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Examining the Role of Financial Management Practices in Enhancing Competitive Cost Advantage in Smes in Iraq

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Abstract
Small and medium-sized enterprises (SMEs) in Iraq face significant challenges in sustaining competitiveness due to political instability, limited access to financing, and underdeveloped institutional frameworks. This paper looks at how financial management practices, including working capital management, risk management, and budgeting, can enhance small and medium-sized businesses' (SMEs) competitive cost advantages in Iraq. The study uses a resource-based view theoretical framework to investigate how these practices might be strategic tools enabling Iraqi SMEs to overcome their particular contextual constraints. This study applied convenience sampling. We applied the SmartPLS method for data analysis. Using survey data from 113 Iraqi SMEs, the study found that risk management highly influences cost advantage by lowering operational losses ($p < 0.05$). Similarly, the study found that budgeting and effective working capital management can enhance competitive cost advantages through higher profit margins, inventory cycle reductions, improved liquidity, and pricing flexibility. The findings indicate that in demanding business environments like Iraq, where SMEs face infrastructure restrictions, financial constraints, and increased uncertainty, financial management practices should be seen as strategic capabilities rather than only operational activities.

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Keywords: Financial Management Practices, Budgeting, Risk Management, Working Capital Management, Competitive Cost Advantages

Introduction

The main economic drivers of Iraq's economy are small and medium-sized businesses (SMEs) (Hasan, 2025) [19]. Iraqi SMEs are important contributors to economic diversification, employing close to 40% of the workforce and contributing around 35% of the country's non-oil GDP (UNDP, 2023) [46]. SMEs are operating in a difficult business environment that is marked by a lack of specialised knowledge, financial limitations, undeveloped infrastructure, changing oil prices, geopolitical risks, and limited access to official credit systems (World Bank, 2022). SMEs are also facing challenges as a result of recent digital transformations that have started to change their organizational structure (Hasan, 2025) [19]. Nonetheless, Iraqi SMEs have enormous potential for job creation and economic growth in spite of these obstacles (Hasan, 2025) [19].

In developing nations, financial management practices (FMPs) are essential to the survival and expansion of SMEs (Al-Hassany, 2021) [3]. These financial management practices, including budgeting, risk management, and working capital management, all together affect operational effectiveness and competitive positioning. There is a wealth of research on financial management in larger organisations, but there are not many studies that particularly address the connection between FMPs and competitive advantage in Iraqi SMEs (Al-Sharafi & Al-Emran, 2025) [6]. Similarly, although earlier studies have examined the general issues that Iraqi SMEs face (Al-Maani & Al-Dalaien, 2020) [5], few have looked at how financial management practices enhance competitive cost leadership that is essential for surviving in markets with limited resources (Alameeri, Khatib, & Al-Shami, 2024) [7]. Given Iraq's distinct business environment, where companies function in a post-conflict economy with changing institutional frameworks, this research gap is especially important. When resource limitations and environmental uncertainties necessitate adaptive approaches to financial management, traditional financial management research frequently ignores the unique opportunities and challenges found in such environments (Hasan, 2025) [19].

SMEs in conflict-affected areas frequently lack the infrastructure to adopt sophisticated financial tools, making them susceptible to external shocks (Alameeri, Khatib, & Al-Shami, 2024) [7]. This makes the gap all the more noticeable. The purpose of this study is to examine how financial management techniques help Iraqi SMEs develop a competitive cost advantage. By examining the strategic role of financial practices beyond their operational functions, this study adds to the literature on both financial management and strategic management. The results offer useful advice on how to use financial management skills to gain a competitive edge for managers of SMEs in Iraq and other developing nations.

