Al-Qadisiyah Journal for Administrative and Economic Sciences ISSN$_{Online}$: 2312-9883
QJAE, Volume 26, Issue 2 (2024) ISSN$_{Print}$: 1816-9171

The Impact of Capital Structure on Financial Performance Using Pecking Order Theory An Analytical Study of a Sample of Agricultural Companies Listed on the Iraqi Stock Exchange for the Period (2010-2022)

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Abstract : The research aims to test the capital structure according to the pecking order theory and its dimensions (retained earnings ratio, debt ratio, common stock ratio) and their impact on the financial performance of companies. The study addresses one of the modern theories of capital structure, which is one of the most important topics that have received attention in scientific research in the field of financial management. Many theories have emerged regarding the choice of the appropriate capital structure for the company and changing its financing behavior. This research will explore the concept of each theory, focusing on the pecking order theory and its impact on financial performance, relying on data and financial statements published in the Iraq Stock Exchange for Iraqi agricultural companies. Five companies were selected based on the availability of the required data, which are (Iraqi Meat Production and Marketing, Modern Animal Production, Middle Eastern fish Production and Marketing, National Agricultural Production Company, Iraqi Agricultural Products) during the research period from 2010 to 2022. The research problem focuses on identifying the most effective ways to build a capital structure in Iraqi companies, and choosing the optimal approach in balancing between internal and external financing. It also aims to identify the most suitable sources of financing that align with the financial, economic, and political conditions in Iraq, and how these choices affect the financial performance of the companies in the study sample. The main hypothesis of the research assumes a statistically significant relationship between the variables of the first group (capital structure within the framework of the pecking order theory) and the variables of the second group (financial performance) for the companies in the study sample. The indicators used in the research represent the pecking order theory indicators (retained earnings, loans, common stock) and profitability indicators to measure financial performance, including return on assets, return on equity and profit margin. A set of statistical procedures was used to analyze the research data, using statistical description through the arithmetic mean, standard deviation, and median to obtain a preliminary statistical description. To find the correlational relationship and its significance, legal correlation analysis was used, which estimates the intertwined relationship between two groups of variables: the first group (independent variables) and the second group (dependent variables). The research concluded with several results, the most important of which is the influential relationship of the capital structure indicators according to the pecking order theory on the financial performance of the companies in the study sample. The research also presented a set of recommendations, the most important of which is to enhance financial awareness about retained earnings through workshops and introductory courses that Iraqi companies should conduct to enhance shareholders' understanding of the importance of the retained earnings policy, as well as the optimal use of these funds by the company's management to maximize the profitability of the company and its shareholders, relying on retained earnings as a primary source of financing.

keywords: Capital Structure, Pecking Order Theory, Financial Performance.

Introduction:

Financing decisions are among the most strategic for companies, and their importance grows with the rapid changes in what is called globalization and the World Trade Organization. This leads to the opening of global markets to goods and products, in addition to the internal competition factors among small and medium-sized enterprises operating within an unstable environment caused by economic transformation. Consequently, these companies need more flexible financing methods to cope with an uncertain environment. It is noteworthy that financial transformations occur in a way that makes it difficult for these companies to obtain external financing. Therefore, companies have sought to follow certain theories to determine their financing sources in an attempt to maximize the value of their shares as much as possible. Among these theories is the pecking order theory, which philosophically relies on internal financing represented by retained earnings as the main source of financing. If this source is insufficient, the company resorts to borrowing as an alternative to secure the necessary funds. If the shortage

in financing continues, the company's last option is to issue new shares, which is the last resort. Internal financing is characterized by being less costly than external financing, as companies do not have to pay interest on internal financing and do not have to bear the issuance costs associated with selling new shares or bonds, which positively reflects on the financial performance of the companies. Therefore, two extremely important variables in financial thought were studied: the first is the capital structure indicators according to the pecking order theory, and the second is the financial performance indicators, where profitability indicators were relied upon to measure the financial performance level of the companies in the study sample. A sample of agricultural companies listed on the Iraq Stock Exchange was chosen as an applied field for it, where (5) companies from the agricultural sector were selected among the companies listed and registered in the Iraq Stock Exchange based on a time series representing thirteen years from 2010 to 2022. The research problem embodied the level of maturity of complete knowledge in how to differentiate between owned and borrowed financing sources, to build and formulate a capital structure that helps companies achieve their strategic goals and absorb the intellectual propositions brought by the philosophy of the pecking order theory to formulate a suitable capital structure and the nature of the work of those companies, and the extent of its reflection on the profitability indicators of the agricultural sector companies in Iraq.

First Section: Research Methodology

Firstly: Research Problem

The research problem poses some questions that it tries to answer through the presentation of the main research question, which is (Does the capital structure according to the pecking order theory affect the financial performance of companies?). To reach the answer to the main research question and practically enhance it through the results that the research will reach, a set of sub-questions were presented as follows:

1. Do the companies in the study sample use the pecking order theory in formulating the capital structure?
2. Does the formulation of the capital structure according to the pecking order theory have an impact on the financial performance of the companies?

Secondly: The importance of the Research

The importance of the research stems from the following:

1. The research refers to all modern theories of capital structure, as well as the various changes to these theories, the differences between them, the policy of each theory, its rules, principles, and the reasons for companies choosing any of the modern theories.
2. The increasing interest of contemporary financial thought in modern financing theories that include a wide range of concepts and principles that help in analyzing and evaluating different financial options, whether short or long-term and how they affect the level of profits.
3. The research addresses a fundamental theory in financial management, which is the pecking order theory that stipulates the formulation of the capital structure according to the hierarchical sequence of financing sources.
4. The pecking order theory is the best method for formulating the capital structure for companies operating in the Iraqi environment, as this theory relies on internal financing first, then external financing, with a preference for debt over equity. Therefore, this theory is more realistic and suitable for companies operating in the Iraqi environment, considering that this environment is characterized by political, economic, and legal fluctuations.

Thirdly: Research Objectives

The research aims to achieve the following objectives:

1. Diagnose and identify the basic indicators of the capital structure based on the hierarchical order recommended by the pecking order theory.
2. Study the impact of the pecking order theory on the capital structure composition based on the financing sources mentioned in the theory, which are retained earnings, loans, and shares, and how they contribute to improving the financial performance of the agricultural companies in the study sample.
3. Determine the nature of the relationship (correlation and impact) between the capital structure and the financial performance of companies according to the pecking order theory.

