



## Analysis of the Factors Affecting the Profitability of Bank Dhofar in Oman.

Budoor Akif Mohsin Al Balushi

Middle East College

[19S18714@mec.edu.om](mailto:19S18714@mec.edu.om)

Muscat, Oman

Dr. Maria Teresa Matriano

Assistant Professor, Middle East College

[maria@mec.edu.om](mailto:maria@mec.edu.om)

Muscat, Oman

### Abstract

**Purpose:** This research will focus on analyzing the factors affecting the profitability of Bank Dhofar in the Sultanate of Oman. There are many factors affecting Bank Dhofar in Oman, which may influence the decisions of its management, which may lead to effects on profit in the market. These decisions also affect the operating results of the Bank. For example, if Bank Dhofar has effective and positive management decisions, it may be included in positively increasing the bank's profits, and because the values of services and products offered by the bank to customers will be high within the bank. Bank balance sheets, financial principles, and information on products and services are also affected by these factors.

**Design/ Methodology/ approach:** An experimental research design was adopted, and this design describes the studied influencing factors. The main reason for choosing this design is to conduct the research in an objective and controlled manner. Data was collected from secondary sources using articles and website also primary sources was used by using questionnaires and interview. 50 samples were collected from the participants in the Financial Accounting Department of Bank Dhofar. Once the data was collected, an analysis was carried out using SPSS.

**Findings:** According to the financial reports, the corona virus has a negative impact on the bank's profitability, through changes in oil prices, and this affects the country's economy, and this has an impact on the bank's profitability.

**Research limitation/ implication:** Based on the results obtained, it was recommended that Bank Dhofar maintain new approaches, reassess risks and focus on improving channels to improve the Bank's performance and profitability.

**Social implications:** This research will add collective knowledge about the factors affecting the profitability of Bank Dhofar. This research will also affect the rule makers and decision makers.

**Originality /value:** A research was found regarding the profitability of the bank. This research sheds light on the factors that affect the profitability of Banks, whether they are internal or external.

**Keywords:** Bank's profitability, Bank Dhofar's profitability, profitability factors, Oman banks profitability

## Introduction

This research will focus on analyzing the factors affecting the profitability of Bank Dhofar in the Sultanate of Oman. There are many factors affecting Bank Dhofar in Oman, which may influence the decisions of its management, which may lead to effects on profit in the market. These decisions also affect the operating results of the Bank. For example, if Bank Dhofar has effective and positive management decisions, it may be included in positively increasing the bank's profits, and because the values of services and products offered by the bank to customers will be high within the bank. Bank balance sheets, financial principles, and information on products and services are also affected by these factors.

Bank Dhofar al Omani al France is an Omani Bank. The bank was incorporated in January of the year 1990. It comments its operations under two different branches – one operating in Salalah and one operating in Muscat. In the year 1992, the bank was able to purchase liabilities and assets that are related to bank of credit and commerce International from the Central Bank of Oman (Mohammed et al., 2019). This helped the Bank Dhofar to expand its networks. In the year 1999, the inauguration of a new head office building was done within the commercial business district which marked the 10th anniversary of the bank. In the year 2000, the bank ultimately purchased 16 different Commercial Bank branches leading to the widening of the network of the brand to 43 branches along with 55 ATMs (Al-Bimani & Matriano, 2021). In 2002, Bank Dhofar furthered its expansion strategy by merging with the Majan International Bank soon after which it obtained all of the administrative and regulatory approval for shortening its name to Bank Dhofar.

## Research Questions

1. What are the internal and external factors affecting the profitability of Bank Dhofar?
2. What are the challenges and obstacles that affect the profitability of Bank Dhofar?
3. What are the suggestions and recommendations of Bank Dhofar to avoid any damage resulting from the factors affecting its profitability?

## Research Objectives

1. To identify the internal and external factors affecting the profitability of Bank Dhofar.
2. To identify the challenges and barriers that affect bank's profitability.
3. To provide suggestions and recommendations to Bank Dhofar to avoid any damage resulting from factors affecting its profitability.