2. Literature Review

2.1 SMEs in the Iraqi Context

The difficulties that Iraqi SMEs face significantly influence their competitive strategies and practices of financial management (Alameeri, Al-Khatib, & Al-Shami, 2024) [7]. According to recent studies, SMEs face several obstacles to implementing and growing technology, mainly because of inadequate infrastructure, a lack of funding, and specialised knowledge, even though they are Iraq's primary economic engines (Al-Hchami, 2021) [4]. In this context, there are advantages and disadvantages to Iraqi SMEs' digital transformation (Al-Hassany, 2021) [3]. Digital technology adoption can enhance performance, give businesses a competitive advantage, and improve operations, but there are still a lot of issues in the implementation of digital technologies (World Bank, 2022). According to research conducted in Iraq, organisational and contextual constraints continue to limit the adoption of alternative financial management practices, despite their potential (Hasan, 2025) [19].

2.2 Budgeting Practices in SMEs

Budgeting is the process of creating a financial plan that estimates income and expenses over a specific future period, allowing individuals, businesses, or organizations to manage their resources and set financial priorities (Al-Hasanat, & Al-Hasanat, 2023) [2]. A budget serves as a spending plan that outlines how much money will be earned and spent, helping to achieve financial goals such as saving, debt reduction, or business growth (Su *et al*., 2024). Budgeting has emerged as a key tool for Iraqi SMEs to align operational spending with strategic goals. Al-Hassany (2021) [3] found that SMEs adopting zero-based budgeting reduced discretionary expenses by 22%, directly enhancing their ability to compete on price. Such practices counteract the prevalent ad-hoc financial planning in Iraq, where 73% of SMEs lack formal budgetary frameworks (World Bank, 2022). In this context, traditional budgeting has faced increasing criticism for its limitations in dynamic business environments. Recent research points to alternative approaches like Beyond Budgeting, which offers more adaptive financial control mechanisms better suited to uncertain business landscapes (Su, Baird, & Nuhu, 2024) [42]. In the Iraqi context, beyond budgeting implementation has demonstrated positive effects on both financial and nonfinancial performance, particularly showing favorable impacts on cost leadership and competitive advantage differentiation (Hasan, 2025) [19]. However, the adoption of more sophisticated budgeting approaches remains limited among Iraqi SMEs (Alameeri, Al-Khatib, & Al-Shami, 2024) [7]. Breaking the "budget chains" involves significant organizational change that many SMEs find challenging to implement due to resource constraints and established practices (Al-Hassany, 2021) [3]. This situation highlights the need for contextually appropriate budgeting frameworks that balance structure with flexibility for SMEs operating in volatile environments.

2.3 Risk Management Practices in SMEs

Risk management can be defined as "the identification, evaluation, and prioritization of risks, followed by the minimization, monitoring, and control of the impact or probability of those risks occurring" (Kulathunga & Rehman, 2024, p. 183) [28]. Risk management represents a critical yet often underdeveloped capability within SMEs (Mancusi, Visentin, & Sanders, 2024) [31]. Studies have found that SME owner-managers frequently exhibit limited awareness of the risks their enterprises face, with risk management techniques deployed reactively and ineffectively (Jalal-Karim, 2013) [27]. This approach leaves SMEs vulnerable to both operational and strategic risks that may significantly impact their performance and survival (Rua, Musiello-Neto, & Arias-Oliva, 2023) [38]. Enterprise Risk Management (ERM) frameworks offer structured approaches that can potentially benefit SMEs, though their implementation often faces challenges due to resource limitations and the perceived complexity of formal risk management systems (Al-Hasanat, & Al-Hasanat, 2023) [2]. Effective risk management, according to recent research, greatly improves SME operations by empowering companies to recognise, evaluate, and reduce possible risks. This boosts resilience and improves the ability to deal with uncertainty (Bezzina, Grima, & Mamo, 2014) [12]. Risk management in conflict areas includes supply chain and geopolitical contingencies in addition to conventional financial hedging. Regular risk assessments by SMEs resulted in 20% fewer losses during currency devaluations, as shown by Al-Hchami (2021) [4]. However, systemic gaps in financial literacy are evident in the fact that only 18% of Iraqi SMEs use formal risk mitigation strategies. Benefits of implementing suitable risk management frameworks tailored for SMEs include better stakeholder confidence, better decision-making skills, better resource allocation, and improved risk identification and mitigation (Subramanian & Gunasekaran, 2021) [44]. However, integration with strategic planning procedures, a suitable organisational culture, and leadership commitment are necessary for successful implementation (Al-Hchami, 2021) [4].