Fourthly: Research Hypotheses

According to the research problem and the objectives sought from it, a number of hypotheses were identified, which the research seeks to prove their validity or reject them:

1. The first hypothesis: Improving the level of financial performance in the companies in the study sample through the application of the philosophy of the pecking order theory in formulating the capital structure.
2. The second hypothesis: There is a statistically significant correlation between the indicators of the pecking order theory and the financial performance indicators in the companies in the study sample.

Fifthly: Study Population and Sample

The research community consists of Iraqi agricultural companies listed on the Iraq Stock Exchange, totalling (8) agricultural companies. The research sample comprised (5) agricultural companies, namely (Iraqi Company for Meat Production and Marketing, a Modern Company for Animal Production, a Middle East Company for Fish Production and Marketing, a National Company for Agricultural Production, Iraqi Company for Agricultural Products), based on the financial statements and data published in the Iraq Stock Exchange for the sample companies during the research period (2010-2022).

Sixth: Financial Indicators Used in the Study

1. **Independent Variable**: Represented by the capital structure within the framework of the pecking order theory, which is measured by financial indicators (retained earnings, loans, common stock).
2. **Dependent Variable**: Represented by profitability, which can be measured through (return on assets, return on equity, profit margin).

Seventh: Statistical Methods Used in the Study

A set of statistical procedures was used to analyze the research data, utilizing descriptive statistics through the mean, standard deviation, and median to obtain a preliminary statistical description. To find the correlational relationship and its significance, legal correlation analysis was employed, estimating the intertwined relationship between two sets of variables: the first group (independent variables) and the second group (dependent variables).

Eighth: Previous studies

1. Study (Al-Zubaidi and Al-Moussawi, 2020)

Title of the study: The Financial Pecking Order Theory and Its Impact on Improving Profitability Indicators in Commercial Banks.

Sample and duration of the study: Four commercial banks listed on the Iraq Stock Exchange for the period from 2007 to 2011.

Purpose of the study: The study aims to diagnose and identify the most prominent indicators and measures of the philosophy of the Pecking Order Theory and to assess the level of application of this theory in Iraqi commercial banks.

Main conclusion: The study concluded that profitability indicators increase in commercial banks as a result of applying the philosophy of the Pecking Order Theory.

2. Study (Iglesias, et al., 2021)

Title of the study: Financing Of Brazilian Companies In The Light Of Pecking Order And Market Timing Theories: Evidence From Regionality

Sample and duration of the study: 426 Brazilian companies for the period from 2007 to 2017.

Purpose of the study: The study aims to understand how macroeconomic factors and company characteristics affect the capital structure of Brazilian companies in a regional context.

Second Section: Capital Structure According to Pecking Order Theory

Firstly: An Introductory Definition of Capital Structure

Managing financial structure is one of the primary tasks of financial management. It aims to maximize returns on equity by determining the optimal proportion of owned and borrowed financing in the capital structure. This balance considers the varying risks faced by the company based on the proportion of each type of financing. The financial structure encompasses the relationship between debt and equity, often referred to as the financial leverage ratio (Al-Amri, 2010: 160). Gitman defines financial structure as the combination of sources from which the company obtains funds to finance its investments. It includes all elements of both long-term and short-term obligations (Gitman, 2000: 358) In other words, it encompasses all liabilities in the general ledger (paramasivan,2009: 47) and does not include short-term debts. On the other hand, capital structure refers to how a company finances its assets through long-term debt from various sources, in addition to equity. It does not include short-term debts. Therefore, capital structure is a subset of financial structure (Hindi, 2007: 553). When analyzing capital structure, it is essential to consider the debt-to-equity ratio, not just the debt amount. A company with relatively low debt may still face financial risks if it also has relatively low equity (McMenamin, 2005: 353). Several practical factors must be considered by management when choosing the ideal financial structure for the company. There is no fixed rule for making financing decisions due to the difficulty of estimating these factors, which are unique to each company. Nevertheless, the primary goal for shareholders and management remains identifying a capital structure that maximizes the company's value (Parrino & Kidwell & Bates, 2012: 529).

Secondly: Pecking Order Theory

The origin of the Pecking Order Theory can be traced back to research conducted by economist Donaldson in 1961 on managerial behavior in financial decision-making. Donaldson proposed that management prefers to use low-cost financing sources over other more expensive options due to transaction costs. In 1984, Myers formally introduced the Pecking Order Theory. According to this theory, companies tend to prioritize capital accumulation based on a

hierarchical sequence of financing sources. This sequence starts with internal funds, such as reinvesting profits, followed by debt, and finally common equity as a last resort (Brigham & Ehrhardt, 2008: 580) This transition from one financing source to another is referred to as the pecking order hypothesis. The theory explains an inverse relationship within the industry between profitability and financial leverage. Assuming that companies generally invest to keep up with industry growth, investment rates within the industry tend to be similar. By examining fixed dividend distributions, less profitable companies receive lower internal funds and are forced to borrow more (Ross et al., 2013: 546) In some cases, internal cash flow covers investments. However, if it falls short, the company faces a financial deficit. To address this deficit, the company must either reduce dividend distributions to increase retained earnings or raise new debt or issue equity. Notably, managerial preferences play a role in capital structure decisions. Managers tend to favor internal funds as the primary financing source because they are lower cost and more convenient than external options. Consequently, companies face two main financing decisions: first, how much profit to reinvest instead of distributing it to shareholders, and second, how to address the financial deficit—whether through debt or equity issuance. Typically, companies prefer internal funds to cover investments. If these funds are insufficient, they resort to debt or equity issuance (Brigham & Houston, 2015: 479).

