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Financial Analysis, Its Significance to Iraqi Organization's Performance Evaluation

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Abstract:

Performance evaluation is a current topic in most administrations around the world, both in the East and the West. It is not surprising that financial analysis is often presented as one of the primary evaluation tools in many cases. Since performance evaluation frequently focuses on profits and financial revenues, assessing performance using financial analysis gains importance and becomes one of the clearest means to achieve accuracy and determine the extent of profitability. When we turn to financial analysis itself, nothing is more indicative of it, as its tools and methods reflect the means used in the analysis.

In this research, we aimed to provide a clear understanding of financial analysis, its uses, methods of application, and the extent to which it is utilized by state institutions. This was achieved by selecting a group of private and governmental institutions to inquire about their use of financial analysis methods. The responses were disappointing, as 81% of the respondents clarified that they do not use financial analysis in performance evaluation. Additionally, 71% stated that they have never used financial analysis in their professional lives, and 73% answered that they knew nothing about this method and had not learned anything about it. This indicates that they have not even addressed it in their studies, suggesting that the education system itself does not meet the needs of the real-world requirements.

When asked whether there are clear methodologies for performance evaluation used for assessment purposes, given that the financial evaluation method seems unclear to them and is not utilized, 55% responded negatively, 27% refused to answer, and only 20% responded positively. The responses to the remaining questionnaire items continued to be negative, highlighting an urgent need to develop the use of financial analysis in evaluating the financial efficiency of Iraqi institutions. This indicates the weak importance of this analysis for performance evaluation in Iraqi institutions and underscores the necessity of developing its use due to its significance and the importance of relying on it.

Keywords: Financial Analysis, Performance Evaluation, Financial Performance Evaluation



1-Introduction:

Financial analysis is the process of assessing an institution's financial status by utilizing available financial data such as the balance sheet, income statement, and cash flow statement. The goal of financial analysis is to understand the financial performance of an institution, identify strengths and weaknesses, and support strategic decision-making. Key tools for financial analysis include financial ratios, cash flow analysis, trend analysis, and breakeven analysis.

The systematic use of financial analysis began in the early 20th century with the development of financial markets and the increasing complexity of business operations. Financial analysis tools have evolved alongside the growth and expansion of companies, becoming essential for assessing institutional performance and ensuring sustainability. Over time, financial analysis has become more sophisticated, especially with the emergence of multinational corporations, leading to the development of advanced tools such as DuPont Analysis and discounted cash flow models.

Initially, financial analysis focused primarily on profitability and liquidity, but it has since expanded to include operational efficiency evaluation, risk management, and growth strategies. Today, financial analysis is a fundamental tool not only for evaluating past performance but also for future planning and strategic decision-making.

Research Methodology:

The study adopts an inductive approach in discussing the subject of financial analysis. The research problem has been identified as: "To what extent is financial analysis and its techniques used in evaluating the performance of Iraqi institutions?", the research objectives are outlined as follows:

1-To clarify the concept, techniques, uses, and tools of financial analysis.

2-To explain the extent of its use in Iraqi institutions and its effectiveness in performance evaluation.

The research will include the following chapters:

Chapter One:

Fundamental Concepts in Financial Analysis
Defunction will be given to financial analysis in this chapter, explaining its significance, and explore the tools of financial analysis.

Chapter Two:

The Current State of Iraqi Institutions

An overview of the Iraqi economy will be made with an examination of the impact of economic and political factors on institutional performance.

Chapter Three:

The Role of Financial Analysis (FA) in Evaluating the Performance of Iraqi Institutions.

The applications of financial analysis in Iraqi institutions will be given the attention through a survey made for this purpose, This survey is aimed to assess the extent to which (FA) is used in evaluating efficiency. A discusses of the importance of (FA) to enhance performance, identifying weaknesses,



overcoming challenges, and achieving optimal efficiency. Additionally, the chapter highlights the benefits of financial analysis for improving institutional performance, such as increasing efficiency and effectiveness, assisting transparency and accountability within institutions, and supporting strategic financial planning for sustainable strategies.

Chapter Four:

Conclusions and Recommendations

This chapter will give a summary to the findings of the study with recommendation to improve the use of (FA) in the institutions.

Chapter One

Fundamental Concepts in Financial Analysis

1-Financial Analysis (FA):

(FA) is used to analysis financial statement . This analysis employs a variety of financial tools to examine different aspects of performance, such as profitability, liquidity, operational efficiency, and the ability to meet financial obligations. The aim of financial analysis is to assist managers and investors in making informed decisions, and planning future growth, exploring potential financial risks. Tools of financial analysis include financial ratios such as liquidity and profitability ratios, cash flow analysis (examining inflows and outflows of cash), and breakeven analysis, which determines the minimum quantity of sales required to cover costs.

