Addaiyan Journal of Arts, Humanities and Social Sciences
© Addaiyan International Publishers
(An international Publisher of Research & Academic Resources)
Journal Homepage: https://aipublisher.org/projects/ajahss/
ISSN: 2581-8783 (Online)
DOI: 10.36099/ajahss.4.2.5

Does Financial Competition AffectProfitability: A case study of Banks in Oman

Dr. M.A. Imran KHAN[1], Mallak Mohammed BATAMIRA[2], RudinaAmerSuhail GHAWAS[3], ArwaIssa Mohammed ALAMRI[4],
[1]*Assistant Professor, Department of Finance and Economics College of Commerce and Business Administration, Sultanate of Oman*
[2,3,4]*Research Scholars, Dhofar University,Sultanate of Oman*

Corresponding Author*
Dr. M.A. Imran KHAN

Article History
Received: **16.02.2022**
Accepted: **23.02.2022**
Published: **26.02.2022**

Abstract: Globally the banking sector is considered one of the most important and sensitive sectors of the economy. The banking sector makes a direct impact on an economy which can be seen reflected in the volume and quality of economic activities. On the contrary, the kind of financial services provided by commercial banks during a certain time cannot be an indicator to measure banks' efficiency or performance. Through this study, researchers investigate the impact of financial competition on the profitability of banks operating in the Sultanate of Oman. To reach the proposed adjectives, two variables were conducted; one was an independent variable named "Financial Competition" and one was a dependent variable named "Bank Profitability". Hence, it is necessary to analyze and know the market share of the bank to identify the extent of its ability to compete in the banking sector and then determine its efficiency in the financial market. These motivated researchers to analyze the impact of market share as an indicator of financial competition on the profitability of banks in the Sultanate. The research was conducted quantitative research using financial ratio analysis.The banking industry is a competitive environment in the financial domain, so most banks seek to be the best among their competitors.

Keywords:*Financial Competition, Bank Profitability, Banks*

1.1.INTRODUCTION

Globally the banking sector is considered one of the most important and sensitive sectors of the economy. The banking sector makes a direct impact on an economy which can be seen reflected in the volume and quality of economic activities. The banking sector in Oman is represented by severalCommercial Banks, Islamic Banks, and Foreign Banks that operate and supporteconomic activities **(Albaity et al., 2017)**.The banking sector is effective in managing the financial economy and keeping pace with global developments **(Rehman, J. ur, & Rashid, A., 2022)**. The main role of this sector is to provide institutional frameworks aimed at directing banks' resources towards real investment that supports the country's economic growth process. Despite the achievements that have been achieved in the Sultanate, the current stage is characterized by a set of challenges in the field of financial management, whether in the field of competition or the face of development requirements**(Khan, 2021);(Moudud-Ul-Huq, 2020)**.Hence forbanks to face these challenges, banks must maximize their profits in a way that increases the value of their shareholders, either by investing funds using multiple and highly efficient sources or increasing the market shareto maintain its position among Oman Banks and foreign financial markets. On other hand, the kind of financial services provided by commercial banks during a certain period cannot be an indicator to measure banks' efficiency or performance**(Khan & Al Mamari, 2019).** Therefore, it is necessary to analyze and know the market share of the bank to identify the extent of its ability to compete in the banking sector and then determine its efficiency in the financial market**(Khan, Alam, & Syed, 2021)**, **(Khan, Ali, & Khan, 2022)**.All these motivated researchers to try to analyze the impact of market share as an indicator of financial competition on the profitability of banks in the Sultanate.

1.2. Research problem

The process of making profits represents a primary goal for banks, as their continuous pursuit of profits enables them to develop their competitiveness and strengthen their financial position, which positively affects their ability to face risks and challenges**(Khan, Alkathiri, Alhaddad, & Alnajjar, 2021).** In this stage, researchers seek to evaluate the financial competition of these banks on their profitability.

