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The Impact of Liquidity and Profitability on Shareholders' Equity: Evidence from the Iraqi Stock Exchange

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Abstract

Despite the extensive body of research on shareholder value in equilibrium markets, the relationship between liquidity, earnings volatility, and shareholder returns in the Iraqi Stock Exchange remains understudied. This market is characterized by economic sanctions, currency fluctuations, and sectoral imbalances. To address this research gap, this study investigates the impact of liquidity and earnings on shareholders' equity, focusing on manufacturing companies listed on the Iraqi Stock Exchange during the period 2018–2022. A quantitative research design was employed, utilizing purposive sampling to select 10 Iraqi manufacturing companies whose annual audited financial statements were publicly available on the stock exchange. The analysis was conducted using panel multiple linear regression (EGLS) in EViews 12. The findings reveal that working capital management has a significant positive effect on shareholders' equity. This suggests that effective working capital management can enhance shareholder value by improving profitability, liquidity, and operational efficiency, thereby increasing the firm's overall value. Conversely, the study finds that profit does not have a significant impact on shareholders' equity, indicating that short-term liquidity efficiency may exert a more immediate influence on stock performance than profitability levels. Moreover, the current ratio shows a significant positive effect on shareholders' equity, which may reflect excessive liquidity resulting from overinvestment in unprofitable or idle assets—an effect that could potentially reverse in the future. The research model explains 93.86% of the variance in shareholders' equity as accounted for by the independent variables. In conclusion, this study provides a comprehensive understanding of the financial management strategies and techniques that influence shareholder value in emerging and volatile markets such as Iraq.

Keywords: Current Ratio; Liquidity; Profitability; Shareholders' Equity; Working Capital Ratio

INTRODUCTION

Performance appraisal is certainly important and different for each company, as it depends on the scope of work being done. To decide whether an Iraqi business or joint stock company is of good quality or not, data and statistics published by the Iraqi Stock Exchange can be relied upon. On the ability and performance of companies to what extent it has implemented the principles of good governance or not. Hence, in joint-stock companies, the liquidity ratio and earnings ratio help to know how much the value of the shares increases in the stock market. Because the liquidity ratio measures a business by its ability to pay off short-term debt, a higher ratio indicates better debt repayment. The three categories of liquidity ratios are quick, liquid, and current, each referring to a company's ability to meet short-term obligations and to use available cash properly (Arkan, 2016). Therefore, the profitability ratio shows the extent to which a company can use the assets it owns properly to lead to increased profitability. Hence, it considers the ratio of profit in joint stock companies to net assets and shareholders' equity (Abdelkarim & Almumani, 2018). It demonstrates efficiency and facilitates the monitoring of business growth. Return on investment, net return, net profit margin, and gross profit margin are the four categories of profit margins (Rashid, 2021). Hence, a company's ability to turn a profit is measured by its profitability ratio, which considers sales, profit, net worth, and shareholders' equity (Nasution & Yusleny, 2023). Therefore, the accumulated earnings and capital of the institution constitute shareholders' equity. That is, the capital invested in the company is known as share capital. Hence, institutions can evaluate their financial performance and make wise decisions about their operations by analyzing the impact of the liquidity ratio and earnings ratio on shareholders' equity (Madushanka & Jathurika, 2018). For example, if a company has strong liquidity and earnings ratios, its shareholders' equity will likely appreciate at a better rate, indicating financial strength and stability. On the other hand, if liquidity and earnings ratios are weak, it may indicate that a company is less stable, and its shareholders' equity may fall sharply. Understanding the relationship between liquidity ratio, earnings ratio, and shareholders' equity is important for evaluating a company's financial performance and making strategic financial decisions in companies (Borisovna, 2020).

The complexity and interrelatedness of financial variables present a challenge for studies investigating how profitability and liquidity ratios affect shareholder equity. The liquidity ratio, like the quick or current ratio, indicates the extent to which a business can use its current assets to pay off its short-term debt. The profit margin, on the other hand, shows the profitability of a business and is commonly expressed as net income divided by total revenue. Conversely, the amount of a company's assets financed by its shareholders is known as shareholders' equity. The difficulty in studying the relationship between liquidity, earnings ratios, and shareholders' equity is to see how these measurements differ from each other and how changes in one can affect the other. Profitability may suffer if a company has a high liquidity ratio, for example, even though it may be better equipped to withstand an economic downturn. On the other hand, if he chooses a very profitable business that uses the income for new investments. Not having cash on hand then he can have little liquidity. Studies that have looked at the relationship between liquidity, earnings, and shareholder equity in particular businesses or industries, as well as scholarly work on corporate finance and financial analysis, can serve as references to this research problem. Furthermore, real-world examples and case studies of businesses that have effectively controlled liquidity and earnings to maximize shareholder equity may offer insightful information for further research.