## Statement of research problem

In this paper, the issue that is discussed is the factors that affect the profitability of Bank Dhofar. Banks have many factors that can affect their profitability and they should be avoided to develop the system in a more effective manner. Because the bank has numerous interactions with clients and businesses on a local level, the researcher will examine and look for answers to problems or gain solutions to influencing elements through this research. In this article, we will also explore the influence of these factors on Bank Dhofar's profitability, as well as the amount to which they have an impact.

## Literature Review

### Internal and external factors affecting the profitability Banks

Profit and loss statements and balance sheet analysis are the main sources for obtaining information regarding internal factors that affect banking sector. The profit and loss statement of Banks indicates that the capital adequacy ratio is a major internal factor because it implies that the bank is well capitalized (Durrah et al., 2018). Hence, the cost of managing financial distress is also comparatively much lower. It is an important internal factor because it helps in determining the profitability of banks (Durrah et al., 2018; Bhandari & Mohite, 2018).

**External factors** comprise those factors that cannot be controlled by the bank. These factors influence the decision-making processes of the bank. The economic growth of Oman suggests that demand for loans from the bank has increased. The rise in interest rate in Oman is also another external factor that impacts the bank's sustainability. Since interest rates positively influence the profitability of banks, an increase in the interest rates suggests an optimum increase in the profitability of banks across the global community. Technological advancements in the banking sector have also influenced banks in global system (Bhandari & Mohite, 2018). Globalization and increase in technological advancement have created new technology for banking operations. Several banks have recently introduced cloud computing into its business. This has increased the efficiency of the employees leading to a rapid improvement in the attraction of the clients. Therefore, the profitability of banks has also increased.

### Challenges and Obstacles that Affect the Profitability of Banks

The pressures generated on the operating environment due to the lower oil prices and the pandemic have been a persistent challenge for the profitability of the bank since 2019. The Omani Operating Environment score has also reached a negative rate from being stable as reported by Fitch Ratings (2022). The outlook revision by Fitch Ratings (2022) also suggests that even though the financial matrix of the bank has been resilient during the past quarter, the operating environmental pressures are ultimately creating a negative impact on the profitability of banks across the global community. Across the global community, bank's iDRs are fundamentally driven by VR. The VR of the bank also reflects a strong franchise, reasonable funding, and capitalization. Even though the banking sector is one of the largest in the Omani Nation, banking business model persists to be highly dependent on government spending.

The governmentally dependent business model of banks across the global community that is split between Government, retail and corporate customers leads to sector concentration and a high single obligor on either side of the balance sheet of the bank (Bhandari & Mohite, 2018). The stage 3 loan ratio of Banks in has increased slightly to an amount of 4.98% from 4.5% from the end of 2020 to the end of the third quarter of 2021. This caused further challenges from the loan difference program set at the end of December 2021. Asset quality assessment of the bank also indicated that the bank is highly exposed to the economic environment of Oman both through which investment portfolios and lending (Al-Bimani & Matriano, 2021). This created high single-name concentration leading to exposure to event risk.

The fairly weak fiscal position, as well as the external balance sheet of Oman, reduces the sovereign financial flexibility of the bank, creating a barrier to the profitability of the bank. The ongoing political uncertainty which includes the trade disputes within the Omani Nation that has been fueled by the pandemic induced softer economic momentum has triggered volatility in the

prices of the assets. This has posed a rather extreme challenge for the profitability of banks in the global community because it has increased the risk of elevation of the funding cost of the bank (Al-Bimani & Matriano, 2021). Other than this, competitive challenges that arise from outside of the banking sectors, cyclical factors, and cost inefficiencies also stand as major sources of obstacles and challenges that affect the profitability of banks across the global community.

### **Suggestions and recommendations for Banks to avoid damage resulting from factors affecting profitability**

In recognition of the pressures that exist in the market and the profitability challenges that are currently being faced by banks across the global community, maintenance of new approaches is becoming necessary for improving its performance and banking profitability. The introduction of streamlined automated, and parallel processes can help banks across the global community to obtain stymied success (Prabhakaran & Karthika, 2018). Connecting and centralizing dispatched systems and empowering the consumers to initiate banking action through self-serve options will allow the bank to mitigate the profitability challenges that arise due to competition, factors, and cost inefficiencies.