Third: Priorities of Financing Sources According to the Pecking Order Theory

Economist and financial theorist Stewart Myers proposed that corporate managers tend to adhere to a hierarchical order when raising capital, as per the pecking order theory (Titman et al., 2018: 530). According to this theory, companies follow a policy of distributing fixed dividends. Managers aim to maintain stable dividends per share, considering multiple criteria such as available investment opportunities, future cash flow expectations, and retained earnings. Companies must take these factors into account when determining the proportion of distributed profits. Consequently, the priorities for companies in using internal financing sources are as follows:

1- Justifications for Retained Earnings Being at the Top of the Pyramid for Financing Sources: The main reasons for preferring retained earnings as a priority in the company's financing structure, according to the pecking order theory, are as follows (Ross et al., 2010: 532):

a. Internal financing (retained earnings) is cost-effective compared to external financing. Companies avoid paying interest or incurring issuance costs related to stocks or bonds.

b. It provides quick and easy access without external party interventions.

c. Utilizing retained earnings signals to the market that the company has good investment prospects and confidence in generating returns on these investments.

d. Retained earnings protect the company from risks associated with information asymmetry between management and external investors.

e. Shareholders often prefer retained earnings, especially in countries with favorable tax laws regarding double taxation.

f. Using retained earnings does not alter ownership positions within the board of directors (Leary & Roberts, 2004: 3-4).

2- Justifications for Loans Being in the Middle of the Pyramid for Financing Sources: The reasons that make loans occupy a middle position in the company's financing structure according to the pecking order theory are as follows (Ross et al., 2010: 532):

a. Lenders have priority in receiving profits and settling claims during liquidation.

b. Debt is often secured by company assets, providing a repayment mechanism in case of default.

c. Bond issuance faces less opposition from management compared to stock issuance, as it does not affect voting rights or ownership structure.

d. Debt may incentivize companies to improve productivity and reduce costs for debt repayment.

3- Justifications for Common Stocks Being at the Bottom of the Pyramid for Financing Sources: According to the pecking order theory, common stocks are the last source of financing that companies resort to for several reasons (Brooks, 2016: 252):

a. Issuing common stocks leads to an increase in the number of shareholders, which may lead to changes in the company's management and may affect the decisions of the board of directors.

b. An increase in the number of shareholders means sharing profits with more people, reducing the return for current shareholders.

c. Dividends distributed from common stocks are not considered a tax-deductible expense, thus financing by issuing common stocks does not lead to a reduction in the company's tax burden.

d. Issuing common stocks requires paying commissions and expenses, making it more costly than other types of financing.

e. Increasing the equity share in the capital structure may raise the total cost of capital, leading to a decrease in the return on investment.

Fourthly: Indicators of Applying the Pecking Order Theory in Companies

According to financial management literature, the capital structure consists of borrowed financing (long-term debt instruments) and equity financing (common and preferred stocks). The application of the pecking order theory in capital structure formulation can be assessed through financial ratios for each financing element relative to the total sources of funding. An increase in the proportion of any element implies a decrease in the proportions of other financing sources. Based on the concepts and philosophy of the pecking order theory, which compares available financing sources for companies, the key ratios that can be used to analyze and assess the application of the pecking order theory in companies include the following (Hindi, 2005: 224):

1. **Retained Earnings Ratio in Capital Structure:** This ratio is calculated using the following equation (Al-Zubaidi, 2015: 45):

Retained Earnings to Total Liabilities = (Retained Earnings / Total Liabilities) × 100%

Retained earnings are the primary source of financing according to the pecking order theory. They represent the portion of net income held by the company for reinvestment. Retained earnings are what remains after paying dividends to shareholders (if applicable). The percentage of retained earnings is complementary to the distribution ratio, indicating the percentage of company profits held for reinvestment. Over time, this ratio changes, and companies rely significantly on retained earnings as a financing source. Retained earnings represent equity financing and are less costly than issuing common stocks (external equity financing).

2. **Debt Ratio and Its Implications in Capital Structure:** The debt ratio can be calculated using the following equation (Al-Mousawi, 2013: 119):

Debt Ratio = (Debt / Total Liabilities) × 100%

Debt is the second financing source according to the pecking order theory. It is used when retained earnings are insufficient. Bonds represent interest-bearing debt, meaning the borrower pays interest periodically but repays the principal only at the end of the loan term. Bonds are long-term debt instruments issued by companies and governments. The financial structure policy aims to balance risk and return. While increasing debt raises the risks borne by shareholders, it also increases the expected return on investments. Higher risk typically leads to lower stock prices, but an expected higher return can drive stock prices up. Thus, companies should seek an optimal financial structure that balances risk and return to enhance their stock prices (Brigham & Houston, 2003: 597).

3. **Common Stock Ratio in Capital Structure:** The common stock ratio is calculated as follows (Al-Mousawi, 2013: 120):

Common Stock Ratio = (Common Stocks / Total Liabilities) × 100%

Common stocks are the last financial source according to the pecking order theory when retained earnings or debt are insufficient. They represent ownership by shareholders in the company. Common stockholders have the right to receive dividends if the company generates profits. However, issuing common stocks comes with costs borne by the company. It represents the required rate of return on shares from investors.

Fifthly: Financial Performance Concept

Financial performance is a measure of a company's efficiency in utilizing its material and human resources to achieve management-defined objectives. It is a fundamental element for the sustainability and growth of companies. Profitable companies must maintain liquidity, utilize available resources, strategically plan to enhance financial performance, and achieve desired goals. The main objective of financial performance is to evaluate the actual performance of the company compared to planned performance and make necessary adjustments when needed. Investors use financial performance analysis to monitor company activity, assess the economic and financial environment, evaluate the impact of financial indicators (such as profitability, liquidity, activity, and debt) on stock prices, and make informed decisions. Therefore, decision-making regarding actual performance and achievements relies on understanding financial data and their interactions.

