

The Impact of Financial Management on Improving the Financial Efficiency of Iraqi Islamic Banks in the Face of Oil Price Fluctuations

(An Applied Study of a Sample of Iraqi Islamic Banks)

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Abstract

The aim of this study was to study the impact of financial management on enhancing the financial efficiency of a sample of 10 major Iraqi Islamic banks, such as the Iraqi Islamic Bank for Investment and Development, the Kurdistan International Islamic Bank, and the Elaph Islamic Bank, in the face of oil price fluctuations that dominate the Iraqi rentier economy by up to 90% of government revenues. The take a look at adopts a quantitative-analytical methodology, based on a questionnaire disbursed among a hundred and fifty banking employees (executives, department heads, and employees), with stability coefficients Cronbach outscored 0.88 for all axes, and statistical evaluation via SPSS v.28.

Descriptive statistics showed high positive averages of financial management (3.91) and financial efficiency (3.83), versus an average

negative average of the impact of oil fluctuations (3.56), with a strong direct correlation between financial management and efficiency ($r=0.748^{**}$). Multiple regression evaluation discovered that economic management had a high-quality impact of seventy-one.2% ($\beta=zero.712$, $p<zero.001$), at the same time as oil fluctuations decreased performance by using 45.6% ($\beta=-0.456$), with the model explaining 63.8% of the variance ($R^2=0.638$). The sub-dimensions highlighted risk control as the strongest factor ($\beta=0.298$), observed by using strategic planning, confirming its hedging role against oil shocks, especially in huge banks compared to smaller ones.

The recommendations suggest strengthening the regulatory framework by the Central Bank of Iraq by mandating strategic plans and oil scenarios, establishing a Financial Stability Fund, and developing Islamic liquidity instruments such as sukuk, and recommending that banks diversify portfolios towards non-oil sectors (30%), invest in predictive ERP systems, and build specialized human capacity, with longitudinal and comparative future studies. The conclusion emphasizes that good financial management is the pillar of banking stability in light of Iraq's economic fragility.

Keywords: Financial Management, Financial Efficiency, Iraqi Islamic Banks, Oil Price Fluctuations, Risk Management.

Introduction

The global banking sector is undergoing radical transformations in financial management approaches, driven by increasing economic complexity and accelerating changes in operational environments. In this context, modern financial management is emerging as an integrated system that goes beyond the traditional functions of accounting and financial recording to include strategic planning, risk management, and optimal investment decision-making (Brigham & Ehrhardt, 2020). Effective monetary management, along with balanced capital policies, bendy financing techniques and sturdy internal control mechanisms, is the backbone of the capability of financial establishments to attain balance and sustainable increase.

In the context of the Iraqi economy, the issue of financial management is of paramount importance due to its structural specificity. As one of the leading oil-rentier economies, Iraq is almost entirely dependent on oil revenues, which account for about 90% of the government's general revenues and more than 60% of GDP (Taha, 2025). This over-dependence creates a risky economic environment, wherein sharp fluctuations in worldwide oil fees cause substantial disruptions in public liquidity, without delay affecting the banking region. Government deposits, which can be the principle source of economic assets in Iraqi banks, range sharply as they're suffering from oil revenues, producing cascading monetary shocks that test the

resilience and resilience of banking institutions (Kazem et al., 2026).

Iraqi Islamic banks are particularly important in this landscape, as they represent an alternative financial model that relies on profit and loss sharing rather than fixed interest, imposing more complex financial administrative requirements on them. These banks are required to balance Shari'a obligations with the requirements of financial efficiency, in a fragile and unstable economic environment. Recent developments, especially with the sharp fluctuations in oil prices during the COVID-19 pandemic and the subsequent geopolitical crises, have shown that banks with solid financial management structures have been able to of overcoming shocks with less damage, while banks with traditional management practices suffered heavy losses (Tamimi, 2020).

problem

Iraqi Islamic banks face deep structural challenges related to the effectiveness of their financial management systems in dealing with the volatile economic environment. Despite the remarkable quantitative growth witnessed by the Islamic banking sector in Iraq over the past decade, there is a clear lack of development of financial management capabilities to keep pace with this growth. The problem is manifested in several main axes:

First: Weak financial risk management mechanisms. Many Iraqi Islamic banks lack sophisticated systems for measuring and managing risk, especially market risks arising from oil price fluctuations. The total reliance on oil revenues makes banks' investment portfolios liable to unexpected liquidity shocks, with studies showing that a ten% change in oil charges is associated with a 6-8% movement in banking overall performance indicators (Kazem et al., 2026). Without powerful monetary control to hedge against those risks, banks continue to be on the protective.

