

The Impact of Financial Crisis and ISIS on the Performance of Telecommunication Companies in Iraq

**“An empirical analysis of Asia and Zain Companies for the period
of (2010-2018)”**

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Abstract:

Communication plays a vital role in the human life activity. Use of various means of telecommunication now becomes an integrated part of society. **Objective;** the main objective of this study is to evaluate and analyse the impact of Financial Crisis and ISIS on the profitability of Asia and Zain companies. **Method and Sample;** to achieve this objective, statistical tools and economic analysis were applied by using annual financial statements of both companies for the period of (2010-2016 / 2010-2018). **Result;** study result shows a large fluctuation in the annual financial statements for both of the companies, and the level of performance was not stable from time to time. **Finding;** there is a strong and negative correlation between (financial crisis, ISIS) and (Asia, Zain) Co.'s profitability. Both companies have a negatives coefficient with different results. Beside this; ISIS left a negative influence on Zain by 86% on its profitability but compared to Asia cell is much smaller. Because, Zain operate in eight different countries and its market is much wider than Asia cell which operates only in Iraq. **Contribution of the study;** to the best knowledge of researchers, there is no current literature on this type of research. Furthermore; empirical results of the study found out how much is the effect of financial crisis and ISIS on Asia and Zain profitability, by applying data for the period of (2010-2016 / 2010-2018). **Recommendation;** This study's recommendation is to diversify the companies source by diversifying the market sources and providing new services to attracting new customers.

Keywords: Financial Crisis, ISIS, Profitability, Asia Company, Zain Company, Generalized Linear Model.

1. Introduction

Due to the introduction of new and advanced technology, the world became a global village and new innovation in technology makes that possible. The use of developed technology in communication makes investment not only in real market easier, but also in financial market more achievable. Wallsten (2001) stated in his paper under the name of: An econometric analysis of telecom competition, privatization, regulation in Africa and Latin America “Telecommunication markets in developing countries have been undergoing dramatic reforms since 1980s.” So, in order to become a part of that global village and reach the developed countries, developing countries try to maintain and develop their technology.

In that point of view and after the liberation of Iraq in 2003 by the US, Iraqi economy has been stepped forward by investing in various sectors beside oil and gas. Investment in telecommunication sector became one of the vital areas for private investors who seek to raise their capital. Asia cell, Zain and Korek are the major companies that covered Iraqi telecommunication system for a decade. For the purpose of the study the first two companies (Asia cell and Zain) have been taken, which represent two-thirds of Iraq occupation. The companies’ annual reports and their announced data in Baghdad stock exchange are used as a secondary data.

Since 2003 and after the liberation, Iraq went through many troubles and difficulties among the different political parties, which led to discourage national and foreign investors in many sectors as they found that the risk is much higher than their potential return. This circumstance became more obvious when the Islamic State in Iraq and Syria (ISIS) has occupied the north east of Iraq and part of Syria. Therefore, it is interesting to investigate how these companies performed financially before ISIS and when it came especially in term of profitability.

Background of the case study

First: Asia cell Telecommunication Company in Iraq

Asia cell, as it has been founded in 1999, is a leading provider of quality mobile telecommunications and data services in Iraq with a subscriber base of nearly 13 million customers as of 2018. It was the first mobile telecommunications provider in Iraq to achieve nationwide coverage, offering its services across all of Iraq’s 19 governorates including the national capital Baghdad and all other major Iraqi cities. Its network covers 99.06% of the Iraqi population which makes its national coverage the widest among the mobile operators in Iraq.

On 26th February 2017 at the Mobile World Congress, Barcelona, Spain, the GSMA announced that Asia cell is the winner of the GSMA’s “Outstanding Contribution to the Mobile Industry Award” for 2017.