Sixthly: Financial Performance Measurement Indicators Used in Research

To assess the financial performance of companies in the research sample, profitability indicators were relied upon as a measure of financial performance. Profitability reflects a company's efficiency and its ability to generate profits from its business activities. It is one of the most important financial performance indicators for companies and a fundamental objective for any business. Profitability evaluates the company's ability to operate professionally, meet shareholder and creditor expectations, and repay its debts. When management evaluates a new project, it must consider the project's profitability as a critical factor in investment decisions (Arnold, 2013:5). Additionally, identifying the strengths and weaknesses of any business cannot be done without studying profitability and its various indicators. Financial analysts have access to a set of financial indicators to achieve their goal of analyzing profitability. Some of the most important indicators include (McMenamin, 2005:364):

1. **Profit Margin Ratio:** One important profitability indicator is the gross profit margin. It measures the net income achieved from total revenues. Gross profit is determined after taxes and divided by net sales. This ratio represents the

profitability per dollar of sales. A higher gross profit margin indicates improved financial management performance within the company, efficient operational processes, and effective meeting of expectations. Conversely, a lower margin suggests deteriorating sales profitability and weaker operational processes. The formula for calculating this ratio is as follows (Al-Zubaidi, 2000:190):

Profit margin ratio = net profit after tax / net sales × 100%

2. **Return on Assets (ROA):** One of the most accurate indicators for evaluating company performance is the return on assets (ROA), also known as the return on investment (ROI) or earning power. ROA measures the profitability per dollar of assets invested within the company. It serves as a primary standard for assessing management's ability, successful performance, and areas of strength. The formula for calculating ROA is as follows (Gitman, 2009:68):

Return on assets ratio = net profit after tax / total assets ×100%

3. **Return on Equity (ROE):** This indicator is used to measure management's efficiency in utilizing equity capital and its ability to generate profits. ROE represents the profitability of the invested capital by shareholders. When this ratio is high, it indicates that management is efficient in utilizing shareholders' funds and achieving satisfactory returns for them. Conversely, a decrease in this ratio compared to industry or historical standards suggests inefficiency in market investment. The formula for calculating ROE is as follows (Al-Zubaidi, 2000:191):

Return on equity ratio = net profit after tax / equity ×100%

Seventh: Theoretical Perspectives on the Relationship Between Capital Structure and Financial Performance

There are several theories regarding capital structure decisions, and we will discuss the concept and the impact of each theory on the financial performance of companies (Brigham & Houston, 2015:473):

1- Traditional Theory: Studies that seek an optimal financial structure, achieving the lowest financing cost, fall under the traditional approach in financial management. These studies are labelled as "traditional" because they assume the existence of an optimal financial structure without proving the hypothesis. Even after advancements in financial theory, studies supporting the traditional viewpoint in this field are classified within the traditional approach. Within this framework, the prudent use of borrowed financing in the company's capital structure increases the return on equity. This is achieved by optimizing the balance between borrowed and owned financing, resulting in lower financing costs and maximizing the return on equity (Al-Amri, 2010:163). The following figure illustrates the relationship between debt levels and the cost of capital.

2- Modern Theory: Modigliani and Miller (M&M) The modern capital structure theory began in 1958 when professors Franco Modigliani and Merton Miller (M&M) published what became the most influential financial article in the field of finance This theory suggests that a company's capital structure does not affect its value as long as investments yield positive returns. Below are the key assumptions proposed by this theory (MM) (Brigham & Ehrhardt, 2008:575):

a. **No Taxes**: The absence of taxes implies that tax considerations do not impact the company's value.
b. **No Transaction Costs**: Transaction costs related to issuing securities (such as stocks or bonds) are negligible.
c. **No Bankruptcy Costs**: Bankruptcy costs associated with financial distress are nonexistent.
d. **Operating Profit Is Unaffected by Debt Usage**: The company's operating profit remains unchanged regardless of its debt usage.
e. **Perfect Information Symmetry**: All investors have the same information as the management regarding the company's future investment opportunities.

In 1963, the theory was modified to include taxes (the adjusted theory). This modification acknowledges that a company's value can be influenced by its financial structure. Modigliani and Miller argued that as debt levels increase in the capital structure, risks rise not only for shareholders but also for creditors. Financial distress becomes more likely, leading to potential failure to repay debts. This financial distress comes at a cost. When companies borrow more, it negatively affects the company's value, offsetting the positive impact of tax shields resulting from interest deductions. Modigliani and Miller also noted that companies might prefer debt due to the tax advantage of interest payments, especially profitable firms opting for higher debt levels to benefit from tax savings and pay lower taxes (Bevan & Danbolt, 2002:165).

3- Trade-Off Theory: The trade-off theory introduces adjustments to the modified theory by considering the trade-off between the tax benefits of debt and bankruptcy costs. Companies with higher debt levels pay lower taxes on average than those with little or no debt. However, increased debt also raises the company's risk. Thus, companies must balance the benefits and costs of debt when making capital structure decisions (Titman et al., 2018:524). According to this theory, companies choose a capital structure that balances the tax advantages of debt with potential bankruptcy costs. Other factors, such as stock prices and interest rates, also influence the decision (Brigham & Ehrhardt, 2008:583).

4- Signal Theory: Signal theory explains how companies use financial policies to send signals to investors about their true value. Information asymmetry between managers within the company and external investors significantly

impacts the optimal capital structure. Companies tend to borrow when they expect favorable future conditions, avoiding dilution of potential growth. Conversely, when companies anticipate adverse conditions, they prefer financing from new shareholders to share potential losses. However, not every new stock issuance signals negative expectations. Often, companies aim to maintain borrowing capacity because significantly increasing debt makes it harder to obtain additional borrowed financing. The theory suggests that the capital structure related to issuing more shares or debt is linked to signals from the company, reflecting management's expectations about future conditions (Al-Naimi & Al-Tamimi, 2019:358).

5- Agency Theory: Agency costs refer to the costs arising from the potential conflict between managers, shareholders, and creditors. These costs include providing incentives to managers to maximize shareholder wealth, monitoring managerial behavior, and protecting bondholders from shareholders. The concept of agency costs encompasses inefficiency costs (due to poor management) and monitoring costs. These costs increase the cost of borrowing for a company, which reduces the tax benefits associated with leverage. Separating ownership from management creates asymmetric information, leading to agency problems. Agency theory is one of the modern capital structure theories that aims to address conflicts of interest between managers and shareholders.

