p-value) is less than the level of significance of (5%) and the rest is due to other variables not included in the model, or they are within the random variable, and this may be due to missing data or errors in the measurement, and therefore the random variable is the guarantor of this process, while the value of (F) of (0.014618) measures the quality of the model and is also a significant test.

This confirms the achievement of the eighth sub-hypothesis that there is a significant influence relationship between the ratio of operating flow to total assets and the financial structure.

**Table 15.** Regression test and model quality between the ratio of operating flow to total assets and the financial structure

| Variable           | Coefficient | Std. Error            | t-Statistic | Prob.     |
|--------------------|-------------|-----------------------|-------------|-----------|
| C                  | 0.546520    | 0.042265              | 12.93083    | 0.0000    |
| X8                 | -0.677421   | 0.224750              | -3.014111   | 0.0146    |
| R-squared          | 0.502346    | Mean dependent var    |             | 0.446182  |
| Adjusted R-squared | 0.447051    | S.D. dependent var    |             | 0.116148  |
| S.E. of regression | 0.086368    | Akaike info criterion |             | -1.897436 |
| Sum squared resid  | 0.067135    | Schwarz criterion     |             | -1.825091 |
| Log likelihood     | 12.43590    | Hannan-Quinn criter.  |             | -1.943039 |
| F-statistic        | 9.084863    | Durbin-Watson stat    |             | 1.224180  |
| Prob(F-statistic)  | 0.014618    |                       |             |           |

Source: Own study.

### 5.3.9 Measurement of the Regression Coefficient between the Profit Flow Ratio and the Financial Structure

The regression coefficient in Table 16 reveals that the independent variable represented by the flow-to-profit ratio explains the amount (0.011567) of the change in the financial structure, which is a significant relationship because the value of (p-value) is less than the level of significance of (5%) and the rest refers to other variables that did not It is included in the model or it is within the random variable, and this may be due to missing data or errors in the measurement.

Therefore, the random variable is the guarantor of this process, while the value of (F) of (0.752952) measures the quality of the model and is a non-significant test.

This confirms the achievement of the ninth sub-hypothesis that there is a significant influence relationship between the profit flow rate and the financial structure.

**Table 16.** Regression test and model quality between profit flow ratio and financial structure

| Variable           | Coefficient | Std. Error            | t-Statistic | Prob.     |
|--------------------|-------------|-----------------------|-------------|-----------|
| C                  | 0.452075    | 0.040947              | 11.04052    | 0.0000    |
| X9                 | -0.005323   | 0.016401              | -0.324531   | 0.7530    |
| R-squared          | 0.011567    | Mean dependent var    |             | 0.446182  |
| Adjusted R-squared | -0.098259   | S.D. dependent var    |             | 0.116148  |
| S.E. of regression | 0.121720    | Akaike info criterion |             | -1.211220 |
| Sum squared resid  | 0.133342    | Schwarz criterion     |             | -1.138875 |
| Log likelihood     | 8.661708    | Hannan-Quinn criter.  |             | -1.256823 |
| F-statistic        | 0.105320    | Durbin-Watson stat    |             | 0.542515  |
| Prob(F-statistic)  | 0.752952    |                       |             |           |

Source: Own study.

It is noticed through the test that most of the sub-hypotheses related to the simple linear regression model were significant, but the effect of independent variables on the financial structure was very weak.

This is due to the fact that the company has not been interested in achieving an ideal combination of the financial structure, and this may be due to several internal reasons, such as the company's unwillingness to increase property rights, but this is considered not good in light of competition from similar companies or in the company's unwillingness to expand by diversifying its services or increasing their quality.

As for the quality of the statistical model, which concerns the (F) test, some of the results of the sub-hypotheses related to the quality of the regression model were not significant. This is due to the fact that some regression relationships were false due to the presence of some outliers for a number of variables in the time series, and this may be due to inaccuracy of some data or changes in economic conditions that were reflected in the performance of the company.

## **6. Interpretation of Residuals for the Study Variables**

Figure 1 shows the value of the residuals for the variables of the current study, where a shield was found for each regression relationship between measures of financial liquidity and the financial structure, as the goal of the remainder is to determine the accuracy of the regression line that passes through the data points and their suitability.