Asia cell and other honourees were recognized for their work in supporting millions of Syrian refugees who have been displaced by the conflict in their home country. Recently in 2017, the largest Telecom and internet provider, and international Wikimedia Foundation announced to launch “Wikipedia Zero” service to 12 million Iraqis through Asia cell network. The new service jzsb.univsul.edu.iq

will enable 12 million Iraqi subscribers to have free access to Wikipedia without the need to purchase data quotas so as to access the contents of the largest world encyclopaedia and edit them. ASIACELL(2018) <https://www.asiacell.com/index.html>

Second: Zian Telecommunication Company in Middle East

Zain is the pioneer of mobile telecommunications in the Middle East. It began life in 1983 in Kuwait as the region’s first mobile operator, and since the initiation of expansion strategy in 2003, Company have expanded rapidly. Company was valued at over \$2.3 billion by the Brand Finance Middle East Top 50 Brands annual report for 2017 that also ranked Zain as the second most powerful home-grown brand in the region with a brand rating of AA+. Today, Company are a leading mobile and data services operator with a commercial footprint in 8 Middle Eastern and Africa countries with a workforce of over 6,200 providing a comprehensive range of mobile voice and data services to over 47.4 million active individual and business customers as of June 30, 2018. Company operate as Zain in Kuwait, Bahrain, Iraq, Jordan, Saudi Arabia, Sudan, and South Sudan; and in Lebanon as touch (under a management contract). In Morocco, Zain has a 15.5% stake in ‘INWI’, through a joint venture.

Countries	Customers (Million)	Market Share (%)
Iraq	14.5	43
Jordan	3.8	36
Kuwait	2.8	39
Bahrain	0.65	-
Lebanon	2.4	-
Sudan	13.8	47
Saudi Arabia	8.4	-
South Sudan	0.55	-

Source: <https://www.zain.com/ar/about-us/,2018> .

Problem Statement:

The role of telecommunication companies in the growth process of an economy has long been a topic of discussion. However, financial and political instability has negative impact on communication activities especially in term of profit and performance. However, despite instability (financial Crisis and ISIS) some communication companies have a good policy and efficient strategy to avoid some disadvantage of financial crisis and coming (ISIS).

Objectives of the Study:

1. The main objective of this study is to examine and measure the impact of Financial Crisis and Islamic State in Iraq and Syria (ISIS) on the telecommunication company's performance.

2. To determine how Financial Crisis and Islamic State in Iraq and Syria (ISIS) effect the profitability of Asia and Zain companies.

Research Question:

1. What is the impact of Financial Crisis (F1) on the profitability of Asia and Zain companies?
2. What is the impact of ISIS (F2) on the profitability of Asia and Zain companies?

Research Hypotheses:

The following hypotheses have been empirically tested to answer the research Questions:

Ha: Financial Crisis (F1) negatively and significantly impact profitability of Asia and Zain companies.

Ha: ISIS (F2) negatively and significantly impact profitability of Asia and Zain companies.

Significance and Motivation of the Study:

First: Telecommunication companies play a positive and important role in economic development and growth in Iraq.

Second: There is limited study in Iraq including Kurdistan region to investigate and measure both (Financial Crisis and ISIS) and its impact on performance of telecommunication companies in Iraq.

Third: No current literature to determine the impact of financial crisis and ISIS on the profit of Asia and Zain telecommunication companies.

Research Methodology:

This study examines and measures the impact of Financial Crisis and Islamic State in Iraq and Syria (ISIS) on the profitability of Asia and Zain telecommunication companies. To achieve this objective, selected and used an econometrics models such (Generalized Linear Model) to achieve study objective.

Scope of the Study:

The study focuses on the (Asia and Zain telecommunication companies) which are the major companies that represent two-thirds of Iraq occupation. The companies' annual reports and their announced data in Baghdad stock exchange are used as a secondary annual data which covering the period of (2010-2016 / 2010-2018).

2. Literature Review

Many businesses, firms and corporations are required to provide a regular set of annual reports that illustrate their financial statements in order to serve their clients in understanding how the companies are performing. Beside this, reading these statement such as; income statement, cash

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flow statement and balance sheet in detail is not that easy even for those who have some knowledge in finance and accounting. When it comes to evaluating financial performance in general or specifically in profitability the matter became harder.

To achieve the paper's objectives some articles have been reviewed about how financial crisis and Islamic State in Iraq and Syria (ISIS) affected firm's profitability, liquidity or in general how economic crisis influenced on their financial performance. The reviewed literature divided into two parts which are:

First: Literature review Related Financial Crisis:

Financial crisis has huge impact firm's profitability and their financial performance.

