

## Risk Management Practices and Financial Performance: The Case of Banks in Sultanate of Oman

Essia Ries Ahmed, Shima Hamdan AL Mamari, and Ahad Said AL Ghassani

Collage of Economics, Management and Information Systems, University of Nizwa, Oman

### Article information

### Abstract

#### Keywords:

Banks, Financial Performance,  
and Risk Management Practices

The main objective of this project is to define the relationship between risk management practices and bank's financial performance. This is quantitative study, where the quantitative data was collected via secondary data. Data collection from the annual reports of banks in Muscat Securities Market (MSM). The Sample size of 8 banks. In this research, data collected is analyzed using Structural Equation Modelling (SEM) with Partial Least Square PLS Software. The findings revealed that risk management is positively meaningful while avoiding risk. The findings pointed that the risk management has significant with a ROA. This result indicates that management has a significant influence on banks performance (ROA). As well as, the findings found that the risk management insignificant with a (ROE)

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#### ✉ Corresponding Author:

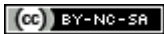
Corresponding Author:

Essia Ries Ahmed:

E-mail: e.ahmed@unizwa.edu.om

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### 1. Introduction

The crisis of Financial management around the global has proven that activity of risk management are necessary for organization that goal at sustaining client and shareholder patronage (Alabdullah et al., 2020 and Olamide et al., 2015). Before now, risk management was not seen as a central component to the transaction of most companies in Oman (Alyaarubi et al., 2021; Gani et al., 2021; and Alabdullah & Ahmed, 2020). In light of the developments that have contributed to increasing competition in global markets in the field of financial transactions, any bank is exposed to various banking risks that may lead to their collapse and deterioration of financial conditions (Alabdullah & Ahmed, 2018, and Bilal & Salim, 2016). As Oman has been able to put in place a stable risk management framework, especially credit risk management, in order to reduce unfavorable events (Alabdullah & Ahmed, 2020).

The Credit risk of management is an important fraction of the banking loan operation. It is the risk of current and future profit Failure to implement the terms of any contract with the bank or any other performance as agreed upon may cause problems (Azam, 2019). Such as losing a loan outstanding in part or in full, Due to credit events (risk of default), which may be caused by bankruptcy and non-payment of outstanding obligations Refusal/ postponement or change of credit rating and restructuring a-gain, which are reasons for the occurrence of problems in banks (Ogboi & Unuafe, 2013).

Financial risk is a difference in returns or unexpected changes in it that contribute negatively to the management of the financial organization and there are different types (Thottoli et al., 2019). The term financial risk refers to different types of financing risks, such as financial transactions that depend on loans, risks of delaying payments to companies, high exchange

rates and currency changes. As the main factor for these problems is the stock market and sudden declines, which are attributed to changes in assets that may be related to debt, which lead to potential Lack of balance between responsibilities and obligations (Alsulmani et al., 2021). Therefore, we can understand that managing financial risks is an important matter to be taken care of as it is reflected in the financial performance of the bank. A great deal of empirical research has emerged in recent years about the effect of Managing financial risks on financial performance and its downsides. As these studies contributed to the definition of the importance and important role that the country financial system plays the cornerstone and jewel of the country's economy, and it is a financial mediator between countries and their development (Ali & Oudat, 2020). In recent trends the global financial arena has a major impact on the banking industry Around the world there is a need for one major mechanism for liquidity effective management in banks establishment. Thus, liquidity is the ability to the generate sufficient money to pay financial obligations and liquidity in banks means that it is the ability to meet outstanding deposits.

Risk management and financial performance are an important factor in the stability of banks It contributes to economic growth, which may be reflected positively if troubles are avoided Where countries depend on their dealings and economic activity mainly on banks and economic transactions It is the level of development and advancement of the country, so it must be managed with a high level of accuracy Some research has clarified the link inter risk of management and the financial performance of banks and its negative impact, and the accordingly, a group of the problems facing Omani banks, including.

The existence of a negative link between capital adequacy and financial management in Omani banks, as well as between debt and performance in Oman (Ahmed, Alabdullah, Shahrudin, & Putri, 2020). It also includes the negative effects of delays and defaults in bank payments in the Gulf Cooperation Council countries due to support for the oil industry (Ahmed, Alabdullah, Thottoli, & Maryanti, 2020; Rao Al-Yah-yae & Syed, 2007; Singh, Islam, Ahmed, & Amran, 2019; Alabdullah, 2019). There are effects

related to financial management and liquidity in Omani banks Likewise, management of liquidity risk is of maximum importance because a lack of liquidity may have system-wide repercussions for a single institution (Alharthi, 2017). Thus, the main goal of this study is to examine determine the link inter risk of management practices and bank's financial performance.