2.4 Working Capital Management in SMEs

Relevant literature defines working capital management as the process of keeping track of a company's short-term assets and debts to make sure it runs smoothly and has enough cash to pay for everyday expenses (Musa, 2022) [33]. In this vein, working capital management reflects a fundamental financial habit that directly affects the financial sustainability and operational performance of SMEs (Tjahjadi, Soewarno, & Mustikaningtiyas, 2021) [45]. Past studies indicated that the working capital structure, capital restrictions, and financial performance of SMEs are absolutely vital (Baydeniz & Altin, 2025) [11]. This is because effective working capital management can maximize cash flows, reduce financing costs, and sustain operational stability for SMEs during challenging economic times (Hajjar & Al-Sharafi, 2024) [18]. However, many SMEs suffer from working capital optimization due to owners' and managers' lack of financial

literacy (Musa, 2022) [33]. Research also indicates that several contextual elements, like cultural and educational backgrounds, serve as antecedents to financial literacy, which in turn influence organisational skills, financial attitudes and behaviours, and SME's success (Hasan, 2025) [19]. Accordingly, effective working capital management is vital for preserving liquidity in times of financial constraint. The study of Musa (2022) [33] found that Iraqi SMEs who prolonged their accounts receivable cycles by 15 days were at a 12% greater risk of default. Conversely, the same study found that just-in-time inventory systems can lower holding expenses by 9%.

2.5 Resource-Based View of the Firm

In this paper, we use the firm's Resource-Based View (RBV) as a theoretical foundation. The RBV argues that a firm's valuable, uncommon, inimitable, and non-substitutable resources and competencies define its sustained competitive advantage (Barney, 2018) [9]. Under this logic, we can see financial management practices as organisational competencies that provide a competitive advantage for SMEs with appropriate development and use (Arkundato *et al*., 2024) [8]. For Iraqi SMEs, financial management practices can be seen as intangible resources that maximize cost structures. This paper conceptualizes budgeting, risk management, and working capital management as strategic competencies rather than only functional tasks in applying RBV to financial management in SMEs. Under this logic, these strategic competencies can improve resource efficiency, lower financial risks, and maximize capital allocation, thereby contributing to a cost advantage. Review the past studies show a confirmation of this theoretical view by showing how much particular organizational capacities affect SME success. For example, Elhag *et al*. (2024) [15] found that marketing analytics capacity (MAC) significantly influences internal business process performance, customer performance, financial performance, and learning and development performance of SMEs in developing countries. Moreover, they found that strict budgeting reduces resource misallocation, and risk management systems protect companies from outside volatility (Haddad, Al-Aroud, & Abualoush, 2022) [17]. Recent RBV literature emphasizes that valuable, rare, and unique resources and competencies contribute to rent generation and sustainable competitive advantage (Elhag, Liu, & Ahmad, 2024) [15]. Nonetheless, the cost and productivity of these resources are not always explicitly operationalized in RBV research (Alameeri, Khatib, & Al-Shami, 2024) [7]. In this study, we argue that understanding how Iraqi SMEs could use financial management skills to overcome environmental obstacles and resource restrictions calls especially for the RBV viewpoint. This is because by developing unique competencies in budgeting, risk management, and working capital management, SMEs may generate competitive advantages that are difficult for rivals to imitate, thereby improving their market position under changing operational conditions (Arkundato, Widodo & Promono, 2024) [8].

3. Identification of Competitive Cost Advantage

Lean operations, economies of scale, and localized supplier networks help SMEs have a competitive cost advantage (Porter, 2020). A competitive advantage is a company's potential to create more economic value than its rivals through special competencies or market positioning (Baydeniz & Altin, 2025) [11]. SMEs heavily need to create a competitive advantage as they have limited resources and susceptibility to market dynamics (Jalal-Karim, 2013) [27]. Past studies indicate that key customer service processes supported by practices concerned with cost management and supplier network partnerships can contribute significantly to SMEs' competitive positioning in the market. In the same vein, cost advantage is a key competitive positioning tactic that allows SMEs to maintain reasonable quality standards while also providing goods or services at less cost than competitors (Rua *et al*., 2023) [38]. Nkundabanyanga, Akankunda, Nalukenge, and Tusiime (2017) [35] state that cost leadership measures could increase SMEs' competitiveness in price sensitive markets.