Second: Limited diversification of sources of financing and investment. Financial management practices in most Iraqi Islamic banks are limited to traditional formulas such as Murabaha and Ijara, without moving towards innovative financing strategies that reduce interdependence with the oil sector. This limitation limits the ability to build balanced investment portfolios capable of absorbing oil shocks (Al-Zubaidi, 2025).

Third: Lack of integration between Shari'a objectives and financial efficiency. Many banks lack a financial management framework that strikes a balance between Shari'a compliance with international financial standards of efficiency. Islamic financial management, including the prohibition of usury, facilitation, and gharar, requires analytical tools and special decision models that may not be adequately

available in Iraqi banks (Mohammed, 2021).

Fourth: Weakness of the financial information infrastructure. The sector suffers from a lack of integrated financial information systems that enable departments to make decisions based on accurate data and predictive analytics, which weakens the ability to be proactive in the face of economic fluctuations.

main question

In light of the above, the main research question can be formulated as follows:

To what extent can sophisticated financial management improve the financial efficiency of Iraqi Islamic banks and enhance their ability to cope with oil price fluctuations?

The importance and objectives of the study

Theoretical Significance

This study contributes to the enrichment of the academic literature in the field of Islamic financial management, an emerging field of research that needs further applied studies in developing countries. The study provides an integrated theoretical framework that links modern financial management concepts with the Shari'a specificities of Islamic banks, opening new horizons for research in the field of the integration between financial efficiency and Shari'a compliance (Rodriguez-Anton et al., It also fills a knowledge gap in the Arabic

literature on the impact of financial management on rentier economies, as previous studies are limited to Western or Asian contexts.

Practical Importance

At the level of Islamic banks: The study provides an operational model for improving financial management practices, by identifying areas that require urgent development such as risk management and portfolio diversification.

At the level of the Central Bank of Iraq: The study provides policy recommendations to support the stability of the banking sector, by establishing mandatory standards for financial management in Islamic banks, and developing a regulatory framework to manage the risks of oil price fluctuations.

At the level of the Iraqi economy: The study contributes to economic diversification efforts by enabling the banking sector to perform its financing role more effectively, away from the circular link to the oil sector (Taha, 2025).

Research Objectives

1. **Analyze the current reality of financial efficiency in Iraqi Islamic banks** and identify the strengths and weaknesses of current financial management practices.
2. **Measuring the degree of sensitivity of Islamic banks to oil price fluctuations** and identifying the mechanisms through

which these fluctuations affect financial indicators.

3. **Assess the readiness of Iraqi Islamic banks to adopt advanced financial management practices** including risk management, strategic financial planning, and capital management.
4. **Measuring the statistical impact of financial management on financial efficiency indicators** (return on assets, return on equity, liquidity ratio, asset turnover rate) in light of oil price fluctuations.
5. **Propose practical strategies** to build financial management capacities that enable Islamic banks to build financial resilience that ensures business continuity during oil crises.

Theoretical Framework and Previous Studies

The Theoretical Concept of Financial Management

Financial management is defined as the process of planning, organizing, controlling, and directing an organization's financial resources, with the aim of maximizing shareholder value while maintaining acceptable levels of risk (Brigham & Ehrhardt, 2020). This goes beyond the traditional function of accounting to include strategic investment, financing and distribution decisions.

Historical Development of Financial Management

Financial management went through multiple developmental stages, starting with a focus on accounting and documentation in the early twentieth century, and then moving to a focus on working capital and liquidity management in the 1950s. In the 1970s, the importance of financial risk management emerged with the increasing fluctuations in exchange rates and interest rates, and in recent decades it reached the stage of strategic financial management that integrates financial objectives with the competitive strategy of the organization (Keown et al., 2019).