1.3. Research Significance

- The study may assess the financial competition (market share) of Omani banks,
- The study may evaluate the impact of financial competition on their profitability.

1.4. Research Objectives

- To evaluate the financial competition of the Omani banks based on the market share,
- To evaluate the profitability of Omani banks,
- To study the impact of financial competition on the profitability of Omani banks.

Literature Review

2.1.The Financial Competition

According to (**Bikker& al 2009)**, competition is considered as the effort of two or more parties that act independently to save the business of a third party by providing the most appropriate terms. Competition is also defined by **(Khan M. A., 2014)**as the active demand by two or more beings or types of beings for some environmental resource in the short outfit. Besides, **Grout & Paul (2021)** defined competition as conflict among rivals. According to**(Maes& al 2009)**,the policy of financial competition is presented as below:

First, in principle, the competition degree can impact the possibility of developing a financial crisis via two channels**(Khan, Meer , & Khan, 2021)**. Rivalry impacts the bank franchises' value. Confronted with difficulties, banks can, with the presence of incomplete control via the regulators, it has to choose either to strengthen their base of capital or to boost the risk-taking, wishing that positive results will achieve and that is called "gambling for resurrection"**(Khan, Syed, & Khan,2021)**. Also, the relative attraction of such options is depending on the regulatory framework as well as the range for moral risk meaning how much the shareholders and managers are losing in the failure event, however on the bank franchises value that can be lost in a failure case. Bank franchise value can be considered as the value of the actual rent which can arise from following the activities of banking and is partially defined by rivalry. Intensive competition can decrease the bank franchises' number and elevate the possibility that confronted with a shock, banks will pick out gambling for resurrection. Serious doubts about the significance of this influence can be cast in the present crisis context where the ROE in banking is elevated in the pre-crisis years, ona risk-adjusted basis, and in absolute terms. Banks and regulators do not have proposed that rents in banks are not enough in the context of the public policy debate around the financial crisis. Second, when confronted with insufficient prudent regulation, rivalry among banks can make pressure on wise banks even when they do not confront instant difficulties. If some of their rivals make too many risks to create high current profits, wise banks can be attracted to gamble to keep their capability to attract funds. However, for such a second probable influence of rivalry on risk-taking, rivalry policy is the wrong tool. Then, the policy of an inactive rivalry may lead to undesired side effects. In addition, the habitual monopolistic distortions, such policy will generate a banking landscape and "too big to fail" is considered the norm, that way this exacerbates the problem instead of treating it**(Khan M. A., 2012)**. Then, when there is a confession that the wise regulation is not strict sufficiently to block excessive risk-taking, the result of the logical policy is not to utilize the policy of rivalry to treat this but to adjust prudential regulation itself. This enables the origin of the problem to be treated without facing the fierce side-effects of indirect regulation through rivalry authorities. Briefly, while situations are imaginable where rivalry can increase risk-taking between banks, probably the permissive competition policy would lead to aggravating than to solve the issue **(Anuntarumporn, N., &Sorhsaruht, P. 2022).**

According to **AL-Shatnawi et al. (2021),** their study aimed to test the relationship between the market share of investment banks and the performance of merged companies in Canada.Tobin's Q model was used to measure the quality of performance, ranking rate, and market share for the previous year as variables to measure the investment banks' share.The results of the study showed that there was no statistically significant effect of the arrangement or market share on the quality of performance, whether in dealing or speed of completion. The results also showed that investment banks are highly specialized in the issue of size, as there is a correlation between the size of the bank and the volume of the operation performed through it. On the other hand, the quality of service does not vary according to the size of the bank, and it performs well, regardless of the size of the bank**(Khan M. A., 2014)**.
According to **Tan (2016),** their study aimed to identify the impact of the market share of bank deposits. To measure the study variables, the (structure - behavior - performance) model was used to focus on assets. The study sample consisted of 2005-2015.The results of the regression analysis of the data collected from the study sample showed the absence of an alliance between the most concentrated banks in the market, and it was also found that efficiency does not achieve higher performance rates and therefore better profits. The researcher concluded that the reasons for concentration in banks may be attributed to social and political factors, as well as benefiting from the advantage of early entry into the market, which led the old banks to control a large share of the market, taking advantage of the lack of competitors.