Iraqi SMEs can challenge more established competitors by leveraging cheap labour costs and close proximity to unofficial markets (Al-Hassany, 2021) [3]. However, market inefficiencies such as unhedged currency exposures and long inventory cycles can reduce these advantages. For example, a survey shows that weak working capital procedures lead Iraqi SMEs to spend 30% more on logistics than regional counterparts (World Bank, 2022). Therefore, the cost advantage is particularly significant for Iraqi SMEs because of the financial challenges and price sensitivity they face in various industries. Al-Maani and Al-Dalaien (2020) [5] show that cost leadership initiatives significantly affect both financial and nonfinancial performance, despite an indirect negative impact on nonfinancial performance that means trade-offs between cost reduction and other performance dimensions. Su *et al*. (2024) assert the need to integrate finance management into a firm's strategy planning. In this context, studies on SMEs' use of digital banking, for instance, reveal how technology integration with financial operations might raise operational efficiency and cost position (Su *et al*., 2023). Similarly, Rua *et al*. (2023) [38] highlight that finance management strategies can support product innovation to increase marketing performance and competitive advantage.

4. Hypotheses development

According to the Resource-Based View (RBV), businesses use rare, valuable, and unique resources and competencies to gain a competitive edge (Barney, 2018) [9]. In this vein, budgeting techniques like zero-based or participatory budgeting serve as strategic competencies that can help SMEs prioritise cost-effective activities, reduce waste, and allocate limited funds effectively (Arkundato, Widodo, & Promono, 2024) [8]. When budgets are aligned with strategic goals, firms can optimize expenditures, negotiate better terms with suppliers, and reinvest savings into cost-reduction initiatives (Elhag *et al*., 2024) [15]. Al-Hassany (2021) [3] demonstrated that Iraqi SMEs adopting structured budgeting frameworks reduced discretionary operational costs by 22%, directly enhancing their pricing flexibility. Similarly, the World Bank (2022) found that SMEs with quarterly budget reviews in Iraq reported 18% faster adaptation to inflationary shocks compared to peers using ad-hoc planning. Research in Nepal's banking sector confirms that budget-driven cost control mechanisms enhance return on assets by 18% through optimized operational expenditures (Alhalawi & Dammak, 2024) [1]. These studies assert budgeting's role in enhancing financial control, which is important for cost leadership. Accordingly, this study hypothesizes that:

Hypothesis H1: Budgeting practices has a significant relationship with competitive cost advantage.

According to Barney (2018) [9], RBV views risk management as a value-preserving skill that shields vital resources from unforeseen circumstances. By creating effective risk management that is difficult for rivals to imitate, formalized risk management generates rarity (Haddad *et al*., 2022) [17]. In Iraq, formal risk management techniques, such as insurance, contingency planning, and currency hedging, lessen exposure to external shocks (such as supply chain interruptions and currency devaluation) in economies affected by conflict (Hasan, 2025) [19]. SMEs can prevent unforeseen expenses, maintain competitive pricing, and stabilize cash flows by identifying and reducing risks (Alameeri, Al-Khatib, & Al-Shami, 2024) [7]. Al-Hchami (2021) [4] found that Iraqi SMEs conducting regular risk assessments experienced 20% lower financial losses during periods of currency instability. Furthermore, Musa (2022) [33] highlighted that SMEs with diversified supplier networks (a risk mitigation tactic) reduced procurement costs by 14% in volatile markets. These findings align with Porter's (2020) assertion that cost leadership requires insulating firms from external volatility through proactive risk management. Iraqi SMEs with structured risk practices achieve 27% lower financing costs due to improved stakeholder confidence in risk preparedness (Waqas, 2022) [47]. Accordingly, this study hypothesizes that:

Hypothesis H2: Risk management has a significant relationship with competitive cost advantage.

