

Determinants of Financial Performance in Leading Saudi Companies (Evidence from Key Economic Sectors)

Talal Humaidi Alaliani

Researcher in the Accounting Department, Faculty of Business, Jeddah University, Saudi Arabia

Dr. Hani Fayhan Albogami

Head of the Accounting Department, College of Business, Jeddah University, Saudi Arabia

Email: hfalbogami@uj.edu.sa

Abstract:

The study aims to understand the relationship between productivity, growth rate, leverage, current ratio, current asset turnover, company age, and sector type and company performance measured by Return on Equity (ROE). Such an understanding may provide valuable insights for investors and managers regarding the factors that can influence corporate performance and contribute to achieving higher financial returns for shareholders.

This analytical study was conducted to measure the impact of several variables on the performance of Saudi companies. The study focused on examining the effects of productivity, growth rate, leverage, current ratio, current asset turnover, and company age on financial performance as measured by Return on Equity (ROE). Multiple linear regression analysis was used to analyze the data. The study examined a sample of private sector companies in the Kingdom of Saudi Arabia representing seven different economic sectors. These sectors include healthcare, telecommunications, oil, dairy products, banking, insurance, and food industries. The selected companies represent leading firms within their respective sectors. The results indicated that company growth rate, company age, and the telecommunications sector were positively associated with financial performance and were statistically significant. In contrast, leverage, productivity, current ratio, and current asset turnover were not found to have statistically significant effects on financial performance within the study sample. In light of the research findings, the researchers presented useful recommendations for managers, investors, and decision-makers in Saudi private sector companies.

Keywords: Financial Performance, Factors Affecting Financial Performance, Return on Equity (ROE).

1. Introduction

Saudi companies operating across different economic sectors are among the main contributors to economic development in the Kingdom of Saudi Arabia. Their effective contribution to the gross domestic product reflects the strength and diversity of the Saudi economy and enhances its role in the global economy. In addition, these companies provide investment and employment opportunities that support sustainable development and contribute to achieving the objectives of Saudi Vision 2030, which aims to diversify sources of income and strengthen non-oil sectors. Therefore, the growth and prosperity of Saudi companies reflect the economic and social development of the Kingdom and contribute to improving economic stability and social welfare.

Accordingly, this study seeks to explore the impact of several factors on the financial performance of companies, as measured by Return on Equity (ROE). These factors include leverage, company age, growth rate, company productivity, current asset turnover, current ratio, and sector type. These factors are examined across several economic sectors, including healthcare, telecommunications, oil, dairy products, banking, insurance, and food industries. The selected companies represent leading firms within these sectors.

The sectors included in this study are considered important components of the Saudi economy, as each plays a vital role in supporting economic activity and providing essential products and services. By examining these factors and analyzing their impact on company performance, the study aims to provide a better understanding of the challenges and opportunities facing the private sector in the Kingdom. It also seeks to provide practical insights that may contribute to improving the financial performance of companies and supporting their role in economic and social development in Saudi Arabia.

1.1. Research Problem:

The study addresses the need to identify the factors that affect the financial performance of Saudi companies. These factors include leverage, company age, growth rate, company productivity, current asset turnover, current ratio, and sector type. The study seeks to answer the following main question: What is the impact of the selected independent variables on financial performance measured by Return on Equity (ROE)?

1.2. Research Hypotheses:

H1: There is no statistically significant relationship between company leverage and financial performance measured by Return on Equity (ROE).

H2: There is no statistically significant relationship between company age and financial performance measured by Return on Equity (ROE).

H3: There is no statistically significant relationship between company growth rate and financial performance measured by Return on Equity (ROE).

H4: There is no statistically significant relationship between company productivity and financial performance measured by Return on Equity (ROE).

H5: There is no statistically significant relationship between current asset turnover and financial performance measured by Return on Equity (ROE).

H6: There is no statistically significant relationship between the current ratio and financial performance measured by Return on Equity (ROE).

H7: There is no statistically significant relationship between sector type and financial performance measured by Return on Equity (ROE).

2. Literature Review

Financial performance is an important concept for companies and is commonly used to assess their overall financial condition during a specific period. It is considered a measure of the company's ability to utilize its assets and generate returns. Financial performance can also be used to compare companies operating within the same industry or across different sectors (Al-Qudah, 2015).

Several measures can be used to evaluate financial performance. Return on Sales reflects the return generated from sales activities, Return on Assets (ROA) measures the efficiency of asset utilization, and Return on Equity (ROE) reflects the return earned by shareholders on their investments (Almajali et al., 2012). In this study, Return on Equity (ROE) is used as the measure of financial performance.