Liquidity and profitability are two important indicators of a company's financial health. By examining these measures, stakeholders can learn more about a company's ability to meet its short-term and long-term financial obligations. This information makes it easier for shareholders to make future investment decisions. On the other hand, it is possible to measure the risk that the profitability ratio represents for a company. This is while the liquidity ratio is measured by the ability to pay short-term debt. Through examining the effects of these ratios on shareholders' equity, researchers can determine the degree of risk of investing in a particular company. For shareholders who want to reduce the risks associated with their investments. This, in turn, affects strategic decision-making. An analysis of the ratio of earnings and liquidity to shareholders' equity may be helpful. Company management can make decisions on financial planning, investment plans, and business operations with knowledge of how these financial variables affect shareholder equity. Therefore, the company's performance can be evaluated through research. Therefore, the stakeholder can ascertain whether the company is efficiently allocating its resources and producing value for its shareholders by examining the relationship between the liquidity ratio, profitability ratio, and shareholders' equity. It is for this reason that studies on the effects of earnings and liquidity ratios on shareholders' equity are crucial, as they shed light on the firm's overall performance, risk, and financial position. In order for stakeholders who are hoping to maximize returns and make wise investment decisions.

To examine the relationship between liquidity ratio, profit ratio, and shareholders' equity in Iraqi industrial enterprises is the aim of the study. In the context of the Iraqi industrial sector, this paper seeks to assess the ways in which measures of liquidity and profitability affect the financial position and equity value of entrepreneurs. With implications for investors and shareholders, the study aims to provide a detailed understanding of the financial dynamics and performance of industrial enterprises in Iraq by analyzing these elements.

LITERATURE REVIEW

Liquidity Ratios

The liquidity ratio is an essential financial measurement to assess a company's ability to pay short-term debt on time. They consider whether a business can turn its assets into cash to pay its debts without materially depressing its market value. However, it is the operating cash flow ratio that indicates a firm's ability to reinvest in firm-owned assets (Ahmad et al., 2024). Meanwhile, the net operating ratio is a capital ratio that calculates the difference between a firm's current assets and a firm's current liabilities (Durrah et al., 2016). On the other hand, according to (Madushanka & Jathurika, 2018)The ability of a business to pay short-term debt is measured by the liquidity ratio, according to the financial statements. Higher liquidity ratios indicate better guarantees of timely repayment of loans to lenders. That is, it determines a business's ability to meet these responsibilities that the company must meet and are specific to its current assets (Ningsih & Sari, 2019). Therefore, a firm's ability to utilize its available cash is measured by its liquidity ratio (R. H. Salih et al., 2024).

Current Ratio

One financial metric used to assess a company's liquidity is the current ratio (CR). It shows how much cash a firm has on hand as well as the assets that can be turned into cash in less than a year (R. H. Salih, 2024). That is, a greater ability to settle short-term obligations is indicated by a larger percentage (Hantono, 2018).

According to (Susilawati et al., 2022), an important measure of a company's liquidity is its current ratio, which is particularly important for sectors of the economy dealing with issues such as currency depreciation and growing operating expenses. Better liquidity is indicated by a larger current ratio, which shows the extent to which a business can meet short-term obligations. Continued growth and resilience in the competitive pharmaceutical industry are key factors in attracting long-term investment by guaranteeing operating efficiencies associated with current strong relative maintenance. To make an informed judgment, stakeholders and investors carefully read this ratio in the financial statements. On the other hand, one liquidity metric that shows how well a business can pay short-term debt in a year is the current ratio. It facilitates the understanding of analysts and investors as to how a business might optimize its present assets to pay down its debt (Sangawi & Abdulla, 2024). A smaller ratio might point to a larger risk of distress or default, but a ratio that is in line with the industry's norm or somewhat higher is typically considered appropriate. The management may be using assets inefficiently if the current ratio is high (Mubin et al., 2014).