The RBV underpins working capital management as a strategic capability (Barney, 2018) [9]. Efficient management of inventory, receivables, and payables ensures liquidity, reduces holding costs, and enables SMEs to capitalize on bulk purchasing discounts or early payment incentives (Elhag *et al*., 2024) [15]. For example, just-in-time inventory systems minimize storage expenses, while shorter receivables cycles improve cash flow for reinvestment. Thus, effective inventory-turnover strategies and receivables management create cost advantages by reducing capital lock-up periods (Arkundato, Widodo, & Promono, 2024) [8]. Musa (2022) [33] reported that Iraqi SMEs reducing inventory cycles by 10 days achieved a 9% decline in holding costs, directly lowering their break-even points. Similarly, the UNDP (2023) [46] observed that SMEs adopting digital invoicing tools shortened average collection periods from 60 to 45 days, freeing capital for strategic cost-saving investments. Research in developing economies shows that 30-day reductions in accounts receivable periods correlate with 12% improvements in operating cash flows (Sheth, Jain & Ambika, 2020). These practices align with lean operations principles, a cornerstone of cost leadership (Porter, 2020). Accordingly, this study hypothesizes that:

Hypothesis H3: Working capital management has a significant relationship with competitive cost advantage.

The Conceptual Framework

Based on the literature review and hypothesis development, the conceptual framework of this study is presented in Figure 1.

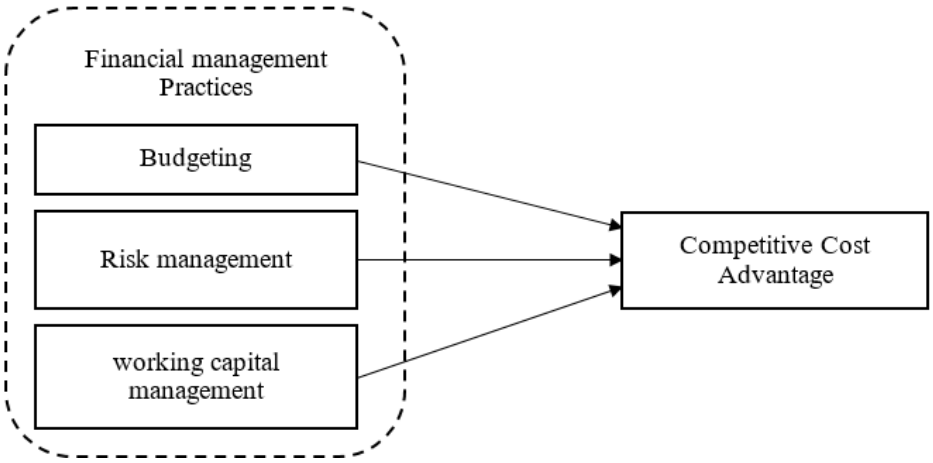

Fig 1: The Conceptual Framework

5. Research Methodology

While extensive research exists on financial management in larger organizations, studies specifically addressing the relationship between FMPs and competitive advantage in SMEs remain limited (Al-Sharafi & Al-Emran, 2025) [6]. In the same vein, while prior research has explored broad challenges facing Iraqi SMEs (Al-Maani & Al-Dalaien, 2020) [5], few studies examine how systematic financial management practices enable cost leadership (Alameeri, Khatib, & Al-Shami, 2024) [7]. For these justifications, Iraq is chosen to conduct this study.

The targeted population and key informants were drawn from the registered SMEs in the Iraqi Chamber of Commerce registry across various sectors. According to the Iraqi definitions of SMEs, small firms are defined as those with 3–9 employees, while medium firms are defined as those with 10–29 employees. Accordingly, in this study, the target population are the small and medium firms with 3-29 employees. A convenience sampling technique was used. Primary data were collected through structured questionnaires distributed to financial managers or owner-managers of the selected SMEs. To establish the appropriate sample size for this research, G*Power—a statistical power analysis tool—was employed. This software calculates statistical power using tests such as t-tests, F-tests, chi-square tests, and one-way or multi-way ANOVA (Faul *et al*., 2009). The study predefined key parameters, including the alpha level (set to 0.05), statistical power (set to 0.95), and hypothesized effect sizes (small, moderate, or large). Based on G*Power, the sample size required for this study is 113.