Sufian and Habibullah(2009) assessed the impact of Asian financial crisis on bank performance especial in Thailand and Malaysia as an empirical evidence by using an unbalanced bank level panel data for the period (1992 to 2003). The result shows that Asian financial crisis had a profound negative impact on banking sector in each Malaysia and Thailand. For instance; banks' balance sheets had damaged significantly as the result of the sharp drop in the domestic currency value. Moreover, banks could not pass on higher rates to distressed corporate borrowers as banks' revenue had been shrink, which subsequently resulting a negative interest rate spread, declining net incomes, and destroying banks' capital adequacy.

Vukovic, et al. (2009) mentioned that during 2008 majority of bank's profits was sharply dropped when they have examined the impact of global financial crisis on banking profitability, particularly in Serbia. One of the most obvious points in this study was that the only European country, apart from Romania, whose banking profitability growth for above 20% was Serbia as ROE rose from 8.5% to 9.3% and ROA from 1.7% to 2.1%. Beside this, it can be observed that majority domestic banks achieved the faster growth of ROA, which tells that banks of domestic origin were extremely successful.

Kung and Wong (2009) have examined the Singapore stock market before and after Asian financial crises particularly from 1988 to 1996 and from 1999 to 2007 using the three trading rules, which are simple moving average, dual moving average, and trading range breakout. The empirical results showed that on average that the mentioned three trading rules consistently generate higher annual return for the period of 1988-1996 than those for the 1999-2007.

Sufian and Habibullah (2010) by using unbalanced bank level panel data during the period 1990 – 2005, evaluated the impact of financial crisis on bank performance in Indonesia. The findings illustrated that Asian financial crisis had a vital negative impact on the Indonesian banking sector particularly on banks' profitability.

On the other hand, the Islamic banks' profitability have been examined as a result of the impact of (1998 and 2008) financial crisis by **Ahmed and Noor (2011)** when 78 banks selected in 25 countries for the period of (1992 – 2009). The finding elaborated even though both crisis are negative and non-significant, the world Islamic banks' profitability had not been influenced by the Asian and global financial crisis.

Notta and Vlachvei (2014): Discussed the effect of economic crisis on Greek food manufacturing firms performance especially in term of profitability between (2006 and 2011) and found out that firms profitability have been negatively affected especially from 2009 and later even though a firm with large market share and loyal customers are more competitive and profitable during crisis.

Yap, et al. (2014): Examined the effects of the financial crisis on the financial performance of Malaysian companies for the period (2006 to 2010). They found that the companies' financial performance have all dropped sharply over the five years by various proportions.

Prasad, et al. (2015) were investigated on the return on profitability after a financial crisis in 2007 for some selected firms in Asia continent such as Indonesia, Korea and Thailand. The result of that study showed despite the fact that firms in different countries reacted differently to the financial crisis in their countries, it led to immediate decline in the profitability of the firms. Also, they concluded that the profitability level after a 6 years after the crisis were still not at the pre-crisis levels.

Second: Islamic State in Iraq and Syria (ISIS):

On the other side, the Islamic State in Iraq and Syria (ISIS) had also a negative impact on some of Arab gulf countries in general and Iraq in particular.

Ianchovichina and Ivanic(2014) examined the effect of ISIS on six Levant economies, such as (Egypt, Iraqi, Jordan, Lebanon, Syrian and Turkey) in their paper “The economic effects of the Syrian war and the spread of the Islamic state on the Levant”. Their analysis highlighted that Iraq and Syria bear the brunt of the direct war costs, losing 16% and 14% in per capita welfare, respectively.

World Bank Group in their paper; The Kurdistan Region of Iraq: Assessing the economic and social impact of the Syrian conflict and ISIS (2015) shed light on how ISIS and its directness worsened uncertainty in the Kurdistan Region in Iraq (KRI) investment climate and hence inhibited investment and growth. In 2014, as a result of multiple shocks the economic growth declined.

Robinson, et al. (2017) examined the economic impact of Islamic state governance in Iraq and Syria. In general the result shows that after controlling Daesh (ISIS) the territory in Iraq and Syria it has a significant negative impact on the area especially in term of economic and finance. Taking an example: the power supply in three provinces, like (Ninewa, Salah ad-Din, and Anbar), has dramatically falls in June 2014.

