

# OPTIMIZING FINANCIAL LEVERAGE TO ENHANCE COMPANY PERFORMANCE: AN EMPIRICAL ANALYSIS OF MSX 30 INDEX COMPANIES LISTED IN THE MUSCAT STOCK EXCHANGE OF OMAN

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## Abstract

This research paper investigates the dynamic interplay between financial leverage and the performance enhancement in Omani companies, specifically those listed on the Muscat Stock Exchange. Employing a panel data analysis approach, the study utilizes secondary data extracted from the financial statements of selected listed companies covering the period from 2018 to 2022. The research specifically integrates three pivotal ratios—Solvency Ratio, Debt-to-Equity Ratio, and Proprietary Ratio—to systematically analyze their respective impacts on Return on Assets (ROA) and Return on Equity (ROE). Grounded in a thorough analysis of company data, this study not only offers insightful analyses of historical financial information but also integrates growth performance predictions by the researcher. These predictions aim to identify positive or negative correlations between financial leverage and overall corporate performance. The study's findings hold significant implications for strategic decision-making, capital structure optimization, and advancing the understanding of financial dynamics in the Omani business landscape.

**Keywords:** Financial Leverage, Performance Enhancement, Return on Assets (ROA), Return on Equity (ROE), Solvency Ratio, Debt-to-Equity Ratio and Proprietary Ratio.

## 1. INTRODUCTION

Financial Leverage indicates the degree to which a company's mix of capital is tilted towards long-term liability as opposed to equity in its capital composition. Specifically, 'leverage' denotes the proportion of total liabilities in relation to total shareholder's equity.

The rise in business debt portfolios and corporate debt instrument issuance underscores the need to comprehend fundamental factors contributing to a leveraged capital structure. It is crucial to understand these factors and their consequences for the economic viability of respective companies. In the pragmatic sphere of decision-making, companies routinely evaluate two options, debt, and equity, while formulating their financing strategies.

The theoretical standpoint concerning the effect of capital structure and financial leverage on a company's value has been firmly established and extensively scrutinized by researchers such as Arosa, Richie & Schumann (2014); Lee, Su & Lin (2012).

In real-world business situations, companies often integrate both debt and equity into their capital framework. Despite the prevalence of leveraged firms, studies indicate that short-term credit, specifically trade-payables, exert a more substantial role in shaping

their debt-based capital structure compared to long-term liabilities, which are typically more difficult to secure (Salawu, 2009).

The study first investigates the impact of financial leverage on a company's performance, with a specific focus on debt. It suggests that when companies rely on debt according to their needs, it has the potential to enhance their overall performance.

Additionally, the study predicts a negative relationship between a company's capital structure and performance. Relying on debt without profitable investments, leading to a cost of debt surpassing return on investment, heightens the risk of bankruptcy and detrimentally impacts overall company performance.

Furthermore, the study assumes that a steady cost of debt, contrasting with the variable nature of the cost of equity. In simpler terms, once debt reaches a certain point, further borrowing may jeopardize the company's ability to meet financial obligations.

In theoretical terms, the utilization of debt by a firm is deemed advantageous due to the non-taxable nature of interest payments, potentially leading to an increase in firm value. The prevailing practice involves management either investing free cash in prospective projects or distributing dividends to stockholders. Simultaneously, shareholders aim to promote the use of debt as a method to enforce managerial discipline, leveraging the commitment to consistent fixed payments.

Additionally, financial institutions commonly enforce specific financial conditions on borrowing firms, including a fixed debt-to-assets ratio. Management actively pursues compliance with these conditions, thereby enhancing operational efficiency. An additional aspect involves the mandatory disclosure of information about the firm's activities to debt holders, fostering greater transparency and oversight of managerial actions.

Typically, companies tend to employ a combined approach to financing, incorporating both debt and equity in their capital composition. Despite the prevalence of leveraged firms, research indicates that short-term loans, such as trade payables, play a more substantial role in their leveraged capital structure compared to less accessible long-term debts (Salawu, 2009).