## **2. Hypothesis Development**

In this part we will concentrate on previous studies from the past five years. The majority of studies found that there is an effect between financial risk and the instrument. For example, Ali & Oudat (2020) its goal is to discover the influence of risks on the performance financial of recorded banks in the Bahrain. One of the most important findings of his research is that capital risk is the greatest important form of risk. The majority of studies found that there was an influence about management practices on performance. For example, Sleimi (2020) its goal is the study the influence of the risk of management practices on the performance of Jordanian commercial banks. Most of studies found analyzing the efficiency of performance. For example, Wasiaturrahma et al. (2020) its aim is to study the efficiency of the performance of traditional and Islamic rural banks in Indonesia, and one of the most important results of his research is that there is a positive impact on the location and the ratio of capital adequacy.

There is a relationship between the company's values and investor behaviors and their impact on the financial of performance (Dang et al., 2020; Arief, 2020; Murashima, 2020, Haryanto et al., 2018; Yulandreano et al., 2020; Fristiani et al., 2020; and Ding et al., 2016). The research findings indicate that there is a relationship between the company's financial performance and firm value. Financial performance has a positive effect on company value.

The study conducted by Alfadli & Rjoub (2020) which aims to know the impact of the special shifts in banks in the industry and the macroeconomics on the financial of performance of banks in the Gulf Cooperation Council (GCC) countries. The results showed a negative relationship and significant effects of efficiency, diversification, liquidity and credit risk, which are reflect-

ed in capital. Research findings on banking in Indonesia show that credit risk has a negative effect on bank performance (Haryanto et al., 2021).

Ali & Oudat (2020) one of the most important findings of his research is that capital risk is the greatest important form of risk. The majority of studies found that there is an influence of bilateral governance on the banking instrument. Sleimi (2020) most of the studies found analyzing the efficiency of performance. Wasiaturrahma et al., (2020) found a relationship between responsibility and performance. Abbas et al. (2019) the majority of studies found that there are risks due to an expansion in banking services. Alfadli & Rjoub (2020) a negative relationship and significant effects of efficiency, diversification, liquidity and credit risk, which are reflected in capital. There is a significant impact between financial performance and regulatory companies, as well as a significant statistically relationship inter regulatory participation and financial performance in the bank (Galdeano et al., 2019). One of the most important findings of his research is that small banks have very positive influence on the performances of multiple banks in Southeast Asia while their influence is not present in the GCC countries (Nomran & Haron, 2019).

The majority of studies found that there was an influence about management practices on performance. One of the most important findings of his research is that corporate social liability has the positive impact on the financial of bank performance (Hasan et al., 2018, and Maqbool & Zameer, 2018). Alharthi (2017) where the study results indicated that banks in the Gulf Cooperation Council countries made good profits from their commitment to specific financial performance, which was in the Arab Spring crisis. Salim & Bilal (2016) showed that the results of the research showed that there is no link between liquidity, whether longterm or shortterm liquidity, management risks, investment status, and the bank's tolerance to financial shocks. Surprising as there is no indication of any relationship. Hassan Al-Tamimi, Miniaoui and Elkelish, (2015). The scores of this Research showed positive link Thus, the hypothesis developed is

H<sub>1</sub>: *A positive relationship between Risk Management Practice and Bank's Financial Performance.*

### 3. Data and Methods

The current study is a cross-sectional on based on quantitative approach and the data collected was from annual reports. The units of analysis were the annual reports of the listed banks for 2020. Data was analyzed statistically via using the Partial Least Square (PLS) approach.

The current research used a wide range of measurements of risks tools and banks outcomes. Each variable is illustrated as follows table 1.

Table 1. Variables Measurements

Variables	Measurement
Return on Equity	Net profit/total Equity
Return on assets	Net profit/total assets
Proxy of operational risk	Operational costs/Net interest income
Proxy of liquidity risk	Total loans/ total deposit

### 4. Result

#### Descriptive Statistics

Based on the descriptive information that was obtained, the dependent variable, which is the International Valuation Standards (IVS), showed that 0% represents a mean (IVS) with a standard deviation of 1.000 In addition, the minimum and maximum values indicated that (IVS) Was -0.518, 2.634, Respectively. The results also showed that the return on assets reached 0%, which represents the average support with a standard deviation of 1.000. Moreover, the minimum and maximum values indicate that the return on assets was -1.576 and 1.157 respectively, In addition, it shows the variable of return on equity, which amounted to 0%, which represents an average with a standard of deviations of 1.000 , moreover furthermore, the minimums and maximums of the values indicated that the return on equity amounted to -0.859 and 2.327, Respectively (Table 2).

Table 2. Descriptive Statistics of Variables

	Mean	Min	Max	St. Dev.
RMP	0.000	-0.518	2.634	1.000
Return on Assets	0.000	-1.576	1.157	1.000
Return on Equity	0.000	-0.859	2.327	1.000

In PLS for testing of the Special validity, there are standards used. The square-root of every AVE for every construct must have a high of correlation level It includes the other constructs. Thus, to deal with discriminant validity, as men-

tioned by Fornell & Larcker (1981), the square root of each construct in its AVE has to be com-

pared versus the constructs' correlations for all other constructs (Table 3).