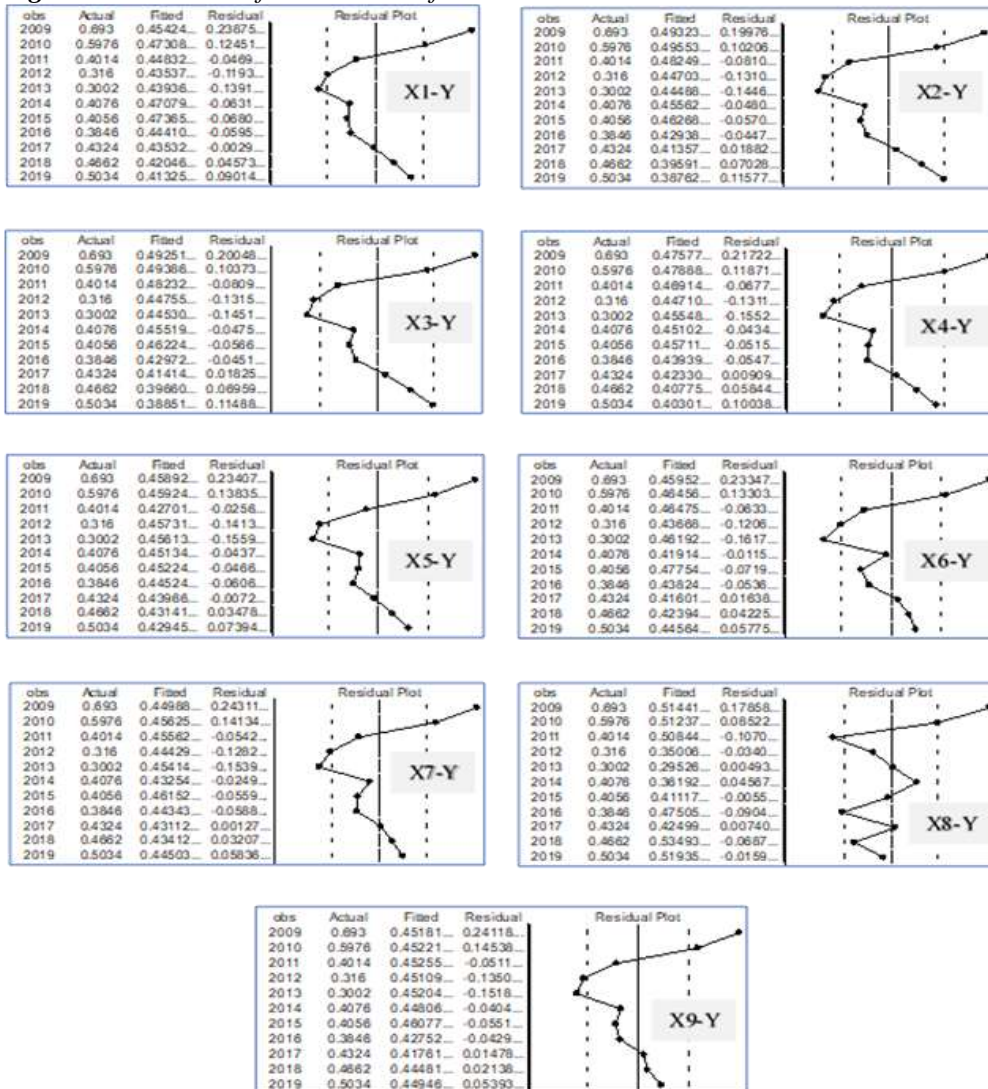
Residuals represent the difference between the value that we compute from the regression model and the real value, where we notice the departure of the curve line from the cut lines, and we can say that the existence of this difference or error is from the nature of the regression analysis, it is rare for the regression analysis to be 100 percent correct (Field, 2003).

There are multiple uses for residuals. One use is to help us determine if we have a data set that has an overall linear trend, or if we should think of a different model. The reason for this is that the residuals help amplify any nonlinear pattern in our data.

What can be difficult to see by looking at the scatterplot can be more easily noticed by examining residuals. Another reason to consider residuals is to verify that the inference conditions for linear regression are fulfilled.

After checking the linear orientation (by checking the residuals), we also check the residual distribution. In order to be able to implement regression inference, we want the residuals around our regression line to be approximately naturally distributed (Levine, 1999).

Figure 1. The value of the residuals for the variables



Source: Own study.

## 7. Conclusion

The practical and statistical side showed that the Asia Cell Communications Company clearly suffers from the lack of an efficient management to manage liquidity, and that the company suffers from weakness in directing cash liquidity, which had a negative impact on the financial structure of the company, and that the return on assets from profits and return on assets decreased. From operating cash flow, it confirms inefficiency in managing the company's assets, in addition to the fact that the company relies more on debt financing.

Therefore, the company must pay attention to the list of cash flows and rely on them in making decisions, and through them the sources of financing coming in and out are known. We must work to raise the efficiency of managing the company's assets in order to achieve profits, increase operational flows and raise the market value of the company, as the company must pay more attention to Increase the value of its shares in the market and that part of the financing of its financial structure is through offering shares.

The company must also set up financial and accounting programs to account for the financial ratios, cash flows and the financial structure, and conduct a quarterly review of these ratios in order to determine the deficiency that occurs in any part of the cash flows.

Also, the company must work by relying on stocks to finance itself so that in the future it will have an appropriate mix of debt and equity to finance its financial structure, as the appropriate mix leads directly to reducing the cost of capital and this is reflected in maximizing its market value, which makes the way in front of it a summary of more investment opportunities, the company must also rely more on achieving technological leadership and more attention to training accountants, appointing financial analysts who are able to process data and develop appropriate alternatives for decision-making.

In addition to the fact that the financial structure of the company lacks flexibility, as most of the financing is through debt and the reason is due to the low financing in the right of ownership, which explains the weakness of financial flexibility due to the high debt funds. Also, the company maintains low liquidity compared to its operational requirements.