Several factors may influence the financial performance of companies. This study focuses on internal factors, including company productivity, growth rate, current asset turnover, company age, leverage, and current ratio.

- Productivity:

Company productivity reflects its ability to utilize resources efficiently in order to achieve its objectives. Productivity is commonly measured using asset turnover, which reflects the company's ability to use its assets efficiently to generate revenue. Higher productivity indicates more effective utilization of resources and may contribute to improved financial performance.

- Growth Rate:

Growth rate is an important indicator used to measure changes in company assets over time. It reflects

the extent to which a company is expanding and developing its operations. A higher growth rate may indicate stronger economic performance and greater ability to improve financial results.

- Current Asset Turnover:

Current asset turnover is a financial indicator that measures the efficiency with which a company uses its current assets to generate revenue. A higher turnover ratio indicates more efficient use of assets, while a lower ratio may indicate inefficient utilization of available resources.

- Company Age:

Company age refers to the period that has elapsed since the company's establishment. Previous studies have reported mixed findings regarding the relationship between company age and financial performance. Some studies suggest that older firms benefit from accumulated experience, learning effects, and established market positions, which may improve performance (Liargovas & Skandalis, 2008; Loderer et al., 2011). Other studies argue that organizational rigidity associated with aging may reduce a firm's ability to adapt to environmental changes (Jain, 2016).

- Leverage

Leverage represents the proportion of debt relative to shareholders' equity within the capital structure of a company. Financing decisions are important because they affect shareholder returns, financial risk, and company value. Previous studies have produced mixed evidence regarding the relationship between leverage and financial performance. Some studies reported a positive relationship (Ghosh & Sirmans, 2000; Berger & Bonaccorsi, 2006), while others found a negative relationship (Gleason et al., 2000; Simerly & Li, 2000; Zeitun & Tian, 2007).

- Current Ratio

The current ratio is calculated by comparing current assets with current liabilities. A higher ratio generally indicates a stronger ability to meet short-term obligations. However, excessively high liquidity may reflect inefficient use of resources and may negatively affect profitability and shareholder returns.

This study examines the impact of these factors on the financial performance of leading Saudi companies operating in major sectors of the Saudi economy.

3. Previous Studies:

Several previous studies have examined the factors affecting the financial performance of companies across different sectors and countries.

Alabdullah et al. (2022) examined the relationship between corporate governance mechanisms and

firm financial performance. The study concluded that effective corporate governance practices contribute to improving financial performance and enhancing organizational efficiency

Al-Qudah (2015) investigated the factors affecting accounting information system effectiveness among Jordanian companies. The study found that organizational and technological factors play an important role in enhancing the effectiveness of accounting information systems.

Almajali et al. (2012) examined the factors affecting the financial performance of Jordanian insurance companies. The findings indicated that both internal and external factors had statistically significant effects on financial performance measured by Return on Assets (ROA) and Return on Equity (ROE).

Wei (2012) examined the factors affecting the financial performance of agricultural companies listed on the Shanghai Stock Exchange. The study found that asset utilization, leverage ratios, and agricultural product price indicators were among the most influential factors affecting financial performance.

Hijazi and Tariq (2006) investigated the determinants of capital structure in Pakistani cement companies. The findings showed positive relationships between company growth, profitability, tangible assets, and leverage, while company size was negatively related to leverage.

Muturi and Omondi (2013) examined the factors affecting the financial performance of companies listed on the Nairobi Securities Exchange. The results indicated that leverage had a significant negative effect on financial performance, whereas liquidity, firm size, and company age had significant positive effects.

- Research Gap:

Although the current study shares several similarities with previous studies, it differs in its focus on leading Saudi companies operating in a variety of economic sectors. In addition, the study examines the combined effect of seven factors, namely growth rate, company age, current asset turnover, productivity, leverage, current ratio, and sector type on financial performance measured by Return on Equity (ROE).

The study therefore contributes to the literature by providing evidence from major sectors of the Saudi economy represented by leading companies within their respective industries.

4. Methodology:

This study employs a quantitative approach to examine the factors affecting the financial performance of Saudi companies.

4.1. Descriptive Analysis

Descriptive analysis was conducted to achieve a better understanding of the available data. Both graphical and non-graphical analytical methods were used. Non-graphical methods included summary statistics that provided an overview of the characteristics of the study variables, while graphical methods were used to present the data visually and facilitate the interpretation of the results.