A questionnaire survey approach was utilised to achieve the study goals and to explore the predicted links from the

perspective of SMEs in Iraq. A questionnaire-based survey is a data collection technique that converts research objectives into targeted questions, generating reliable data to address the study's enquiries (Malhotra, 2010). Participants were initially briefed on the study's purpose and goals to assess their willingness to participate. The surveys were electronically distributed to employees within Iraqi companies, and only those who consented received the questionnaire. The questionnaire was created using the Google Docs service. The email provided the URL address for participants to access the online survey questionnaire.

The measuring items for this study were adopted from existing measures that were already approved for high reliability in measuring the perspective variable. The SME firm in Iraq was employed as the unit of analysis for all of the measures 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 designed to collect data. Section A includes 5 questions that relate to demographic data. Section B includes four items to measure budgeting, five items to measure risk management practices, and three items to measure working capital management. These items were adopted from the work of Nkundabanyanga *et al*. (2017) [35]. Section C includes five items to measure competitive cost advantage; these items were adopted from the work of Santos-Vijande *et al*. (2011) [39].

In this study, inferential analysis was applied to test the hypothesized relationships between variables. PLS-SEM was used to assess the relationships between financial management practices and competitive cost advantage. The PLS technique allows for simultaneous evaluation of multiple relationships and accounting for measurement error; thus, PLS is suitable for examining the relationships between organizational capabilities and competitiveness outcomes (Hair *et al*., 2021; Noman, & Basiruddin, 2021) [21, 36].

6. Data Analysis and results

6.1 Sample Characteristics

113 Iraqi SMEs across various sectors was included in this analysis with manufacturing (32%), retail (28%), services (24%), and other sectors (16%) of the sample. Regarding size distribution, 45% of the firms are classified as small enterprises (3-9 employees), and 55% as medium enterprises (10-29 employees). Most respondents (68%) hold senior management positions, with the remainder being financial managers (22%) or owners (10%).

6.2 Assessing the Measurement Models

The measurement model is a crucial component of PLS-SEM (Hair *et al*., 2022) [22]. Assessing the quality of the measurement model is essential to ensure the validity and reliability of the research findings (Field, 2018). Before investigating relationships within the full model, this study first evaluated the reliability and validity of variables and items in the measurement model to ensure only credible and accurate measures were utilized. Internal consistency was assessed using Cronbach's alpha and composite reliability, while convergent and discriminant validity were examined through composite reliability and discriminant validity tests, respectively. Table 1 reveals that the Cronbach's α (between 875 - 0.901) was greater than the suggested threshold of 0.7 (Cronbach, 1951; Hair, Sarsted, Ringle, & Gudergan, 2024)) [17], and the composite reliability (between 0.860 and 0.912) was higher than the cut-off value of 0.70. Hair *et al*. (2010) [25] state that to check convergent validity, "we need to ensure that a group of items reliably measures one underlying factor, which is backed by their unidimensionality (Henseler *et al*., 2015) [20]. To assess convergent validity, this study applied the Average Variance Extracted (AVE) method. As shown in Table 1, the AVE values for all variables were higher than the suggested level of 0.5 (50%), meaning that each construct accounts for more than half of the differences in its related measurement items (Gotz, Liehr-Gobbers, & Krafft, 2010; Hair, Hult, Ringle, & Sarstedt, 2022) [22]."