In this section the researchers presents a review of some existing literature that have been undertaken to ascertain the impact of Financial Crisis and (ISIS) on firm’s profitability and their financial performance .However, most of the studies show that there is a negative and significant impact of Financial Crisis and (ISIS) on firm’s profitability and their performance.

3. Empirical result and discussion

This study used Generalized Linear Model (GLM) to investigate the impact of financial crisis and ISIS on two main communication companies’ profits (Asia and Zain). This section presents the main results of this study as following.

First: Stationary test with Generalized Linear Model

Stationarity is an assumption about variables in the classical regression model. The stationary test results are reported in the tables below.

Table 1: Result of Stationary test for Profit

Unit root test	Unit root test							
	Augmented Dickey-Fuller test (Level)				Augmented Dickey-Fuller test (First Difference)			
Variables	Asia		Zain		Asia		Zain	
	Intercept	Intercept and Trend	Intercept	Intercept and Trend	Intercept	Intercept and Trend	Intercept	Intercept and Trend
Profit	0.0058**	0.0610***	0.0001*	0.0001*	0.0790***	0.0029**	0.0000*	0.0000*
(*), (**), (***) denotes Significant at 1%, 5% and 10% respectively.								

Source: Prepare by researchers based on annual data by applying E-views 7.

From table above, profit as dependent variable is stationary in the first difference (Intercept) at the 1% 5% and 10% significance level.

Second: Generalized Linear Model Estimation

Generalized Linear Model is particularly powerful to estimate variables because it allows estimating models with a few variables under small samples. This section applies the macroeconomic view (profit) as a measure of Companies performance. The purpose of this section is to estimate the impact of financial crisis and Islamic State in Iraq and Syria (ISIS) on firm’s profitability (Asia and Zain). Thus, the data is applied from (2010 to 2016) for Asia Company and (2010 to 2018) for Zain Company. The results of the Generalized Linear Model estimation are reported in Table 2.

Table 2: estimates the impact of financial crisis and ISIS on telecommunication companies’ profits of Iraq for period (2010 – 2018) by applying Generalized Linear Model Estimation

Regressors	Coefficient	P-value	z-Statistic	Standard Error	Decision
Asia cell Company					
Constant	13.1998	[0.0000]	14668.15	0.0009	Accept H ₁
Financial Crisis (F1)	-0.4485	[0.0000]	-184.9174	0.0024	Accept H ₁
ISIS(F2)	-2.1179	[0.0000]	-414.0980	0.0051	Accept H ₁
Zian Company					
Constant	13.02885	[0.0000]	15507.54	0.000840	Accept H ₁
Financial Crisis (F1)	-0.937015	[0.0000]	-639.4584	0.001465	Accept H ₁
ISIS(F2)	-0.867773	[0.0000]	-477.4025	0.001818	Accept H ₁
(*), (**), (***) denotes Significance at 1%, 5% and 10% respectively.					

Source: Prepare by researchers based on annual data by applying E-views 7.

As it can be seen from the table (2) for Asia cell Company, (F1- Financial crisis) and (F2-ISIS) have a negative coefficient of (-0.4485, -2.1179) with a p-value of (0.0024, 0.000) respectively. Means, Null hypothesis can be rejected at the significant level of (1%, 5% and 10%). The coefficients indicate that financial crisis and ISIS has a negative impact on Asia Cell Company’s profitability by approximately 44% for financial crisis and 200% for ISIS.

Regarding to Zain Company, F1 and F2 have the coefficient of (- 0.937, - 0.867) with negative sign respectively. Their p-value is the same (0.000) as indication of rejecting Null hypothesis. From the results, the statement of having negative impact of F1 and F2 on the Company of Zain’s profitability can be made. Their level of impact is about 94% for financial crisis and 87% for ISIS variable.

To sum up, the coefficients of variables are significant. H₀ can be rejected based on their p-value. Both companies’ profitability has negatively been affected by the variables of financial crisis and ISIS.

The results convey with economic theories. It is logical to have a reduction in profit when the country has a financial crisis and instability. Because, individuals are behave toward decreasing their spending, due to reduction in their income. Nowadays, spending on telecommunication is a part of individual's expenditure. In order to balance between their income and expenditure they have to reduce spending on telecommunication regardless of other products and services. By doing this, the revenue of suppliers will drop also their profit. The greater the market share of the supplier the greater is decreasing in its revenue and profit.