Working capital ratio

An indicator of a business's operational effectiveness and short-term financial stability is the working capital ratio. A low ratio implies that there are not enough short-term assets to pay off debt, whilst a high ratio shows that a company's assets are greater than its short-term liabilities (K. H. Salih et al., 2024). Working capital investments are frequently needed for large projects, which might lower cash flow. In order to increase cash flow, suppliers and consumers may be squeezed as a result of inefficient working capital utilization (Agha & Mba, 2014). On other hand Working capital is determined by dividing the difference between current liabilities (bank credit line or accounts payable) and current assets (cash and inventories) (Boisjoly et al., 2020). Working capital is the amount required to fund short-term business activities (Yenni et al., 2021). A ratio of less than one suggests that there could be future problems with money or liquidity (R. H. Salih, 2024). The capacity of a business to pay for immediate liabilities and maintain short-term liquidity is gauged by the net working capital ratio (Rauf et al., 2021). A low ratio might be a sign of impending financial strain, whilst a high ratio suggests plenty of money (Haralayya, 2021).

Profitability

A profitability ratio quantifies a business's capacity to turn a profit over a certain time frame. A firm with a high degree of profitability is more likely to be able to turn a profit, which can increase assets and lower the likelihood of bankruptcy (Ahmed, 2022). Return on Assets (ROA), Net Profit Margin, and Gross Profit Margin are the three categories of profitability ratios. After subtracting the cost of products sold, a company's profit is displayed concerning net sales via its gross profit margin (Rashid, 2021). By comparing a company's net profit to its sales revenue, the net profit margin calculates the proportion of net income that comes from sales. The Return on Assets (ROA) metric assesses how well a business generates profits from all of its assets, giving a general idea of how profitable a business can make each asset it owns (Rauf et al., 2021).

According to (Mesak, 2019), A key financial statistic for evaluating a company's capacity to make money from its activities and investments is its profitability ratio. Stakeholders and investors must assess the efficacy and efficiency of the business in producing profits (Putri et al., 2024). The amount that potential purchasers would pay to buy a firm when it is sold determines its worth and is frequently linked to stock prices (Ningsih & Sari, 2019). Financial statements give stakeholders important information about the health and performance of a company's finances, allowing them to make wise decisions. Liquidity, leverage, activity, profitability, growth, and valuation ratios are examples of profitability measures that are useful for analyzing financial performance and pinpointing areas that require improvement (Sangawi et al., 2023). Stakeholders can assess a company's capacity to efficiently manage cash flow and maintain operations using cash flow analysis, including liquidity and flexibility ratios (Nasution & Yusleny, 2023).

Shareholders' Equity

According to (Okudo et al., 2023), part of the rights of an owner in a company are shares, which distribute the current assets and liabilities of the company. must be declared following the regulatory document, rules, and regulations; it is not a measure of a company's sales value. In non-profit organizations, it is called net worth, but in retail business, it is called capital (Zhang et al., 2023a). The relationship between the company and its shareholders is expressed in shareholders' equity, which highlights the assets or values inherent in the business. Additionally, it shows how shareholders are legally related (Zhang et al., 2023b). To provide information for management efficiency and stewardship, reporting this information aids in the maintenance of legal relationships and duties (Mohammed et al., 2024). Conversely, shareholders' equity is the remaining stake that owners have in a business after taking into account their original investment, returns, and reinvestments (Zeng, 2023). It shows how they feel about the firm, which is favorable if they are performing well. The difference between a company's total assets and liabilities, or debt, is the total shareholders' equity (Rauf et al., 2021). Liabilities are the debt that a business must pay back, whereas assets are its resources. Usually, the count of liabilities increases when businesses allocate money for assets (Shah et al., 2021).

Article Review

Understanding the role of liquidity and profitability in shareholders' equity is essential for investors and financial analysts. Drawing on seven new studies, this review looks at existing research on the effects of liquidity and profitability on shareholder equity.

As stated in the study results (Bogdan et al., 2012), the impact of liquidity factors on the liquidity ratio in the Croatian stock market is investigated. Drawing on primary and secondary data of 196 companies listed on the Zagreb stock exchange. The study calculates the amount of capital required to change prices by 1% using the Amy Hood liquidity ratio. In the paper, regression models and correlation matrices are used to investigate how different variables affect stock liquidity in the Croatian capital market. The main findings indicate that liquidity ratio is influenced by trading volume, volume achieved, and number of shares issued. The study is unique in that it is the first to examine stock liquidity concerns in the Croatian capital market. Determinants of return on assets and return on equity and their impact on industrial companies are listed on the Zagreb stock exchange.

According to the study (Mubin et al., 2014), the purpose of this study is to ascertain which components of DuPont's identity in stock returns are most consistent or volatile between profitability ratio, total assets multiplier of shares in chemicals, fuel and energy sector, cement, engineering, textiles, and transportation and communication sectors benchmarks KSE 100 are implemented. Using the audited financial lists of 51 companies, divided into six sectors from 2004 to 2012, registered with the Karachi Stock Exchange. The findings indicate that although earnings ratios and stock multipliers are not dynamic, asset turnover varies dramatically among industries. The study also shows how newly established businesses benefit from the prosperity of these industries.