2-History of Financial Analysis:

The use of (FA) dates back to the early 20th century, coinciding with the expansion of companies and financial markets. Accountants and investors began to benefit from financial data to evaluate company performance and potential risks. Day by day, its use evolved to become more complex and comprehensive. At the beginning analysis focused on basic financial ratios such as liquidity and profitability. As markets grew more competitive and complex, the need for advanced analytical tools emerged and developed.

3-The Importance of Financial Analysis in Performance Evaluation:

(FA) helps companies check their efficiency over time , compare their performance with other companies , and make informed investment and improved overall decisions. It also highlights areas needing improvement or further investment (Abbas & Mohammed, 2018, p. 90, 96).

For investors, Also (FA) can assist investors to evaluate the risks and returns associated with investing in a particular investment. It helps determine the intrinsic value of stocks and guides investment decisions through a comprehensive analysis of a company's financial situation.

(FA) furthermore is important tool for lenders, such as banks. Banks use (FA) to assess the debtors and companies ability to repay loans. By measuring cash flows and debt ratios, the Banks can evaluate the company's ability and capacity to meet financial obligations (Al-Obaidi & Al-Saadi, 2019, p. 86-98).

4-Modern Trends in Financial Analysis:

A- Recent Developments:

In recent years, (FA) is expanded to use more developed techniques, such as assessing environmental, social, and governance (ESG) risks, as well as benefiting from financial technology to assess the accuracy and speed of financial analysis (Al-Khazraji & Al-Janabi, 2020, p. 43-45).

B- Qualitative Analysis:

Furthermore, in recent years, financial assessors have started to use quantitative analysis. By using this mean, assessors can now examine non-financial factors like governance, environmental performance, and social contributions. This is significant for large and multinational corporations.

C-Financial Technology:

The progress and development of (FA), new means such as advanced financial software and big data analytics have emerged, enhancing the accuracy and efficiency of (FA). Artificial intelligence starts also to serve new techniques used to provide accurate financial forecasts based on historical data.

D-DuPont Analysis:

In the 1920s, DuPont introduced a model of discriminative analysis, which broke down return on equity into three main components: profitability, efficiency, and financial leverage. This model has helped companies gain a deeper understanding of the factors driving profitability (Mohammed, 2020, p. 45-60).

The Importance of Financial Analysis in Decision-Making:

Financial analysis plays a critical role in supporting management and decision-makers within institutions by providing a comprehensive and accurate view of financial status. It enables managers and investors to make informed decisions about resource allocation, risk management, and achieving strategic objectives.

According to Al-Obaidi (2017, p. 134-150), financial analysis provides the following benefits for management:

Financial Performance Evaluation:

One of the greatest benefits of financial analysis is its ability to measure financial performance over time by comparing financial results from different periods. This helps determine whether the institution is on the right path to achieving its financial goals or if its performance requires adjustments. Financial performance evaluation benefits include:

- Identifying trends and patterns in financial results.
- Assessing progress toward achieving strategic goals.
- Highlighting potential issues and corrective measures needed to optimize performance.

Chapter Two

The State of 8 Iraqi Economy

Overview of Iraqi Economy:

The Iraqi economy is characterized by its dependent on single resource (Oil), which constitutes a significant portion of GDP and government revenues. Consequently, the economy is highly susceptible to fluctuations in oil prices, which directly affect economic stability. Also , continues political change and instability, has largely affected the performance of the economy, and hinder investments and significantly weaken infrastructure, these factors as well as Social challenges such as population growth and unemployment, by using bad economic plan have affected negatively Iraqi economic.

Challenges Facing Iraqi Institutions:

1-Corruption

Corruption is a common problem in Iraq, putting the country among the lowest in global transparency indices. This prevent companies to be efficient and limits their capacity. Transparency within Iraqi companies remains very weak, with Iraq consistently ranked among the most corrupt countries worldwide according to international transparency measures. This problem is pervasive across government and administrative levels, undermining the ability of companies to operate effectively and reliably.

Reports from the World Bank and Transparency International indicate that Iraq suffers from weak governance, a lack of accountability, and effective corruption in both public and private sectors, which hampers economic development and reduces investor confidence. For example , in 2023, Iraq received a low score on the economy and suffer a very effective Corruption.

