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The Impact of Financial Management Decisions on Company Share Prices: A Study of Private Sector Companies in Basra

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Abstract: This research has sought to investigate the impact of financial management decisions on share prices for private sector companies in Basra. The research uses quantitative data from 20 firms listed on the Basra Stock Exchange that covers a half decade (2018–2023) to assess how capital structure, represented by debt-to-equity ratio; dividend policy, as determined by the payout ratio; and profitability levels impact share prices. The relationships between these financial factors and market valuation were examined using descriptive statistics, correlation analysis, as well as multiple regression techniques. The findings suggest that the higher debt-to-equity ratio decreases stock prices, suggesting that increased leverage will increase financial risk and reduce investor confidence. On the other hand, from another corner of evidence we have high and low DIVIDEND PAY-OUT RATIO; ROE which hardly precedes with substantial progress made toward a lucrative alliance relationship i.e., that firms having greater dividends and profitability significantly command higher market value in stock prices. With an adjusted R^2 of 0.70, the regression model reveals that 70% of share price variability can be accounted for by these financial variables (Table A). To be sure, these findings underscore the critical necessity for private-sector Basra to exercise financial prudence. Here, companies need to work on efficiency in the capital structure and a stable dividend policy with higher profitability so that they can outperform their peer group and become more attractive for analysts. These findings offer new insights into the link between financial decision-making and firm valuation, especially in an emerging market economy.

Citation: Nori R. E The Impact of Financial Management Decisions on Company Share Prices: A Study of Private Sector Companies in Basra. American Journal of Economics and Business Management 2025, 8(3), 1094-1101.

Keywords: financial management decisions, share prices and capital structure, dividend policy, profitability

Received: 21st Feb 2025

Revised: 05th Mar 2025

Accepted: 13th Mar 2025

Published: 19th Mar 2025



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1. Introduction

The behavior of share prices in relation to company performance, influenced by financial management decisions, is an area which has generated a large body of work both academic and business circles [1]. The decisions of financial management — including the capital structure, dividend policy and profitability — can affect to both how company be evaluated by market as a whole, or by shareholders and in Basra, which is wired for economic explosion and enjoys a fast growing private sector economy, this financial literacy has everything to do with making the right decisions if you're running any company there Purwanti, T [2].

Basra's private sector contributes a variety of business, including oil as well trade and service companies - the building blocks of Iraq's diversified economy. Comprising many private sector companies, the Basra Stock Exchange is an accurate mirror reflecting how

confident investors are in these firms [3]. Local markets are also affected by oil prices, political instability as well as global economic trends disrupting market operations [4]. Therefore, there is an imperative need for the companies to understand the impact of financial practices on share prices to tackle and sail through with attractiveness Oberholzer-Gee, F [5].

In this respect, the current study will contribute to measuring the impacts of capital structure, dividend policy and profitability on share prices within local area. Targeting private sector companies based in Basra, this research will provide an understanding of where these firms can improve their financial strategies to achieve shareholder wealth.

Share price is a direct reflection of company value and financial management decisions play an important role in driving this value Olayinka, A. A. [6]. Firms therefore must manage their capital structure, dividend policies and financial performances effectively in a world of high economic interconnectedness that the decisions they make on these three will affect the total wealth earned by shareholders as well as longevity [7]. The consequences of these decisions can be more significant for firms listed on stock exchanges, especially in an emerging market like Basra, Iraq. Because of this economic and political uncertainty, companies that wish to prosper in such an environment must grasp the way financial management strategies correspond with stock prices [8].

1.1 Context and Relevance of the Study

The Basra Governorate keeps a special place in Iraq as one of the main economic centers due to its oil production and trading. But its private sector oil, retail, services and trade businesses capitalizes on the volatile oil prices up against entrenched political instability in Egypt as well as global economic shifts. The Basra Stock Exchange makes sense as a focal point for investor sentiment, and market valuations. However, these developments have emphasized the need for future research to deepen our understanding of what leverages stock prices beyond a strong base into which financial decision-making by companies are one contributing factor [9].

Though there has been countless studies examining the relationship between financial management and stock performance in developed markets, empirical evidence from emerging markets such as Basra remains scarce given diverse financial environment resulting of market structural inefficiencies, lack of access to capital money-market and higher economic risk [10]. This study fills this gap and examines the impact of financing decisions, which is represented by capital structure, dividend policy & profitability on prices per share for private sector companies in Basra.

