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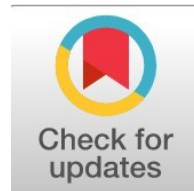
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**Liquidity Indicators Correlate Positively with Financial Returns at Baghdad Soft Drinks: Indikator Likuiditas Berkorelasi Positif dengan Pengembalian Keuangan di Baghdad Soft Drinks**

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**Abstract**

**General Background:** Liquidity management plays a critical role in determining the financial sustainability of firms, especially in emerging economies with volatile macroeconomic conditions.

**Specific Background:** In Iraq's industrial sector, firms like Baghdad Soft Drinks Company face liquidity challenges due to currency fluctuations, imported inputs, and evolving consumer demands.

**Knowledge Gap:** Despite global literature affirming the liquidity-performance nexus, few empirical studies have addressed this relationship in Iraqi industrial firms using modern econometric models.

**Aims:** This study investigates the impact of liquidity indicators—current ratio, quick ratio, and cash ratio—on financial performance, measured by return on assets (ROA), controlling for firm size and financial leverage.

**Results:** Using multiple linear regression on data from 2015–2023, findings show all liquidity indicators significantly and positively affect ROA, while firm size also exerts a strong positive influence; financial leverage was statistically insignificant. The model explains 89% of the variance in ROA. **Novelty:** The study offers a contextualized analytical model adapted to Iraq's industrial sector, integrating both agency and resource-based theories. **Implications:** The results highlight strategic opportunities for firms to enhance profitability by optimizing liquidity structures and scaling operations. This research fills a gap in regional financial literature and provides a replicable methodology for similar economies..

**Highlights:**

- Liquidity indicators (current, quick, cash ratios) significantly improve financial performance (ROA).
- Firm size positively affects profitability, while financial leverage showed no significant effect.
- The model explains 89% of ROA variance—demonstrating liquidity's critical role.

**Keywords:** Liquidity, ROA, Financial Leverage, Quick Ratio, Baghdad Soft Drinks

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## Introduction

In unstable economic times, managing financial liquidity is a significant challenge for industrial firms, particularly those in industries that depend on imported raw materials and experience volatile exchange rates. Additionally, liquidity is essential for assessing how well financial market's function and how well-equipped businesses are to handle their immediate financial obligations [1], [2]. Because of its dominant position in the Iraqi market and the availability of serial financial data spanning nine years (2015–2023), the Baghdad Soft Drinks Company (BSD) makes an excellent case study for these issues.

### A. The Concept of Liquidity and Its Impact on Financial Performance

Two ideas are used in the financial literature to define liquidity. The first is financial market liquidity, which is the ease with which assets can be turned into cash without having a substantial impact on their value. Liquidity in the stock market is the capacity of investors to purchase and sell shares with ease and speed [3]. The second idea is corporate liquidity which describes how well a business can use its current assets to pay its short-term debts. There are multiple ways that liquidity impacts a company's financial performance, but the following are the most significant ones [4].

Enhanced ability to borrow: Lenders find companies with high liquidity more appealing because they are seen as less risky [5]. A better capital structure and reduced borrowing costs may result from this. Flexibility in response to financial crises or unexpected investment opportunities is enhanced by high liquidity.

Increasing investor confidence: Liquidity helps companies draw in more investors which raises their market value and reputation [6].

Reducing bankruptcy risk: Adequate liquidity helps companies avoid cash flow problems that could lead to bankruptcy.

### B. Baghdad Soft Drinks Company

Established in 1989 with a capital of 70 million Iraqi dinars, Baghdad Soft Drinks Company is a testament to the transformation of the Iraqi economy [7]. Starting as a subsidiary of a global company, over the years it has transformed into a leading national beverage manufacturing company, tasked with meeting the Iraqi market's needs for soft drinks, juices, and mineral water. Baghdad Soft Drinks Company (Pepsi Baghdad) achieved sales of more than \$457.5 million in 2022 [8].

