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# The Influence of Financial Flexibility on Firms' Performance: Environmental Uncertainty as a Moderator

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**ABSTRACT**

Financial flexibility has been posited as a critical determinant of resilience and firm performance. Financially flexible companies have more cash on hand and can raise capital cheaply and more effectively to support new development possibilities and improve performance. However, the moderating role of environmental uncertainty in shaping this relationship remains underexplored, especially in fragile economies such as Iraq. In Iraq, firms face acute performance disparities rooted in systemic challenges. Recent analyses highlight that Iraqi firms with limited financial flexibility exhibit disproportionately lower profitability and survival rates compared to regional peers. Yet, existing research predominantly attributes these gaps to corruption or security risks, neglecting the moderating role of environmental uncertainty in maximising such constraints. This article investigates how environmental uncertainty moderates the influence of financial flexibility on firm performance in Iraq. A survey-based method was used to collect the data from 191 firms in Iraq. Non-probability sampling through the convenience sampling technique was used. The data was analysed using variance-based SEM, known as the SmartPLS. This study revealed that financial flexibility has a significant positive relationship with firm performance in terms of financial performance and non-financial performance. Furthermore, It was found that environmental uncertainty significantly and positively moderates the relationship between financial flexibility and firm performance in terms of financial performance and non-financial performance. The implications of the study have been discussed, and further research suggestions have been presented.

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**KEYWORDS:** Financial flexibility, financial performance, non-financial performance, environmental uncertainty, dynamic resources based view

## 1. INTRODUCTION

The relationship between financial flexibility and firm performance has garnered significant scholarly attention, particularly in contexts characterized by volatility and resource constraints. Financial flexibility—defined as a firm's ability to adaptively allocate liquidity, adjust capital structures, and respond to external shocks—has been posited as a critical determinant of resilience and competitive advantage (Bancel & Mittoo, 2020; Gamba & Triantis, 2023). Even in a crisis, financially flexible companies have more cash on hand and can raise capital cheaply and more effectively to support new development possibilities and improve performance (Chang & Wu, 2022). This is because, financial flexibility helps firms to avoid wasteful or ineffective financial resource allocations, allowing them to enhance their performance (Yeniaras et al., 2021), as well as to avoid situations that lead to suboptimal investment and poor performance (Ma & Jin, 2016). However, the moderating role of environmental uncertainty in shaping this relationship remains underexplored, especially in fragile economies such as Iraq, where firms grapple with intersecting political, economic, and institutional instabilities. While prior studies emphasize financial flexibility's capacity to buffer firms against macroeconomic fluctuations (Almeida et al., 2022; Hassan & Mahmood, 2023), few examine how heterogeneous forms of environmental uncertainty—such as regulatory unpredictability, geopolitical risks, and supply chain disruptions—interact with financial strategies to exacerbate or mitigate performance gaps.

In Iraq, firms face acute performance disparities rooted in systemic challenges. Despite the country's vast resource wealth, persistent environmental uncertainties—including political fragmentation, currency volatility, and infrastructural decay—have stifled productivity and

innovation (Al-Douri et al., 2021; IMF, 2023). Recent analyses highlight that Iraqi firms with limited financial flexibility exhibit disproportionately lower profitability and survival rates compared to regional peers (World Bank, 2022). Yet, existing research predominantly attributes these gaps to corruption or security risks (OECD, 2023), neglecting the moderating role of environmental uncertainty in maximising such constraints. For instance, while Al-Khalidi and Abbas (2022) identify liquidity shortages as a barrier to growth, their work does not disentangle how firms leverage financial flexibility to offset uncertainties, such as abrupt policy shifts in Iraq's oil-dependent economy. Similarly, studies of environmental uncertainty in emerging markets often generalize findings across regions, overlooking Iraq's unique institutional voids, such as weak contract enforcement and fragmented banking systems (Ismail & Ahmed, 2021).

This article addresses these gaps by investigating how environmental uncertainty moderates the influence of financial flexibility on firm performance in Iraq. Drawing on dynamic resource-based theory (DRBV), its argue that the efficacy of financial flexibility is contingent on the type and intensity of external uncertainties firms face—a dynamic poorly captured in extant literature. By analyzing data from Iraqi firms across industries, this study contributes novel insights into how adaptive financial strategies can mitigate performance disparities in contexts marked by chronic instability. The findings hold implications for policymakers seeking to strengthen private sector resilience and for managers navigating resource-constrained, high-risk environments.