Indicated in the above section, banks across the global community is facing a systematic risk that is challenging its profitability. Risk is not a static element (Mohammed, n.d.). It evolves over a given period. Hence, banks across the global community needs to build a responsive tolerance limit. Risk re-evaluation is an effective option that can be applied by banks across the global community. This will allow the bank to accommodate necessary organizational changes when risk arises.

In the current technologically advancing market, banks across the global community also needs to focus on channel optimization. Unbundling of the services and digital banking services can be introduced in the bank (Al Hilali & Shaker, 2021). This will serve as an important part of increasing the success of the bank and improving its profitability. It will help in meeting the market needs, therefore increasing consumer attraction and loyalty. As a result of this, it will resolve the profitability challenges that have arisen due to the negative operating environment, governmentally dependent business model, lowering of oil prices, and pandemic disruptions (Al Hilali & Shaker, 2021).

### **Research Methodology**

An experimental research design was adopted, and this design describes the studied influencing factors. The main reason for choosing this design is to conduct the research in an objective and controlled manner. The primary data was collected by distributing questionnaires. 50 samples were collected from Bank Dhofar employees, specifically the financial accounting staff. Data were collected using a link to the questionnaire. Once the data was collected, it was analyzed using SPSS software.

### **Data Analysis**

### According to your knowledge, the bank is currently profitable?

Table 1 According to your knowledge, the bank is currently profitable?

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	35	70.0	70.0	70.0
No	15	30.0	30.0	100.0
Total	50	100.0	100.0	

From given table, 70%-member response yes to the q. and 30% people say no (Durrah et al., 2018). So. it seems that as majority of the participant say yes. So, bank is currently profitable.

### What according to you are the major factors that impact the profitability of Bank Dhofar?

Table 2 What according to you are the major factors that impact the profitability of Bank Dhofar?

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Economic	29	58.0	58.0	58.0
Political	8	16.0	16.0	74.0
Social	4	8.0	8.0	82.0
Legal	1	2.0	2.0	84.0
Environmental	3	6.0	6.0	90.0
Technological	5	10.0	10.0	100.0
Total	50	100.0	100.0	

Bank Dhofar profit is mostly affected by the economic factor. As economic factor has high percentage 58%. Impact of Political factor is 16%. Impact of Social factors are 8%, legal factor are 2%, environmental factors is 65 and technological factors are 10% (Bhandari & Mohite, 2018). We conclude that economy of any country affects the bank directly.

### The profitability of Bank Dhofar has changed positively over the period according to you?

**Table 3 The profitability of Bank Dhofar has changed positively over the period according to you?**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly Agree	9	18.0	18.0	18.0
Agree	14	28.0	28.0	46.0
Neutral	12	24.0	24.0	70.0
Disagree	11	22.0	22.0	92.0
Strongly Disagree	4	8.0	8.0	100.0
Total	50	100.0	100.0	

Bank Dhofar sets aims that are to a great extent hold up, by 28% of employees agreed and 24% neutral to the description. As by combined rate per cent of strongly agree and agree is 46%, and 24% are neutral (Bhandari & Mohite, 2018). So, we said bank change positively overtime.

**Is there any factor that positively impacts the Bank's profitability?**

**Table 4 Is there any factor that positively impacts the Bank's profitability?**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	37	74.0	74.0	74.0
No	13	26.0	26.0	100.0
Total	50	100.0	100.0	

As everyone know many factors directly and indirectly positively affect the profit of the bank. So, in survey majority of employee response yes. 74% of people are agreed with the statement and only 26% people not agreed with the statement (Bhandari & Mohite, 2018).

**Is there any factor that negatively impacts the Bank's profitability?**

**Table 5 Is there any factor that negatively impacts the Bank's profitability?**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	41	82.0	82.0	82.0
No	9	18.0	18.0	100.0
Total	50	100.0	100.0	

As above we discuss everyone know many factors directly and indirectly positively affect the profit of the bank, same many factors directly or indirectly negatively affect the profitability. So, in survey majority of employee response yes. 82% of people are agreed with the statement and only 18% people not agreed with the statement (Al Hilali & Shaker 2021).