Table 3. Discriminant Validity

	CIP	EA	LLPTL	LNASSETS	LTDR	ROA	ROE
CIP	1.000						
EA	-3.345	1.000					
LLPTL	0.054	0.166	1.000				
LNASSETS	-0.037	-0.605	0.036	1.000			
LTDR	0.126	-0.813	-0.066	0.945	1.000		
ROA	0.214	0.142	0.087	-0.700	-0.575	1.000	
ROE	0.211	-0.836	-0.342	0.806	0.885	-0.513	1.000

The structural model was evaluated after analyzing the measurement model and passing all criteria. The coefficient of determination ( $R^2$ ) is checked. In this work, the variable that is the internal supply has an  $R^2$  value of 0.283 (ROA), 0.811 (ROE) (large) indicating that 28%, 81% of the contrast in company performance (ROE and ROA) that can be elucidated by the predictors: variables were used in this Research (return on

assets, capital adequacy, return on equity, risk credit, size of bank) to measure the impact of risk management on this financial of performance of banks (ROA, ROE) (Table 4). So, the current of works greatly meets the standard.

Table 4. Explanation of the Variance

	R Square	R Square Adjusted
Return on Assets	0.386	0.283
Return on Equity	0.838	0.811

Table 5. Path Coefficients

	Mean, STDEV, T-Values, P-Values						Results
	Original Sample (O)	Sample Mean (M)	St. Dev.	T Statistics	P Values		
RM-> Return on Assets	-0.621	-0.746	0.136	4.580	0.000	Supported	
RM -> Return on Equity	0.916	0.483	0.701	1.306	0.097	Rejected	

Note: Significance levels: \*\*\*  $P < 0.001$  ( $t > 3.33$ ), \*\* $p < 0.01$  ( $t > 2.33$ ), \* $p < 0.05$  ( $t > 1.605$ )

## Hyphotesis Testing

Table 5, reviews the results related to the supported hypothesis test as shown in the Table 5. The results revealed that risk management is positively meaningful while avoiding risk as it was (ROA)  $P < 0.000$ ,  $t = 4.580$ . The findings revealed that the risk management insignificant with a ROE where it was  $t = 1.306$ . This score indicates of the management has the significant influence on Banks performance (ROA).

## 5. Discussion

### Impact of Risk Management on Financial Performance

The management of banking risks has become a basic topic, as a basis for dealing with many negatives in banking and financial activities. The practice of risk management and control keeps banks away from risks such as liquidity, credit and others. Risk management at the bank-

ing level aims to manage business risk and control risk. Commercial risks are those risks that are considered to be inherent in the bank's business nature. Control risk arises from insufficient control exercise or the possibility of failure and disruptions in the current control process of the bank.

Risk management have been identified in this research that affect equity, which are the independent variables (capital adequacy, credit risk, bank size, operational risk agent, liquidity risk agent) and their impact on banks performance (ROA and ROE). From the independent variables recognized, Hypotheses were developed to enquire about the target. The study used the quantitative data obtained from the Muscat Securities Market website for the fiscal year 2021, and eight Omani banks were collected.

The results related to the supported hypothesis test as shown in the Table 5. The results revealed that risk management is positively and significant link with financial performance. This

result indicates that management has a significant influence on Banks. This findings consistence with study done by Hassan Al-Tamimi, Miniaoui and Elkelish, (2015). They showed a strong association between risk management and banks performance. This means more managing the risk will lead to reduce the risk and will increase the financial performance. As well as, the results found insignificant link between risk management with Return on equity.

## 6. Conclusion and Suggestion

### Conclusion

To conclude, the main aim of this investigation is to study the association between risk of management practices and the financial of the performance of banks in the MSM, which was limited to the past five years. In addition, five variables were used in this study (return on equity, return on assets, adequacy capital, credit risk, bank size) to measure the impact of risk management on the financial of the performance of banks (ROA, ROE). Data collected from eight banks in Oman. The results showed a positive link inter risk management and financial performance. Moreover, findings found that there is no connection between risk management with Return on equity.

### Suggestion

This study has many recommendations for future studies that will help researchers and insiders. This study dealt directly with the association between risk management and financial performance, as there is a great absence of previous researches which look for the effects of variables on risk management and financial performance such as return on property rights, return on assets, capital adequacy, credit risk, and the size of the bank that contribute to improving Risk management and financial performance. This study recommends conducting an in-depth analysis by future mycologists to study the relationship of risk management and financial management of banks through other theories that may contribute to enriching this content and help researchers to reach accurate and abundant data. Third, future authors and researchers should investigate in depth through the relationship between risk management and its effect on financial performance by adding new variables. Future researchers must

expand the scope of research on this topic that would lead to effective performance.

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