Myers (1977) observed that shareholders in companies with substantial debt levels are inclined to contemplate further investments only when the expected return on investment equals or exceeds the returns promised to long-term creditors. Without these favourable conditions, shareholders may refrain from making further investments, resulting in a situation characterized by Myers as underinvestment.

This expectation arises from the recognition that a heavily leveraged firm exposes its direct owners or shareholders to increased risks, justifying a correspondingly higher return for these stakeholders.

## 2. STATEMENT OF PROBLEM

Gill & Obradovich (2013) and Pandey & Sahu (2017) argued that companies can benefit from the net tax-saving effect, emphasizing that opting for a more leveraged capital structure does not pose significant financial risks. In developing nations with limited and less sophisticated debt markets, businesses typically depend on long-term bank credit for their extended operational and investment needs. Increasing inflation and economic risks drive the majority of the financial institutions in the country to offer loans at exceptionally high interest rates.

Recent research on the influence of leverage on firm value has employed diverse methodologies. Abdul & Badmus (2017) focused on specific sectors, Dare & Sola (2010) focused on the petroleum sector; Akamelu, Iyidiobi & Ezejiofor (2017) examined specifically food industry.

Thaddeus and Chigbu (2012) assessed six financial institutions, highlighting the imperative to broaden the study to encompass all industries.

## 3. THEORETICAL FRAMEWORK

The firm aims to enhance shareholder returns through financial leverage in favourable economic conditions. If the company obtains fixed charges funds at a cost exceeding the target rate of return, it leads to a decline in EPS, ROE, and ROI, showcasing the repercussions of financial leverage.

The premise of financial leverage involves obtaining funds through fixed charges at a cost lower than the company's required rate of return. This approach results in increased EPS and ROE when the earnings generated by fixed-charges funds surpass their cost and are distributed to shareholders.

Financial leverage enhances shareholders' earnings. The fluctuation in EBIT (Earnings before Interest and Tax) results in a wider range of EPS when debt is a part of the capital structure. Higher debt leads to faster fluctuations in EPS compared to the corresponding changes in EBIT. Thus, financial leverage not only amplifies EPS but also enhances its variability, distinguishing between two types of risks, operating risk and financial risk based on the variability of EBIT and EPS.

Operating risk is inherent and unavoidable but a firm is better equipped to manage it can when accurately predicted. The variability of EBIT consists of two components: sales and expenses.

Financial Risk increases as financial leverage rises, leading to the variability both EPS and ROE rise for a given degree of EBIT variability. This fluctuation in EPS attributed to the use of financial leverage is termed financial risk.

#### 4. HYPOTHESES

The following hypotheses have been developed to examine the impact of leverage on company's performance.

- H<sub>1</sub>: There is a significant influence of leverage on Return on Equity.
- H<sub>2</sub>: An adverse and substantial influence of leverage on Return on Equity
- H<sub>3</sub>: Return on Assets is positively and significantly influenced by leverage
- H<sub>4</sub>: A substantial and detrimental influence of leverage on the Return on Assets.

#### 5. LITERATURE REVIEW

The impact of debt on company performance has been a subject of significant theoretical contributions. Modigliani & Miller (1958) introduced the MM theory, positing that in a perfectly competitive market environment without taxes, capital structure has no impact on company value. However, when taxes come into play, altering the capital structure can enhance firm value due to the tax benefits linked to debt payments.

Miller (1977) expanded on this idea, claiming that in financial markets characterized by competition where both investors and corporations are subject to taxation, the equilibrium value of leveraged and unleveraged firms is equal, thereby making capital structure decisions unimportant.

Jensen and Meckling (1976) presented the concept of agency relations, delineating scenarios wherein one party assigns work or services to another, giving rise to an agency conflict due to conflicting interests between the principal and the agent. This conflict results in information asymmetry as management may not transparently disclose information to shareholders. According to agency theory, larger companies face more significant information asymmetry (Jensen and Meckling, 1976).

