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EVALUATION OF FINANCIAL PERFORMANCE FROM LAST 5 YEARS OF BANK SOHAR, OMAN AND IT'S IMPACT TO OVERALL FINANCIAL PROFITABILITY

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ABSTRACT

Financial performance is directly and closely linked to profitability, as good profitability is a reflection of good financial performance within the organization. These studies evaluate the financial performance of Bank Sohar in the last five years and its impact on profitability. This research is a descriptive research that describes financial performance in general. Various methods were used to collect research data, including a questionnaire and an interview. The results concluded that there are internal and external factors that affect the financial performance of the bank, and thus profitability is affected. In general, the financial performance of Sohar International has been considered very good during the last five years, thanks to the bank's risk management strategies in addition to the merger with HSBC Bank, which had a significant impact on the financial performance and profitability of Bank Sohar.

Keywords: Bank Sohar, financial performance, financial profitability, merger, risk management

INTRODUCTION

Financial performance examines and analyzes the general situation of the company and the position that this company has achieved, by analyzing its assets, liabilities, revenues, expenses, profits, and other factors (Luther, 2023). Therefore, we can say that financial performance is a reflection of the extent to which the organization uses its assets and exploits its resources correctly to achieve noticeable returns that give it competitive strength in the market and achieve high profits and good productivity. Bank Sohar has been able to achieve remarkable achievements in a short period thanks to the bank's good financial performance. This good financial performance achieved high profits for the bank, enabling the bank to compete with other banking institutions. There is no doubt that good financial profits and good productivity are a reflection of the good financial performance and financial stability of the organization. Evaluating financial performance in institutions, whether in the banking or non-banking sector, includes several pillars, the most prominent of which is data analysis in addition to analyzing the institution's main financial reports, including the income statement and balance sheet of this institution and others, as these documents and reports represent a broad, comprehensive vision of the organization's financial position.

STATEMENT OF THE RESEARCH PROBLEM

All institutions seek to develop their performance and financial services in a way that maintains the stability of their markets, especially financial institutions. Not just performance, But how can large profits and good productivity be achieved through this financial performance and what are the potential areas and strategies used to improve the financial performance of the organization? This is exactly what Bank Sohar is looking forward to and what it seeks to achieve. Some companies are satisfied with acceptable financial performance that ensures the continuity of their operations without looking to enhance this performance to achieve high productivity and good profits. Therefore, it is important to focus on analyzing the company's financial performance accurately and work to control any defect or obstacle that reduces the level of the company's financial performance, because this financial performance is reflected in the company's productivity, meaning that good financial performance means good productivity and vice versa!

of the institution and linking this performance with the level of productivity.

RESEARCH OBJECTIVES

1- To identify and evaluate the factors affecting the bank's financial performance and profitability.

2- To evaluate the bank's financial performance in terms of financial profitability.

3- To provide recommendations for improving financial performance to improve profitability.

RESEARCH QUESTIONS

1- What factors affect the bank's financial performance and profitability?

2- What is the method for evaluating the bank's financial performance in terms of financial profitability?

3- What are the most important recommendations for improving financial performance to improve profitability?

REVIEW OF LITERATURE

Monitoring the company's financial performance is extremely important, as good financial performance ensures good profitability and stability for the company. Through this literature, individuals or institutions can obtain knowledge about good financial performance and identify any knowledge gaps related to the topic, It constitutes a decisive point in various studies and research (Pare, 2017).

Factors affecting financial performance

ESG (environmental, social and governance)

The study presented (Shabbir, 2020) discusses the relationship between social responsibility and corporate environmental investments on the organization's performance in addition to determining whether there is a difference between the profitability of environmentally conscious companies and the profitability of non-conscious companies. Descriptive analysis was used to explain the variables in this study. The results found a positive relationship between internal environmental investments and the company's financial performance. The final result of this study indicates that companies that apply environmental investments enjoy a higher level of profitability compared to companies that are not environmentally conscious. This is confirmed in the study conducted by (Ahmad, 2021), in which a sample of 351 companies was used. The results indicated positive indicators between environmental, social, and governance on the financial performance of companies. The final results of this study confirm that companies that apply environmental, social, and governance standards have high financial performance compared to companies with low environmental, social, and governance standards.

Finally, there is no doubt that the integration of environmental, social, and governance (environmental, social, and governance) standards is one of the necessary factors that affect the financial performance of companies, as this concept refers to taking into account the three factors, namely environmental, social, and governance when making decisions in the company to ensure that correct decisions are taken that lead to better performance. According to the results, the size of governance variables has a very significant impact on the financial performance of companies (Danoshana, 2019).