Dimensions of Financial Management in Islamic Banks

Financial management in Islamic banks acquires additional dimensions arising from compliance with the provisions of Islamic Sharia. It requires:

First: Shariah Risk Management: These are the risks arising from non-compliance with Shariah provisions in financial transactions, which necessitates the existence of internal Shariah supervisory bodies and careful monitoring systems (Archer & Karim, 2020).

Second: Managing the cost of interest-free deposits: Islamic banks rely on investment deposits that share in profits and losses, which requires sophisticated pricing models to determine fair participation rates.

Third: Liquidity Management in the Absence of Traditional Money Market Instruments: Riba prohibits the use of many liquidity management tools available to conventional banks, which necessitates the creation of alternative Islamic instruments such as Sukuk and Muraba (Iqbal & Mirakhor, 2020).

Concept of Financial Efficiency

Financial efficiency is the ability of a financial institution to maximize the possible return from its available resources while minimizing costs and risks (Al-Attoum, 2022). Financial efficiency is measured through a set of indicators that reflect performance in the areas of profitability, liquidity, activity, and solvency.

Key Financial Efficiency Indicators

1. Profitability Indicators:

- **Return on Assets (ROA):** Measures the efficiency of management in using a bank's assets to generate profits, and is calculated by dividing the net profit by the total assets.
- **Return on Equity (ROE):** It measures the return that shareholders make on their investments, and is calculated by dividing the net profit by equity.
- **Net Profit Margin:** Measures the percentage of profits to total revenue.

2. Liquidity Indicators:

- **Quick Ratio:** Events the ability to pay short-term legal responsibility without depend on on inventory.
- **Loan to Deposit Ratio (LDR):** Events the extent to which a bank uses credits for funding, where high ratios may indicate liquidness risk.
- **Standard deviation of daily returns:** to drive the degree of dispersion around the mean.
- **ARCH/GARCH model:** To predict future volatility based on historical data.
- **Oil VIX Index (OVX):** which measures the outlook for crude oil price fluctuations.

3. Activity Indicators:

- **Asset Turnover:** Actions the competence of using assets to make revenue.
- **Working Capital Turnover:** Events the competence of the use of at work assets in operational procedures.

4. Solvency Indicators:

- **Debt to Equity Ratio:** Measures the grade of dependence on distant finance versus self-financing.
- **Times Interest Earned:** Measures the ability to pay interest obligations from operating profits.

Volatility in oil prices and the banking sector

nature of oil price fluctuations

Oil price volatility is the rapid and unpredictable changes in crude oil prices in global markets, which are reflected on the national economies of both exporting and importing countries (Kazem et al., 2026). These explosiveness are characteristically measured by means of:

Mechanisms of the impact of oil price fluctuations on the banking sector

Oil price fluctuations affect banks through multiple channels:

Direct Financial Channel: Falling oil prices lead to a decline in government revenues, reducing government deposits in banks and putting pressure on the liquidity available for financing. The study of al-Husseini et al. (2025) showed that a 20% drop in oil prices leads to a decline in government deposits in Iraqi banks by up to 15% over a short period of time.

Credit Channel: Oil crises lead to a deterioration in the quality of banking assets, as borrowers are unable to repay their obligations as a result of the economic slowdown, which raises non-performing loan rates.

Market Channel: Oil fluctuations affect the prices of financial assets and interest rates (or expected returns in Islamic banks), leading to fluctuations in the value of investment portfolios.

Psychological Channel: Negative expectations arising from the decline in

oil prices lead to bank runs as a precautionary reaction from traders.

Financial Management as a Hedging Mechanism Against Oil Volatility

Financial Risk Management

Financial risk management is the key pillar of banks' ability to cope with oil price fluctuations. These include:

- **Liquidity risk management:** Building adequate and diversified liquidity stocks, and developing contingency liquidity plans.
- **Market risk management:** Use legitimate hedging tools to reduce exposure to price fluctuations.
- **Credit risk management:** Applying strict credit standards that take into account the association with the oil sector.

Strategic Financial Planning

It involves developing alternative financial scenarios based on dissimilar oil price forecasts, recognizing break-even and critical shifts, and developed flexible shock version plans.

Capital Management

These include upholding capital adequacy ratios above controlling supplies, optimizing the capital structure to ensure the ability to absorb losses, and distributing profits to maintain a solid capital base.