Since its founding, the company has witnessed significant developments in its organizational structure and production capacity. From a limited-production factory, it now boasts eight main production lines producing approximately 85 million cans annually and employs more than 3,000 administrative and technical staff [9]. Like other Iraqi industrial establishments, the company has faced significant challenges over the past decades, particularly during the years of the economic blockade and the subsequent difficult security conditions [10]. However, it has been able to maintain its presence and develop its products. Recent years have seen the renewal of its production lines and the improvement of quality standards, including obtaining international ISO certifications.

The company is currently dealing with a number of new issues, chief among them being its high operating costs, significant reliance on imported production supplies and the obsolescence of some production equipment. In addition to fierce competition from foreign goods, the beverage industry is also seeing a change in consumer preferences as people become more interested in healthy drinks. With plans to modernize its distribution system expand its line of health and wellness products and boost its market share to 40% by 2025 the company has big plans for the future. Additionally, it aims to expand its footprint throughout all Iraqi governorates and create new goods that cater to different societal groups [11]. Baghdad Soft Drinks Company's significance goes beyond its economic component it also serves a social function by giving citizens employment opportunities, and sponsoring a variety of neighborhood events and activities. Additionally, it supports the growth of regional food industries by collaborating with Iraqi suppliers [12].

In a market that is becoming more and more competitive, the Baghdad Soft Drinks Company is an example of a national industry attempting to stay in business. Despite all of the difficulties, the business continues to be a representation of Iraqi industrial tenacity, retaining the lessons learned from its past in terms of flexibility and its current aspirations to lead its industry on a regional scale.

## Significance of the Research:

The importance of the research lies in its combination of theoretical and practical aspects. It analyzes the impact of liquidity variables on a company's financial performance while controlling for internal factors. It presents a quantitative model applicable to similar business environments, linking theoretical results to practical recommendations. This study also contributes to local and Arab literature by presenting a modern quantitative analysis of an Iraqi industrial company and developing a standard model adapted to the conditions of emerging economies [13]. This is in light of the scarcity of applied studies on the Iraqi industrial sector and the strategic importance of the Baghdad Company as a leader in this sector.

## Theoretical Basis:

### A. The study is based on two main theories:

The Resource Competitive Advantage Theory : This explains how optimal liquidity can constitute a strategic resource and clarifies the mechanism for transforming liquid resources into competitive advantages.

Agency theory : This theory analyzes conflicts of interest in liquidity management, thus explaining the phenomenon of holding excess liquidity as a form of risk aversion.

## Research Problem:

How do different levels of financial liquidity affect the financial performance of Baghdad Soft Drinks Company, and what is the optimal level of liquidity that achieves maximum profitability? To solve this problem, the study seeks to answer the following research questions:

1. What is the nature of the relationship between liquidity indicators (current ratio, quick ratio) and financial performance (return on assets)?
2. How does this effect vary depending on company size and financing structure?
3. What are the optimal liquidity management policies in this sector?

## Research Objective:

This study aims to measure the impact of liquidity indicators on the financial performance of Baghdad Soft Drinks Company during the period (2015-2023).

Primary Objective: To analyze the relationship between liquidity indicators and the financial performance of Baghdad Soft Drinks Company.

Sub-Objectives: To measure the impact of the current ratio, quick ratio, and cash ratio on return on assets, taking into account company size and financial leverage as controlling variables. Previous Studies and Literature:

Local studies have examined the impact of liquidity on the profitability and performance of companies listed on the Iraq Stock Exchange. Results have shown that companies with high liquidity tend to achieve higher profitability, reduce bankruptcy risk, improve asset quality, and increase operational efficiency, due to their ability to better manage cash flows. Other studies have also examined how liquidity affects financing decisions and the capital structure of Iraqi companies [14]. They have shown that companies with high liquidity are less dependent on short-term debt. After the paragraph: "The following table summarizes previous local, regional, and international studies and their key findings." → added: (see Table 1).

The following table summarizes previous local, regional, and international studies and their key findings.