4.2. Multiple Linear Regression Analysis

Multiple linear regression analysis was used to examine the relationship between financial performance and the selected independent variables. The model was employed to assess the effect of leverage, company age, growth rate, productivity, current asset turnover, current ratio, and sector type on financial performance measured by Return on Equity (ROE).

The multiple regression model can be expressed as follows:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \dots + \varepsilon$$

where Y represents the dependent variable, X represents the independent variables, β represents the estimated coefficients, and ε represents the error term.

The regression model was estimated using the ordinary least squares (OLS) method. Several diagnostic tests were conducted to verify the assumptions of multiple linear regression, including linearity, normality, independence of errors, and homoscedasticity. The statistical significance of the estimated coefficients was assessed using the corresponding probability values. In addition, R and R² statistics were used to evaluate the overall explanatory power of the model.

4.3. Research Tools

Microsoft Excel was used to organize and prepare the financial data, while Python was used to conduct the statistical analysis and implement the regression models. Python libraries were also used to process the data and generate the statistical outputs required for the study.

Due to the exploratory nature of the study and the relatively small sample size, statistical significance was evaluated at both the 5% and 10% significance levels. Results significant at the 10% level were considered indicative of potentially meaningful relationships and were interpreted with caution.

The study used pooled observations from 14 companies covering the period 2022–2023, resulting in 28 observations. Given the relatively small sample size, Ordinary Least Squares (OLS) regression was considered appropriate for examining the relationships among the study variables. Panel data regression techniques were not applied because the analysis focused on two years of observations rather than multiple time periods.

4. Results and Discussion:

4.1. Data Description:

The data were collected from the Saudi Exchange (Tadawul), which is regulated by the Capital Market Authority. The study used a selected sample of Saudi companies during years between 2022 and 2023. The data include leverage, company age, growth rate, company productivity, current asset turnover, sector type, and Return on Equity (ROE). These variables were used to examine the financial performance of the selected companies.

Table 1 presents the descriptive statistics of the study variables, including the mean, median, standard deviation, minimum, and maximum values. The descriptive results provide an overview of the financial characteristics of the selected companies during the study period.

Table 1. Descriptive Statistics

Variable	count	mean	median	std	min	max
ROE	28	0.149	0.106	0.105	0.056	0.374
Leverage	28	0.622	0.681	0.188	0.305	0.869
Company Age	28	49.929	46.000	19.847	20.000	91.000
Growth Rate	28	0.113	0.058	0.132	-0.020	0.434
Productivity	28	0.600	0.609	0.355	0.036	1.100
Current Asset Turnover	28	21.303	11.133	34.885	0.680	137.918
Current Ratio	28	1.424	1.309	0.538	0.776	2.589

4.2. Population and Sample:

The study population consists of private sector companies in the Kingdom of Saudi Arabia. The sample includes seven sectors: healthcare, telecommunications, oil, dairy products, banking, insurance, and food industries. Two companies were selected from each sector to represent the diversity of economic activities. The selected firms represent leading companies within their respective sectors.

Since sector type is a categorical variable, dummy variables were created for inclusion in the regression model. The healthcare sector was used as the reference category, while the remaining sectors were coded as dummy variables.

Table 2. Sector Type Coding

Sector	Coding in the regression model	Interpretation
Healthcare sector	Reference category	All sector dummies = 0

Telecommunications sector	Group_Telecommunications	1 if telecommunications, 0 otherwise
Dairy sector	Group_Dairy	1 if dairy, 0 otherwise
Banking sector	Group_Banking	1 if banking, 0 otherwise
Insurance sector	Group_Insurance	1 if insurance, 0 otherwise
Food sector	Group_Food	1 if food, 0 otherwise
Oil sector	Group_Oil	1 if oil, 0 otherwise

4.3. Data Analysis:

4.3.1. Descriptive Analysis

A correlation matrix was used to examine the relationships among the independent variables and their relationship with the dependent variable, ROE. Table 2 reports the correlation coefficients among the study variables.

Table 3. Correlation Matrix

Variable	ROE	Leverage	Company Age	Growth Rate	Productivity	Current Asset Turnover	Current Ratio
ROE	1.000	-0.058	0.381	0.681	0.393	-0.202	0.411
Leverage	-0.058	1.000	-0.139	0.392	-0.128	0.061	-0.760
Company Age	0.381	-0.139	1.000	-0.004	0.007	-0.299	0.496
Growth Rate	0.681	0.392	-0.004	1.000	0.116	-0.024	0.046
Productivity	0.393	-0.128	0.007	0.116	1.000	0.016	0.102
Current Asset Turnover	-0.202	0.061	-0.299	-0.024	0.016	1.000	-0.200
Current Ratio	0.411	-0.760	0.496	0.046	0.102	-0.200	1.000

The results indicate a moderate positive relationship between company productivity, company age, current ratio, and ROE. A strong positive relationship was observed between growth rate and ROE. In contrast, leverage and current asset turnover showed weak negative relationships with ROE.