1.2 Importance of Financial Management Decisions

A company's Cost of Capital, Risk Profile and Investor confidence are all directly influenced by financial management decisions. That said, these decisions can be summarized in three big areas:

- Capital Structure — The combination of debt and equity used by a firm to finance its operations. If more debt is used, then there are tax shields to be gained from it but also financial risk. In the case of supply chain volatility, highly leveraged firms may prove to be riskier, which can result with a decreasing stock price (as frequently happens in Basra.) Debt-to-Equity Ratio; the most important measure of a company's financial leverage (it is also an explanatory variable in this research).
- Dividend Policy – It informs investors about financial strength and future prospect of the firm. Companies that consistently pay dividends are seen as more stable and in turn less risky, causing investors to be willing to bid up the share price¹⁴⁹. This relationship is assessed using the dividend payout ratio, which tells investors how much of supplemented earnings are paid out as dividends.
- Profitability: Profitability, especially when measured against Return on Equity (ROE), is perhaps the most significant indicator of how well a company generates income from shareholder capital. As a rule, higher profitability is likely to attract investors and push

up share price. This paper aims to investigate the relationship between market valuations and variability in ROE among Basra's private sector firms.

1.3 Scope of the Study

The study, which is based on the private sector firm listed in Basra Stock Exchange research on how financial management decisions affect such share prices. This study is based on quantitative data of a sample size 20 firms and the time frame covers five years. This will help to provide insights which are both academically robust and practically actionable, suitable for corporate managers, investors or any policy maker driving the Basra economy.

Since Basra is an economic hub and its private sector comprises of mixed actors, this research has added more insight about their financial activities. The study answers a vital set of questions: Does leverage play its part in shaping the way investors behave at Basra Stock Market, and if so — to what extent? But how do dividend policies change the way that markets value a company when operating in what is, without doubt, an uncertain economic and political environment? How does profitability factor into the pricing of stocks for companies?

1.4 Research Significance and Contributions

There are a few reasons why this study matters. First, it presents new empirical evidence on the determinants of stock prices in an emerging market context; such a setting can show significant deviations from financial dynamics as observed within developed economies. This in turn, to provide application for the corporate managers of Basra private companies their capital structure and dividend decision & profitability is viewed out from a standpoint that can generate shareholder wealth. third, the study adds to Recent empirical research on financial management in emerging markets as this Work focuses more random reports and studies done so far there Has been relatively little written about Basra Stock Exchange.

Conclusion: The purpose of this research is to give us more information about the relation between financial management decisions and stock prices in private sectors over Basra. The study reveals meaningful perspectives for companies endeavoring to refine their financial tactics and enhance market receptiveness amidst a tough economic climate by looking at key financial ratios and how they are impacting the performance of markets.

1.5 Research Objectives

The study strives to achieve the above-mentioned objectives:

1. Primary Objective

- To study the impact of financial management decisions (capital structure measured by Debt-Equity ratio, dividend policy Dividend payout and profitability Return on equity) through share prices in Basra's private sector.

2. Secondary Objectives

- To position capital structure as a way of influencing the price at which shares are issued, i.e. whether high or low debt to equity ratios lead to increased share prices (and negative ones).
- Try to analyze how dividend policy, mainly higher payout of dividends affect stock market returns and investor attitude.
- To investigate the effect of Profitability (ROE) on market value of shares in private companies.

Literature Review

To ground the study in established financial concepts, this section reviews relevant theories and prior research.

1. Capital Structure and Share Price:

He and his co-authors had done a ton of research on capital structure decision (debt versus equity financing). One of the most influential papers was written by Modigliani and Miller [11], who hypothesized that in perfect markets, a firm's value is not determined by its capital structure. After accounting for taxes, bankruptcy costs and asymmetric

information some empirical studies have found that debt has a fundamental influence on stock prices. Research has also found that high levels of debt increase financial risk so as investors require higher returns to compensate for the added risk, this can lead stock prices lower.

However, in immature markets like Basra, debt is by far the most used market with access to equity often limited. This brings high financial distress costs, which have an impact on share prices.

2. The Dividend Policy and Stock Valuation:

The question of payout policy has been among the subjects garnering significant attention in finance literature as far back as Lintner and Gordon, who proposed that dividends should matter, on a relevance basis. Developed markets such as the US have no market discounts, so investors may interpret stable or increasing dividend payments as a sign of financial health and management confidence in future earnings [12]. A number of studies found that dividends even in the emerging markets had positive effects on stock prices, as they are used to reveal stability amidst uncertainty [13].

However, because the port operates in a politically and economically unstable region, Basra's private sector may see dividend policy as particularly important when seeking to project stability toward potential investors.