## 2. LITERATURE REVIEW

### 2.1. Related literature

In the finance literature, financial flexibility is a relatively new concept (Yousefi & Yung, 2021). Excess financial resources, such as debt capacity and cash reserves, are referred to as financial flexibility (Grüner & Raastad, 2018). To put it another way, companies having unused debt capacity are thought to be financially flexible (Yousefi & Yung, 2021). Financial flexibility is defined as "the firm's ability to swiftly access and position financial resources, thereby gaining competitive advantage and, in turn, realizing superior firm performance" (Yeniaras et al., 2021, p. 58). Financial flexibility also defined as "the capability of a firm in having access to the low-cost funds and able to reorganize its financial structure at low cost" (Altaf, 2020, p. 8). Financial performance relates to "the degree to which a firm achieves economic goals which span return on investment, return on sales, return on assets, sales growth, and market-share growth" (Yeniaras et al., 2021, p. 58). Even in a crisis, financially flexible companies have more cash on hand and can raise capital more cheaper and effective to support new development possibilities and improve performance (Chang & Wu, 2022). This is because, financial flexibility helps firms to avoid wasteful or ineffective financial resource allocations, allowing them to enhance their performance (Yeniaras et al., 2021), as well as to avoid situations that lead to suboptimal investment and poor performance (Ma & Jin, 2016). Enterprises with underutilised or surplus resources can use them to advantage from external possibilities, hence propelling firm growth, thus when a company is facing financial difficulties, having adequate cash reserves can help reduce risk (Gu & Yuan, 2020). During a severe, unanticipated recession, such as the COVID-19 shock, internal available finances run out (De Vito & Gómez, 2020; Halling et al., 2020). This results in a "dash for cash," in which businesses try to reduce bank credit lines, decrease dividends, and increase financial flexibility (FF) (Acharya & Steffen, 2020; Krieger et al., 2021; Li et al., 2020).

In the same vein, the organisation may be defined as a system (inputs, processes, and outputs) connected to the environment in which it works, meaning it both effects and is influenced by the environment (Yousuf et al., 2021). In today's highly competitive environment, there is a higher level of uncertainty, which leads to a lack of the essential knowledge to determine cause and effect correlations (Ahammad et al., 2021). In case of inability to predict or control environmental changes, the firm's ability to acquire the required resources for continued production will effected, thus environmental uncertainty is considered a serious threat to their firms' survival (Hoque et al., 2022). As a result, companies should find a relevant way to deal with uncertainty in dynamic environments (Yousuf et al., 2021). In a highly dynamic environment, uncertainties can make it difficult for a company to respond to the need for change, supply necessary resources, anticipate client wants, challenge the current strategic direction, and consider new strategic options (Zhang & Savalei, 2016). However, uncertainty in the environment can be a source of profitable opportunity for reinforcing existing competitiveness and/or developing new ones, allowing the firm to respond effectively to external environmental changes, in this case, to benefit from environmental changes, a firm must be financially flexible (Liao et al., 2019). Firm's financial flexibility is a measure to capture how well a company is prepared to respond to and adapt to these changes in the environment (Seo et al., 2021). Han and Zhang (2021) argued that financial flexibility enables firms to have better responsiveness to environmental changes and can reduce feedback time and response costs.

### 2.2 Dynamic Resources Based View

The RBV holds that firms create sustainable competitive performance if only they have superior/unique resources and these resources are protected from imitation by isolating mechanisms to prevent their spread along the industry (Barney, 1991). However, the assumptions of the RBV are static and do not take into account the dynamic environment of the market (Eisenhardt & Martin, 2000). This led to the emergence of dynamic capabilities (Teece, 2007), and a dynamic resource-based view (DRBV) (Helfat & Peteraf,

2003) as an extension of RBV. The DRBV is considered the ability of a firm to continually develop, adapt, integrate or reconfigure the mix of resources and capabilities (Teece, 2007). Hence, pooling and exploiting of valuable resources is a strict assumption in DRBV and its extended contributions to create the firm value. Because of their potential to develop new sets of resources in unstable contexts, dynamic capabilities are an important part of the DRBV. As a result, a firm's dynamic capabilities allow it to be flexible and adjust its resources to changing situations (Noman & Basiruddin, 2021). As a result, DRBV provides a useful framework for analysing how organisations use financial flexibility to attain and maintain competitive performance (Fainshmidt et al., 2019).

Resources, according to Noman et al. (2020), "are tangible and intangible assets that are attached semi-permanently to the organization". Financial, physical, human, and organisational capital are tangible resources, whereas intangible resources are knowledge-based and include organisational routines, coordination, and individual employee abilities, and can be more powerful than tangible resources in terms of leading to competitive performance (Bancel & Mittoo, 2020). Firms having unused/extra or flexible resources, according to the DRBV, might use them to benefit from external opportunities, hence propelling their growth (Hoque et al., 2022). Furthermore, sufficient cash reserves are favourable to risk reduction when a company is facing financial problems (Fainshmidt et al., 2019). Under this logic, opportunity exploitation does not lead to the creation of value, but the processes of resource allocation and resource transformation in a way that enhances leveraging the firm's resources to pursue these opportunities (Noman & Basiruddin, 2021). This means that competitive performance does not lie in the resources themselves, which are necessary but not sufficient to achieve sustainable competitive performance (Cho & Linderman, 2019), but the essence of the theory involves shaping competition itself by assembling and coordinating difficult-to-imitate resources and capabilities to select and develop a firm's capabilities and business models towards competitive performance (Teece, 2007). As a result, the DRBV emphasises that a company's capability to reconfigure its current resource base is influenced by its operating environment (Hernández-Linares et al., 2020). In this context, Firms with financial flexibility may respond to market orientation and meet their customers' present and declared demands related to market exploitation (Hoque et al., 2022). Helfat and Peteraf (2015) explained that firms need financial flexibility to implement a variety of tasks required to improve performance.