According to the findings of the study “Economics, Business Economics, and Management” (Arkan, 2016), predicting stock price movements in developing economies using financial parameters is the subject of this paper. Using the audited financial lists of fifteen companies registered in the Kuwaiti financial market between 2005 and 2014, which assesses the predictive ability of twelve financial parameters. The findings show high positive relationships between movement variables and stock price behaviors in Kuwait's industrial sector. ROA, ROE, and net profit margins are the most useful ratios. The best ratios, such as ROA, ROE, P/E, and EPS, are also found in the service industry. The study concludes that operational and financial choices may be made using financial ratios.

According to the study (Okudo et al., 2023), titled Complementarity of Equity and Debt Capital on Profitability of Quoted Consumer Goods Firms in Nigeria. From 2011 to 2021, the study looked at how total liabilities and shareholders' equity affected the earnings per share (EPS), return on equity (ROE), and return on assets (ROA) of listed consumer goods firms in Nigeria. Purposive sampling and panel data from the sample businesses' annual reports and accounts were used in the study. The findings demonstrated that, at a 5% level of significance, shareholders' equity had a positive and significant impact on ROA, ROE, and EPS, whereas total liabilities had a negative and significant impact on the same metrics. According to the report, consumer goods companies may boost their profitability by utilizing a suitable combination of borrowed and equity capital.

According to the study (Fiqri et al., 2024), which discusses the impact of liquidity and earnings with capital structure as a moderating variable on the value of companies in the mining sector, there were 52 companies listed on the Indonesia Stock Exchange (IDX) from 2016 to the researchers used quantitative methods corresponding to a descriptive and confirmatory research approach. The findings indicate that firm value is significantly negatively affected by liquidity. Firm value is significantly negatively affected by profitability, negatively by capital structure, and positively by leverage. In addition, firm value is significantly negatively affected by earnings and negatively by liquidity.

The study (Sholatika & Triyono, 2022) analyzes to identify the impact of profitability and liquidity on the value of industrial companies listed on the Indonesia Stock Exchange for 2018-2020. What role does leverage play as a moderating variable? Purposive sampling and secondary data were used in this study, which led to the selection of 20 companies as the study sample. Multiple linear regression analysis was performed on the data using SPSS 20. The study's findings showed that the company's value was significantly affected by profitability, liquidity, and leverage. However, firm value was not significantly affected by dividend policy, modified earnings, liquidity, or leverage. In addition, the company's value has been greatly affected by its leverage and liquidity.

All things considered, these studies offer insightful information on how liquidity ratios and profit ratios affect shareholders' equity. The results indicate that sustaining high profitability and liquidity ratios can increase shareholders' equity, but it's important to consider liquidity circumstances and industry-specific trends when interpreting liquidity ratios.

Hypotheses Development

H1: The current Ratio has a significant and positive effect on shareholders' equity.

H2: Working capital ratio has a significant and positive effect on shareholders' equity

H3: Profit ratios have a significant and positive effect on shareholders' equity.

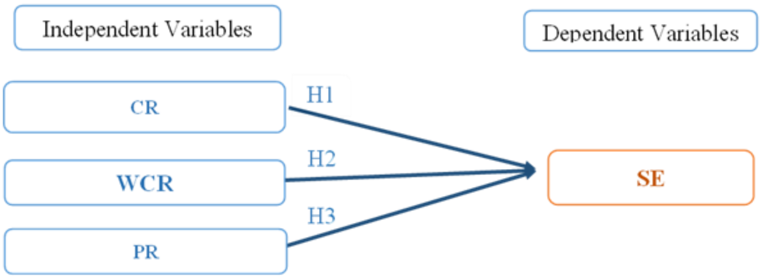

Figure 1. Framework Theoretical

Source: developed by the authors

RESEARCH METHOD

Number of companies and sample size

Primary data from the industrial sector is used. Out of all the industrial companies listed on the Iraqi Stock Exchange, only ten companies were selected as the sample for our research data. The financial statements for the years 2018-2022 published on the Iraqi Stock Exchange (ISX) for five years included audited financial accounts (www.isx-iq.net).