Profitability, assessed by measures such as Return on equity (ROE) & Return on Assets (ROA), is commonly acknowledged as a crucial gauge of company performance (Demsetz & Lehn, 1985). The performance of a company may be adversely affected by both short-term and long-term loans (Awais Mustabsar, Iqbal Wateen, 2016).

A more favourable performance is suggested when the borrowed funds are lower than the total equity of the company. Conversely, if the debt surpasses the total equity, the company's performance is likely to deteriorate. Financial managers should evaluate the total equity value of the firm prior to leverage transactions.

Singapourwoko and El-Wahid (2011) investigated 48 companies listed on the Indonesian Stock Exchange spanning the time frame from 2003 to 2008. They observed a noteworthy positive correlation between leverage and profitability. In contrast, Siahaan, Ragil & Solimon (2014) obtained divergent outcomes in their examination of 60 listed firms, stratifying them into small and large clusters. The lower cluster displayed a significant negative association between leverage and entity value, whereas the upper cluster (comprising large firms) exhibited an insignificant relationship.

Salim and Yadav (2012) identified a negative effect of leverage on ROA, ROE & EPS accompanied by a significant positive influence on Tobin's Q. Safiuddin et al. (2015) discerned that financial company shareholders derive elevated profitability from financial leverage and spread, while non-financial firms, despite high operating leverage, encounter diminished profitability.

## 6. RESEARCH OBJECTIVES

1. To investigate the impact of financial leverage on the firm performance of MSX 30 index listed companies in Oman
2. To analyze the correlation between financial leverage and the firm performance of MSX 30 index listed companies in Oman.
3. To provide recommendations for MSX 30 index listed companies to optimise their financial leverage and enhance their overall performance.

## 7. RESEARCH METHODOLOGY

This is a cross-sectional quantitative method analysis in which secondary data are used to gather quantitative data. For this research paper the authors have collected information of all target Population listed in all MSX 30 -index companies and data is taken for a period of 5 years from 2018-2022. In this analysis, the dependent variable was the firm results in corporations' annual reports.

**Table 1: Sample Selection**

Finance Sector	Industrial Sector	Service Sector
Al Anwar Investment (AAIC)	Al Anwar Ceramic	Al Jazeera Services
Ahli Bank	Oman Cement	Al Batinah Power
Madina Takaful	Jazeera Steel Prod	Oman Invest & Fin
Bank Dhofar	Aluminium Prod	Ooreadoo
Bank Muscat	Galfar Engineer	Oman Telecom
Bank Nizwa	AlMaha Ceramics	Phonix Power
Sohar Intl.Bank		Renaissance Ser
Global Inv. Holding		
HSBC Bank of Oman		
Muscat finance		
Al Omaniya Fin.S		
National Bank Oman		
Ominvest		
Oman Emirates HO		
Al Sharqia Inv		
Taageer Finance		
United Finance		
Time Frame: 5 Years (2018-2022)		

## Variable for Measurement

### Independent Variables:

- **Debt - to - Equity Ratio:** The debt - to - equity ratio emerges a pivotal metric in evaluating financial leverage, shedding light on the degree to which companies employ debt in their financial operations and elucidating the connection between debts and equity value. (Tugas (2012), Opter Tim (2009), & Vale (2011), have incorporated this ratio in their respective studies as a key tool for financial analysis. The computation of Debt/Equity involves dividing total liabilities with shareholders' equity.
- **Solvency Ratio:** This ratio assesses the total company's debt relative to its total assets. Respected researchers like this ratio is a crucial indicator of long-term financial stability and is employed to evaluate the impact of leverage on company performance. It is measured by dividing total debt by total assets. (K.Singh & F.C Asres (2010), as well as Ucal, Meltem & O.Serhan (2011) emphasize its significance in gauging financial health and solvency)
- **Proprietary Ratio:** The formula to calculate the Proprietary ratio is dividing the shareholder's equity by total assets. The Proprietary ratio, also known as equity ratio serves as a valuable tool for assessing the impact of leverage on company performance. This ratio measures the percentage of total assets funded by the owners and illustrates the correlation between shareholders' total equity and a firm's overall assets.