The Asia company should also adopt new marketing policies, and it is preferable to resort to viral marketing, especially after the increase in advertising campaigns competing for it by Zain Telecom. Viral marketing facilitates the path to facing competitors (Abbas and Abd Ali, 2020). In addition, Asia torrents should intensify its efforts to switch towards smart organizations to be more able to confront competition and refer to a number of points in a previous study of a company branches (Abbas, 2020).

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**Appendix:**

| <b>The numbers are in the thousands</b> |  |   |   |                     |
|---|--|---|---|---------------------|
| <b>No.</b>                              | <b>Current assets</b>  | <b>Current liabilities</b>                    | <b>cash</b>   | <b>Receivables</b>  |
| 2009                                    | 190832552  | 690273569                                     | 143155954   | 35826278            |
| 2010                                    | 249570852  | 954093129                                     | 176369191   | 62256084            |
| 2011                                    | 230628435  | 665561348                                     | 170548724   | 47726489            |
| 2012                                    | 402693543  | 696765266                                     | 291953937   | 97837387            |
| 2013                                    | 488302000  | 825719000                                     | 294892000   | 179718000           |
| 2014                                    | 740006000  | 1419598000                                    | 554919000   | 166625000           |
| 2015                                    | 643144000  | 1353810000                                    | 467495000   | 156708000           |
| 2016                                    | 877078000  | 1266147000                                    | 603592000   | 254934000           |
| 2017                                    | 1139378000   | 1432861000                                    | 852664000   | 268493000           |
| 2018                                    | 1340927000   | 1472657000                                    | 1046760000  | 277969000           |
| 2019                                    | 1460293000   | 1513556000                                    | 1128192000  | 314443000           |
| <b>No.</b>                              | <b>Average daily operating expenses (total running expenses)</b> | <b>Short-term debt (short-term creditors)</b> | <b>Long-term debt (long-term creditors)</b>                   | <b>Total assets</b> |
| 2009                                    | 777326713  | 623869750                                     | 1234616374  | 2331173373          |
| 2010                                    | 1059550365   | 867146104                                     | 900648660   | 2633270700          |
| 2011                                    | 186043036  | 647577040                                     | 722325604   | 2697584684          |
| 2012                                    | 1361003577   | 534155809                                     | 236833333   | 2829830060          |
| 2013                                    | 1467183000   | 498576000                                     | 149076000   | 3000974000          |
| 2014                                    | 1536222000   | 1114459000                                    | 262258000   | 3604992000          |
| 2015                                    | 1417271000   | 1186482000                                    | 161665000   | 3480599000          |
| 2016                                    | 1305403000   | 1055294000                                    | 124486000   | 3374956000          |
| 2017                                    | 1347866000   | 1188745000                                    | 85490000  | 3218200000          |
| 2018                                    | 1215764000   | 1256894000                                    | 41440000  | 3024185000          |
| 2019                                    | 1255472000   | 1352448000                                    | 19271000  | 2905129000          |
| <b>No.</b>                              | <b>Total debt (short term + long term)</b>                       | <b>Total Equity (Paid Capital + Reserves)</b> | <b>Total liabilities (total short-term financing sources)</b> |                     |
| 2009                                    | 1858486124   | 406283430                                     | 690273569   |                     |
| 2010                                    | 1767794764   | 778528911                                     | 954093129   |                     |
| 2011                                    | 1369902644   | 1309697732                                    | 665561348   |                     |
| 2012                                    | 770989142  | 1896231461                                    | 696765266   |                     |
| 2013                                    | 647652000  | 1936712000                                    | 825719000   |                     |
| 2014                                    | 1376717000   | 1876403000                                    | 1419598000  |                     |
| 2015                                    | 1348147000   | 1929873000                                    | 1353810000  |                     |
| 2016                                    | 1179780000   | 1959382000                                    | 1266147000  |                     |
| 2017                                    | 1274235000   | 1687859000                                    | 1432861000  |                     |
| 2018                                    | 1298334000   | 1510088000                                    | 1472657000  |                     |
| 2019                                    | 1371719000   | 1372302000                                    | 1513556000  |                     |
| <b>No.</b>                              | <b>Net cash flow from all activities</b>                         | <b>Net operating cash flow</b>                | <b>Net profit</b>   |                     |

|      |           |            |           |
|------|-----------|------------|-----------|
| 2009 | 11597862  | 110552883  | 238008860 |
| 2010 | -9322956  | 132899541  | 347035459 |
| 2011 | -10410846 | 151737959  | 115011585 |
| 2012 | 121405213 | 820671300  | 662170059 |
| 2013 | 2938000   | 1113266000 | 580505000 |
| 2014 | 260027000 | 982571000  | 344709000 |
| 2015 | -87424000 | 695429000  | 53470000  |
| 2016 | 136097000 | 356223000  | 29509000  |
| 2017 | 249072000 | 577521000  | 38477000  |
| 2018 | 194096000 | 51913000   | 142329000 |
| 2019 | 81432000  | 116676000  | 165784000 |