### 2.3 Firms' Performance

Historically, the strategic management domain's major focus has been on firm's performance (Yeniaras et al., 2021). The firm's performance is very significant in ensuring the sustainability of the efforts, its defined as "the execution of a series of business work functions or activities over some certain period" (Meflinda et al., 2018). In the essence of Dynamic resources-based view (DRBV), Barney (1991, p. 102) defined competitive performance as "a firm is said to have competitive performance when it implements a value creating strategy not simultaneously being implemented by any current or potential competitors". It describes "a state for organisations to cope with environmental dynamism and continuously provide satisfactory products or services for customers better than competitors" (Li & Liu, 2012, p. 3). Thus, competitive performance is an indicator of the firm's potential to surpass its competitors in terms of profitability, economic rents, market share and other outcomes of interest. Also, "a term that is generally used to describe the relative performance of rivals in a given (product) market environment" (Peteraf & Barney, 2003, p. 313).

The evaluation of firm performance is a multifaceted endeavor that necessitates a comprehensive assessment of both financial and non-financial dimensions (Wang and Wang, 2022). Financial performance typically refers to a firm's ability to generate profits, manage its finances effectively, and meet its financial obligations. While financial performance is a crucial aspect of a firm's success, it does not provide a complete picture (Zhang and Liu, 2023). Non-financial performance encompasses a broader range of factors that contribute to a firm's overall value and sustainability (Yeniaras et al., 2021). Traditional financial metrics, such as profitability, liquidity, and solvency, offer valuable insights into a firm's short-term and long-term financial health (Yousuf et al., 2021). However, a sole reliance on these metrics can provide an incomplete picture of a firm's overall performance, as it fails to capture the intangible assets and strategic capabilities that contribute significantly to its competitive advantage (Liu et al., 2020). Non-financial performance indicators, encompassing factors like customer satisfaction, employee engagement, innovation, and social responsibility, offer a broader perspective on a firm's success (Wang and Wang, 2022). These indicators shed light on a firm's ability to create value for its stakeholders, build sustainable relationships, and contribute positively to society (Zhang and Liu, 2023). The integration of financial and non-financial performance metrics is essential for a holistic understanding of firm performance. By considering both tangible and intangible aspects, organizations can gain a more nuanced and comprehensive view of their overall health and identify areas for improvement (Fainshmidt et al., 2019).

### 2.4 Hypothesis development

#### 2.4.1. The Direct Relationships between Financial Flexibility and Firms' performance

Financial flexibility is "the capability of a firm in having access to the low-cost funds and able to reorganize its financial structure at low cost" (Altaf, 2020, p. 8). Financial flexibility is one of the most significant goals in business finance decision (Yousuf et al., 2021). Capital markets in

emerging countries are less developed and external financing is more difficult than in developed countries, thus financial flexibility has a greater effect on firm performance, this is why managers should place an even greater emphasis on their companies' financial flexibility in emerging countries (Bilyay-Erdoggan, 2020). Scholars argued that increased financial flexibility helps businesses to mitigate the negative effect of liquidity shocks on investment, hence enhancing their capacity to make future investments (Chang & Ma, 2019; Liu et al., 2020). This is because, financial flexibility is important for businesses not only because it allows them to avoid financial distress and reduces its associated costs, but also because it allows them to fund profitable investments opportunities and thus increasing the likelihood of financial profits (Erdogan, 2019). Financial flexibility allows firms' leverage to emerge as a significant factor related to raising capital to invest in profitable projects (Bilyay-Erdoggan, 2020). Firms that are more financially flexible can also finance a higher proportion of working capital with short-term loans, which might improve financial performance by lowering interest costs and reducing costs (Altaf, 2020). Financial flexibility, according to Halling et al. (2020), is also helpful to the company since it lowers investment distortions.

Many empirical validations have been presented in the existing literature to support the direct relationship between financial flexibility and firms' performance in terms of financial and non-financial performance. For example, Chang and Ma (2019) found that financial flexibility enhances firm performance (i.e., general performance). Bilyay-Erdoggan (2020) found that financial flexibility is a significant and positive contributor to firm value (cash flow and profitability). Ma and Jin (2016) found that financial flexibility has a significant and positive effect on both investment and firms' financial performance (i.e., return on assets). Considering both financial and non-financial performance, Adomako and Ahsan (2022) found that under situations of high resource flexibility, passion for developing has a positive correlation with their SMEs' non-financial performance (i.e., growth in employees and overall company performance), and financial performance (i.e., sales growth rate, profitability, market share growth). Similarly, Yeniaras et al. (2021) found that financial flexibility has a positive relationship with firms non-financial performance (i.e., Strategic Performance), and financial performance (i.e., return on investment, return on sales, growth in profits, return on equity, growth in sales, Growth in market share). Al-Slehat (2019) found that financial flexibility has significant positive effect on the performance of services firms' financial performance (i.e., return on assets. return on equity, profit margin, and solvency), and non-financial performance (i.e., customers complaints, damage rates, productivity of direct labour, and rate of change in cost). Based on these arguments, this study hypothesizes that:

**H1:** There is a significant relationship between financial flexibility and Financial Performance

**H2:** There is a significant relationship between financial flexibility and Non-financial Performance

### 2.4.2 Environmental Uncertainty as A Moderator

Environmental uncertainty is "the extent of change, volatility, unpredictability and instability in the external business environment" (Ahammad et al., 2021, p. 4). Because of their inability to predict or control environmental changes, which affect companies' ability to acquire the required resources for continued production, environmental uncertainty is considered a serious threat to their survival (Hoque et al., 2022). As a result, companies should find a relevant way to deal with uncertainty in dynamic environments (Yousuf et al., 2021). Flexibility is a metric that indicates how well a company is prepared to respond to and adapt to changes in the environment (Seo et al., 2021). The moderating influence of environmental uncertainty, according to this study, might better explain why businesses working under comparable settings can attain differing performance outcomes. For instance, When company management select a product or service as a priority within the industry, they will focus on providing (or using) the financial resources necessary to supply the product or service and to compete in the external environment (Yang & Gan, 2021). Thus, financial flexibility enhance the firms' ability to carry out new combinations of resources to support new processes/products, which would have a positive effect on the firm's financial performance (Helfat & Peteraf, 2015).