According to **(Haron 2011) (Bo-Hyung Lee, & Sang-Ho Lee. (2018**),their study aimed to explore the effect of the factors represented in (market share, and concentration ratio) on measuring the profitability of banks represented in the return on equity (ROE)aria.The study used private financial data in (22) banks during the period from 2006-2010 to measure the profitability of banks, and the study reached a set of results, the most important of which are: There is an impact of the market share on the profitability of the bank**(Khan M. A., 2016)**. Also, the relationship between market share and bank profitability is positive.According to**(Shair et al. 2019),** their study aimed to identify the relationship between the market share of large and small banks and the profitability of these banks, as the study was conducted on a sample consisting of (2438) banks in the United States of America for the period between 2011 and 2018.The results of the study, through the researched sample, showed that there is a traditional relationship between market share and profitability, whether in large banks or small banks. The study also showed that there is an inverse relationship between market share and return on assets in the entire sample.

Research Methodology

3.1. Research Design

To measure the impact of financial competition on the profitability of Omani banks the researchers preferred to use the quantitative research analysis method using financial ratios and different variables.

Research Hypotheses

H0- Financial competition has **no impact** on the profitability of Omani banks,

H1- Financial competition has a **significant impact** on the profitability of Omani banks.

3.2. Scope

The scope of this research represents the banking sector in Oman with a focus on the financial competition and profitability of banks.

3.3. Sample

The request to participate in the research was sent across different banks only five banks positively replied. Hence these 5 banks listed on the Muscat Stock Exchange represent the sample of this study.

3.4. Data Analysis

The primary data was collected using questionnaires. A total of 100 questionnaires were received but out of which only 66 questionnaires were duly filled and were found useful for the research. The data collected were analyzed using the SPSS software and statistical tool like where statistical and descriptive analyses were conducted.

4.1. Information Source

The data was collected using well structure questionnaire and were further analyzed using the SPSS program. The personal information of respondents was analyzed using the frequency and percentage analysis and the variables were analyzed using descriptive analysis. The hypotheses were tested using simple regression analysis.

4.2. Personal Information Analysis

Gender

		Frequency	Percent
Valid	Male	35	53%
	Female	31	47%
	Total	66	100%

The above data shows that females represent 47% of respondents and males represent 53% of them.

The Banks

		Frequency	Percent
Valid	Bank Muscat	15	22%
	Bank Dhofar	19	28%
	NBO Bank	7	11%
	Alizz Bank	7	11%
	Nizwa Bank	9	14%
	Bank Sohar	9	14%
	Total	66	100%

As shown in the above table, the majority of the respondents are from Bank Dhofar representing 28% of the total respondents followed by Bank Muscat with 22%. Whereas the respondents from other Banks like Bank Sohar represent 14%, Bank Nizwa represents 14%, Alizz bank represents 11% and NBO bank represents 11% of the sample respondents.

Education

		Frequency	Percent
Valid	Diploma	9	13%
	Bachelor	38	58%
	Master or More	19	29%
	Total	66	100%

From the above table, it is evident that the majority of respondents are well qualified and have a Bachelor'sdegreeand they represent 58% of the total respondents followed by the Master's degree and Diploma degree.

Occupation

		Frequency	Percent
Valid	Top Management	8	12%
	Middle Management	7	11%
	Supervisory Level	29	44%
	Non-Managerial Level	22	33%
	Total	66	100%

As shown in the above chart, 44% of respondents are from the “Supervisory Level”, 33% of them are from the “Non-Managerial Level”, 12% of them are from “Top Management” whereas 11% of them are from “Middle Management”.