Previous studies and the knowledge gap

The study reviewed the theoretical and applied literature related to financial management and banking efficiency in rentier economies. In a study by Rodriguez-Anton et al. (2019), it was found that financial institutions with sophisticated financial management practices have a greater ability to cope with external shocks, with a positive relationship between the quality of financial management and financial stability indicators.

In the context of Islamic banks, the Mohammed (2021) study showed that the integration between Shari'a objectives and financial efficiency requires dedicated financial management tools, and that banks that succeeded in achieving this integration achieved superior performance during financial crises.

As for the Iraqi economy, previous studies have focused on the direct impact of oil fluctuations on the public budget (Al-Azzawi, 2023; Al-Ghanmi, 2023), with few studies that have specifically addressed the banking sector, and the scarcity of studies that have focused on the role of financial management as a hedging mechanism.

Knowledge Gap: The gap lies in the absence of applied studies focusing on financial management in Iraqi Islamic banks, and the lack of an integrated theoretical framework linking financial management practices with the ability to cope with oil price fluctuations in rentier economies.

Research Methodology

The Scientific Method of the Study

The study adopted the descriptive-analytical approach in the study of the financial phenomena and realities of Iraqi Islamic banks, through the analysis of available secondary data and collected field data. The inductive method was also used to benefit from international experiences in the field of advanced financial management in Islamic banks. In testing the hypotheses, the quantitative-analytical method was adopted using advanced statistical tools.

Research Sample and Society

Statistical Society: It consists of all 20 Islamic banks licensed by the Central Bank of Iraq (12 specialized Islamic banks and 8 commercial banks with Islamic windows).

Study Sample: A random stratified sample of 10 Islamic banks, representing 70% of the total assets of the Islamic banking sector in Iraq, was selected, namely:

1. Iraqi Islamic Bank for Investment and Development
2. Kurdistan International Islamic Bank
3. Dijlah and Euphrates Bank for Development and Investment
4. Elaph Islamic Bank
5. National Islamic Bank

6. Al, Arabiya Islamic Bank
7. International Islamic Bank
8. Noor Iraq Islamic Bank
9. Zain Iraq Islamic Bank
10. Islamic Holding Bank

Human sample size: The study included 150 respondents distributed as follows:

- 15 executives (10%)
- 45 Head of Department (30%)
- 90 Banking Employees in Financial and Credit Units (60%)

Measurement Tool and Development

A 25-paragraph questionnaire was designed on three main themes:

- **The first theme: Financial management** (10 paragraphs) includes risk management, financial planning, capital management, and liquidity management.
- **The second theme: Financial efficiency** (10 paragraphs) including indicators of profitability, liquidity, and activity.
- **The third theme: Oil price fluctuations** (5 paragraphs) measure the degree of vulnerability to oil fluctuations.

Use a five-point Likert scale (1=disagree, 5=totally agree).

Test of Consistency and Honesty

Table 1: Cronbach's Alpha Coefficients

Axis	Number of paragraphs	Alpha coefficient	Evaluation
Financial Management	10	0.894	Excellent.
Financial Efficiency	10	0.881	Excellent.
Oil Price Fluctuations	5	0.913	Excellent.
Survey as a whole	25	0.926	Excellent.

Source: Prepared by the researcher based on the statistical software SPSS v.28.

Table Explanation: Table (1) shows the stability coefficients of the questionnaire dimensions using Cronbach's Alpha coefficient, which measures the internal consistency of the instrument. All values are above 0.80, which classifies them as "excellent" according to the (Vy & Tam, 2020) criteria. The first axis, "Financial Management", achieved $\alpha=0.894$, which indicates high stability in measuring financial management practices. The "Financial Efficiency" axis achieved $\alpha=0.881$, while the "Oil Price Fluctuations" axis achieved the highest stability value ($\alpha=0.913$) due to its focus on a specific phenomenon. The overall stability coefficient of the questionnaire was 0.926, which confirms the high reliability of the tool and its suitability for use in the study.

Honesty Test: Face Validity was verified by presenting the questionnaire to 7 professors specialized in financial management and Islamic banking, and Construct Validity was reviewed using Factor Analysis, where the results showed

factor loadings higher than 0.60 for all paragraphs.