According to Barrales-Molina et al. (2012), firms that have a high level of perception of environmental uncertainty have more ability to redeploy their flexible resources, which is reflected in their firms' ability to achieve high levels of operational flexibility through the ability to renew most day-to-day tasks or routines. Dealing with environmental uncertainty has to do with a firm's capacity to generate alternate resource uses that effect the company's competitive performance (Mannor et al., 2015). Firms' attention to external environmental uncertainty, according to Hernández-Linares et al. (2020), organizes the interaction between industrial context and strategic actions. As a result, environmental uncertainty influences enterprises' financial decisions on resource renewal and reconfiguration firms' resources (Noman & Basiruddin, 2021). Environmental uncertainty is critical in determining if the company needs to reallocate financial resources to reduce the time it takes to deliver new distinctive goods, create new ways to optimise operations, and improve customer satisfaction (Martin & Bachrach, 2018).

Current literature provides us some insights about the moderating role of environmental uncertainty between financial flexibility, and firms' performance (i.e., financial performance and non-financial performance). Han and Zhang (2021) found that financial flexibility is effected by environmental uncertainty, and enable firm to have better responsiveness to environmental changes and can reduce the

feedback time and response costs. Hoque et al. (2022) found that financial capabilities have more positive effect on financial performance (i.e., growth profitability, market share profitability, return on investment), in case of better dealing with environmental change. Ahammad et al. (2021) found that environmental uncertainties have a significant moderating effect on the relationship between flexibility and firm's international financial performance (i.e., sales volume, sales growth and return on investment). Seo et al. (2021) found that financial flexibility has a relatively stronger effect on financial performance of lodging firms when they experience greater complexity in their service operations. Yousuf et al. (2021) found that environmental uncertainty moderates the relationship between flexibility and SMEs' financial performance (i.e., sales, profits and market share). ). Liao et al. (2019) found that environmental dynamism strengthens the positive indirect effect of leadership on innovation through flexibility. The study of Hoque et al. (2022) found that the relationship between financial agility and non-financial performance (i.e., market growth level and customer satisfaction) was stronger in the case that firm was able to interact with their environmental change. Based on these arguments, this study hypothesizes that:

**H3:** Environmental uncertainty moderates the relationship between financial flexibility and financial performance.

**H4:** Environmental uncertainty moderates the relationship between financial flexibility and non-financial performance.

**The Conceptual Framework**

Based on the literature review and hypothesis development, the conceptual framework of this study is presented in Figure 2.1.

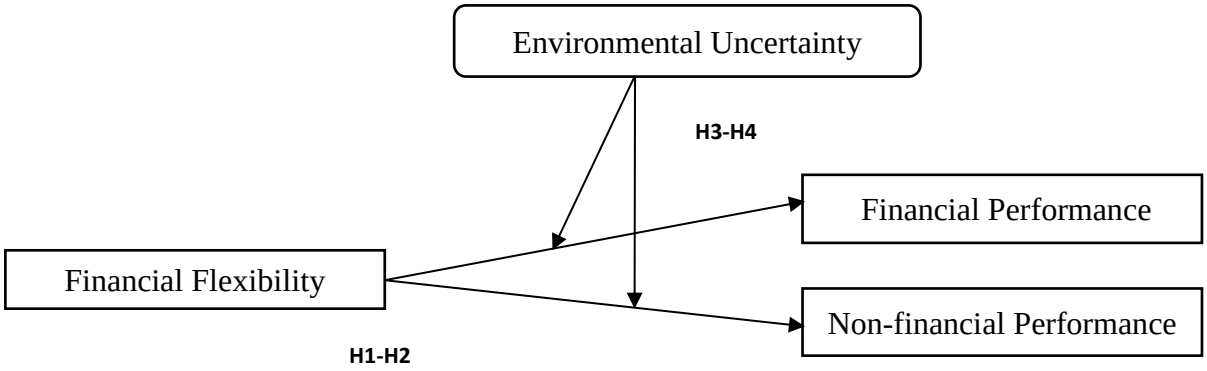


**Figure (2.1)The Conceptual Framework**

## 3. POPULATION, SAMPLING AND DATA COLLECTION PROCEDURES

In general, most of theories that addressed the relationship between firms' flexibility and firm's performance in developed markets; however, this association is missing in emerging markets, which require additional attention (Miroshnychenko et al., 2021). Scholars argued that is an essential context to investigate further in order to develop a more comprehensively informed and contextually robust theory in emerging markets (Hoque et al., 2022; Miroshnychenko et al., 2021). Furthermore, in the context of emerging markets, the effect of environmental uncertainty as a crucial moderator in enhancing or reducing the influence of strategic flexibility on performance is urgently needed, providing opportunities for new theory development and empirical testing (Ahammad et al., 2021). For these reasons, and for easy accessibility purposes, Iraq is chosen as the research field for this study.