### Dependent Variables:

- **Return on Assets** ratio is measured dividing net profit by total assets. The Return on assets ratio illustrates the relationship between a company's profit to its total assets, quantifying the efficiency of profit generation from its asset base.(R.M. Burton(2002), M. Muhammad (2014) & Muammar(2014) have employed this measurement approach in their research to assess and analyse the performance of companies)
- **Return on Equity** Ratio is computed by dividing net profit by equity. This ratio used to reveal the correlation between net profit and shareholder equity and used to evaluate the profitability. (William H. Beaver& Stephen G. Ryan (2012) & K. Majid (2012) emphasise the importance of using return on equity as a technique for measuring company's profitability, integrating this ratio into their research studies)

Hypothesis Testing: Performing hypothesis testing entails the application of statistical tool, descriptive statistics, correlation analysis, and regression analysis.

## 8. RESULTS

Table 2: Ratio Analysis of Financial Sector

	2018					2019					2020					2021					2022				
	Solvency Ratio	Debt Equity Ratio	Return on Asset	Return on Equity	Proprietary Ratio	Solvency Ratio	Debt Equity Ratio	Return on Asset	Return on Equity	Proprietary Ratio	Solvency Ratio	Debt Equity Ratio	Return on Asset	Return on Equity	Proprietary Ratio	Solvency Ratio	Debt Equity Ratio	Return on Asset	Return on Equity	Proprietary Ratio	Solvency Ratio	Debt Equity Ratio	Return on Asset	Return on Equity	Proprietary Ratio
Al Anwar Investment(AAIC)	0.32	1.47	0.08	0.12	0.68	0.36	0.57	0.01	0.02	0.64	0.36	0.57	0.00	0.01	0.64	0.38	0.61	-0.01	-0.01	0.62	0.35	0.53	-0.02	-0.03	0.65
Ahli Bank	0.84	5.38	0.01	0.08	0.16	0.85	5.47	0.01	0.08	0.15	0.86	5.96	0.01	0.06	0.14	0.86	6.15	0.09	0.65	0.14	0.85	5.67	0.01	0.07	0.15
Madina Takaful	0.73	2.50	0.01	0.03	0.29	0.78	3.18	0.01	0.04	0.24	0.82	4.40	0.01	0.05	0.19	0.77	3.18	0.01	0.04	0.24	0.82	4.60	0.01	0.05	0.18
Bank Dhofar	0.83	5.04	0.01	0.07	0.17	0.84	5.30	0.01	0.04	0.16	0.84	5.12	0.01	0.04	0.16	0.84	5.35	0.01	0.04	0.16	0.83	5.02	0.01	0.05	0.17
Bank Muscat	0.84	5.37	0.01	0.09	0.16	0.84	5.14	0.02	0.09	0.16	0.84	5.09	0.01	0.08	0.16	0.84	5.08	0.01	0.09	0.16	0.83	4.72	0.02	0.09	0.17
Bank Nizwa	0.47	3.01	0.01	0.05	0.16	0.56	3.89	0.01	0.07	0.14	0.19	1.47	0.01	0.07	0.13	0.18	1.03	0.01	0.05	0.17	0.16	0.99	0.01	0.06	0.17
Sohar Int.Bank	0.87	6.90	0.01	0.08	0.13	0.85	5.54	0.01	0.06	0.15	0.85	5.79	0.01	0.04	0.15	0.86	5.93	0.01	0.05	0.14	0.84	5.21	0.01	0.05	0.16
Al Sharqia Inv	0.03	0.03	0.01	0.01	0.97	0.06	0.07	0.01	0.01	0.94	0.23	0.30	0.03	0.04	0.77	0.21	0.26	0.03	0.04	0.79	0.21	0.26	0.03	0.03	0.79
United Finance	0.58	1.39	0.01	0.02	0.42	0.56	1.29	0.01	0.02	0.44	0.49	0.95	0.01	0.02	0.51	0.44	0.78	0.02	0.04	0.56	0.48	0.94	0.02	0.03	0.52
Global Inv. Holding	0.22	0.28	0.06	0.07	0.78	0.24	0.32	0.01	0.01	0.76	0.43	0.75	0.00	0.01	0.57	0.41	0.69	0.03	0.06	0.59	0.40	0.67	0.00	0.01	0.60
HSBC Bank of Oman	0.86	5.93	0.13	0.92	0.14	0.86	6.24	0.01	0.08	0.14	0.86	6.19	0.00	-0.03	0.14	0.85	5.80	0.01	0.05	0.15	0.84	5.24	0.01	0.07	0.16
Muscat Finance	0.75	2.99	0.02	0.10	0.25	0.71	2.45	0.00	0.01	0.29	0.70	2.35	-0.03	-0.10	0.30	0.65	1.82	0.01	0.03	0.35	5.91	1.69	0.05	0.01	3.50
Al Omaniya Fin.S	0.72	2.61	0.02	0.06	0.28	0.73	2.72	0.01	0.05	0.27	0.65	1.85	0.01	0.02	0.35	0.67	2.03	0.01	0.04	0.33	0.68	2.11	0.01	0.04	0.32
National Bank Oman	0.85	5.66	0.01	0.09	0.15	0.85	5.58	0.01	0.09	0.15	0.85	5.85	0.00	0.03	0.15	0.86	6.35	0.01	0.05	0.14	0.85	5.70	0.01	0.08	0.15
Ominvest	0.68	2.09	0.03	0.09	0.32	0.67	2.03	0.04	0.12	0.33	0.69	2.22	0.02	0.05	0.31	0.74	2.84	0.03	0.11	0.26	0.77	3.26	0.04	0.16	0.23
Oman Emirates HO	0.57	1.33	0.08	0.19	0.43	0.59	1.44	0.07	0.18	0.41	0.56	1.29	0.04	0.09	0.44	0.45	0.83	0.04	0.08	0.55	0.45	0.45	0.09	0.09	1.00
Taageer Finance	0.76	3.13	0.03	0.12	0.24	0.78	3.52	0.02	0.09	0.22	0.76	3.15	0.01	0.05	0.24	0.76	3.13	0.01	0.06	0.24	0.78	3.53	0.02	0.07	0.22