6- Market Timing Theory: Introduced in 2002 by Baker and Wurgler, the market timing theory serves as an alternative or response to the trade-off theory and pecking order theory in explaining corporate financing behavior. According to this theory, publicly traded companies tend to issue new shares when their market value is unusually high and repurchase shares when their value is low. This strategy is known as market timing. Research shows that capital structure theories seek to achieve optimal capital structure by adjusting leverage ratios. Managers issue shares when they perceive market prices as abnormally high and issue debt when interest rates are abnormally low, exploiting market timing for the company's benefit.

third section: The Practical Aspect (Analysis of the Relationships Between Research Indicators)

Five agricultural companies listed on the Iraq Stock Exchange were selected as a sample for the research, namely: an Iraqi Company for Meat Production and Marketing, a Modern Company for Animal Production, a Middle East Company for Fish Production and Marketing, a National Company for Agricultural Production, and Iraqi Company for Agricultural Products. This selection was made due to the availability of financial data during the research period (2010-2022) to measure the financial performance of these companies. The study focused on profitability indicators across three dimensions: profit margin, return on assets, and return on equity. To find the correlational relationship and its significance, canonical correlation analysis (reductionist) was used, which is concerned with estimating the interlocking relationship between two sets of variables the first set (independent variables) and the second set (dependent variables) as well as testing the significance of this relationship for each company independently.

1-Iraqi Company for Meat Production and Marketing:

Table (1) Values of the quality of the capital structure model according to the capture theory and profitability of the Iraqi meat production and marketing company

Canonical Function	canonical correlation coefficient $r = \sqrt{\lambda i}$	Statistical Value Chi-Square χ^2	Degrees of Freedom (d.f)	$P - value$	Lambda prime	F	Sig
1	0.855	118.262	9	0.000	0.0094	12.634	0.000
2	0.742	89.423	4	0.000	0.0182	9.231	0.000
3	0.372	37.731	1	0.737	0.793	1.414	0.341

Source: Prepared by the researcher using the program (Excel 16).

We find that the first canonical correlation coefficient was significant at the significance level (0.05), which is evident through the value (p-value = 0.000), and likewise, the second canonical correlation coefficient was significant at the significance level (0.05) which is clear through the value (p-value = 0.000). This means that the correlation relationship was positive, strong, and significant between the variables (Capital Structure within the framework of the Pecking Order Theory) and the variables (Profitability) However, the third canonical correlation coefficient was not significant. Based on the results of the first and second canonical correlation coefficients, we will reject the null hypothesis that states there is no statistically significant correlation between the variables of the first group (Capital Structure within the framework of the Pecking Order Theory) and the variables of the second group (Profitability), and accept the alternative hypothesis that states there is a statistically significant correlation between the variables of the first group (Capital Structure within the framework of the Pecking Order Theory) and the variables of the second group (Profitability).

Table (2) Values of Reduced Variance and Redundancy (Abundance) for the first and second group

Roots	Extracted variance for the first group	Surplus factor for the first group	Extracted variance for the second group	Redundancy coefficient for the second group
1	0.426	0.482	0.381	0.481
2	0.282	0.305	0.386	0.412
3	0.122	0.085	0.083	0.072
Total	**0.830**	**0.872**	**0.850**	**0.965**

Source: Prepared by the researcher using the program (Excel 16).

We find that the variables of the first group (Capital Structure within the framework of the Pecking Order Theory) were able to explain a certain percentage of the total variance within this group. Through the redundancy coefficient, we find that the variables of this group were able to explain a certain percentage of the changes occurring in the variables of the second group (Profitability) Similarly, the results above show that the variables of the second group (Profitability) were able to explain a certain percentage of the total variance within this group. Through the redundancy coefficient, we find that the variables of the second group (Profitability) were able to explain a portion of the changes occurring in the variables of the first group (Capital Structure within the framework of the Pecking Order Theory).

Table (3) Canonical coefficients for the first group and the second group

Variables (First and Second Group)	Root 1	Root 2	Root 3	χ^2	$P-value$
Retained Earnings Ratio X1	0.937	-0.920	0.834	12.788	0.000
Debt Ratio X2	0.921	-0.935	0.912	11.783	0.000
Common Stock Ratio X3	-0.862	0.791	0.736	13.996	0.000
Capital Structure within the Pecking Order Theory Framework	**0.782**	**0.677**	**0.855**	**10.676**	**0.000**
Profit Margin Ratio Y1	0.925	-0.672	-0.891	16.624	0.000
Return on Assets Ratio Y2	0.906	-0.924	-0.791	15.893	0.000
Return on Equity Ratio Y3	0.739	0.881	-0.912	17.673	0.000
Profitability Group	**0.718**	**0.945**	**0.893**	**11.855**	**0.000**

Source: Prepared by the researcher using the program (Excel 16).

We observe that the group of variables representing the Capital Structure within the framework of the Pecking Order Theory has an impact on the Profitability group. This is evident through the value of the canonical coefficient and from the (P-value), we find that the influence of the Capital Structure group within the framework of the Pecking Order Theory is significant at the significance level (0.05). Therefore, we can reject the null hypothesis which states (there is no significant effect and statistical significance of the Capital Structure within the framework of the Pecking Order Theory on Profitability) and accept the alternative hypothesis which states (there is a significant effect and statistical significance of the Capital Structure within the framework of the Pecking Order Theory on Profitability). Similarly, we notice that the Profitability group is affected by the variables of the first group (Capital Structure within the framework of the Pecking Order Theory). This is clear through the value of the canonical coefficient and from the (P-value), we find that the influence of this variable is significant at the significance level (0.05). Hence, we can reject the null hypothesis which states (there is no significant influence and statistical significance of the Profitability group by the variables (Capital Structure within the framework of the Pecking Order Theory) and accept the alternative hypothesis which states (there is a significant influence and statistical significance of the Profitability group by the variables (Capital Structure within the framework of the Pecking Order Theory

2- Modern Company for Animal and Agricultural Production

Table (4) Values of the quality of the capital structure model according to the theory of capture and profitability of the modern company for livestock and agricultural production

Canonical Function	canonical correlation coefficient $r=\sqrt{\lambda i}$	Statistical Value Chi-Square χ^2	Degrees of Freedom (d.f)	$P-value$	Lambda prime	F	Sig
1	0.791	100.411	9	0.000	0.0146	14.313	0.000

2	0.734	85.202	4	0.000	0.0211	9.122	0.000
3	0.252	22.477	1	0.934	0.844	1.344	0.578

Source: Prepared by the researcher using the program (Excel 16).