Table 1. Sector-based distribution of samples

No.	Name Company	International numbering code
1	Canadian Veterinary Vaccine Production	IQ000A0M7T41
2	Al Mansour Pharmaceutical Industries	IQ000A0M7TZ3
3	Production of ready-made garments	IQ000A0M9C89
4	National Home Furniture Industries	IQ000A0Q2070
5	Iraqi Engineering Works	IQ000A0M7TX8
6	Al Khazir Road for the production and trade of construction materials	IQ000A0M9DB4
7	Baghdad Soft Drinks	IQ000A0M7TT6
8	Modern sewing	IQ000A0M7T66
9	Baghdad Packaging Materials Industry	IQ000A0M7TW0
10	Modern chemical crafts	IQ000A0Q21A5

Source: Researchers used the Iraq Stock Exchange (www.isx-iq.net).

Method of Data Collection

Quantitative Research Technique The technique used in this study includes several important procedures to guarantee accurate interpretation and analysis of the data. To check the completeness of the data presented and maintain the intended generality of the results, descriptive statistics are used. According to (Fiqri et al., 2024), the descriptive method is a method used to analyze data by describing the collected information as it is, without expressing conclusions or its validated generalizations. The authors evaluated the significance of the relationships between their dependent and independent variables, using panel data regression techniques, quantitative descriptive methods, and purposive sampling methods. To further ensure the robustness of the analysis, the probability that the data set is suitable for normal distribution and that the underlying random variables are both carefully considered. Regression analysis and complex panel data processing are the two main reasons why EViews version 22 software is used for data analysis. In order to show the impact of cash and income ratios on shareholders' shares of industrial companies listed on the Iraqi Stock Exchange (ISX), which relies on annual audited financial reports of companies for the years 2018-2022, served as the primary source of data for the study.

Variables

This study examines the relationship between the liquidity ratio, profit ratio, and shareholders' equity. While the liquidity ratio measures a company's ability to pay off short-term debt, the profit ratio evaluates profitability. Understanding these factors can help managers, investors, and stakeholders make educated decisions on investing strategies and risk management.

Liquidity Ratios:

An examination of the liquidity ratio sheds light on the company's ability to pay bills on schedule. This study is important not only for lenders but also for creditors. The easiest and most direct methods for calculating liquidity are the working capital ratio and the current ratio (Yulianti & Rahmayanti, 2024).

Current ratio

The current liquidity ratio measures a company's ability to pay short-term obligations and debts. It is calculated by dividing the current asset by the current liabilities. Higher ratios indicate better liquidity, which measures a company's ability to pay off its short-term loans. A value ratio of more than one indicates a corporation's financial situation and obligations. A healthy liquidity ratio rarely indicates financial troubles because it demonstrates wealth and position in obligations. It is rare for a company with a high liquidity ratio to show signs of financial crisis (Lalithchandra & Rajendhiran, 2021). The current ratio formula is:

$$Current\ Ratio = \frac{Current\ Assets}{Current\ Liabilities} \tag{1}$$

Working capital ratio

Entrepreneurs can learn more about their organization's liquidity by looking at their net working capital ratio. It assesses the efficiency with which current liabilities are paid down using current assets, such as short-term debt. Stated differently, it assesses how well a business manages its cash flow to meet its short-term obligations. A bigger ratio indicates more liquidity, whereas a lower ratio can suggest potential financial difficulties. Business leaders should monitor this ratio to make sure that assets and liabilities are balanced in a healthy way (Isaac & Chidinma, 2022). This ratio's formula is as follows:

$$working\ capital\ ratio = Current\ Assets - Current\ Liabilities \tag{2}$$

Profit Ratios

Since the long-term goal of any firm is to turn a profit, investors must ascertain the profitability of stock exchange companies. Economic efficacy is measured by financial pro-activity ratios, which are used to assess a company's profitability. The three measures that were employed in this study to evaluate the organization's profitability were return on assets (ROA), return on equity (ROE), and return on sales (ROS). (Rutkowska-Ziarko, 2015). A formula is used to calculate the return on assets.

$$ROA = \frac{Net\ Income}{Total\ Assets} \tag{3}$$

Dependent Variable

Shareholders' Equity:

Shareholder equity, or SE, is the total amount paid back to shareholders following a corporate liquidation and settlement of all outstanding debts. It stands for the company's net value. It is calculated by dividing a business's total assets and liabilities. Stock investors and analysts rely largely on SE to assess a company's financial health and make informed investment decisions (Mubin et al., 2014). The shareholders' equity formula (Mubin et al., 2014) is as follows:

$$Shareholders'quity = TotalAssets - Total\ Liabilities \tag{4}$$

$$SE = a + \beta 1CR + \beta 2WCR + \beta 3PR + e \tag{5}$$

Description:
SE: Shareholders' Equity (Dependent variables).
CR: Current ratio (Independent variables).
WCR: Working capital ratio (Independent variables).
PR: Profit Ratios (Independent variables).
a: Constants
β1, β2&B3: Partial Coefficient Regression
e: Error