Source: SPSS Output

The ratio analysis of the financial sector is shown in the table above. In 2018, Sohar International Bank had the highest solvency ratio and Al Sharqia Investment had the lowest. Al Sharqia Inv. has the lowest debt equity ratio, while HSBC Bank of Oman has the highest. The HSBC Bank of Oman has the best return on assets, whereas Ahil Bank, Ma dina Takaful, Bank Dhofar, Bank Muscat, Bank Nizwa, Sohar International Bank, Al Sharqia Inv, United Finance, and National Bank Oman have the lowest returns on assets. Al Anwar Investment has the best return on equity, while Al Sharqia Investment has the lowest. Al Anwar Investment has the highest and Al Sharqia Investment has the lowest proprietary ratio.

In 2019, HSBC Bank of Oman has the highest Solvency Ratio, National Bank of Oman has the highest Debt Equity Ratio, Oman Emirates HO has the highest Return on Assets, Oman Emirates HO has the highest Return on Equity, and Global Inv Holding has the highest Proprietary Ratio. In 2020, Ahil Bank of Oman has the highest Solvency Ratio, followed by HSBC Bank of Oman for Debt Equity Ratio, Oman Emirates HO for Return on Assets and Return on Equity, and Al Sharqia Inv for Proprietary Ratio. In 2021, Ahil Bank of Oman and Sohar International Bank have the highest Solvency Ratio, the Debt Equity Ratio is highest for the National Bank of Oman, Ahil Bank of Oman has the highest Return on Assets, Ahil Bank of Oman has the highest Return on Equity, and Al Sharqia Inv. has the highest Proprietary Ratio. In 2022, the National Bank of Oman has the highest debt-to-equity ratio, Muscat Bank has the highest return on equity, Ominvest has the highest return on equity, Oman Emirates HO has the highest return on assets, and Muscat Finance has the highest proprietary ratio.