Also Financial transparency, is a crucial aspect of general transparency, and faces substantial challenges. Public financial information is often unavailable or inaccurate, prevent efforts to track the financial performance of governmental institutions. Many bad indicators are also able to show this fact of financial transparency, for example, the Open annual index of Budget, which assesses government openness in financial reporting, shows that Iraq scores poorly, reflecting weaknesses in preparing and publishing the national budget and have high debit. This affects public department by distorting spending priorities, diverting resources to unnecessary or inefficient projects due to corruption, which directly impacts public service delivery and weakens trust between citizens and the government, making the Annual Budget unable to reflect the real needs of department. However, many attempts have been made by many department to enhance transparency through legal and administrative reforms, though these initiatives remain limited due to internal resistance and a lack of political will, Al-Mamoori & Saeed (2019),(P 140-148) .

2-Weak Infrastructure:

The bad infrastructure, including transportation, electricity, water, and Telecommunications represent challenges to institutional operations and increases operating costs. The effect of the infrastructure represents very important effecting all the activities in the country especially operating activities. The following explanation some of them.

- **Transportation:** The country has since years lack of maintenance and investment in roads and bridges. This has led to obvious deterioration, raises logistical costs, and

limits companies' ability to expand and compete in the market. Furthermore, the railway are also still undeveloped and inefficient to cover the country need.

- **Water and Sanitation:** Water supply still saver shortages in many parts of Iraq affecting access to safe drinking water. The poor water and sanitation infrastructure impacts employee health and product quality. Additionally, inadequate sanitation systems leading to unclean water, increasing the spread of diseases and harming public health.
- **Electricity:** Continues electricity shortages force has led companies to rely on private generators This situation have led to increase costs and reduce efficiency. Many bad results in production and operation is to be happened as a result to this. Frequent power outages disrupt production operations, delay deliveries, and escalate operating expenses.
- **Telecommunications:** Telecommunication is also affected by the weak situation in infrastructure, though of some improvements in communication services which take place time by time. Also, the country suffer from poor network and internet coverage, hindering institutions' ability to connect with markets, suppliers, and customers.
- The weak associated with these sides in addition weaknesses and instability of the politics institutions, security, corruption , and social and economic including huge unemployment have all to bad impact on the economy and social live , and resulted to following impacts:

1-Difficulty in Forecasting: Because of the Political instability and the absent of accurate measures represent some of the difficulties to predict institutional efficiency and performance accurately.

2-High Financing Costs: The difficulty associated with the predicting risks of companies operation, companies face challenges to collect enough funding, leading to higher financing costs and reduced profit margins.

3-Increased Financial Risks: The previous mentioned factors escalate investment risks, make the performance evaluation difficult and consequently reducing institutional effectiveness.

Because of the previous mentioned factors, Iraqi institutions face operational inefficiencies and limited any opportunely for progress, adversely affecting their competitiveness in both local and international markets. Of course adaptation has taken place by some companies, however, others have adopt some different strategies like restructuring and focusing on less affected sectors, by these procedures , these companies try to face the above mentioned difficulties .

Chapter Three

The Application of Financial Analysis in Iraqi Institutions

In aim of understand that (FA) can be applied in Iraqi companies, an attempt will be applied, few companies will be selected. Also, 16 companies are selected and 90 firms are prepared to be distributed on the workers to be answered.

Field Study: Case of Private and Public Companies:

The research targeted companies operating in production and services sectors, including those newly established to support the growing demand for services by major oil companies in Basra. A notable example includes foreign oil companies outsourcing payroll services to local Iraqi firms to avoid the administrative burden of direct employee payment.

A survey was distributed to administrative personnel responsible for workforce performance evaluation in 16 companies, categorized as follows:

- 4 government companies
- 4 large private companies
- 8 small private companies

A total of 90 employees holding bachelor's degrees responded anonymously to a questionnaire of 10 questions. The responses are summarized as follows:

Question	Agree	Strongly Agree	Neutral	Disagree	Strongly Disagree
1. Is financial analysis used to evaluate company performance?	11%	1%	17%	33%	38%
2. Have you ever used financial analysis in your work?	11%	1%	13%	35%	39%
3. Do you have knowledge of financial analysis and its benefits?	11%	1%	13%	44%	29%
4. Have you % 27 other clear evaluation methods been used previously?	20%	--	27%	31%	22%
5. Are performance and efficiency evaluated using administrative and financial methods?	17%	2%	20%	42%	19%
6. Does the company focus on performance evaluation based on labor productivity?	26%	1%	17%	44%	12%
7. Does workforce availability impact performance evaluation?	56%	1%	13%	19%	11%
8. Are there training courses on financial analysis for	6%	--	9%	52%	33%

Question	Agree	Strongly Agree	Neutral	Disagree	Strongly Disagree
performance evaluation?					
9. Was financial analysis part of your evaluation for promotion?	--	--	2.2%	79%	19%
10. Have you studied financial analysis for performance evaluation?	11%	2%	0%	44%	42%

Interpretation of Results:

The survey results indicate a minimal use of financial analysis as a tool for evaluating company performance in Iraq. Only 11% of respondents indicated some level of agreement to its use, with 33% and 38% expressing strong disagreement. Similarly, knowledge of financial analysis and its benefits was found to be very limited, as reflected in the responses to Question 3.