The targeted population and key informants were drawn from Iraqi firms. To determine the accurate number of participants for this study, G*Power is used to assess the sample size. G*Power is an inferential statistics software that calculates statistical power using a range of statistical tests such as t-tests, F-tests and chi-square tests as well as one-way versus multi-way ANOVA (Faul et al., 2009). The alpha (with a standard value of .05), power (with a standard value of .95) and effect size hypotheses are determined in this study (small, moderate or large). Based on G*Power, the sample size required for this study is 191.

Data was gathered from Iraqi firms. Non-probability sampling through the convenience sampling technique was used to collect data. A questionnaire survey approach was utilised to achieve the study goals and to explore the predicted links from the perspective of firms in Iraq. A questionnaire survey is a data collection approach that translates the research's objectives into particular questions that can be answered and then provides trustworthy responses to the study questions (Malhotra, 2010). Respondents were first informed to the research's principles and aims in order to gauge their interest in participating in the current study. The questionnaires were emailed to the respondents in the Iraqi firms. Questionnaires were distributed to respondents who agreed to take part in the study. The questionnaire was created using the Google Docs service. Participants were instructed to access the link to the online survey questionnaire using the URL address supplied in the email.

The measuring items for this study were adopted from existing. The firm in Iraq was employed as the unit of analysis for all of the metrics used in this study. All components were assessed using multiple-item measures in this study. On a Likert scale, respondents were asked to rate how strongly they disagreed (1) and how strongly they agreed (5).

A four-section questionnaire is developed for the purpose of data collection. Section A is composed of 6 questions that relate to demographic data. Section B is composed of eight items are for measuring financial flexibility. Section C is composed of fourteen, seven items for measuring financial performance, and seven items for measuring non-financial performance. Section D is composed of seven items that are related to measuring environmental uncertainty.

## 4. DATA ANALYSIS AND RESULTS

### 4.1 Assessing the Measurement Models

The measurement model, which specifies the relationships between observed variables and latent constructs, is a crucial component of PLS-SEM (Hair et al., 2021). Assessing the quality of the measurement model is essential to ensure the validity and reliability of the research findings (Field, 2018). Before examining the links in the overall model, the reliability and validity of the variables and items in the measurement model were examined in this study to verify that only reliable and valid measurements were employed. For build dependability, Cronbach's alpha and composite reliability were used. Furthermore, the composite reliability and discriminant validity were used to evaluate convergent and discriminant validity.

Table 1 reveals that the Cronbach's α (between 914 - 0.938) was greater than the suggested threshold of 0.7 (Cronbach, 1951; Hair et al., 2010) and the composite reliability (between 0.927 - 0.946) was higher than the cut-off value of 0.70.

According to Hair et al. (2010), convergent validity describes how answers gathered using several scales correlate to represent the same variable. Put differently, convergent validity means that the collection of items should represent the same underlying variable, which is corroborated by the fact that they are unidimensional (Henseler et al., 2009). The "Average Variance Extracted" (AVE) approach was used in this study to test for convergent validity. According to Table(1) the average variance explained (AVE) by each variable was higher than the suggested value of 0.5 (50%). This means that, on average, each variable could account for more than half of the variation in its measuring items (Fornell & Larcker, 1981).

**Table (1) Internal consistency and convergence validity results**

| Constructs | Cronbach's Alpha | Composite Reliability (rho-a) | Composite Reliability (rho-c) | Average Variance Extracted (AVE) |
|---|---|---|---|---|
| Environmental uncertainty | 0.914 | 0.927 | 0.931 | 0.657 |
| Financial Flexibility | 0.938 | 0.946 | 0.948 | 0.696 |
| Financial Performance | 0.923 | 0.928 | 0.938 | 0.685 |
| Non-Financial Performance | 0.935 | 0.939 | 0.947 | 0.718 |

To verify the discriminant validity heterotrait-monotrait ratio (HTMT) was used. A novel technique for evaluating discriminant validity in PLS-SEM is called HTMT. The HTMT evaluates the geometric-mean correlation between indicators inside a concept and the correlation between indicators across constructs. Henseler et al. (2015) state that the HTMT values need to be less than 0.90. The top threshold of HTMT values was less than 0.90, as Table (2) reveals. As a result, the assessment of discriminant validity also validates the measurement model's validity in terms of the HTMT.

**Table (2) Heterotrait-Monotrait Ratio (HTMT)**

| Constructs | EnvUnc | EnvUnc | EnvUnc | EnvUnc | EnvUnc x FinFle |
|---|---|---|---|---|---|
| EnvUnc | | | | | |
| FinFle | 0.467 | | | | |
| FinPer | 0.201 | 0.409 | | | |
| NfinPer | 0.326 | 0.443 | 0.496 | | |
| EnvUnc x FinFle | 0.069 | 0.191 | 0.355 | 0.231 | |

The measurement model in this study was subjected to several evaluating tests such as factor loading, Cronbach's Alpha, convergent validity, and discriminant validity. Four variables were examined i.e., financial flexibility, financial

performance, non-financial performance, and environmental uncertainty. The results supported a reliable and valid model. Therefore, the measurement model in this study with satisfactory quality was derived.