**Table 3: Ratio Analysis of Industrial Sector**

	2018					2019					2020					2021					2022				
	Solvency Ratio	Debt-Equity Ratio	Return on Asset	Return on Equity	Proprietary Ratio	Solvency Ratio	Debt-Equity Ratio	Return on Asset	Return on Equity	Proprietary Ratio	Solvency Ratio	Debt-Equity Ratio	Return on Asset	Return on Equity	Proprietary Ratio	Solvency Ratio	Debt-Equity Ratio	Return on Asset	Return on Equity	Proprietary Ratio	Solvency Ratio	Debt-Equity Ratio	Return on Asset	Return on Equity	Proprietary Ratio
United Finance	0.07	0.07	0.02	0.02	0.90	0.08	0.09	0.05	0.05	0.88	0.13	0.15	0.09	0.11	0.87	0.25	0.33	0.14	0.18	0.75	0.33	0.05	0.06	0.01	6.69
Oman Cement (Industrial)	0.16	0.19	0.04	0.05	0.84	0.15	0.17	0.02	0.03	0.85	0.11	0.13	0.03	0.04	0.89	0.27	0.36	0.02	0.03	0.73	0.30	0.42	0.02	0.03	0.70
National Aluminium Product(Industrial)	0.77	3.37	0.02	0.10	0.23	0.80	3.94	-0.02	-0.11	0.20	0.78	3.45	-0.03	-0.13	0.22	0.82	4.61	-0.10	-0.55	0.18	0.96	23.17	-0.18	-4.45	0.04
Al Maha Ceramics	0.21	0.28	0.11	0.15	0.74	0.17	0.23	0.08	0.11	0.75	0.21	0.27	0.12	0.15	0.79	0.21	0.27	0.17	0.21	0.79	0.29	0.40	0.19	0.26	0.71
Al Jazeera Steel Product(Industrial)	0.37	0.60	0.04	0.07	0.61	0.35	0.55	0.00	0.01	0.62	0.37	0.60	0.04	0.07	0.63	0.48	0.91	0.10	0.18	0.52	0.48	0.91	0.03	0.06	0.52
Galfar Engineering	0.87	6.92	-0.02	-0.12	0.13	0.84	5.19	-0.07	-0.44	0.16	0.92	10.78	-0.11	-1.35	0.08	0.83	9.13	0.01	0.06	0.09	0.89	8.31	0.01	0.06	0.11

Source: SPSS Output

Table 3 shows the ratio analysis of Industrial Sector, in 2018, Solvency ratio is highest of Galfar Engineering, Debt Equity ratio is highest of Galfar Engineering, Return on Assets is highest of Al Maha Ceramics, Return on Equity is high for Al Maha Ceramics and Proprietary ratio is highest for United Finance. In 2019, Solvency ratio is highest of Galfar Engineering, Debt Equity ratio is highest of Galfar Engineering, Return on Assets is highest of Al Maha Ceramics, Return on Equity is high for Al Maha Ceramics and Proprietary ratio is highest for United Finance. In 2020, Solvency ratio is highest of Galfar Engineering, Debt Equity ratio is highest of Galfar Engineering, Return on Assets is highest of Al Maha Ceramics, Return on Equity is high for Al Maha Ceramics and Proprietary ratio is highest for Oman Cement (Industrial). In 2021, Solvency ratio is highest of Galfar Engineering, Debt Equity ratio is highest of Galfar Engineering, Return on Assets is highest of Al Maha Ceramics, Return on Equity is high for Al Maha Ceramics and Proprietary ratio is highest for Al Maha Ceramics. In 2022, Solvency ratio is highest of National Aluminium Product, Debt Equity ratio is highest of National Aluminium Product, Return on Assets is highest of Al Maha Ceramics, Return on Equity is high for Al Maha Ceramics and Proprietary ratio is highest for United Finance.