#### **Will these factors continue to impact the banks profitability in the future?**

**Table 6 Will these factors continue to impact the banks profitability in the future?**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly Agree	14	28.0	28.0	28.0
Agree	17	34.0	34.0	62.0
Neutral	17	34.0	34.0	96.0
Disagree	1	2.0	2.0	98.0
Strongly Disagree	1	2.0	2.0	100.0
Total	50	100.0	100.0	

As some factors are uncontrollable. So, these factors continue to impact the bank profitability. And in years different ups and downs are comes in economy, whereby 28% of participants strongly agreed and 34% are agree to the statement. As by aggregate percentage of strongly agree and agree is 62%, and 34% are neutral (Bhandari & Mohite, 2018). So, said these factors impact over the time as check the views of many employees.

#### **Do you think the bank should critically analyze these factors before developing any strategy?**

**Table 7 Do you think the bank should critically analyze these factors before developing any strategy?**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	47	94.0	94.0	94.0
No	3	6.0	6.0	100.0
Total	50	100.0	100.0	

As in every business and planning, people see all drawbacks and positive aspects of things to save themselves from great lose. Same in bank system, 94% employee say yes, that bank critically analyze that factor that affect the bank profitability before developing any strategy (Bhandari & Mohite, 2018).

#### **Are there any specific factors that have a major impact on the Bank's profitability?**

**Table 8 Are there any specific factors that have a major impact on the Bank's profitability?**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Missing/nil	4	8.0	8.0	8.0
Yes	15	30.0	30.0	38.0
No	8	16.0	16.0	54.0
Profit etc.	3	6.0	6.0	60.0
Economy	5	10.0	10.0	70.0
Performance of employee/human capital	2	4.0	4.0	74.0
Interest rate	1	2.0	2.0	76.0
No plan/ mismanagement	3	6.0	6.0	82.0
Market and competitor	1	2.0	2.0	84.0
Other factors	1	2.0	2.0	86.0
Environment	2	4.0	4.0	90.0
Social Political and Technological	2	4.0	4.0	94.0
Other	3	6.0	6.0	100.0
Total	50	100.0	100.0	

As we see multiple response above, because it was an open-ended Q, everyone freely response and share their views. 30% of participants say yes and it has high percentage (FitchRatings, 2018).

**How do you think that these impacts can be reduced?**

**Table 9 How do you think that these impacts can be reduced?**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Missing	6	12.0	12.0	12.0
Yes	5	10.0	10.0	22.0
No	7	14.0	14.0	36.0



Hard work	2	4.0	4.0	40.0
Reduce risk/cost, enhance economy	8	16.0	16.0	56.0
Analysis of key Factors	2	4.0	4.0	60.0
Focus on problems and goals	3	6.0	6.0	66.0
Planning / income planning	2	4.0	4.0	70.0
Improvement	2	4.0	4.0	74.0
Employee	1	2.0	2.0	76.0
Flexibility	2	4.0	4.0	80.0
Other	10	20.0	20.0	100.0
Total	50	100.0	100.0	

People gave different suggestions to reduce the impacts of factors that affect the profitability of banks (Prabhakaran & Karthik, 2018).

### Can you explain how these factors have impacted the bank's profitability?

Table 10 Can you explain how these factors have impacted the bank's profitability?

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Missing	12	24.0	24.0	24.0
Yes	3	6.0	6.0	30.0
No	6	12.0	12.0	42.0
Mismanagement	7	14.0	14.0	56.0
Improvement in economy	1	2.0	2.0	58.0
Funds / funds reduction	2	4.0	4.0	62.0
Services and needs	4	8.0	8.0	70.0
Risk/ lose	2	4.0	4.0	74.0
Profit / profitability	3	6.0	6.0	80.0
employer/ employee satisfaction	4	8.0	8.0	88.0
Bank income	2	4.0	4.0	92.0

Income	4	8.0	8.0	100.0
Total	50	100.0	100.0	

Here people gave suggestion about the factors that affect the banks profitability. 24% people not response to this Q (Al-Bimani & Matriana, 2021).