4.3. Descriptive Analysis

	Variables	Type	Mean	Std. Deviation
1	Financial Competition	Independent	3.9264	.59945
2	Bank Profitability	Dependent	4.0848	.51568

The above table shows that there are two variables conducted in this research project where one is an independent variable and one is a dependent variable described as follow:

- “Financial Competition” is the independent variable where the registered Mean value is 3.92,
- “Bank Profitability” is the dependent variable where the registered Mean value is 4.08.

4.4. Correlation Analysis

Correlations

		Financial Competition	Bank Profitability
Financial Competition	Pearson Correlation	1	.549**
	Sig. (2-tailed)		.000
	N	66	66
Bank Profitability	Pearson Correlation	.549**	1
	Sig. (2-tailed)	.000	
	N	66	66

**. Correlation is significant at the 0.01 level (2-tailed).

The correlation statistics presented in the above table show that the measured Pearson Correlation for the correlation between “Financial Competition” and “Bank Profitability” is 0.549 and the measured Sig. is 0.000 which is less than 0.01.This shows that the correlation between “Financial Competition” and “Bank Profitability” is significant at the 0.01 level.

4.5. Simple Regression Analysis

Null Hypothesis (H0): Financial Competition has **no impact** on the profitability of Omani banks.

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	5.219	1	5.219	27.682	.000[b]
	Residual	12.066	64	.189		
	Total	17.285	65			

a. Dependent Variable: Bank Profitability

b. Predictors: (Constant), Financial Competition

Based on the measured P-value in the ANOVA table describing the influence of the predictor variable (Financial Competition) on the dependent variable (Bank Profitability), this value is 0.000 which is less than 0.05.This shows that there is a significant effect at the 0.01 level of the Financial Competition on the dependent variable Bank Profitability.

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.229	.357		6.247	.000
	Financial Competition	.473	.090	.549	5.261	.000

a. Dependent Variable: Bank Profitability

The Coefficients table of the conducted simple regression analysis described the independence between the used variables under the form of a linear equation described as follow:

Bank Profitability = 0.473 * Financial Competition + 2.229

Conclusion & Recommendations

5.1 Conclusion

Globally the banking industry prevails in a very competitive environment and most commercial, Islamic, and foreign banks seek to be among the best oftheir competitors. In this study, the researchers try to investigate the impact of financial competition on the profitability of banksoperating within the Sultanate of Oman. They identified the two variables as “Financial Competition” and the other as “Bank Profitability” and conducted quantitative research using a structured questionnaire. The main findings were that the “Financial Competition” (FC) has a Mean value is 3.92 and the “Bank Profitability” (BP) has a mean value of 4.08 which is greater and hence the hypothesis were approved

There was a significant correlation at the 0.01 level between FC and BP and there is a significant influence at the0.01 level of the FC on the BP. BP = 0.473 * FC + 2.229.