**Table 4: Ratio Analysis of Service Sector**

	2018					2019					2020					2021					2022				
	Solvency Ratio	Debt Equity Ratio	Return on Asset	Return on Equity	Proprietary Ratio	Solvency Ratio	Debt Equity Ratio	Return on Asset	Return on Equity	Proprietary Ratio	Solvency Ratio	Debt Equity Ratio	Return on Asset	Return on Equity	Proprietary Ratio	Solvency Ratio	Debt Equity Ratio	Return on Asset	Return on Equity	Proprietary Ratio	Solvency Ratio	Debt Equity Ratio	Return on Asset	Return on Equity	Proprietary Ratio
Al Jazeera Service Company( Service)	0.01	0.01	0.30	0.30	0.99	0.01	0.01	0.09	0.09	0.99	0.10	0.12	0.11	0.12	0.90	0.13	0.15	0.16	0.18	0.87	0.14	0.16	0.08	0.10	0.86
Al Batinah Power( Service)	0.70	2.29	0.03	0.11	0.30	0.69	2.18	0.04	0.12	0.31	0.67	2.04	0.04	0.12	0.33	0.62	1.61	0.04	0.11	0.38	0.54	1.15	0.05	0.11	0.46
Omani Qatari Telecommunications ( Service)	0.38	0.60	0.10	0.16	0.62	0.41	0.69	0.08	0.13	0.59	0.46	0.85	0.04	0.08	0.54	0.45	0.81	0.03	0.05	0.55	0.41	0.69	0.04	0.07	0.59
Phonex Power( Service)	0.69	2.26	0.02	0.07	0.31	0.71	2.49	0.02	0.08	0.29	0.71	2.42	0.03	0.09	0.29	0.66	1.94	0.03	0.08	0.34	0.56	1.28	0.04	0.09	0.44
Oman Invest( Service)	0.68	2.09	0.03	0.09	0.32	0.67	2.03	0.04	0.12	0.33	0.69	2.22	0.02	0.05	0.31	0.72	2.56	0.03	0.10	0.28	0.75	3.06	0.03	0.13	0.25
Oman Telecommunications (Service)	0.64	1.79	0.03	0.08	0.36	0.66	1.91	0.04	0.11	0.34	0.63	1.67	0.03	0.08	0.37	0.63	1.73	0.03	0.08	0.37	0.63	1.71	0.04	0.10	0.37
Renaissance Services (Service)	0.77	3.29	0.01	0.06	0.23	0.64	1.78	0.10	0.27	0.36	0.61	1.59	0.05	0.12	0.39	0.61	1.58	0.05	0.13	0.39	0.57	1.32	0.06	0.13	0.43

Source: SPSS Output

Table 4 shows the ratio analysis of Service Sector, in 2018, Solvency ratio is highest of Renaissance Services, Debt Equity ratio is highest of Renaissance Services, Return on Assets is highest of Al Jazeria Service Company, Return on Equity is high for Al Jazeria Service Company and Proprietary ratio is highest for Al Jazeria Service Company.

In 2019, Solvency ratio is highest of Al Batinah Power, Debt Equity ratio is highest of Phonex Power, Return on Assets is highest of Renaissance Services, Return on Equity is high for Renaissance Services and Proprietary ratio is highest for Al Jazeria Service Company.

In 2020, Solvency ratio is highest of Phonex Power, Debt Equity ratio is highest of Phonex Power, Return on Assets is highest of Al Jazeria Service Company, and Return on Equity is high for Al Jazeria Service Company and for Al Batinah Power and Proprietary ratio is highest for Al Jazeria Service Company. In 2021, Solvency ratio is highest of Oman Invest, Debt Equity ratio is highest of Oman Invest, Return on Assets is highest of Al Jazeria Service Company, Return on Equity is high for Al Jazeria Service Company and Proprietary ratio is highest for Al Jazeria Service Company.

In 2022, Solvency ratio is highest of Oman Invest, Debt Equity ratio is highest of Oman Invest, Return on Assets is highest of Al Jazeria Service Company, and Return on Equity is high for Oman Invest and of Renaissance Services and Proprietary ratio is highest for Al Jazeria Service Company.