RESULTS AND DISCUSSION

The study looks at how sampled companies' shareholders' equity is affected by their profit and liquidity ratios. Table 2 displays an average Shareholders' Equity (SE) of 4.56, indicating a reasonable level of equity. The Working Capital Ratio (WCR) of 1.60 indicates that businesses have 1.6 times as short-term asset capacity as short-term liabilities. A distribution that is skewed towards some enterprises with high ratios is indicated by the median value of 1.75. The sampled companies have low profitability, as indicated by the average Profit Ratio (PR) of 0.020431. Despite being affected by outliers, the high Current Ratio (CR) indicates exceptional liquidity in certain organizations. A median CR of 4.591120 indicates strong liquidity for most enterprises. The impact of outliers on the liquidity evaluation is further highlighted by the significant standard deviation of 29.45736. The low probability values observed in all measurements of the study indicate significant attributes within the sample, which could provide important insights into how profit ratios and liquidity affect shareholders' equity. Further inferential statistical research into these relationships is made possible by this descriptive study.

Table 2. Statistic Descriptive

	SE	WCR	PR	CR
Mean	4.56	1.60	0.020431	12.27820
Median	2.38	1.75	0.010149	4.591120
Maximum	5.00	1.90	0.231992	204.9867
Minimum	3.57	-3.61	-0.355719	0.590503
Std. Dev.	1.29	4.45	0.098562	29.45736
Probability	0.000	0.000	0.000002	0.000000
Observations	50	50	50	50

Source: Data analyzed with EViews Version 22.

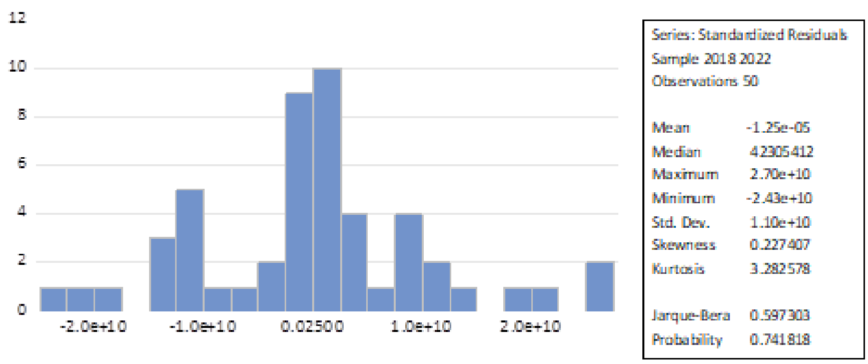

Figure 2. Test of Normality

Source: Data analyzed with EViews Version 22.

Based on the probability value finding of 0.741. The normality test result showed that the study's data is normally distributed since the Jarque-Bera value is 0.597, which is larger than 0.05. Figure 2 shows these findings.

Results of Correlation

A high connection (0.982) between a company's financial health and shareholders' equity is revealed by the analysis in Table 3. This shows that higher shareholders' equity is directly correlated with effective working capital management, which indicates robust liquidity and the capacity to meet short-term obligations. The stability and well-being of the financial system are significantly enhanced by efficient working capital management. Moreover, the profit ratio (PR) and shareholders' equity have a 0.3485 association. Profitability, which measures a company's efficiency in generating earnings relative to sales, assets, and equity, is thought to have a moderately positive association with shareholders' equity, although not as much as working capital management. However, this suggests that while other variables are important, increased profitability typically corresponds with increased shareholders' equity. The current ratio (CR) and shareholders' equity, on the other hand, has a marginally negative association (-0.09). This small yet negative correlation shows that growth in shareholders' equity may not always follow better liquidity levels, as shown by the current ratio. This might mean that too much liquidity could result in capital being unnecessarily invested in assets that don't really add to the company's growth or profitability, which would not increase shareholder value.