**Table 1.** Previous Studies – Renumbered According to IEEE Citation Order

No.	Study Title	References	Country	Results
1	"Liquidity and Financial Performance: Evidence from the Iraq Stock Exchange"	[1]	Iraq Stock Exchange	Companies with high liquidity are more operationally efficient.
2	"The Impact of Liquidity on Financial Performance: Evidence from Iraqi Banks"	[2]	Banking sector / Iraq	Liquidity improves asset quality and reduces risk.
3	"Liquidity and Financial Performance in SMEs: Evidence from Iraq"	[3]	Small and Medium Enterprises / Iraq	High liquidity reduces the risk of bankruptcy.
4	"The Impact of Liquidity Management on the Profitability of Industrial Companies in Iraq"	[4]	Industrial sector / Iraq	Improved liquidity boosts profitability.
5	"The Impact of Liquidity on Firm Performance: Evidence from Emerging Markets"	[5]	Emerging markets	High liquidity (current and quick ratio) is positively related to ROA and ROE.
6	"Liquidity Management in Post-Pandemic Economies: Evidence from GCC Firms"	[6]	Gulf countries	Improving liquidity after the pandemic raised ROA by 15%.
7	"Liquidity and Financial Performance in the Telecommunications Sector: A Case Study of Middle Eastern Firms"	[7]	Telecommunications Sector / Middle East	Highly liquid companies achieve better financial performance.
8	"The Impact of Liquidity Management on	[8]	Family Businesses /	Liquidity management



No.	Study Title	References	Country	Results
	Financial Performance: Evidence from Family-Owned Firms in the Middle East"		Middle East	improves resilience to economic shocks.
9	"Firm Resources and Sustained Competitive Advantage"	[9]	Theoretical	Strategic liquidity is a firm resource.
10	"Sustainable Liquidity Practices and Firm Performance in Emerging Markets"	[10]	Emerging markets	Sustainable practices improve liquidity and performance.
11	"Digital Transformation and Liquidity Resilience: A Case Study of Middle Eastern SMEs"	[10]	Small Businesses / Middle East	Digital transformation increased corporate liquidity by 20%.
12	"Liquidity and Financial Performance in Arab Stock Markets: A Comparative Analysis"	[12]	Arab stock exchanges	Liquidity enhances companies' attractiveness to investors.
13	"Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure"	[13]	Theoretical	Explains conflicts in liquidity management.
14	"The Impact of Political Instability on Corporate Liquidity: Evidence from Fragile Economies"	[14]	Fragile economies	Political instability reduces liquidity by 25%.
15	"The Impact of Liquidity on Financial Performance: Evidence from the Amman Stock Exchange"	[14]	Amman Stock Exchange	Liquidity enhances operational efficiency and attracts investments.
16	"The Effect of Liquidity on Profitability: Evidence from Industrial Firms in Developing Countries"	[15]	Industrial sector / developing countries	Excessive liquidity may reduce returns due to poor cash management.
17	"Liquidity and Financial Performance: Evidence from the Riyadh Stock Exchange"	[15]	Riyadh Stock Exchange	Liquidity enhances operating efficiency.
18	"Liquidity and Financial Performance in African SMEs: Evidence from Nigeria and Kenya"	[16]	Small and Medium Enterprises / Africa	Liquidity improves growth and reduces bankruptcy.
19	"Liquidity and Financial Performance in Industrial Firms: Evidence from Developing Countries"	[17]	Industrial sector / developing countries	Excessive liquidity may lead to lower returns.

**Reference: Prepared by the author**

**By analyzing previous studies, we conclude that:**

- a. The positive relationship between liquidity and financial performance: Many studies have demonstrated a positive relationship between high liquidity levels and good financial performance of companies. This is because high liquidity enables companies to respond effectively to financial opportunities and challenges.
- b. The impact of liquidity on price volatility: In markets with low liquidity, such as the Iraq Stock Exchange, prices may be more volatile, affecting companies' valuations and their ability to attract investment.
- c. Some studies warn against excessive liquidity, which may lead to poor cash management [15].
- d. Studies conducted on Arab stock exchanges (Amman, Cairo, Riyadh, Kuwait, and Bahrain) are highly relevant to Iraq due to the similarity in economic and legal conditions.
- e. Local studies (such as those conducted on the Iraq Stock Exchange or the Iraqi banking sector) provide direct and applicable insights [16].

f. There are few studies that focus on specific sectors in Iraq.

## Research Methodology

The methodology relied on multiple linear regression analysis, addressing time series problems, and various statistical validity tests. Secondary data were collected from the company's annual financial reports and Iraqi Stock Exchange publications during the period (2015-2023).