### 4.2 Assessment of the Structural Model

R square is the amount of variation in the constructs under consideration (Financial performance and non-financial performance) that is explained by the model (Henseler et al., 2009). The primary criterion for assessing the quality of a structural model is the coefficient of determination ($R^2$) (Cohen & Manion, 1989). Cohen (1988) states that each endogenous variable's $R^2$ value is assessed using three criteria: the significant level, which is 0.26 and above; the moderate level, which is between 0.13 and 0.25; and the weak level, which is between 0.02 and 0.12. The $R^2$ values for endogenous variables are displayed in Table (3)The following were the $R^2$ values: financial performance is 0.326 and non-financial performance is 0.322. The $R^2$ values for both variables were over 25%, which is a significant level and indicates a high prediction level as advised by Cohen (1988).

**Table (3)R-square result**

| Endogenous Variables | R Square | R Square Adjusted |
|---|---|---|
| Financial Performance | 0.326 | 0.224 |
| Non-Financial Performance | 0.322 | 0.22 |

Substantial > 0.25; Moderate > 0.12, Weak > 0.02 (Cohen & Manion 1989)

Effect size is used to calculate how the inclusion of a certain predictor component in the model affects the $R^2$ value (Sarstedt et al., 2017). The effect size value can be used to evaluates the extent to which an external construct influences the change in the $R^2$ value, which serves as a proxy for an endogenous construct (Sarstedt et al., 2017). Three criteria—0.35, 0.15, and 0.02—that represent high, medium, and small effect sizes, respectively, were employed in this study to assess $f^2$ in accordance with Cohen's (1988) recommendations. Table (4) shows that three relationships showed a large effect. Environmental uncertainty large effect on non-financial performance ($f^2$ = 0.035), followed by financial flexibility which also shows a large effect on financial performance ($f^2$ = 0.101), and financial flexibility which also shows a large effect on non-financial performance. Moreover, environmental uncertainty has a small effect on Financial performance ($f^2$ = 011), and resource flexibility has a small effect on financial performance ($f^2$ = 005).

**Table(4) F-square result**

| | Environmental uncertainty | Financial Flexibility | Financial Performance | Non-Financial Performance |
|---|---|---|---|---|
| Environmental uncertainty | | | 0.005 | 0.035 |
| Financial Flexibility | | | 0.101 | 0.101 |
| Financial Performance | | | | |
| Non-Financial Performance | | | | |

Large: f2 effect size > 0.34; Medium effect > 0.14; Small: 0.0 > 0.01 (Cohen, 1988)

To determine the significance of the relationships in the inner path of the structural model, the path coefficient estimation of hypothetical relations using bootstrapping process was carried out. As a rule of thumb, to account for a specific impact in the model, the route coefficient value needs to be at least 0.1 (Hair et al., 2011).

Table (5) shows the path coefficient assessment results for the proposed direct relationships in the structural model. Table (5) shows that the two direct relationships were significant at level p< 0.01 (exceeding the standardised value of 2.58) in positive sign directions. The path coefficient value (β) for the two hypotheses was between 0.315 and 0.316. The direct hypothesis between financial flexibility and financial performance was significant (p = 0.000) and (β = 0.315, or 32%, and t = 4.668). The hypothesis was significant at level p< 0.01 (exceeding the standardised value of 2.58) in positive sign directions. Meanwhile, the direct relationship between financial flexibility and non-financial performance was significant (p = 0.000) and (β = 0.316, or 32%, and t = 4.203). The hypothesis was significant at level p< 0.01 (exceeding the standardised value of 2.58) in positive sign directions. Thus, Hypotheses H1 and H2 were supported.

**Table(5) Path coefficient result (Direct effect)**

| Hypotheses | OS/Beta | SM | SD | T | P | Decision |
|---|---|---|---|---|---|---|
| Financial Flexibility -> Financial Performance | 0.315 | 0.321 | 0.068 | 4.668** | 0.000 | Significant |
| Financial Flexibility -> non- Financial Performance | 0.316 | 0.32 | 0.075 | 4.203** | 0.000 | Significant |