**Are there any recommendations that you would like to provide to the bank to improve profitability?**

**Table 11 Are there any recommendations that you would like to provide to the bank to improve profitability?**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Missing	8	16.0	16.3	16.3
Good plan	1	2.0	2.0	18.4
Performance	2	4.0	4.1	22.4
Improvement	2	4.0	4.1	26.5
No	10	20.0	20.4	46.9
Yes	4	8.0	8.2	55.1
Services	10	20.0	20.4	75.5
Research	1	2.0	2.0	77.6
Employee	6	12.0	12.2	89.8
Procedure improvement	3	6.0	6.1	95.9
Other	2	4.0	4.1	100.0
Total	49	98.0	100.0	
Missing System	1	2.0		
Total	50	100.0		

Here we want different recommendation from employees to improve banks profitability. So, 20% of participants say improve services and to enhance services (Prabhakaran & Karthik, 2018). Update their system and check or make research on customer needs and wants.

## Conclusions

### 1. What are the internal and external factors affecting the profitability of Bank Dhofar?

The factors affecting the bank are divided into two parts, the first part is **internal factors**, and the second part is **external factors**.

**The internal factors** that affect the profitability of Bank Dhofar are the losses achieved by the bank, the profits achieved by the bank and the analysis of the balance sheet as well, knowing that they are the main sources for obtaining information related to the internal factors that affect Bank Dhofar.

**The external factors** that affect the profitability of Bank Dhofar are the factors that the bank cannot control, and they affect the bank on the decision-making processes of the bank. Economic growth is one of these external factors that affect the profitability of the bank, the rise in interest rates in the country is also an external factor that affects the profitability of the bank as it affects the bank's sustainability, but it affects the bank positively because the increase in interest rates in the bank indicates an increase in bank profitability. Technological developments are also another external factor, knowing that they also affect positively because developments are taking place in the banking sector.

### 2. What are the challenges and obstacles that affect the profitability of Bank Dhofar?

- 1- There are many challenges that the bank has faced, and this challenge continues until 2021, which is the rise in oil prices and the spread of the epidemic.
- 2- Operational environmental pressures that eventually created and affected the bank's profitability negatively.
- 3- Bank Dhofar's third-stage loan ratio has increased slightly.
- 4- The weak financial position reduced the sovereign financial flexibility of the bank which created a barrier to the bank's profitability.

## Recommendations

1. Maintaining new approaches is essential to improving its banking performance and profitability by introducing streamlined, automated, and parallel processes that help Bank Dhofar achieve success. Essentially, this means that the Bank can apply strategies such as forecasting and financial analysis for staying prepared for any financial shocks.
2. Risk reassessment is an effective option that Bank Dhofar can implement. This is because it allows the bank to absorb the necessary regulatory changes when risks arise. Risk

assessments will allow the bank to generate a concrete understanding regarding the potential factors that may impact the financial stability and profitability of the organization and formulate appropriate strategies to mitigate those challenges.

3. Focus on improving channels, as it is possible to introduce the dismantling of digital banking services and services in the bank, which leads to the success of the bank and improves its profitability. It is important to note that globalization and technological advancement have taken over the global functions. As a result of this, utilizing appropriate technology for assessing the feasibility of the banking strategies is important.