Variables and Statistical Model

Dependent Variable: **Financial efficiency** (Y) is measured by a composite index that combines ROA, ROE, liquidity ratio, and asset turnover.

Independent Variables:

- X₁: Financial Management (a composite index that includes risk management, planning, capital management)
- X₂: Oil Price Volatility (Relative Change in Brent Crude Prices)
- X₃: Bank size (natural logarithm of total assets)

Statistical Model:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

where:

- Y: Financial Efficiency
- β_0 : Hard
- $\beta_1, \beta_2, \beta_3$: Regression coefficients
- ε : Random Error

Statistical Analysis and Results

Table 2: Frequencies and Percentages of Demographic Characteristics

Sample Demographics

Variable	Category	Repetition	Percentage %
Gender	Male	105	70.0
	Female	45	30.0
Age	25-35 years	48	32.0
	36-45 years	67	44.7
	46-55 years	28	18.7
	Over 55 years old	7	4.6

Educational Qualification	Bachelor	72	48.0
	Master	58	38.7
	PhD	20	13.3
Banking Experience	5-10 Years	55	36.7

	11-15 years	62	41.3
	More than 15 years	33	22.0

Job position	Executive Director	15	10.0
	Head of Department	45	30.0
	Banking employee	90	60.0

Source: Prepared by the researcher based on the statistical software SPSS v.28.

Table Explanation: Table (2) shows the demographic distribution of the research sample of 150 participants. It is noted that

males constitute the largest percentage (70%), which reflects the nature of the job structure in the Iraqi banking sector. As for the distribution of age groups, it shows a clear concentration in the group (36-45 years) with 44.7%, which indicates that

the sample has medium to high professional experience. In terms of moot qualifications, holders of a bachelor's degree (48%) are mainly shadowed by master's holders (38.7%), shiny a high level of education that ensures an accurate understanding of the financial concepts obtainable in the appraisal. The Egyptian experienceis concentrated in the (11-15 years) category (41.3%), which enhances the credibility of the responses due to the long exposure to banking practices. Finally, the position distribution shows the dominance of banking employees (60%) who deal directly with day-to-day financial operations, ensuring the accuracy of the data process.

Descriptive statistics of research variables

Table 3: Arithmetic Averages and Standard Deviations of Variables

Variable	Arithmetic mean	Standard deviation	Orientation	Grade
Financial Risk Management	3.89	0.72	Positive	Medium to High
Strategic Financial Planning	3.76	0.78	Positive	Medium to High

Capital Management	4.05	0.69	Positive	High
Liquidity Management	3.94	0.74	Positive	Medium to High
Public Financial Management	3.91	0.68	Positive	Medium to High
Return on Assets (ROA)	3.82	0.81	Positive	Medium to High
Return on Equity (ROE)	3.75	0.79	Positive	Medium to High

Liquidity Ratio	4.08	0.71	Positive	High
Asset turnover rate	3.68	0.85	Positive	Medium
Public Financial Efficiency	3.83	0.73	Positive	Medium to High
The Impact of Oil Volatility on Liquidity	3.52	0.88	Negative	Medium

The Impact of Oil Volatility on Profitability	3.48	0.91	Negative	Medium
Oil Price Fluctuations	3.56	0.87	Negative	Medium

Source: Prepared by the researcher based on the statistical software SPSS v.28.

Table Explanation: Table (3) provides a detailed picture of the levels of the main research variables. With regard to financial management, it is noted that "Capital Management" achieved the highest average (4.05) with a low standard deviation (0.69), which indicates a relative consensus among the respondents on the importance of this dimension and perhaps its better application than other dimensions. In contrast, "Strategic Financial Planning" recorded the lowest average (3.76) with a relatively high standard deviation (0.78), indicating a disparity in the degree of adoption of strategic practices among Various banks.

In terms of financial efficiency, the "Liquidity Ratio" achieved the highest

average (4.08), reflecting a high awareness of the importance of liquidity in Iraq's volatile economic environment. The "Asset Turnover Rate" recorded the lowest average (3.68) with the highest standard deviation (0.85), indicating a significant disparity in the efficiency of using assets among the sample banks.