REFERENCE

1. RASHID, A. (2022). Impacts of Bank-Specific and Macroeconomic Risks on Growth and Stability of Islamic and Conventional Banks: An Empirical Analysis from Pakistan. *The Journal of Asian Finance, Economics and Business*, *9*(2), 1-14.
2. Khan, S. S., Ali, M. M., & Khan, M. A. (2022). Analyzing the Factors that Influence Capital Investment Decisions: A Case Study of SME's Listed on Bombay Stock Exchange. International Journal of Science and Research, 11(1), 44-48.
3. ANUNTARUMPORN, N., & SORHSARUHT, P. (2022). The Impact of Innovation Capability of Firms on Competitive Advantage: An Empirical Study of the ICT Industry in Thailand. *The Journal of Asian Finance, Economics and Business*, *9*(2), 121-131.
4. Grimsley, S. (2021, November 10). What Is Profitability? - Definition & Analysis. Retrieved from study.com: https://study.com/academy/lesson/what-is-profitability-definition-analysis-quiz.html
5. Khan, M., Alkathiri, M. A., Alhaddad, H. A., &Alnajjar, F. M. (2021). Impact of ERM on Sustainability and Financial Performance of Enterprises in the Gulf Cooperation Council: Case Study of Oman. International Journal of Management, 12(1), 598-609.
6. AL-Shatnawi, H. M., Hamawandy, N. M., &Jafar, R. (2021). The role of the size and growth rate of the bank in determining the effect of financial leverage on the profitability of Jordanian commercial banks. *Journal of Contemporary Issues in Business and Government Vol*, *27*(1). 1962-1978.
7. Khan, M. A. (2021). Dynamics Affecting Investment Decision: Evidence from Listed Enterprises in GCC. In CONTEMPORARY RESEARCH IN FINANCE (Vol. 1, pp. 159-166). Excel India Publishers.
8. Khan, M., Alam, M., & Syed, A. (2021, March). Correlation between the Profitability and Working Capital Practices: A Case Study in the Gulf Cooperation Council. *Journal of Asian Finance, Economics and Business, 8*(3), 229-236.
9. Grout, P. A. (2021). AI, ML, and competition dynamics in financial markets. *Oxford Review of Economic Policy*, *37*(3), 618-635.
10. Khan, S., Meer , M., & Khan, M. (2021). Investors Preference for Mutual Fund Investment in Oman. *International Journal Of Advance Research And Innovative Ideas In Education*, *7*(2), 84-91.
11. Khan, M., Syed, A., & Khan, S. S. (2021). Influence of Entrepreneur Traits on SME's Financial Performance Case Study of GCC Entrepreneurs who survived during COVID 19. *International Journal Of Advance Research And Innovative Ideas In Education, 7*(1), 651-660.
12. Moudud-Ul-Huq, S. (2020). Does bank competition matter for performance and risk-taking? empirical evidence from BRICS countries. *International Journal of Emerging Markets*.

13. Albaity, M., Mallek, R. S., &Noman, A. H. M. (2019). Competition and bank stability in the MENA region: The moderating effect of Islamic versus conventional banks. *Emerging Markets Review*, *38*, 310-325.

14. Khan, M., & Al Mamari, S. (2019). Correlation between organizational learning and employee productivity in the gulf cooperation council. *Opcion*, *35*(19), 1972-2007. Khan, M. A. (2014). Trade Between India and UAE: A Fact, Conundrum or Fiction. *International Journal of Developments in Trade, Commerce and Business, 1*(3), 40-45.

15. Bo-HyungLee,& Sang-Ho Lee. (2018). A Study on Financial Ratio and Prediction of Financial Distress in Financial Markets. Journal of Distribution Science, 16(11), 21–27. https://doi.org/10.15722/JDS.16.11.201811.21

16. Shair, F., Sun, N., Shaorong, S., Atta, F., &Hussain, M. (2019). Impacts of risk and competition on the profitability of banks: Empirical evidence from Pakistan. *PloS one*, *14*(11), e0224378.

17. Khan, M. A. (2016). Working Capital Management and its Impact on SMU's Performance. *International Journal of Economic Research, 13*(5), 2057-2086.

18. Tan, Y. (2016). The impacts of risk and competition on bank profitability in China. *Journal of International Financial Markets, Institutions and Money*, *40*, 85-110.

19. Khan, M. A. (2014). Post Financial Crisis performance of Commercial Banks in Oman. *International Journal of Management and Network Economics, 1*(12), 33-39.

20. Khan, M. A. (2012). Inflation Measures in India, Asian Journal of Management 3(1):30-34

21. Maes, S., &Kiljanski, K. (2009). Competition and the financial markets: Financial sector conditions and competition policy. *Competition policy newsletter*, (1), 12-16.

22. Bikker, J. A., &Spierdijk, L. S. (2009). *Measuring and explaining competition in the financial sector Utrecht School of Economics* (No. 09-01). Working Papers Series.

23. Haron, S. (1996). Competition and other external determinants of the profitability of Islamic banks. *Islamic Economic Studies*, *4*(1).