## References

- Ahn, D. H., Conrad, J., & Dittmar, R. F. (2009). Basis assets. *The Review of Financial Studies*, 22(12), 5133-5174.
- Al Hilali, R. A., & Shaker, H. (2021). Blockchain Technology's Status of Implementation in Oman: Empirical Study. *International Journal of Computing and Digital Systems*.
- Alam, M. S., Alam, M. N., & Sharif, W. (2019). Performance Evaluation of Oman's Banking Industry. *Journal of Critical Reviews*, 6(4).
- Al-Bimani, A., & Matriano, M. (2021). The Impact of COVID-19 on the Financial Performance of Bank Dhofar. *International Journal of Research in Entrepreneurship & Business Studies*, 2(3), 47-56. <https://gspjournals.com/ijrebs/index.php/ijrebs/article/view/39>
- Ball, R., Gerakos, J., Linnainmaa, J. T., & Nikolaev, V. V. (2015). Deflating profitability. *Journal of Financial Economics*, 117(2), 225-248.
- Bhandari, V., & Mohite, V. M. (2018). Assessing profit performance efficiency-an evidence from the banking sector in Sultanate of Oman. *International Journal of Business and Applied Social Science (IJBASS)* Vol, 4. [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=3187687](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3187687)
- Durrah, O., Eltigani, M., & Bilal, Z. (2018). Practicing management by walking around and its impact on the service quality. *Int. J. Commer. Manag. Res*, 4, 45-55.
- FitchRatings (2022). Fitch Revises Bank Dhofar's Outlook to Stable; Affirms at 'BB-'. FitchRatings.com.<https://www.fitchratings.com/research/banks/fitch-revises-bank-dhofar-outlook-to-stable-affirms-at-bb-13-01-2022>
- Hafidz, M. A., & Elihami, E. (2021). LEARNING THE NONFORMAL EDUCATION THROUGH RESEARCH METHODOLOGY: A LITERATURE REVIEW. *JURNAL EDUKASI NONFORMAL*, 2(1), 47-55. Retrieved on 14 May 2022 from <https://ummaspul.e-journal.id/JENFOL/article/view/1628>
- HORTON, M. (2021). *The Difference Between Profitability and Profit*. Investopedia. Retrieved 9 April 2022, from <https://www.investopedia.com/ask/answers/012715/what-difference-between-profitability-and-profit.asp>.

Kumar, R. (2018). *Research methodology: A step-by-step guide for beginners*. Sage.

Mohammed, S. Banking: e-Route Challenges in Oman.

Mohammed, S., Sha, N., & Al Aamri, J. S. M. (2019). Analyzing the Financial Soundness of Bank Dhofar: A CAMEL Approach. *IUP Journal of Accounting Research & Audit Practices*, 18(4), 52-61. <https://search.proquest.com/openview/2c40dcd197ab14a37982b9a9972f5ac3/1?pq-origsite=gscholar&cbl=54439>

Mukherjee, S. P. (2019). *A guide to research methodology: An overview of research problems, tasks, and methods*. CRC Press. Retrieved on 14 May 2022 from <https://www.taylorfrancis.com/books/mono/10.1201/9780429289095/guide-research-methodology-shyama-prasad-mukherjee>

Phillips, M. A., & Ritala, P. (2019). A complex adaptive systems agenda for ecosystem research methodology. *Technological Forecasting and Social Change*, 148, 119739.

Prabhakaran, K., & Karthika, P. (2018). The impact of dividend announcement on stock prices in Muscat securities market, Muscat. *Open Access J Sci*, 2(6), 409-417.

Ryder, C., Mackean, T., Coombs, J., Williams, H., Hunter, K., Holland, A. J., & Ivers, R. Q. (2020). Indigenous research methodology—weaving a research interface. *International Journal of Social Research Methodology*, 23(3), 255-267.

Salleh, M. O., Jaafar, A., & Ebrahim, M. S. (2014). Can an interest-free credit facility be more efficient than a usurious payday loan?. *Journal of Economic Behavior & Organization*, 103, S74-S92

Varghese, S. S., Ramesh, A., & Veeraiyan, D. N. (2019). Blended Module-Based Teaching in Biostatistics and Research Methodology: A Retrospective Study with Postgraduate Dental Students. *Journal of dental education*, 83(4), 445-450.

Worthington, S. (2006). *Equity*. OUP Oxford.

BARONE, A. (2022). *What Is an Asset?*. Investopedia. Retrieved 10 April 2022, from <https://www.investopedia.com/terms/a/asset.asp>.

FERNANDO, J. (2022). *Equity*. Investopedia. Retrieved 13 May 2022, from <https://www.investopedia.com/terms/e/equity.asp>.

CHEN, J. (2022). *Understanding Credit Facilities*. Investopedia. Retrieved 11 June 2022, from <https://www.investopedia.com/terms/c/creditfacility.asp>.