In terms of oil price fluctuations, averages appear in the average range (3.48-3.56) with high standard deviations, reflecting a varying perception of the degree of vulnerability to oil fluctuations. Overall, the results suggest that there is room for improvement in all dimensions, with a focus on enhancing strategic planning and asset efficiency.

Correlation analysis between variables

Table 4: Pearson Correlation Matrix

Variables	1	2	3	4
1. Financial Efficiency	1.000			
2. Financial Management	0.748**	1.000		
3. Oil Price Fluctuations	-0.672**	-0.438**	1.000	
4. Size of the drain	0.601**	0.489**	-0.335**	1.000

Note: ** indicates a significance at the level of 0.01 (bilateral).

Source: Prepared by the researcher based on the statistical software SPSS v.28.

Table Explanation: Table (4) shows the Pearson correlation coefficients between the main variables. The relationship between financial management and financial efficiency shows a strong and significant direct correlation ($r=0.748$, $p<0.01$), which means that approximately 56% of the variation in financial efficiency can be explained by financial management (according to the correlation coefficient square). This strong correlation confirms the basic hypothesis that improved financial management practices are accompanied by a significant improvement in financial performance.

The relationship between oil price fluctuations and financial efficiency shows a significant inverse correlation ($r=-0.672$, $p<0.01$), confirming that oil

fluctuations are a major stress factor on financial efficiency. A moderate inverse relationship between financial management and oil volatility ($r=-0.438$) is also shown, suggesting that banks with sophisticated financial management are less affected by oil fluctuations, which supports the role of financial management as a hedging mechanism.

Finally, bank size shows a direct correlation with financial efficiency ($r=0.601$) and financial management ($r=0.489$), reflecting that large banks have greater resources to develop financial management systems.

Multiple regression analysis

Table 5: Results of Multiple Linear Regression Analysis

Variable	Labs (β)	Standard Error	T-value	Probability (p)	Interpretation
Constant	1.187	0.298	3.983	0.000	Moral
Financial Management (X_1)	0.712	0.082	8.683	0.000	Moral
Oil Price Fluctuations (X_2)	-0.456	0.071	-6.423	0.000	Moral
Bank size (X_3)	0.298	0.089	3.348	0.001	Moral

Model Summary:

- $R^2 = 0.638$ (model explains 63.8% of the variance in financial efficiency)
- Modified $R^2 = 0.631$

- $F = 158.742$ ($p < 0.000$) The model is significant in total
- Durbin-Watson = 1.867 (no positive or negative autocorrelation)

Source: Prepared by the researcher based on the statistical software SPSS v.28.

Table Explanation: Table (5) presents the results of a multiple linear regression analysis that tests the impact of financial management, oil price fluctuations, and bank size on financial efficiency. The regression coefficient of financial management ($\beta=0.712$) indicates that each increase of one unit in financial management is associated with an increase in financial efficiency by 0.712 units, assuming the stability of the other variables. This coefficient is statistically significant ($p<0.001$), which confirms the main hypothesis.

The coefficient of oil price fluctuations ($\beta=-0.456$) indicates that higher oil volatility leads to a decrease in financial efficiency, which is consistent with

theoretical expectations. A large F value (158.742) with a significance ($p<0.000$) confirms that the model as a whole has a high explanatory capacity. A modified R^2 value (0.631) means that 63.1% of the variance in financial efficiency is due to the three independent variables, while the rest is due to other factors that were not included in the model.

Testing Research Hypotheses

Table (6): Summary of hypothesis testing

Hypothesis	Statistical Testing	Conclusion	Decision
H1: There is a statistically significant positive effect of financial management on financial efficiency	$\beta = 0.712, p < 0.001, t = 8.683$	Moral	Acceptable
H2: Sophisticated financial management reduces the impact of oil price fluctuations on financial efficiency	Reaction test: $\beta = 0.385, p = 0.002$	Moral	Acceptable
H3: Financial efficiency levels vary between major and minor Islamic banks in the face of oil volatility	Test $F = 5.127, p = 0.026$	Moral	Acceptable
H4: There is a direct relationship between the degree to which financial management practices are applied and the level of financial risk	$r = -0.523, p < 0.01$	Moral	Acceptable

Source: Prepared by the researcher based on the statistical software SPSS v.28.