Table 3, Correlation analysis

	SE	WCR	PR	CR
SE	1	0.982	0.3485	-0.09021
WCR		1	0.35076	-0.07866
PR			1	-0.084
CR				1

Source: Data analyzed with EViews Version 22

Results of Regression

The Panel EGLS approach is used in this study to investigate The Role of Liquidity and Profitability on Shareholders' Equity on the Iraqi Stock Exchange. According to the findings, large liquidity levels may have a detrimental effect on shareholders' equity, while working capital management greatly increases it. Contrarily, the profit ratio has little effect on shareholders' equity, indicating that while profitability is essential, it might not have a direct effect on equity. Higher liquidity may have an adverse effect on owners' equity as a result of overextension of resources in non-profitable or idle assets, according to table 4's current ratio coefficient of -1.659, which shows a strong but negative association between the current ratio and equity. With a high R-squared of 0.938555 and a Root Mean Square Error (MSE) of 2.961, the model can account for about 93.86% of the variation in shareholders' equity. With the provided independent variables, the model's robustness is supported by the Adjusted R-squared of 0.934548. The study's conclusion offers a comprehensive grasp of the ways in which various financial management techniques affect a company's shareholder value. The findings imply that while excessive levels of liquidity may have a detrimental effect on shareholders' equity, working capital management greatly increases the risk of capital loss. The Durbin-Watson value of 0.222615, which indicates possible autocorrelation among residuals and may require more research or model revision, supports the robustness of the model.

According to the results presented in Table 4, which deals with the role of liquidity and earnings on shareholders' equity in the Iraqi Stock Exchange, it aims to show the effect of the independent variable on the dependent variable. Hence, the current ratio results as an independent variable have a significant negative impact on shareholders' equity. Because his results indicate that sig is 0.0047, which is smaller than 0.05, we can thus conclude that the hypothesis H1 is accepted against the rejection of the hypothesis H0. But, in his research (Ningsih & Sari, 2019). The results show that current ratios do not affect firm value in automobile companies.

This is even though the result of the working capital ratio as an independent variable has a significant positive effect on shareholders' equity. Because his results indicate that sig is 0.0000, which is smaller than 0.05, we can also conclude that hypothesis H2 is accepted, in contrast to the rejection of hypothesis H0. The results of the (Fiqri et al., 2024) A study indicate that liquidity has a significant negative effect on stock value. At the same time, however, the (Sholatika & Triyono, 2022) a study shows a positive effect of liquidity and stock value.

Meanwhile, the result of the profit ratio as another independent variable has a nonsignificant positive impact on shareholders' equity. Since the results indicate 0.3269, which is greater than 0.05, we can conclude that the hypothesis H0 is accepted against rejection of the hypothesis H3. This result contradicts the results of the study (Abdelkarim & Almumani, 2018), which was conducted on the Jordanian banking sector. This is despite the results of the study (Fiqri et al., 2024), which shows that profits harm stock prices. At the same time, however, the results of (Sholatika & Triyono, 2022) study show that earnings have a significant positive effect on stock prices.

Table 4. Fixed Effect Panel Data

Redundant Fixed Effects Tests				
Equation: Untitled				
Test cross-section fixed effects				
Effects Test		**Statistic**	**d.f.**	**Prob.**
Cross-section F		26.357599	(9,37)	0.0000
Cross-section fixed effects test equation:				
Dependent Variable: SE				
Method: Panel EGLS (Cross-section weights)				
Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
C	8.108	1.948	4.168812	0.0001
WCR	1.267088	0.048588	26.07831	0.0000
PR	2.119	2.129	0.990995	0.3269
CR	-1.6593300	5581972.	- 2.972659	0.0047
R-squared		0.938555		
Adjusted R-squared		0.934548		
F-statistic		234.2133		
Prob(F-statistic)		0.000000		
Durbin-Watson stat		0.222615		

Source: Data analyzed with EViews Version 22.

$$SE = 8.108 + 1.659 * CR + 1.267 * WCR + 2.119 * PR + e$$

The above equation offers insights into how liquidity, working capital management, and profitability affect a company's equity in the regression model investigating the impact of various financial variables on shareholders' equity (SE). The base equity value is represented by the constant term 8.108 when all ratios are zero. For every unit change in the relevant ratio, each coefficient represents the change in equity.

In particular, a higher liquidity level has a positive impact on equity, as indicated by the current ratio (CR) coefficient of 1.659, implying that companies with stronger short-term financial health are worth more stock. The profit ratio (PR) and working capital ratio (WCR) also exhibit positive coefficients of 2.119 and 1.267, respectively, indicating that maximizing profitability and working capital management are essential for raising shareholders' equity. These connections highlight the value of sound financial management and effective operations in raising investor confidence and increasing a company's worth.

Table 5. Test Method

Test for Equality of Means Between Series			
Included observations: 50			
Method	**df**	**Value**	**Probability**
Anova F-test	(3, 196)	4.931077	0.0025
Welch F-test*	(3, 81.6673)	7.008600	0.0003

Source: Data analyzed with EViews Version 22.