Significant: **p < 0.01, *p < 0.05

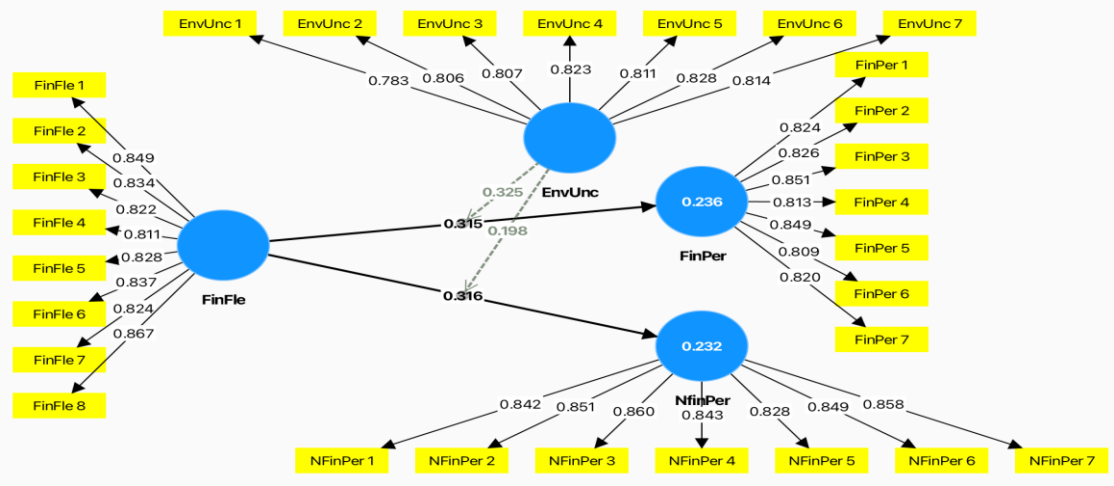


**Figure (2) Structural Model with β -values (Bootstrapping result)**

Table(6)shows the path coefficient assessment results for the proposed moderating relationships in the structural model. Table 6 shows that the two moderating relationships were significant at level p< 0.01 (exceeding the standardised value of 2.58) in positive sign directions. The path coefficient value (β) for the two hypotheses was between 0.325 and 0.198. The correlation between Environmental Uncertainty x Financial Flexibility -> Financial Performance was significant (p = 0.000) and (β = 0.325, or 33%, and t = 5.111). The hypothesis was significant at level p< 0.01 (exceeding the standardised value of 2.58) in positive sign directions. Meanwhile, the moderating relationship between Environmental Uncertainty x Financial Flexibility -> Non-Financial Performance was significant (p = 0.008) and (β = 0.198, or 20%, and t = 2.634). The hypothesis was significant at level p< 0.01 (exceeding the standardised value of 2.58) in positive sign directions. Thus, hypotheses H3 and H4 were supported.

**Table (6) Path coefficient result (Moderating effect)**

| Hypotheses | OS/Beta | SM | SD | T | P | Decision |
|---|---|---|---|---|---|---|
| Environmental Uncertainty x Financial Flexibility -> Financial Performance | 0.325 | 0.326 | 0.064 | 5.111** | 0.000 | Significant |
| Environmental Uncertainty x Financial Flexibility -> Non-Financial Performance | 0.198 | 0.196 | 0.075 | 2.634** | 0.008 | Significant |

Significant: **p < 0.01, *p < 0.05

## 5. DISCUSSION

Hypothesis H1 examined whether financial flexibility significantly affects financial performance in Iraq. The empirical findings showed a positive and significant association exists between financial flexibility and financial performance in Iraq. This result supports the DRBV theory argues that enterprises with underutilised or surplus financial resources can use them to advantage of external possibilities, hence propelling firm growth, thus when a company is facing financial difficulties, having adequate cash reserves can help reduce risk. The finding is in accordance with those by Adomako and Ahsan (2022) who found that under situations of high resource flexibility, passion for developing has a positive correlation with their SMEs' financial performance (i.e., sales growth rate, profitability, market share growth). Similarly, it is similar to Yeniaras et al. (2021) who found that financial flexibility has a positive relationship with firms' financial performance (i.e., return on investment, return on sales, growth in profits, return on equity, growth in sales, Growth in market share). The result supports Chang and Ma (2019) who found that financial flexibility enhances firm performance (i.e., general performance). It also supports Chang and Wu (2022) who found that high levels of financial flexibility positively affect firms' financial performance (i.e.,

cash and debt flexibility). It can be concluded therefore that when firms in Iraq have high financial flexibility, the resulting implications for the firm will be improved financial performance.

Hypothesis H2 examined whether financial flexibility significantly affects non-financial performance in Iraq. As expected, the result from the empirical data analysis shows that there is a significant and positive association between financial flexibility and non-financial performance in Iraq. The empirical finding for H2 supports the DRBV theory argument that financial flexibility helps firms avoid wasteful or ineffective financial resource allocations, allowing them to enhance their performance, as well as to avoid situations that lead to suboptimal investment and poor performance. The result supports those of Chang and Ma (2019) who found that financial flexibility enhances firm performance (i.e., general performance). The finding is consistent with Adomako and Ahsan (2022) who found that under situations of high resource flexibility, passion for developing has a positive correlation with their SMEs' non-financial performance (i.e., growth in employees and overall company performance). The result is in line with Yeniaras et al. (2021) who found that financial flexibility has a positive relationship with firms' non-financial performance (i.e., strategic performance). It can be concluded therefore that when firms in Iraq have high financial flexibility, the resulting implications for the firm will be improved non-financial performance.

As expected, the empirical outcomes of the study show that environmental uncertainty has a significant moderating association between financial flexibility and the financial performance in Iraq. This means that in the case of high environmental uncertainty, the significance of the relationship between financial flexibility and the financial performance of Iraqi firms would be greater. Hence, DRBV theory is supported, namely that in case of inability to predict or control environmental changes, the firm's ability to acquire the required resources for continued production will be affected, thus environmental uncertainty is considered a serious threat to the firm's survival. (Hoque et al., 2022). As a result, companies should find a relevant way to deal with uncertainty in dynamic environments (Yousuf et al., 2021). According to the DRBV, uncertainty in the environment can be a source of profitable opportunity for reinforcing existing competitiveness and/or developing new ones, allowing the firm to respond effectively to external environmental changes, in this case, to benefit from environmental changes, a firm must be financially flexible (Liao et al., 2019). The result of hypothesis H3 reveals that with environmental uncertainty financial flexibility is expected to have a stronger positive impact on the financial performance of firms in Iraq. This is because, firms can capitalize on opportunities, with readily available financial resources, firms can seize lucrative investments and react quickly to emerging market trends. Financial flexibility also allows firms to absorb unexpected expenses and weather periods of financial stress, minimizing losses and maintaining stability. Furthermore, demonstrating the ability to navigate challenges through financial flexibility can reassure investors, potentially leading to better access to capital.