Table Explanation: Table (6) summarizes the results of the four hypothesis tests. **The first hypothesis**

was strongly confirmed by regression, showing that financial management improves efficiency by 71.2%, which is a significant positive effect. **The second hypothesis** was tested by introducing an interactive boundary between financial management and oil fluctuations, and the results showed that the negative impact of oil fluctuations is weakened when there is advanced financial management ($\beta=0.385$), which confirms the precautionary role.

The third hypothesis was tested using the F test for variance analysis, and showed significant differences between

Dimension	Labs β	t	p	Interpretive Impact
Financial Risk Management	0.298	4.215	0.000	high

Strategic Financial Planning	0.267	3.892	0.000	high
Capital Management	0.245	3.456	0.001	Medium to High
Liquidity Management	0.198	2.876	0.005	Medium

Source: Prepared by the researcher based on the statistical software SPSS v.28.

Table Explanation: Table (7) details the contribution of each dimension of financial management to the impact on financial efficiency. It is noted that "financial risk management" ranks first ($\beta=0.298$), which confirms that the ability to identify, measure, and manage risks is the most influential in financial efficiency in a volatile economic environment. It is followed by "strategic financial planning"

large and small banks in their response to fluctuations, as large banks have a greater ability to absorb shocks. **The fourth hypothesis** confirmed the inverse relationship between the quality of financial management and financial risk ($r=-0.523$), which means that improved financial management is accompanied by a reduction in risk.

Detailed Dimensional Analysis

Table (7): Analysis of the Sub-Dimensions of Financial Management and their Impact on Efficiency

($\beta=0.267$), highlighting the importance of the outlook and alternative scenarios.

"Capital management" came in third ($\beta=0.245$), reflecting the importance of maintaining sufficient capital reserves to absorb losses. "Liquidity management" came fourth ($\beta=0.198$) despite its importance, which may be due to the fact that Iraqi Islamic banks have traditionally paid attention to liquidity, which makes the differences between them less influential in relative efficiency.

Discussion of the results

Interpreting the results in a theoretical context

The results showed that financial management positively impacted the financial efficiency of Iraqi Islamic banks by 71.2%, a significant impact that exceeded the results recorded in similar studies in stable economic environments. In the study of Rodriguez-Anton et al. (2019), the effect was around 45-50% in European banks, suggesting that financial management is doubly important in rentier and fragile economies.

This elevated effect can be explained by several mechanisms:

First: Proactive Hedging: Advanced financial management allows banks to build buffers of liquidity and capital that are activated in the event of oil shocks. Banks with sound management systems can anticipate periods of oil downturn and shrink their portfolios before a crisis occurs, thereby reducing losses.

Second: Strategic Diversification Mechanism: Advanced control practices contribute to diversifying sources of financing and investment away from oil-associated sectors. Careful economic analyses screen funding opportunities in non-oil sectors (agriculture, industry, services) that reduce correlation with oil.

Third: Operational Efficiency Mechanism: Financial management improves the efficiency of the use of financial resources, which reduces costs

and raises profit margins, thus increasing the ability to hold profits as internal reserves.

Financial Efficiency in the Face of Oil Volatility

The results confirmed that oil price fluctuations negatively affect financial efficiency ($\beta=-0.456$), which is consistent with the findings of Kazem et al. (2026). But more importantly, the role of financial management in mitigating this negative impact is confirmed, as the interaction test showed that banks with sophisticated financial management are less affected by oil fluctuations by up to 38.5%.

This means that financial management not only affects the absolute level of efficiency, but also affects efficiency resilience in the face of shocks. This is what distinguishes the current study from previous studies that focused on direct impact without considering the role of management as a mitigating mechanism.

Differences between large and small banks

The results showed that there are significant differences between large and small banks in their ability to maintain financial efficiency during oil volatility. Large banks, thanks to their human and technical resources, are able to build more sophisticated financial management systems, giving them a competitive advantage in crises.

But the results also revealed that some specialized microbanks were able to achieve high financial efficiency despite their size, thanks to their focus on specific sectors and flexible financial management. This suggests that the size of the bank is not the only factor, but the quality of financial management is the decisive factor.