We find that the first canonical correlation coefficient was significant at the significance level (0.05), which is evident through the value (p-value = 0.000), and likewise, the second canonical correlation coefficient was significant at the significance level (0.05) which is clear through the value (p-value = 0.000). This means that the correlation relationship was positive, strong, and significant between the variables (Capital Structure within the framework of the Pecking Order Theory) and the variables (Profitability) However, the third canonical correlation coefficient was not significant. Based on the results of the first and second canonical correlation coefficients, we will reject the null hypothesis that states there is no statistically significant correlation between the variables of the first group (Capital Structure within the framework of the Pecking Order Theory) and the variables of the second group (Profitability), and accept the alternative hypothesis that states there is a statistically significant correlation between the variables of the first group (Capital Structure within the framework of the Pecking Order Theory) and the variables of the second group (Profitability).

Table (5) Values of Reduced Variance and Redundancy (Abundance) for the first and second groups

Roots	Extracted variance for the first group	Surplus factor for the first group	Extracted variance for the second group	Redundancy coefficient for the second group
1	0.621	0.392	0.427	0.432
2	0.183	0.299	0.417	0.500
3	0.153	0.178	0.074	0.053
Total	**0.957**	**0.869**	**0.918**	**0.985**

Source: Prepared by the researcher using the program (Excel 16).

We find that the variables of the first group (Capital Structure within the framework of the Pecking Order Theory) were able to explain a certain percentage of the total variance within this group. Through the redundancy coefficient, we find that the variables of this group were able to explain a certain percentage of the changes occurring in the variables of the second group (Profitability) Similarly, the results above show that the variables of the second group (Profitability) were able to explain a certain percentage of the total variance within this group. Through the redundancy coefficient, we find that the variables of the second group (Profitability) were able to explain a portion of the changes occurring in the variables of the first group (Capital Structure within the framework of the Pecking Order Theory).

Table (6) Canonical coefficients for the first group and the second group

Variables (First and Second Group)	Root 1	Root 2	Root 3	χ^2	$P-value$
Retained Earnings Ratio X1	-0.911	-0.858	0.763	13.855	0.000
Debt Ratio X2	0.943	-0.792	-0.834	11.676	0.000
Common Stock Ratio X3	-0.774	-0.845	0.576	12.774	0.000
Capital Structure within the Pecking Order Theory Framework	**0.751**	**0.875**	**0.643**	**10.667**	**0.000**
Profit Margin Ratio Y1	-0.845	-0.792	-0.924	18.563	0.000
Return on Assets Ratio Y2	0.931	0.853	0.854	15.672	0.000
Return on Equity Ratio Y3	-0.795	0.915	-0.900	15.436	0.000
Profitability Group	**0.783**	**0.855**	**-0.753**	**11.654**	**0.000**

Source: Prepared by the researcher using the program (Excel 16).

We observe that the group of variables representing the Capital Structure within the framework of the Pecking Order Theory has an impact on the Profitability group. This is evident through the value of the canonical coefficient and from the (P-value), we find that the influence of the Capital Structure group within the framework of the Pecking Order Theory is significant at the significance level (0.05). Therefore, we can reject the null hypothesis which states (there is no significant effect and statistical significance of the Capital Structure within the framework of the Pecking Order Theory on Profitability) and accept the alternative hypothesis which states (there is a significant effect and statistical significance of the Capital Structure within the framework of the Pecking Order Theory on Profitability). Similarly, we notice that the Profitability group is affected by the variables of the first group (Capital Structure within the framework of the Pecking Order Theory). This is clear through the value of the canonical coefficient and from the (P-value), we find that the influence of this variable is significant at the significance level (0.05). Hence, we can reject the null hypothesis which states (there is no significant influence and statistical significance of the Profitability group by the variables (Capital Structure within the framework of the Pecking Order Theory) and accept the alternative

hypothesis which states (there is a significant influence and statistical significance of the Profitability group by the variables (Capital Structure within the framework of the Pecking Order Theory

3- Middle East Fish Production and Marketing Company:

Table (7) Values of the quality of the capital structure model according to the theory of capture and profitability for the Middle East Fish Production and Marketing Company

Canonical Function	canonical correlation coefficient $r = \sqrt{\lambda i}$	Statistical Value Chi-Square χ^2	Degrees of Freedom (d.f)	$P - value$	Lambda prime	F	Sig
1	0.949	156.819	9	0.000	0.0465	10.461	0.000
2	0.932	134.245	4	0.000	0.0461	11.931	0.000
3	0.581	33.641	1	0.819	0.792	0.924	0.881

Source: Prepared by the researcher using the program (Excel 16).

We find that the first canonical correlation coefficient was significant at the significance level (0.05), which is evident through the value (p-value = 0.000), and likewise, the second canonical correlation coefficient was significant at the significance level (0.05) which is clear through the value (p-value = 0.000). This means that the correlation relationship was positive, strong, and significant between the variables (Capital Structure within the framework of the Pecking Order Theory) and the variables (Profitability) However, the third canonical correlation coefficient was not significant. Based on the results of the first and second canonical correlation coefficients, we will reject the null hypothesis that states there is no statistically significant correlation between the variables of the first group (Capital Structure within the framework of the Pecking Order Theory) and the variables of the second group (Profitability), and accept the alternative hypothesis that states there is a statistically significant correlation between the variables of the first group (Capital Structure within the framework of the Pecking Order Theory) and the variables of the second group (Profitability)

Table (8) Values of Reduced Variance and Redundancy (Abundance) for the first and second groups

Roots	Extracted variance for the first group	Surplus factor for the first group	Extracted variance for the second group	Redundancy coefficient for the second group
1	0.573	0.419	0.515	0.472
2	0.242	0.392	0.391	0.329
3	0.058	0.134	0.036	0.068
Total	**0.873**	**0.945**	**0.942**	**0.869**

Source: Prepared by the researcher using the program (Excel 16).