However, specific questions revealed areas of interest outside financial analysis. For example:

- **Labor Productivity:** 26% agreed that productivity evaluation is important for management, and 56% agreed workforce availability impacts performance evaluation. These aspects rely on supervisory observations rather than financial analysis techniques.

Responses also highlighted that training on financial analysis is virtually nonexistent (Question 8, 6% agreement). Moreover, financial analysis is not a criterion for administrative promotions (Question 9).

Challenges and Observations:

Through visits to some companies, several critical issues were observed, such as:

Inventory and Asset Valuation Neglect: A company had not conducted inventory valuation for 20 years, revealing stock worth over \$20 million upon inspection. Similarly, company assets had not been evaluated during this period.

Outdated Accounting Practices: Some companies continued to report capital figures unchanged from their inception, as financial accounts were handled by the same auditor who disregarded changes in operations, assets, and profits.

Taxation Practices: Companies often structured financial accounts to minimize taxes rather than reflect actual financial performance.

These findings illustrate a broader neglect of financial analysis as a performance evaluation tool. Companies often rely on subjective judgments and personal observations rather than evidence-based methods.

Conclusion



The limited application of financial analysis in Iraqi companies stems from a lack of regulatory requirements and an absence of transparency in business practices. While a small portion of managers with accounting or financial backgrounds recognize its importance, most institutions lack the necessary training or awareness to implement it effectively.

To improve the situation, institutional reforms and mandatory guidelines from oversight bodies such as the "Financial Audit Bureau" and "Integrity Commission" are needed. Moreover, introducing financial analysis as a core element in academic curricula and training programs could help equip future managers with the skills to adopt this vital evaluation tool.

Chapter Four

Summary and Recommendations

Summary:

From the preceding discussion, several conclusions can be drawn:

1-Awareness of Financial Analysis Importance:

While there is a general recognition of the importance of financial analysis in evaluating efficiency and effectiveness, there is a lack of clarity regarding its role in performance evaluation. Additionally, there have been few attempts to adopt these tools broadly.

2-Knowledge Gaps Among Employees:

Many employees in both public and private companies lack knowledge about financial analysis and its tools. Some have heard of financial analysis but are unaware of its applications and implications.

3-Limited Use of Financial Analysis Techniques:

Financial analysis-based evaluation methods are largely absent in most governmental and private companies. However, some private sector companies have begun to employ certain financial analysis tools to identify strengths and weaknesses, especially when their owners are involved in the Iraq Stock Exchange or other investment activities. This reflects the perception that financial analysis is more relevant to investments than to industrial and commercial enterprises.

4-Need for Greater Emphasis:

There is an urgent need to emphasize the importance and necessity of financial analysis as a critical evaluation tool in academic, auditing, and business sectors. It can serve not only as a means of assessing performance but also as a tool to identify weaknesses, address financial shortcomings, and enhance overall operations.

Recommendations:

1-Adoption of Financial Analysis Across Institutions:

Government and private institutions should adopt financial analysis methods due to their benefits in performance evaluation, identifying weaknesses, and assessing budget components. Encouraging its use should be a strategic priority for both public and private sectors. This would enable institutions to assess their standing, particularly as many have not conducted performance evaluations or financial

analyses since their establishment. Such a strategy would undoubtedly benefit the state and its institutions in the long term.

2-Integrating Financial Analysis into Organizational Policies: Institutions should adopt financial analysis techniques as a standard practice across all operations and departments. Employees, especially in accounting divisions, should be trained to consider it part of their responsibilities. Additionally, reports and insights generated from financial analysis should be made accessible to employees and the public, fostering a transparent and competitive company culture.

3-Advanced Training Programs:

Comprehensive training programs on financial analysis should be introduced for all companies, conducted locally or internationally. Following the examples of Gulf countries and others, Iraq should partner with specialized training providers to equip employees with financial evaluation skills. Continuous professional development should be emphasized to ensure employees do not remain stagnant in their knowledge throughout their careers.

4-Establishment of Training Centers:

Universities and colleges in Iraq should establish specialized centers for training and development in financial and administrative performance evaluation. Iraq's progress and success depend on effective evaluation tools and learning from international experiences. Developing a cadre of specialists through global training programs and modern knowledge resources is essential, especially as Iraq has lagged in development across various sectors for an extended period.

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