Integration between the Shari'a and Financial Dimensions

The results show that banks that have successfully integrated Shariah considerations with sophisticated financial management practices have achieved the highest levels of financial efficiency. Shariah risk management, which includes ensuring that operations are in compliance with Sharia, reduces business risk (reputational risk) and enhances customer confidence, which translates into stability in deposits and financing.

Recommendations

Policy recommendations

First: Developing the Regulatory Framework for Financial Management in Islamic Banks

The researcher recommends that the Central Bank of Iraq issue binding instructions that oblige Islamic banks to apply advanced financial management standards, including:

- It is mandatory to prepare strategic financial plans for 3-5 years with alternative scenarios for oil prices.
- Minimum capital adequacy ratios above Basel III requirements of at least 2% as a precautionary reserve.
- Mandatory establishment of independent risk management units directly linked to the governing boards.

Second: Establishment of a National Fund for Financial Stability

The researcher proposes the establishment of a fund with an initial amount of at least 5 trillion Iraqi dinars (about \$3.8 billion) financed from oil revenues in high periods, to be used to provide emergency loans to Islamic banks during oil crises, with conditions that ensure that they are used to maintain liquidity and expand credit.

Third: Supporting the Development of Islamic Liquidity Management Tools

The Central Bank should collaborate with the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) to develop Islamic liquidity management tools, such as:

- Issuance of short-term Murabaha Sukuk to the Central Bank.
- Establishment of an Islamic Interbank Market.
- Developing Shariah-compliant Islamic refinancing tools.

Recommendations at the level of Islamic banks

First: Building specialized financial administrative capacities

On Islamic banks:

- Allocate 3-5% of the annual budget for training in the areas of advanced risk management and financial analysis.
- Attracting financial competencies specialized in crisis management and financial scenarios.
- Establish financial research and development units to study market behaviors and oil price forecasts.

Second: Developing Integrated Financial Information Systems

Investing in specialized ERP systems for Islamic banks includes:

- Predictive Analytics of Oil Price Fluctuations.
- Real-time Risk Management Systems.
- Simulation tools for financial scenarios (Monte Carlo Simulation).

Third: Diversification of Investment Portfolios

Reduce the focus on the oil sector by:

- Allocating 30% of the financing portfolio to non-oil sectors (agriculture, manufacturing, technology).
- Developing innovative financing products for small and medium-sized enterprises that are less sensitive to oil.

- Establishment of specialized Islamic investment funds in recession-resistant sectors.

Fourth: Strengthening Financial Governance

- A clear separation between executive and supervisory management.
- Establish strong independent internal review committees.
- Full Disclosure Standards in accordance with AAOIFI standards.

Recommendations at the level of scientific research

First: Longitudinal Studies

The researcher recommends conducting studies spanning 10-15 years to track the impact of financial management on the resilience of Islamic banks across full cycles of oil volatility.

Second: Comparative Studies

Conducting comparative studies between Iraqi Islamic banks and their counterparts in other rentier countries (Saudi Arabia, Kuwait, UAE) to derive best practices.

Third: Qualitative Studies

Interview CFOs to understand the practical challenges of applying sophisticated financial management practices in the Iraqi environment.

Fourth: Development of Mathematical Models

Build specialized mathematical models to measure the risk of oil fluctuations in Islamic banks, taking into account the Shari'a specificities of Islamic contracts.

Conclusion

This study confirms that financial management is the main pillar of the ability of Iraqi Islamic banks to achieve financial efficiency and cope with oil price fluctuations. In a rentier and fragile economic environment, it is not enough to rely on volatile oil revenues, but it is necessary to build sophisticated financial management capacities that enable banks to hedge against shocks and take advantage of opportunities.

The results showed that financial management has a significant positive impact on financial efficiency (71.2%), and that it plays a precautionary role in mitigating the effects of oil fluctuations. It also revealed differences in capabilities between banks, confirming that managerial quality is more of a decisive factor than volume.

The challenge ahead is to translate these theoretical findings into practical practice, with the support of the Central Bank, the concerted efforts of banks, and human capacity building. Financial stability in Iraq, with continued dependence on oil, requires strong and efficient Islamic banks, and this can only be achieved through prudent and informed financial management.

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