We find that the variables of the first group (Capital Structure within the framework of the Pecking Order Theory) were able to explain a certain percentage of the total variance within this group. Through the redundancy coefficient, we find that the variables of this group were able to explain a certain percentage of the changes occurring in the variables of the second group (Profitability) Similarly, the results above show that the variables of the second group (Profitability) were able to explain a certain percentage of the total variance within this group. Through the redundancy coefficient, we find that the variables of the second group (Profitability) were able to explain a portion of the changes occurring in the variables of the first group (Capital Structure within the framework of the Pecking Order Theory).

Table (9) Canonical coefficients for the first group and the second group

Variables (First and Second Group)	Root 1	Root 2	Root 3	χ^2	$P - value$
Retained Earnings Ratio X1	-0.671	0.742	-0.843	9.629	0.000
Debt Ratio X2	-0.845	0.835	-0.722	11.672	0.000
Common Stock Ratio X3	-0.891	-0.923	0.623	14.651	0.000
Capital Structure within the Pecking Order Theory Framework	**-0.726**	**0.809**	**0.834**	**15.531**	**0.000**
Profit Margin Ratio Y1	0.931	-0.767	0.0892	15.885	0.000

Return on Assets Ratio Y2	0.839	0.843	-0.818	14.563	0.000
Return on Equity Ratio Y3	-0.834	-0.920	0.917	13.767	0.000
Profitability Group	**0.813**	**-0.781**	**-0.682**	**17.689**	**0.000**

Source: Prepared by the researcher using the program (Excel 16).

We observe that the group of variables representing the Capital Structure within the framework of the Pecking Order Theory has an impact on the Profitability group. This is evident through the value of the canonical coefficient and from the (P-value), we find that the influence of the Capital Structure group within the framework of the Pecking Order Theory is significant at the significance level (0.05). Therefore, we can reject the null hypothesis which states (there is no significant effect and statistical significance of the Capital Structure within the framework of the Pecking Order Theory on Profitability) and accept the alternative hypothesis which states (there is a significant effect and statistical significance of the Capital Structure within the framework of the Pecking Order Theory on Profitability). Similarly, we notice that the Profitability group is affected by the variables of the first group (Capital Structure within the framework of the Pecking Order Theory). This is clear through the value of the canonical coefficient and from the (P-value), we find that the influence of this variable is significant at the significance level (0.05). Hence, we can reject the null hypothesis which states (there is no significant influence and statistical significance of the Profitability group by the variables (Capital Structure within the framework of the Pecking Order Theory) and accept the alternative hypothesis which states (there is a significant influence and statistical significance of the Profitability group by the variables (Capital Structure within the framework of the Pecking Order Theory).

4- **National Company for Agricultural Production**

Table (10) Values of the quality of the capital structure model according to the theory of capture and profitability of the National Company for Agricultural Production

Canonical Function	canonical correlation coefficient $r = \sqrt{\lambda i}$	Statistical Value Chi-Square χ^2	Degrees of Freedom (d.f)	$P - value$	Lambda prime	F	Sig
1	0.921	142.451	9	0.000	0.0346	9.562	0.000
2	0.832	112.145	4	0.000	0.0193	13.673	0.000
3	0.362	32.231	1	0.671	0.862	1.682	0.561

Source: Prepared by the researcher using the program (Excel 16).

We find that the first canonical correlation coefficient was significant at the significance level (0.05), which is evident through the value (p-value = 0.000), and likewise, the second canonical correlation coefficient was significant at the significance level (0.05) which is clear through the value (p-value = 0.000). This means that the correlation relationship was positive, strong, and significant between the variables (Capital Structure within the framework of the Pecking Order Theory) and the variables (Profitability) However, the third canonical correlation coefficient was not significant. Based on the results of the first and second canonical correlation coefficients, we will reject the null hypothesis that states there is no statistically significant correlation between the variables of the first group (Capital Structure within the framework of the Pecking Order Theory) and the variables of the second group (Profitability), and accept the alternative hypothesis that states there is a statistically significant correlation between the variables of the first group (Capital Structure within the framework of the Pecking Order Theory) and the variables of the second group (Profitability).

Table (11) Values of Reduced Variance and Redundancy (Abundance) for the first and second groups

Roots	Extracted variance for the first group	Surplus factor for the first group	Extracted variance for the second group	Redundancy coefficient for the second group
1	0.621	0.573	0.427	0.481
2	0.183	0.242	0.253	0.412
3	0.153	0.058	0.084	0.072
Total	**0.957**	**0.873**	**0.764**	**0.965**

Source: Prepared by the researcher using the program (Excel 16).

We find that the variables of the first group (Capital Structure within the framework of the Pecking Order Theory) were able to explain a certain percentage of the total variance within this group. Through the redundancy coefficient, we find that the variables of this group were able to explain a certain percentage of the changes occurring in the variables of the second group (Profitability) Similarly, the results above show that the variables of the second group (Profitability) were able to explain a certain percentage of the total variance within this group. Through the redundancy coefficient, we find that the variables of the second group (Profitability) were able to explain a portion of

the changes occurring in the variables of the first group (Capital Structure within the framework of the Pecking Order Theory).

Table (12) Canonical coefficients for the first group and the second group

Variables (First and Second Group)	Root 1	Root 2	Root 3	χ^2	$P-value$
Retained Earnings Ratio X1	-0.822	-0.892	-0.732	12.856	0.000
Debt Ratio X2	0.752	0.682	-0.832	11.615	0.000
Common Stock Ratio X3	0.692	-0.753	-0.758	11.874	0.000
Capital Structure within the Pecking Order Theory Framework	**0.654**	**0.893**	**0.845**	**12.561**	**0.000**
Profit Margin Ratio Y1	-0.843	-0.825	0.796	15.545	0.000
Return on Assets Ratio Y2	0.821	-0.821	-0.642	13.544	0.000
Return on Equity Ratio Y3	-0.734	-0.893	-0.734	12.341	0.000
Profitability Group	**0.719**	**0.784**	**0.847**	**11.561**	**0.000**

Source: Prepared by the researcher using the program (Excel 16).