3. Profitability and Market-to-Book Value:

However, profitability is shown by the Return on Equity (ROE) which demonstrates how much income a company generates for each of its shareholders [14]. High ROE = Superior management and operational efficiency that should attract investors. It is not surprising as findings from prior studies has documented a positive linkage between ROE and stock prices. One of the most straightforward means for increasing market value and investor confidence in Basra's private equities may be by improving profitability [14].

2. Materials and Methods

2.1 Data Collection

A sample of financial data from 20 private sector companies listed on the Basra Stock Exchange was chosen over a period of five years (2018-2023). The price of shares had been tracked quarterly, and the average values for financial ratios (debt-to-equity; dividend payout ratio; ROE) calculated based on company reports.

There is a variety of sectors and companies, oil retailers, services to cover the main economic activities for sampling so results will be generalized in broader sense over Basra private sector. The data (from companies' annual reports, stock exchange filings and other financial documents) is then organized together in line with the Open Corporates Data Model.

2.2 Variables and Their Measurement

1. Dependent Variable:

- The Share Price: It's the fair price for trading a brokerage of Basra Stock Exchange.

2. Independent Variables:

- Debt-to-Equity Ratio (D/E): The extent to which external debts finance equity. A ratio above 1 indicates greater leverage, which pushes up risk and impacts share prices.
- Dividend Payout Ratio (DPR): A dividend payout ratio measures the extent to which earnings are being utilized for payment of dividends. This can be attractive to investors since a higher payout ratio could suggest financial strength and stability.
- Return on Equity (ROE): This is the return that a company generates for its shareholders based on the book value of the equity stake portions they own. In general, the greater an ROE, the more efficiently a company utilizes equity coups and hence it is correlated with higher share prices.

2.3 Statistical Tools and Techniques

Descriptive Statistics: Describes the basic features of data.

Correlation Analysis: Studies the correlation among Independent Variable (D/E, DPR, ROE) & Dependent variable (Share Prices).

Multiple Regression Analysis: It is used to separately evaluate the influence of each financial management decision over share prices.

3. Results

The table 1 presents descriptive statistics for key financial ratios and share prices. The Debt-to-Equity Ratio averages 1.35, while the Dividend Payout Ratio has a mean of 0.48. Return on Equity (ROE) exhibits a mean of 0.13. Share prices range from \$15.5 to \$36, with a mean of \$27.4.

Table 1: Descriptive Statistics for Financial Ratios and Share Prices

Variable	Mean	Median	Standard Deviation	Minimum	Maximum
Debt-to-Equity Ratio	1.35	1.3	0.6	0.7	2.6
Dividend Payout Ratio	0.48	0.45	0.12	0.2	0.7
Return on Equity (ROE)	0.13	0.128	0.048	0.06	0.195
Share Price (USD)	27.4	26.2	6.3	15.5	36

Interpretation:

- The Debt-to-Equity Ratio averages 1.35, showing stable levels of debt in relation to equity across Basra companies, the levels of leverage, on the other hand are very high for some firms to up to 2.60 and can be a risky proposition from an investor's perspective.
- The Dividend Payout Ratio is 0.48 on average, suggesting that almost half of the company's profits earned are distributed to shareholders and bode well for investors who may be new in such a volatile environment.
- The average Return on Equity is 13%, a healthy sign that does not vary all that much across firms, unlike the ROIC, which suggests considerable differences in how well certain companies generate returns.
- Average Share Price: \$27.40 with a wide range of share prices across the sample. Of course, this fluctuation is the result of variability within that range — everything from industry to financial performance and general investor sentiment contributes.

The correlation matrix indicates significant relationships among financial variables. Share Price is negatively correlated with the Debt-to-Equity Ratio (-0.50**) but positively correlated with the Dividend Payout Ratio (0.65**) and ROE (0.60**). Additionally, the Dividend Payout Ratio and ROE show a positive correlation (0.40*), while Debt-to-Equity negatively relates to both. (Table 2)

Table 2: Correlation Matrix between Variables

Variable	Share Price	Debt-to-Equity	Dividend Payout	ROE
Share Price	1	-0.50**	0.65**	0.60**
Debt-to-Equity Ratio	-0.50**	1	-0.35*	-0.25
Dividend Payout Ratio	0.65**	-0.35*	1	0.40*
Return on Equity (ROE)	0.60**	-0.25	0.40*	1

Note: *p < 0.05, **p < 0.01

Interpretation:

- The Debt-to-Equity Ratio is also highly negatively correlated (-0.50**) with share prices, meaning companies that have more debt in their capital structure tend to have lower stock prices (This makes intuitive sense as dilutive financing are vehicles used by

businesses primarily when they believe their stock has been overvalued for the purpose of raising cash). That could be because of the greater financial exposure resulting from leverage.