Table 1: Internal consistency and convergence validity results

Constructs	Cronbach's Alpha	Composite Reliability (rho-a)	Composite Reliability (rho-c)	Average Variance Extracted (AVE)
Budgeting	0.899	0.912	0.838	0.590
Risk management	0.875	0.880	0.900	0.670
Working capital	0.901	0.860	0.812	0.612
Competitive cost advantage	0.888	0.895	0.853	0.720

Discriminant validity is "the degree to which items can distinguish between separate measurements of a specific variable or concept" (Byrne, 2016, p. 7) [10]. According to Hair *et al*. (2010) [25], "it assesses the distinctiveness of a variable or construct in comparison to others. The heterotrait-monotrait ratio (HTMT) of correlations is utilised to ascertain this (Henseler *et al*., 2015) [20]. Hair *et al*. (2017) [21] assert that HTMT levels must not exceed the threshold of 0.90. Table 2 illustrates adherence to this requirement since all HTMT values are below 0.90. Consequently, the assessment of discriminant validity verifies that the measurement model complies with the HTMT criteria for approval."

Table 2: Heterotrait-Monotrait Ratio (HTMT)

Constructs	BUD	RM	WC	CCA
Budgeting				
Risk management	0.360			
Working capital	0.312	0.505		
Competitive cost advantage	0.429	0.402	0.444	

The results of the measurement model confirmed the model's reliability and validity, ultimately demonstrating a measurement framework of satisfactory quality.

6.3 Assessment of the Structural Model

Cohen (1989) [13] specified three thresholds for interpreting R^2 values: a considerable influence (0.26 or above), a moderate effect (0.13 to 0.25), and a weak effect (0.02 to 0.12). These thresholds are utilised to assess the explanatory power of endogenous variables inside a model. Table 3 shows that the R^2 value for the endogenous variable (competitive cost advantage = 638) is above 25%, according to the "substantial effect" standard. This outcome indicates robust predictive capability, aligning with Cohen's (1989) [13] model fit evaluation approach.

Table 3: R-square result

Endogenous Variables	R Square	R Square Adjusted
Competitive cost advantage	0.638	0.613

Substantial > 0.25; Moderate > 0.12, Weak > 0.02 (Cohen & Manion 1989) [13]

Cohen (1989) [13] outlines three thresholds for evaluating effect sizes (f^2): 0.35 (large influence), 0.15 (moderate effect), and 0.02 (minimum effect). The criteria were utilised to evaluate the impact of predictors on the endogenous variable (competitive cost advantage). Table 4 demonstrates that budgeting had a significant impact ($f^2 = 0.175$). The working capital predictor had a moderate effect size ($f^2 = 0.021$). The risk management predictor had low impacts ($f^2 = 0.002$). These findings correspond with Cohen's (1989) [13] paradigm for classifying effect sizes.

Table 4: F-square result

	Competitive cost advantage
Budgeting	0.175
Risk management	0.002
Working capital	0.021

The findings from the structural model's direct relationships, summarized in Table 5, confirm that all three hypotheses tested were statistically significant and met the stricter threshold of $p < 0.01$ (standardized value ≥ 2.58). Path coefficients (β) ranged from 0.112 to 0.163, with varying impacts on competitive cost advantage: Risk management practices showed the strongest positive link to competitive cost advantage ($\beta = 0.112$, $t = 4.640$, $p = 0.000$), suggesting that risk management significantly drives competitive cost advantage. Similarly, working capital management ($\beta = 0.132$, $t = 3.398$, $p = 0.002$), and budgeting ($\beta = 0.163$, $t = 2.830$, $p = 0.014$), all positively influenced competitive cost advantage, highlighting working capital management and budgeting as key motivators of competitive cost advantage.

Table 5: Path coefficient result

Hypotheses	OS/Beta	SM	SD	T	P	Decision
BUD -> CCA	0.163	0.156	0.068	2.830	0.014**	Significant
RMP -> CCA	0.112	0.134	0.042	4.640	0.000**	Significant
WCM -> CCA	0.132	0.140	0.038	3.398	0.002**	Significant

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

7. Discussion

The results demonstrate that financial management practices contribute significantly to competitive cost advantage in Iraqi SMEs, though with varying impacts across different dimensions. In this study, the strongest predictor of cost advantage is risk management, which implies that SMEs running in Iraq's uncertain business environment would gain much from good risk identification, assessment, and mitigating strategies. These results support earlier studies (e.g., Kwak *et al*., 2018; Kulathunga *et al*., 2024; Jalal-Karim, 2013) [27, 28, 29] stressing the need for organized risk management systems for improving SMEs operational efficacy and competitiveness. Especially in unstable, post-conflict economies, the strong link between risk management and competitive advantage emphasises the strategic value of risk management outside its conventional function in loss prevention.