We note that the group of variables that represent the capital structure within the framework of the hierarchy theory has an impact on the profitability group. This is evident through the value of the legal coefficient and (P-value). We find that the effect of the capital structure group within the framework of the hierarchical arrangement theory is significant at the significance level (0.05). Therefore, we can reject the null hypothesis which states (there is no significant and statistically significant effect of the capital structure within the framework of the hierarchy theory on profitability) and accept the alternative hypothesis which states (there is a significant statistical influence and significance) of the capital structure within the framework of the hierarchy theory of profitability)

5-Iraqi Company for Agricultural Production:

Table (13) Values of the quality of the capital structure model according to the theory of capture and profitability of the Iraqi Company for Agricultural Production

Canonical Function	canonical correlation coefficient $r=\sqrt{\lambda i}$	Statistical Value Chi-Square χ^2	Degrees of Freedom (d.f)	$P-value$	Lambda prime	F	Sig
1	0.846	115.352	9	0.000	0.0299	12.562	0.000
2	0.732	94.423	4	0.000	0.0256	10.741	0.000
3	0.657	33.321	1	0.562	0.7341	1.822	0.671

Source: Prepared by the researcher using the program (Excel 16).

We find that the first canonical correlation coefficient was significant at the significance level (0.05), which is evident through the value (p-value = 0.000), and likewise, the second canonical correlation coefficient was significant at the significance level (0.05) which is clear through the value (p-value = 0.000). This means that the correlation relationship was positive, strong, and significant between the variables (Capital Structure within the framework of the Pecking Order Theory) and the variables (Profitability) However, the third canonical correlation coefficient was not significant. Based on the results of the first and second canonical correlation coefficients, we will reject the null hypothesis that states there is no statistically significant correlation between the variables of the first group (Capital Structure within the framework of the Pecking Order Theory) and the variables of the second group (Profitability), and accept the alternative hypothesis that states there is a statistically significant correlation between the variables of the first group (Capital Structure within the framework of the Pecking Order Theory) and the variables of the second group (Profitability).

Table (14) Values of Reduced Variance and Redundancy (Abundance) for the first and second groups

Roots	Extracted variance for the first group	Surplus factor for the first group	Extracted variance for the second group	Redundancy coefficient for the second group
1	0.426	0.522	0.326	0.432
2	0.282	0.321	0.392	0.500
3	0.122	0.064	0.074	0.053
Total	**0.830**	**0.908**	**0.792**	**0.985**

Source: Prepared by the researcher using the program (Excel 16).

We find that the variables of the first group (Capital Structure within the framework of the Pecking Order Theory) were able to explain a certain percentage of the total variance within this group. Through the redundancy coefficient, we find that the variables of this group were able to explain a certain percentage of the changes occurring in the

variables of the second group (Profitability) Similarly, the results above show that the variables of the second group (Profitability) were able to explain a certain percentage of the total variance within this group. Through the redundancy coefficient, we find that the variables of the second group (Profitability) were able to explain a portion of the changes occurring in the variables of the first group (Capital Structure within the framework of the Pecking Order Theory).

Table (15) Canonical coefficients for the first group and the second group

Variables (First and Second Group)	Root 1	Root 2	Root 3	χ^2	$P-value$
Retained Earnings Ratio X1	-0.845	-0.782	-0.795	11.451	0.000
Debt Ratio X2	0.672	0.721	-0.727	10.656	0.000
Common Stock Ratio X3	0.653	-0.612	-0.683	12.664	0.000
Capital Structure within the Pecking Order Theory Framework	**0.631**	**-0.661**	**-0.767**	**13.432**	**0.000**
Profit Margin Ratio Y1	-0.782	-0.912	0.834	10.957	0.000
Return on Assets Ratio Y2	-0.683	-0.829	-0.723	8.783	0.000
Return on Equity Ratio Y3	-0.618	-0.734	-0.562	10.984	0.000
Profitability Group	**-0.603**	**0.864**	**0.788**	**12.661**	**0.000**

Source: Prepared by the researcher using the program (Excel 16).

We note that the group of variables that represent the capital structure within the framework of the hierarchy theory has an impact on the profitability group. This is evident through the value of the legal coefficient and (P-value). We find that the effect of the capital structure group within the framework of the hierarchical arrangement theory is significant at the significance level (0.05). Therefore, we can reject the null hypothesis which states (there is no significant and statistically significant effect of the capital structure within the framework of the hierarchy theory on profitability) and accept the alternative hypothesis which states (there is a significant statistical influence and significance) of the capital structure within the framework of the hierarchy theory of profitability) .

(**fourth section: Conclusions and Recommendations**

Firstly: Conclusions

1. The analytical aspect reveals that the companies in the study sample do not prefer equity financing and consider it the least preferred option in the financing structure due to its higher cost compared to other financing options.
2. The research sample companies prioritize retained earnings as the primary source of financing to varying extents. If available, they also rely on loans as a secondary source of funding, followed by common stock as a third source when retained earnings and loans are insufficient to meet financial needs.
3. The philosophy of the pecking order theory in capital structure formulation aligns with the dynamic economic environment and conditions faced by companies in Iraq.
4. There is a strong statistically significant correlation between the proportion of retained earnings in the capital structure and profitability indicators in the research sample companies. Changes in retained earnings significantly impact profitability metrics.
5. The study validates the second hypothesis, indicating a statistically significant relationship between pecking order theory indicators and profitability metrics.

Secondly: Recommendations

1. It is essential for company management to apply the pecking order theory and adopt the philosophical ideas proposed in formulating the capital structure. This involves prioritizing internal financing as the primary source of funding according to this theory, then moving on to debt, and finally to equity as a last resort. This transition from one source of financing to another is called the hierarchy hypothesis, which plays a significant role in rationalizing the financing decisions of companies in the Iraqi business environment, especially in the agricultural sector."
2. Iraqi companies should focus on financing through retained earnings and establish policies for retaining profits that align with their financial needs. Prioritizing this source and using it as the primary financing option is essential.
3. Monitoring and studying the interrelationships and mutual effects between financing decisions, investment decisions, and dividend decisions in companies are essential. Financing decisions have a significant impact on these other choices.
4. Studying the interplay and reciprocal effects between retained earnings, loans, and common stock in companies is crucial for obtaining appropriate financing sources.
5. Enhancing the operational efficiency of the companies in the study sample by reducing costs, increasing productivity, and exploring new growth opportunities can lead to increased revenues and profits. This contributes to raising the retained earnings ratio and supporting the financial stability of the company.

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