Risk Management

Risk management is considered one of the important issues and factors that affect the stability of institutions and maintain financial stability in general. The study was discussed by (Hacini, 2021) about analyzing the impact of liquidity risk management on the financial performance of several selected banks. This study used the panel data method. The results of this study found a negative impact of liquidity risk on the financial performance of banks. In addition, another study (Tassew, 2019) was conducted on 71 banks to study the impact of risk management on financial performance. A quantitative research approach was used to obtain relevant data. The results of this study concluded that credit, operational, liquidity and other risks have very significant effects on the financial performance of banks. The study also indicates the need for banks to commit to managing their loan portfolio and taking the necessary precautions against other risks to maintain financial performance.

In general, risk management is one of the necessities that ensures the stability of institutions, so all institutions must develop plans and strategies to manage their risks to ensure financial stability and good financial performance.

The financial performance in terms of financial profitability

Both financial performance and profitability are directly related to each other, and each of them affects the other significantly, as financial performance affects profitability and vice versa. Below are some studies related to financial performance in terms of financial profitability, through which the relationship between them can be confirmed.

A study by (Kanna, 2023), aims to determine the financial performance of a banking institution, this study uses profitability ratios to measure the financial performance of the institution and determine the extent of this institution’s efficiency in managing assets to obtain maximum levels of profits. Data for this study were collected using documentation techniques. The final results of this study show that the institution's performance is affected by fluctuations in net income, but in general, the results all indicate that the institution's performance was sound and healthy. Since the study conducted by (Ramdani, 2023) discusses financial performance and profitability in light of the pandemic, two quantitative approaches were used to conduct the study. The final information of the study indicates that financial performance variables affect the levels of profits of institutions and that financial and economic crises negatively affect the profits of institutions, and thus the performance of these institutions will be affected due to the decline in levels of profitability.

Recommendations for improving financial performance and profitability

Improving financial performance is one of the important pillars in the business world, which greatly affects profitability levels. Therefore, without a doubt, all institutions must develop plans to improve financial performance and evaluate the situation in a manner commensurate with the state of the institution. Below is literature that emphasizes the necessity of improving financial performance, and calculating profitability, and provides the necessary recommendations for this.

A study conducted by (Gadzo, 2019), aims to evaluate the impact of credit risks and operational risks on financial performance. The study used structural equation modeling. The results of this study recommend the necessity of encouraging the reduction of interest rates to reduce credit risks and thus enhance profitability. No doubt enhancing profitability in turn leads to enhancing financial performance. The results of the study also recommend the need for the institution to rely on its investment portfolio, in addition to the institution reducing financial leverage to focus on investment income and enhance profitability and financial performance. On the other hand, there is no doubt that customer satisfaction is one of the necessities in enhancing financial performance and profitability, and this is confirmed by the study conducted by (Javed, 2019), which aims to determine the relationship between customer satisfaction and profitability. The sample of this study consists of 9 banks. The final results found that customer satisfaction has a significant positive impact on the organization’s profitability and the company’s overall financial performance. Likewise, another study conducted by (Golovkova, 2019), aims to study the relationship between customer satisfaction and the financial performance of the banking sector. This study used panel models to obtain data. The results of this study concluded that the customer satisfaction index has a strong impact on financial performance. This study recommends the need to understand, measure, and maintain the level of customer satisfaction as a driver of profitability. Therefore, we must emphasize the need to focus on gaining customer satisfaction to enhance financial performance and profitability. There is no doubt that risk management has a major role in enhancing the financial performance and prosperity of institutions, as the study conducted (Shad, 2019) reveals risk management practices that enhance the company’s overall performance. This study used the annual reports of the concerned institutions to obtain the necessary information. The final results confirm that the effective adoption of risk management significantly and positively affects the overall financial performance of companies.

RESEARCH METHODOLOGY

Research Design

Research design is one of the methods that help the researcher focus on the appropriate techniques and methods to prepare an accurate and successful study (Bhat, 2020). The importance of research design lies in that it is one of the methods that facilitates the research process and obtaining efficient information, in addition, it preserves the effort incurred by the researcher. In preparing the study, it also plays a major role in organizing ideas and avoiding ambiguity, as it is one of the basics that researchers must focus on before preparing the research because of its direct connection to the results that are obtained. In this research, which is related to evaluating the financial performance of Bank Sohar for the last five years, the descriptive research approach will be used to answer several questions related to this aspect. Quantitative and qualitative data will be used. Quantitative data is that which is measurable and depends on numbers, while qualitative data is based on personal narratives, documents, or any other written data (Gcu, 2021). The quantitative data will be focused on the numbers and statistics that this research has reached and then analyzed through a questionnaire that will be distributed to a sample of employees at Bank Sohar. Qualitative data will be obtained by interviewing a Bank Sohar employee.

Population

The study population and its sample are of great importance as they can solve the puzzles hidden within the research data (Thomas, 2023). The population of this study is only approximately 105 employees, and this is because the study will be limited to 5 branches of Bank Sohar due to time constraints. The study will be limited to this number only.

Sample Size

This study targets 5 branches of Bank Sohar International, meaning it includes approximately 105 employees at various job levels. Using the Rawsoft website, the sample size of 83 employees was measured.