These results provide preliminary evidence regarding the direction and strength of the relationships between the explanatory variables and financial performance.

4.3.2. Multiple Linear Regression Analysis

Prior to estimating the regression model, diagnostic tests were conducted to verify the assumptions of multiple linear regression. The results indicated that the data generally satisfied the required assumptions, including normality of residuals and absence of severe multicollinearity. However, the Breusch-Pagan test showed a borderline result, suggesting that heteroscedasticity should be interpreted with caution.

Table 4. Diagnostic Tests

Test	Statistic	p-value	Interpretation
Shapiro-Wilk normality test	0.9345	0.3525	Residuals are normally distributed at 5% level
Jarque-Bera normality test	0.9638	0.6176	Residuals are normally distributed at 5% level
Breusch-Pagan heteroscedasticity test	7.8148	0.0500	Borderline result; interpret with caution
Durbin-Watson statistic	1.0516		Reported to assess residual independence

In addition, the variance inflation factor (VIF) values were examined to assess multicollinearity among the predictors included in the final model. The VIF values were below the commonly accepted threshold, indicating that multicollinearity was not a serious concern.

Table 5. Multicollinearity Test

Variable	VIF
Company Age	1.598
Growth Rate	1.217
Telecommunications sector	1.818

Based on the study variables, the regression model was initially estimated using all independent variables. The full exploratory OLS regression model included leverage, company age, growth rate, productivity, current asset turnover, current ratio, and sector dummy variables.

Table 6. Full Exploratory OLS Regression Model

Variable	Coefficient	Std. Error	p-value
Constant	-0.2615	0.0775	0.1835
Leverage	0.0892	0.0994	0.5343
Company Age	0.0037	0.0005	0.0839
Growth Rate	0.4471	0.0586	0.0830
Productivity	0.0569	0.0382	0.3761
Current Asset Turnover	0.0002	0.0002	0.5228
Current Ratio	0.0300	0.0208	0.3858
Telecommunications sector	0.1833	0.0280	0.0967
Dairy sector	0.0576	0.0235	0.2461
Banking sector	-0.0230	0.0478	0.7143
Insurance sector	-0.0389	0.0296	0.4139
Food sector	0.0251	0.0364	0.6152
Oil sector	0.0694	0.0221	0.1962

After excluding statistically insignificant variables using backward elimination, the final reduced model included company age, growth rate, and the telecommunications sector. Statistically insignificant variables were sequentially removed from the model based on their p-values.

Table 7 presents the model fit statistics for both the full exploratory model and the final reduced model. The full model achieved an R-squared value of 0.7586, while the final reduced model achieved an R-squared value of 0.6570. This indicates that approximately 66% of the variation in financial performance, measured by ROE, can be explained by the independent variables included in the final model.

Table 7. Model Fit Statistics

Model	N	R-squared	Adjusted R-squared	F-statistic	Prob. (F-statistic)
Full model	28	0.7586	0.5655	3.9279	0.0073
Final reduced model	28	0.6570	0.5120	4.5390	0.0032

The final model is expressed as follows:

$$ROE = \beta_0 + \beta_1(\text{Company Age}) + \beta_2(\text{Growth Rate}) + \beta_3(\text{Telecommunications Sector}) + \varepsilon$$

Table 8 reports the results of the final reduced OLS regression model.

Table 8. Final Reduced OLS Regression Model

Variable	Coefficient	Std. Error	t-statistic	p-value
Constant	-0.2816	0.1043	-2.7008	0.0142
Company Age	0.0035	0.0016	2.1971	0.0406
Growth Rate	0.1144	0.0591	1.9368	0.0678
Telecommunications Sector	0.3040	0.0717	4.2416	0.0004

The estimated regression equation is:

$$\text{ROE} = -0.2816 + 0.0035(\text{Company Age}) + 0.1144(\text{Growth Rate}) + 0.3040(\text{Telecommunications Sector}) + \varepsilon$$

The results suggest that an increase in company age is associated with an increase in ROE. Similarly, a higher growth rate is associated with improved financial performance. In addition, companies operating in the telecommunications sector tend to achieve higher ROE compared to companies in the reference sector and other sectors included in the sample.