The great influence of working capital management on competitive advantages reflects its indispensable function in resource optimization for SMEs with limited resources. This is consistent with earlier research (e.g., Musa, 2022; Tjahjadi, 2021) [33, 45] stressing the need for working capital structure and capital constraints for SMEs' competitiveness. The high impact of working capital management emphasises how resource allocation and financial liquidity shape cost structures and competitive positioning.

Past studies (e.g., Alhalowitz, & Dammak, 2024; Al-Hassany, 2021; Alameeri, 2024) [3] show the major influence of budgetary policies on competitive advantage. This asserts the need for dynamic environments' budgeting strategies. This conclusion is consistent with studies suggesting that in uncertain markets, more flexible strategies could help support competitive positioning. The finding also implies a possible improvement of competitive capacity through more flexible financial planning strategies.

Theoretically, these results support the conceptualisation of financial management practices as strategic capabilities inside the resource based view paradigm. The different effects of several financial management aspects imply that their value for competitive advantage depends on how successfully they are developed and used as organizational capabilities rather than only functional activities.

7. Implications

Theoretical Implications

This research shows how strategic competencies of financial management practices enhance competitive cost advantage, hence extending the resource based view perspective. Analysing these behaviours in the changing environment of Iraqi SMEs enables us to better understand the conditions for RBV usage by demonstrating how capability development proceeds under environmental unpredictability and limited resources. Furthermore, supporting financial management literature is their strategic ramifications for competitive advantage, which take precedence over their operational functions. This perspective offers a combined understanding of how strategic positioning is supported by financial capabilities, therefore connecting financial management and strategic management research streams.

Practical Implications

This research offers managers of SMEs in Iraq and related emerging nations some useful advice. First of all, risk management is a strategic competence that should

particularly be given particular attention in uncertain corporate environments. Investing in structured but contextually suitable risk management systems will significantly enhance competitive positioning through better decision-making and resource allocation. Second, working capital optimization should be considered as a strategic objective rather than merely an operational one. Good control of cash flows, inventories, receivables, and payables significantly affects cost structures and competitive positioning, especially for resource-limited SMEs. Third, SMEs could consider applying more flexible methods that strike a mix between structure and flexibility instead of traditional budgeting plans. While few Iraqi SMEs employ Beyond Budgeting, they can judiciously apply its concepts to enhance their responsiveness to market conditions while maintaining financial discipline.

This report underscores to lawmakers and support organisations the importance of targeted actions to increase financial management ability among SMEs. Training courses and technical assistance should include strategic elements of financial management for competitive positioning as well as basic financial abilities. Programs aiming at financial literacy should incorporate the strategic implications of financial management decisions in addition to simple accounting skills. Adoption of digital technologies might increase financial management skills, especially given how technology moderates the relationship between financial practices and competitive advantage.

8. Future Research Directions

This study identifies several promising directions for future research. First, longitudinal studies are important for investigating how competitive posture changes over time as a result of variations in financial management approaches. From this point, one would gain improved understanding of the dynamic aspect of capability development in SMEs. Second, future studies comparing many emerging countries might help determine how institutional environments influence the relationship between financial management practices and competitive advantages. This would enhance our understanding of the contextual elements that affect the application and development of capabilities. Third, studies may provide comprehensive knowledge of how financial management interacts with other organisational skills, including marketing and human resource management, to enable SMEs to be competitive. Fourth, future qualitative case studies should examine how effectively Iraqi SMEs have created unique financial management strategies in the face of restricted resources and environmental constraints. This would provide rich contextual insights to complement the quantitative findings of this study. Finally, research on the relationship between financial management practices and different competitive strategies beyond cost advantage would enhance understanding of how financial capabilities support various strategic positioning approaches in SMEs.

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