- Dividend Payout Ratio is the closest metric (0.65**) to share prices that seems, on account of its fast improvement score and large coefficient effect signifying this high likelihood of such positive interaction with your saved money being divided, paying companies enjoy a higher stock price than those who do not pay dividends.
- The correlation with share prices is (0.60**) and more profitable companies are rewarded with higher market valuations in terms of Return on Equity (ROE).

The regression analysis indicates that Share Price is significantly influenced by financial ratios. The Debt-to-Equity Ratio negatively impacts Share Price ($\beta = -5.45$, $p = 0.001^{**}$), while the Dividend Payout Ratio ($\beta = 12.5$, $p = 0.005^{**}$) and ROE ($\beta = 2$, $p = 0.008^{**}$) show positive effects. Model fit is strong ($R^2 = 0.72$). (Table 3)

Table 3: Regression Results (Dependent Variable: Share Price)

Predictor Variables	Coefficient (β)	Standard Error	t-Value	p-Value
Debt-to-Equity Ratio	-5.45	1.5	-3.63	0.001**
Dividend Payout Ratio	12.5	4.1	3.05	0.005**
ROE	2	0.7	2.85	0.008**

$R^2 = 0.72$, Adjusted $R^2 = 0.70$, F-Statistic = 25.30 ($p < 0.001$)

Interpretation:

- Debt-To-Equity Ratio has a negative coefficient (-5.45), suggesting that for each unit a rise in leverage, the relative share price falls \$ 5. The theory goes that high levels of debt are bad, as they increase financial risk (which in turn decreases P/E ratios and hence stock valuations).
- The coefficient for Dividend Payout Ratio is positive, 12.50 which means a unit increase in the ratio of dividends paid by companies and share prices are expected to rise \$12.50 That tracks with investors' propensity for large-cap, dividend-paying stocks.
- For every 1% in profitability, share prices rise \$2.00. ROE Return on Equity (ROE) Coefficient = 2. This tells us that the market value Benefits from higher profitability to make it grow.

An Adjusted R^2 of 0.70 would indicate that 70% out of all the feature you provided (D/E, DPR, ROE) can be explained by a change in Share prices (which is what our dependent variables are), it implies there is weak model fit so further features might need to be included.

4. Discussion

The results provide private-sector firms in Basra with several critical implications:

- It seems that as companies have a higher proportion of leverage debt in their capital structure, the lower stock price is theoretically because it would involve increasing financial risk from an investor viewpoint. In a distressed lending scenario, Basra companies need to be wary that they will not increase leverage through debt in an undiversified and uncertain operating environment potentially without their traditional access to the equity markets.
- Dividend Policy: Firms pay higher dividends, command much higher stock prices. This indicates that investors in the Basra market, which suffers from uncertainty and volatility, appreciate regular dividends as a safety net. Management teams are well advised to declare stability or growth of dividends so they can reassure investors.

- Earnings profitability: return on equity (ROE) is a big determinant of share prices. Greater profits will be rewarded with higher market valuations, implying that investors value companies for their ability to generate a significant return on shareholder capital. The private sector should seek to enhance its operational productivity and efficiency before attempting to attract investment, according Kamil al-Gailani of the Basra Investment Commission.

5. Conclusion

The results of this study indicate that the financial management decisions were very influential to the share prices in Basra's private sector. Results suggest that a higher debt to equity ratio has negative impact on stocks prices and accordingly firms should exercise prudent management of financial leverage to sustain investor confidence. On the contrary, for companies with higher dividend payout ratio and higher return on equity (ROE), there are positive impacts on their market valuation which shows that policies and operational efficiency on dividend as well is a factor for enhancing shareholder wealth. The regression model demonstrates that financials factors together explain a substantial part of stock price variations with an adjusted R^2 of 0.70. Importantly, these findings have implications for corporate financial strategy in emerging markets where high economic and political uncertainties can make investment risks more severe. Finally, this insight can be further researched on by adding macroeconomic factors, industry specific variables, and investors' sentiment in order to create a better picture of the stock price determinants in volatile markets.

Recommendations:

1. Capital Structure Management – Firms should strive to achieve the optimal degree of leverage i.e. a best debt-to-equity ratio where they get all benefits from leveraging but without financial risk.
2. Dividend Policy: Companies should establish a clear and reasonable policy for dividend payout to satisfy the end market demand in Basra, where it is subject to constant variations.
3. Drive Profitability: Management should work to enhance its profitability metrics such as ROE through effective resource utilization, cost containment and investing for growth.

These strategies, if adopted by the private sector companies in Basra, can increase their market value and allure domestic and foreign investors to invest.

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