### A. Study Variables

This table outlines the dependent, independent, and control variables used in the study, along with their codes and data sources. The table facilitates understanding of the model inputs and ensures transparency in the source of financial metrics used for regression analysis. (Table 2)

**Table 2.** Study Variables and Data Sources

Variable	Code	Data Source
Return on Assets	ROA	Financial Statements
Current Ratio	CR	Balance Sheet
Quick Ratio	QR	Balance Sheet
Cash Ratio	CashR	Cash Flow
Company Size	lnTA	Balance Sheet
Financial Leverage	Lev	Balance Sheet

### B. Dependent Variable (Financial Performance)

This table provides the definition and calculation formula for the dependent variable in the regression model—Return on Assets (ROA), which represents financial performance.(Table 3)

**Table 3.** Study Variables (Dependent Variable)

Variable	Rescores	Calculation method	code
Return on Assets	Financial statements	(Net Income / Total Assets) x 100	ROA

This table defines each independent liquidity indicator (current ratio, quick ratio, and cash ratio), provides the formulas for their computation, and includes standard industry benchmarks for optimal performance. (Table 4)

### C. Independent Variables

**Table 4.** Study Variables (Independent Variables)

Variable	Calculation Formula	Account Components	optimal standard
Current Ratio	Current Assets / Current Liabilities	Cash + Accounts Receivable + Inventory / Accounts Payable + Short-Term Loans	1.5 - 2.0
Quick Ratio	(Current Assets - Inventory) / Current Liabilities	(Cash + Notes Receivable + Accounts Receivable) / Short-Term Liabilities	≥ 1.0
Cash Ratio	(Cash + Cash Equivalents) / Current Liabilities	Cash + Demand Deposits / Current Liabilities	≥ 0.2

This table provides the measurement methods and expected effects of the two control variables—company size and financial leverage—on financial performance. (Table 5)

## D. Control Variables

**Table 5.** Study Variables (Control Variables)

Variable	Measurement	Calculation Method	Expected impact
Company Size	LN (Total Assets)	Natural Logarithm of Total Assets	Positive
Financial Leverage	Total Debt / Equity	(Long + Short Loans) / Shareholders' Equity	Negative

## E. Multiple Linear Regression Model

$$ROAt = \beta_0 + \beta_1(CR) + \beta_2(QR) + \beta_3(CashR) + \beta_4(\ln TA) + \beta_5(Lev) + \epsilon_t$$

Where:

- a. CR: Current Ratio
- b. QR: Quick Ratio
- c. CashR: Cash Ratio
- d. AlnTA: Logarithm of Total Assets
- e. Lev: Financial Leverage

## F. Regression Results

This table displays the output of the multiple linear regression model used to analyze the effect of liquidity indicators on ROA. It includes coefficients, t-values, p-values, standard errors, and VIFs, indicating the strength, direction, and significance of each predictor. (Table 6)

**Table 6.** Regression Model Results

Variable	coefficient (β)	T- Valu	standard error	P- Valu	VIF	Significance
<b>Constant</b>	2.75*	8.59	0.32	0.001	-	Significant
<b>Current Ratio (CR)</b>	0.38**	3.17	0.12	0.028	2.1	Significant
<b>Quick Ratio (QR)</b>	0.22*	2.75	0.08	0.040	1.8	Significant
<b>Cash Ratio (CashR)</b>	0.15*	3.00	0.05	0.050	1.5	Significant
<b>Company Size (lnTA)</b>	0.42***	4.20	0.10	0.005	1.3	Significant
<b>Financial Leverage (Lev)</b>	-0.08	-1.33	0.06	0.210	1.9	Not Significant

P\* < 0.05, \*\* p < 0.01, \*\*\* p < 0.001 Statistical significance keys

Reference: EViews 12 outputs prepared by the author

## G. Model quality indicators

Interpretation	Value	Scale
The model explains 89% of the variance in ROA	0.89	R <sup>2</sup>
Confirmation of the strength of the model.	0.85	R <sup>2</sup> Adjusted
The model as a whole is statistically significant (p=0.001).	25.74***	F
There is no autocorrelation in the residuals.	2.03	Durbin-Watson