The Test for Equality of Means between Series is a useful tool for analyzing how the profit and liquidity ratios affect shareholders' equity. Table 5 presents the results of this analysis, which comprised 50 observations and employed two alternative approaches to assess the equality of means among the various groups in the dataset. A value of 4.931077 and a probability of 0.0025 were obtained from the ANOVA F-test with degrees of freedom (3, 196). This finding suggests that differences in liquidity and profit ratios may have different effects on shareholders' equity because there is a statistically significant difference in the means of the groups under comparison. This result was further supported by the Welch F-test, which produced a value of 7.008600 with a probability of 0.0003 and is more resilient to unequal variances among groups when using degrees of freedom (3,81.6673). The substantial differences in group means are further supported by this extremely low likelihood score, which highlights the impact that varying degrees of profitability and liquidity have on shareholders' equity.

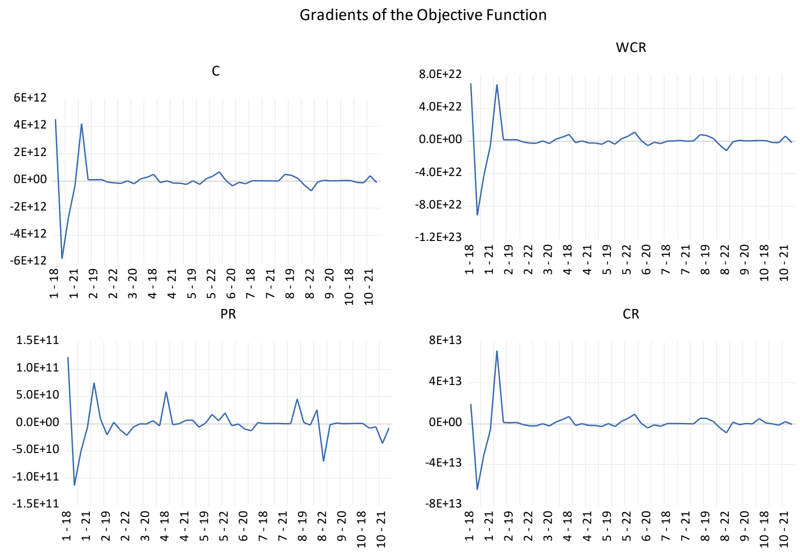

Figure 3. Graph Variance

CONCLUSION

In this study, the results of the effects of liquidity, earnings, and shareholders' equity in Iraqi industrial enterprises it is clear that these financial measures have been used in assessing the role of intermediate variables in the Iraqi manufacturing sector. Understanding the interdependence of liquidity, earnings, and shareholders' equity is crucial for stakeholders assessing the overall financial health and value creation potential of Iraqi industrial enterprises. The ability of industrial companies to satisfy their current liabilities and short-term financial health can be inferred from liquidity ratios such as quick and current ratios. Therefore, the current rate results have a significant negative impact on shareholders' equity. In other words, if the current rate increases, the value of shareholders' shares will decrease and vice versa. At the same time, the working capital ratio has a significant positive effect on shareholders' equity. That is, any increase in the proportion of working capital in Iraqi industrial companies will increase the value of shareholders' shares by a certain amount. This is because the profit margin, as another independent variable, cannot have any effect on shareholders' equity value. That is, an increase or decrease in the profit rate does not cause a change in the value of shares. Hence, a detailed understanding of the effects of profitability and liquidity on shareholders' equity in Iraqi industrial enterprises is needed to enable stakeholders to make sound decisions regarding financial management, investment, and strategic planning. Raising profit margins by increasing revenue and efficiency, as well as improving liquidity ratios through efficient management of assets and liabilities, can have a favorable impact on shareholders' equity and the overall financial performance of Iraqi industrial enterprises. Therefore, in order to assess the financial sustainability and overall health of Iraqi industrial companies and promote value for their owners, it is critical that investors, analysts, and managers continuously monitor and analyze these financial measures.

This study suggests that firms follow balanced cash management to try to keep their liquidity at a balanced level. A high cash ratio is a sign of good financial condition, but too much cash can lead to increased resource waste. To ensure they can meet short-term obligations without compromising long-term profitability and growth, companies need to maintain liquidity balances. On the other hand, the capital structure of companies should be built in a healthy way. Working capital is used to assess whether Iraqi industrial enterprises have sufficient assets to cover short-term liabilities. Working capital represents how long it takes for assets to be converted into liquidity. Therefore, firms should strive to secure positive working capital, indicating that manufacturing firms have sufficient short-term assets to cover their short-term liabilities. It is a sign of good health and financial stability.

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