The result of hypothesis H4 lends support to the DRBV theory namely that in a highly dynamic environment, uncertainties can motivate the firm to respond to the need for change, supply necessary resources, anticipate client wants, change the current strategic direction, renew the operational processes and consider new strategic options (Zhang & Savalei, 2016). According to the DRBV, firms that have a high level of perception of environmental uncertainty have more ability to redeploy their flexible resources, which is reflected in their firms' ability to achieve high levels of operational flexibility through the ability to renew most day-to-day tasks or routines. As a result, environmental uncertainty influences enterprises' financial decisions on resource renewal and reconfiguration of firms' resources and processes (Noman & Basiruddin, 2021). Hypothesis H4 reveals that financial flexibility is expected to have a stronger positive impact on non-financial performance in high environmental uncertainty. This is because, with flexible finances, firms can allocate resources towards initiatives like employee training, community development, or green technologies, enhancing non-financial performance, flexible finances in an unstable environment also enable firms to test and implement innovative solutions with potential non-financial benefits, like employee well-being programs or energy-efficient construction methods to cope with environmental changes. This reflects the crucial role of environmental uncertainty in determining how effectively firms can leverage their financial flexibility to achieve desired non-financial outcomes.

## 6. IMPLICATIONS

The result showed that financial flexibility has a significant positive relationship with financial performance in Iraq. The result provides empirical evidence for the arguments of the DRBV theory, assuming that firms with higher financial flexibility, measured by factors like cash holdings, unused debt capacity, and access to capital markets, have greater liquidity and can manage financial distress more effectively. This, in turn, reduces financial risk and enhances firm value. This finding draws the attention of researchers to the importance of financial flexibility that allows firms to seize profitable investment opportunities promptly, leading to higher returns. It also reduces conflicts by mitigating managerial opportunism and aligning stakeholder interests. Financial flexibility according to the result provides firms with valuable "real options" to invest in new projects, undertake expansions, or respond to strategic threats. This flexibility enhances a firm's strategic agility and enables it to react swiftly to changing market conditions. Accordingly,

firms with greater financial flexibility can engage in aggressive pricing strategies, withstand competitive pressures, and invest in differentiated offerings, potentially leading to a competitive advantage and superior financial performance. The finding that financial flexibility is significantly positively related to financial performance support the DRBV. While the DRBV primarily emphasizes the role of tangible and intangible resources in creating competitive advantage, financial flexibility can be seen as a capability that complements these resources. By providing firms with the financial resources necessary to invest in new opportunities, acquire new assets, and respond to unforeseen challenges, financial flexibility can enhance a firm's competitive position. Financial flexibility can be seen as a mechanism that enables firms to allocate resources effectively and prevent managerial opportunism, thereby reducing costs and enhancing financial performance.

The finding that financial flexibility has a significant positive relationship with both financial and non-financial performance in Iraq suggests that firm managers in Iraq should maintain a strong financial position to facilitate strategic investments in growth opportunities, new technologies, or acquisitions. This can enhance market share, diversify revenue streams, and improve long-term profitability. Financial flexibility can help firms weather economic downturns, industry fluctuations, or unexpected challenges. By having access to sufficient financial resources, firms managers can mitigate risks, avoid financial distress, and maintain operational continuity. Effective debt management is crucial for financial flexibility. Firm managers in Iraq should carefully manage their debt levels, diversify their funding sources, and maintain a healthy debt-to-equity ratio. This can reduce financial risk and improve the firm's creditworthiness. Financial flexibility can support investments in research and development, enabling firms to innovate and develop new products or services. This can enhance competitiveness and long-term growth. Financial flexibility can also be used to invest in employee development, training, and compensation programs. This can improve employee morale, engagement, and productivity, ultimately leading to better financial performance. Financial flexibility can enable firms to invest in corporate social responsibility initiatives, such as environmental sustainability, community development, and ethical practices. This can enhance the firm's reputation, attract and retain talent, and contribute to a positive societal impact.

## 7. FUTURE RESEARCH

Future studies should extend the study framework to include more flexibility factors, such as strategic flexibility and coordinating flexibility. Other factors may also have a strong impact on a firm's performance in terms of financial and non-financial performance. A qualitative method using interviews with respondents would provide deeper insights into factors that impact a firm's performance in terms of financial and non-financial performance. Without being constrained by the questionnaire's questions and responses, respondents may be able to express their opinions and perceptions. This research was grounded in the DRBV theory. Other theories, such as dynamic capabilities, contingency theory, and institutional theory, can be considered in future research to provide a more comprehensive view of determinants of a firm's performance that relate to firm characteristics in Iraq.

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