Sampling Technique

In this study, a Non-probability sampling method will be used from the study population, because this method allows the target group to be selected accurately, which allows and enables the collection of ideas and opinions from this group. This type allows responses to be obtained faster due to the allocation of the category required for the response, and this in turn allows them to reach more accurate conclusions about the financial performance of Bank Sohar due to the privatization of the category required for the response.

DATA ANALYSIS AND RESULTS

Table 1: The factors that most influence financial performance and profitability

Options	**Frequency**	**Percentage**
Internal factors	66	82.5%
External factors	14	17,5%
Total	80	100%

In the above table, most of the responses indicate that internal factors have the most influence on financial performance and profitability, as the response rate for the internal factors option was 82.5% with about 66 responses, while external factors received 14 responses with a rate of 17.5%. The explanation for this is that internal factors have a greater influence on financial performance and profitability, including the institution's policy, size, and management in general. If the institution is internally sound, it is easier to control unexpected events or other external factors. Internal factors include bank size, asset quality, management quality, and financial risk. While external factors include interest rates, exchange rates, inflation, and others (Sarwar, 2018).

Table 2: If the general economic factors affect an organization's financial performance and profitability

Options	**Frequency**	**Percentage**
Yes	77	96.2%
No	3	3.8%
Total	80	100%

In general, most of the results of the respondents to this question indicated their agreement with the extent to which general economic factors affect financial performance and profitability, as the percentage of supporters reached 96.2% with about 77 responses, while there were a very small number who chose the opposite, and their percentage reached 3.8%. The conclusion is that general economic factors undoubtedly have a significant impact on financial performance and profitability, as the stability of the general economy means the stability of all businesses, including the banking sector. It is therefore necessary to consider the economic risk factors in general that have a potential impact on the key variables driving the business.

Table 3: If the organization's strong risk management strategies contribute to achieving good financial performance and high profitability

Option	**Frequency**	**Percentage**
Yes	80	100%
No	0	0
Total	80	100%

All responses to the previous question support that strong risk management strategies help achieve good financial performance and good profitability. Where 100% of responses to the first option were (yes). There is no response to the second option (no). This undoubtedly means that risk management is one of the important and necessary items to achieve good financial performance and good profitability. In general, risk management is one of the main issues for maintaining financial performance and stability (Tassew, 2019).

Table 4: If the organization use specific strategies to enhance financial performance and raise the level of profitability

Options	**Frequency**	**Percentage**
Yes	78	97.5%
No	2	2.5%
Total	80	100%

This question summarizes responses to whether the organization uses specific strategies to enhance financial performance and profitability. The results can be summed up by confirming that the organization is doing this, as the percentage of those who chose (yes) reached 97%, which is a very large percentage, with approximately 78 responses. While only two respondents chose (no), amounting to 2.5% only.

Table 5: If the organization achieved growth in its market share during the last five years

Options	**Frequency**	**Percentage**
Yes	78	97.5%

No	2	2.5%
Total	80	100%

The previous table indicates the percentage of respondents regarding whether the institution achieved growth in its market share during the last five years. The overwhelming responses indicate that the institution was able to achieve this, and the percentage of respondents to this option (yes) reached 97.5%, while only 2.5% of those who did not support it.

CONCLUSION

The results of this study indicated that there are internal and external factors that affect the financial performance and profitability of Bank Sohar, including risk management, following financial, environmental, social, and governance policies, and the application of modern technology. In general, the financial performance of Bank Sohar has been considered good during the past five years. Thanks to his successful strategies, he was able to overcome the period of danger that threatened all economies at the beginning of 2020 due to the pandemic. The merger between Bank Sohar and HSBC Bank is considered a turning point and the strongest beginning in the bank's profit and growth journey. Sohar International continues its journey toward growth and progress to become one of the largest and leading banking institutions in the Sultanate of Oman. Regarding recommendations. Bank Sohar must be keen to improve risk management within the bank, expand the bank's customer base, diversify services, and finally implement modern technology.

RECOMMENDATIONS

Many recommendations can be made in this aspect. Below are the Four most prominent recommendations to improve financial performance and profitability:

1- Improving risk management in the bank: Bank Sohar should enhance risk management strategies to reduce or avoid the harms of financial risks. Including credit, operational, and liquidity risks due to their direct connection to financial performance, in addition to managing the loan portfolio and taking the necessary precautions and measures against any risks that threaten the bank to maintain financial stability and profitability (Tassew, 2019).

2- Expanding the bank's customer base: Customers are the main driver of profitability, so the bank should follow marketing strategies to attract customers, thus enhancing financial performance and profitability.

3- Diversifying services: Considering customers' requirements and needs is extremely important because customers' loyalty to the bank is linked to this. Therefore, Sohar International must meet customer requirements to ensure high profits from these customers.

4- Application of modern technology: Modern technology contributes to saving time and effort for customers and the bank, so Sohar International must increase its investments in improving technology, and this in turn contributes to improving the quality of services and providing smoother and faster banking services.

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