The econometric analysis for Asia Co. reveals the above facts. Its profit is negatively sensitive to financial crisis by about 44% in that period. Roughly, its profit dropped by that level due to financial crisis. Moreover, after 2014 (when the ISIS come to Iraq and invaded around one third of the country) due to prolonged war and conflict with ISIS in the country the development of its market impeded. Some of its infrastructures has been destroyed and left behind as a result of war. Over and above, inability to reach those areas to fix it, worsen the situation. As a result, it can be seen that its profitability affected by ISIS by approximately 200%.

About Zain Company, the financial crisis impact is 93% with a negative relationship. Compared to Asia cell, financial crisis has a greater impact on Zain. This may due to its market share which can be said it has more customers than Asia cell. So, it has been affected in greater level. Another explanation is; when ISIS has come to exist most of refuge come to north of Iraq (Kurdistan Region). That is the primer market of Asia cell. It exploited that opportunity to compete Zain by offering the refuges suitable lines and bundles and expanding its customers and market share. As a support of that, in 2017 Asia cell awarded (Glomo Award) in Barcelona for that services provided to refuges (www.Asiacell.com). However; ISIS left a negative influence on Zain by 86% on its profitability but compared to Asia cell is much smaller. Because, Zain operate in eight different countries and its market is much wider than Asia cell which operates only in Iraq.

Regarding to Asia cell, two pie charts about return on investment in two periodic has been illustrated. First one; indicates its return on investment for the period of (2010-2014) which is 12.32%. But for the second period (2015-2016) its return on investment has been dropped sharply for -55.7%. This may due to financial crisis, (the drop of oil price - illustrated in the chart), which it started in July 2014 and in the time ISIS has come to Iraq.

**Figure 1: Before
Financial Crisis and
ISIS**

Investment Vs Return



CAGR = 12.32 %

**Figure 2: After
Financial Crisis
and ISIS**

Investment Vs Return



CAGR = -55.7 %

However, regarding to Zain Company, two pie charts about return on investment in two periodic times has been illustrated. First one; indicates its return on investment for the period of (2010-2014) which is – 32.9 %. But for the second period (2015-2018) its return on investment has been increased sharply for 3.15%. This may despite financial crisis and coming ISIS to Iraq, but because, Zain operate in eight different countries and its market is much wider to increase their market share as well as overcome most disadvantages from (financial crisis and coming ISIS).

**Figure 3: Before
Financial Crisis
and ISIS**

Investment Vs Return



CAGR = -32.9 %

**Figure 4: After
Financial Crisis
and ISIS**

Investment Vs Return



CAGR = 3.15 %

4. Conclusion

Communication plays a vital role in the human life activity. Use of various means of telecommunication now becomes an integrated part of society. In that point of view and after the liberation of Iraq in 2003 by the US, Iraq economy has been stepped forward by investing in various sectors beside oil and gas. Investment in telecommunication sector became one of the vital areas for private investors who seek to raise their capital. Asia cell, Zain and Korek are the major companies that covered Iraqi telecommunication system for a decade. For the purpose of the study the first two companies (Asia cell and Zain) have been taken, which represent two-thirds of Iraq occupation.

Since 2014 with appearance financial crisis, Iraq went through many troubles and difficulties among the different political parties, which led to discourage national and foreign investors in many sectors as they found that the risk is much higher than their potential return. This circumstance became more obvious when the Islamic State in Iraq and Syria (ISIS) has occupied the north east of Iraq and part of Syria. Therefore, it is interesting to investigate how these companies performed financially before ISIS and when it came especially in term of profitability. Thus, the main objective of this study is to evaluate and analyse the impact of Financial Crisis and ISIS on the profitability of Asia and Zain companies. In addition to achieve this objective, (Generalized Linear Model) applied by using annual financial statements of both companies for the period of (2010-2016 / 2010-2018). At the end, study found there is a strong and negative correlation between (financial crisis, ISIS) and (Asia, Zain) Co.'s profitability, but with different levels and for different reasons.

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