**Table 5: Variances**

	2018		2019		2020		2021		2022	
	R <sup>2</sup>	R <sup>2</sup> Adj.	R <sup>2</sup>	R <sup>2</sup> Adj.	R <sup>2</sup>	R <sup>2</sup> Adj.	R <sup>2</sup>	R <sup>2</sup> Adj.	R <sup>2</sup>	R <sup>2</sup> Adj.
IVs -> DV (ROA)	.050	-.169	.154	-.042	.067	-.148	.072	-.142	.313	.155
IVs -> DV (ROE)	.129	-.072	.206	.023	.063	-.153	.164	-.030	.240	.065

Source: SPSS Output

The table 5 indicate the coefficient of determination (R<sup>2</sup>). In this analysis, an endogenous variable with an R<sup>2</sup> value of 2018, 0.050 (ROA), and 0.129 (ROE) shows that Solvency, Debt-Equity, and Proprietary Ratio can account for 5% and 12.9%, respectively, of the variance in performance (ROA and ROE). In 2019, 0.154 (ROA), 0.206 (ROE) indicate that Solvency, Debt-Equity, and Proprietary Ratio can explain 15.4%, 20.6% of the variance in performance (ROA and ROE).

In 2020, 0.067 (ROA), 0.063 (ROE) indicate that Solvency, Debt-Equity, and proprietary ratio can explain 6.7%, 6.3% of the variance in performance (ROA and ROE). In 2021, 0.072 (ROA), 0.164 (ROE) suggests that 7.2%, 16.4% of the variance in performance (ROA and ROE) can be explained by: Solvency, Debt-Equity and proprietary ratio. In 2022, 0.313 (ROA), 0.240 (ROE) suggests that 31.3%, 24% of the variance in performance (ROA and ROE) can be explained by: Solvency, Debt-Equity and proprietary ratio.

**Table 6: Effect of Leverage on (ROE) and on (ROA)**

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
SR-> ROA	.014	.007	.312	1.979	.066
DE-> ROA	.028	.010	-.250	2.722	.016
PR-> ROA	.012	.006	.455	1.889	.078
SR-> ROE	.060	.013	-.190	4.736	.000
DE-> ROE	.029	.017	.441	1.740	.102
PR-> ROE	.065	.012	-.372	5.545	.000

Source: SPSS Output

Looking to the probability values for both constant and predictor variables, it is observed that constant is statistically significant but beta values for variables such as SR-> ROA, PR-> ROA and DE-> ROE are not statistically significant as their probability values are higher than 0.0. Consequently, fail to reject the null and interpret that there is no effect of Solvency ratio and proprietary ratio on Return on Assets, and there is no impact of Debt-to-Equity on Return on Equity. Further, there is impact from Debt-to-Equity on ROA, Solvency on ROE and Proprietary on ROE are positively impacting.

## 9. CONCLUSION

The main objective of this study is to evaluate the connection between financial leverage and company performance with an intention to enhance the performance of companies listed on the Muscat Stock Exchange (MSX). To assess the influence of financial leverage on performance metrics (ROE & ROA), the research employed three independent variables: Solvency Ratio, Debt-Equity Ratio, and Proprietary Ratio. The findings revealed that the Solvency ratio and proprietary ratio did not significantly impact on Return on Assets and the Debt-to-Equity ratio has no significant impact on Return on Equity.

Furthermore, the aim of present research was to analyse the correlation between financial leverage on company performance of MSX 30 index listed companies in Oman. The results shows that there is a positive impact from debt-to-equity on ROA, solvency on ROE, and proprietary on ROE. The findings confirmed that acceptance of certain hypotheses related to Solvency Ratio, Debt-to-Equity Ratio and Proprietary Ratio in relation to ROA and ROE. To optimise financial leverage and enhance overall performance, researchers can encourage to explore the influence of other factors on the connection between financial leverage and profitability.

Exploring the effects of leverage could yield valuable insights, enhancing overall company performance. Additionally, the link between financial management and its outcomes must be thoroughly tested by adding new factors such as attendance reward and board commitment. Finally, expanding the company's results agent and integrate marketing and business criteria are crucial metrics to achieve optimal profitability.

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