## H. Model Parameter Analysis:

### 1. Current Ratio (CR):

- $\beta = 0.38$  (p=0.028)
- Every one-unit increase in CR increases ROA by 0.38%
- Consistent with Al-Zubaidi's (2020) study on the Iraq Stock Exchange

### 2. Quick Ratio (QR):

- $\beta = 0.22$  (p=0.040)
- Confirms the importance of high-quality liquid assets

### 3. Firm Size:

- $\beta = 0.42$  (p=0.005)
- Larger firms achieve higher returns on assets
- Model Testing:

### 1. Multicollinearity:

- All VIF values  $< 5$  → No serious multicollinearity
- The highest VIF value was 2.1 (for the current ratio)

### 2. Residual Tests:

- Shapiro-Wilk Normality Test: p=0.12 → Residuals follow a distribution Normality
- Breusch-Pagan test for constant variance: p=0.24 → No heteroscedasticity

## Key Results

### 1. Impact of Liquidity Variables:

- The current ratio (CR) showed a positive impact on return on assets (ROA), with a coefficient of 0.38 (p=0.028). This means that every one-point increase in the current ratio leads to a 1.08% increase in ROA.
- The quick ratio (QR) also showed a positive but less significant impact (coefficient of 0.22, p=0.04), reflecting the importance of inventory management in this sector.
- The cash ratio (CashR) recorded the highest coefficient among the liquidity variables, 0.15 (p=0.05), confirming the importance of cash flow in enhancing profitability.

## 2. Impact of Control Variables:

- a. Firm size (lnTA) showed a strong positive effect with a coefficient of 0.42 ( $p=0.005$ ), indicating the presence of true economies of scale in this sector.
- b. Financial leverage (Lev) was not statistically significant, indicating that the company's debt policy is conservative and does not significantly impact profitability.

## 3. Model Quality:

- a. The explanatory power of the model ( $R^2$ ) reached 0.89, indicating that the independent variables explain 89% of the variance in return on assets [17], [18].
- b. All validity tests showed acceptable results, including the Breusch-Pagan test of constant variance and the Durbin-Watson test of non-autocorrelation.

## Recommendations

1. Improving liquidity management: This can be achieved by increasing the current ratio by reducing creditors through better negotiations with suppliers, as well as increasing the cash ratio by investing surplus cash in highly liquid short-term instruments.
2. Improving inventory efficiency: By implementing a "Just-in-Time" inventory management system to reduce dead stock and reduce inventory value to achieve an improvement in the quick ratio.
3. Maximizing economies of scale: By increasing production capacity by 100% to benefit from fixed costs and improving the logistics network distribution to reduce distribution costs.
4. Managing the financial structure: By reducing reliance on short-term loans and issuing medium-term (3-5-year) sukuk to improve the financing structure.
5. Monitoring and control system: Implementing a financial dashboard that monitors basic financial ratios, operational performance indicators, and daily cash flow indicators, in addition to preparing quarterly reports to assess the impact of implemented policies.
6. Strategic planning: Multiple scenarios should be prepared for different liquidity levels, developing a contingency plan to deal with sudden fluctuations in demand, and conducting periodic sensitivity analysis of the impact of price changes on profitability.

## Recommendations For Relevant Future Studies

For future studies on expanding the scope of the study, it is recommended to include more qualitative variables, such as management quality and studying the impact of seasonal factors on financial performance. It is also recommended to apply nonlinear models to analyze relationships and use quarterly data for more accurate analysis. Studies can also be conducted and the results compared with similar companies in neighboring markets.

## Conclusion

This study offered a thorough examination of how liquidity metrics affected Baghdad Soft Drinks Company's financial performance from 2015 to 2023. The findings showed a positive and statistically significant correlation between financial performance and liquidity indicators. Leveraging economies of scale, improving inventory management effectiveness, and strengthening the liquidity structure were all suggested by the study. It also offered a methodology that comparable businesses in the industrial sector can use. This study makes a significant addition to the local financial literature, particularly considering the dearth of applied research on the industrial sector in Iraq.

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