Company age has a positive and statistically significant relationship with ROE at the 5% significance level. Growth rate has a positive relationship with ROE and is statistically significant at the 10% level. The telecommunications sector has a positive and statistically significant relationship with ROE, indicating that companies in this sector achieved higher financial performance compared with the reference category.

The ranking of variable importance indicates that growth rate is the most influential factor, followed by sector type, specifically the telecommunications sector, while company age has the lowest relative importance among the significant variables.

Finally, Table 9 summarizes the results of hypotheses testing based on the regression analysis.

Table 9. Hypotheses Testing Summary

Hypothesis	Relationship tested	p-value	Decision	Interpretation
H1	Leverage and ROE	0.5343	Accepted	No significant relationship
H2	Company age and ROE	0.0406	Rejected	Positive significant relationship
H3	Growth rate and ROE	0.0678	Rejected	Positive significant relationship
H4	Productivity and ROE	0.3761	Accepted	No significant relationship in the full model

H5	Current asset turnover and ROE	0.5228	Accepted	No significant relationship in the full model
H6	Current ratio and ROE	0.3858	Accepted	No significant relationship in the full model
H7	Sector type and ROE	0.0004	Rejected	Telecommunications sector shows a positive significant relationship

4.4. Discussion of Results:

The study examined the relationship between company productivity, growth rate, leverage, current ratio, current asset turnover, company age, sector type, and financial performance measured by ROE.

The findings support the acceptance of the first, fourth, fifth, and sixth hypotheses, indicating that leverage, productivity, current asset turnover, and current ratio do not have statistically significant effects on ROE.

On the other hand, the second, third, and seventh hypotheses were rejected. The results indicate statistically significant relationships between company age, growth rate, sector type, and financial performance.

Given the relatively small sample size, these findings should be interpreted as exploratory rather than conclusive. Future studies with larger samples may provide stronger statistical evidence regarding these relationships.

The Breusch-Pagan test produced a borderline result ($p = 0.050$). Therefore, the findings should be interpreted with caution because mild heteroscedasticity may affect the precision of standard error estimates. However, the overall conclusions remained consistent across model specifications. Robust standard errors were not applied and therefore results should be interpreted cautiously.

Although the Durbin-Watson statistic was below the ideal value of 2, the cross-sectional nature of the dataset reduces concerns regarding serial correlation compared with time-series studies. The Durbin-Watson statistic (1.05) suggests some degree of positive autocorrelation; however, given the cross-sectional nature of the data, this issue is considered less critical.

These findings are consistent with previous studies that reported a significant relationship between company age and financial performance. The results also support previous evidence indicating a relationship between asset growth and financial performance. Furthermore, previous studies have reported negative relationships between leverage and financial performance.

The final reduced model retained only the most relevant predictors of financial performance. Although the explanatory power of the model decreased slightly, the reduced model provided a more parsimonious and interpretable specification. Consequently, company age, growth rate, and the telecommunications sector emerged as the most robust predictors of financial performance.

5. Practical Implications:

The findings of this study provide several practical implications for managers, investors, and decision-makers in Saudi private sector companies. First, the positive association between growth rate and financial performance suggests that firms should pay close attention to strategies that support sustainable growth. Managers may enhance financial performance by expanding market share, improving revenue generation, investing in operational efficiency, and identifying profitable growth opportunities.

Second, the positive relationship between company age and ROE indicates that organizational experience and accumulated market knowledge can contribute to improved financial performance. Older firms may benefit from their established reputation, customer base, and operational stability. At the same time, younger firms should focus on building institutional capabilities, strengthening governance practices, and developing long-term competitive advantages.

Third, the significant positive association between the telecommunications sector and financial performance highlights the importance of sector-specific characteristics. Investors and financial analysts should consider industry effects when evaluating company performance, as firms operating in high-growth or technology-driven sectors may have different profitability patterns compared with firms in traditional sectors. For policymakers, this finding suggests the importance of supporting sectoral development, innovation, and digital transformation as potential drivers of financial performance.

6. Conclusion

The results indicated that company growth rate, company age, and the telecommunications sector were positively associated with financial performance and were statistically significant.

In contrast, leverage, productivity, current ratio, and current asset turnover were not found to have statistically significant effects on financial performance within the study sample.

Overall, the findings contribute to a better understanding of the factors associated with financial performance among leading Saudi companies operating in major sectors of the Saudi economy.

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