

# The role of government regulations and policies on Islamic finance in the healthcare sector in KSA

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## Abstract

The research object to find out the impact of external borrowing that also obtained from Islamic Banking Institutions this extended research stands on the impact on financial performance in medical companies in the Kingdom of Saudi Arabia. The major objective of this research is to investigate and compare information and data on the role of external debts to improve medical performance in Saudi Arabia. A sample of 8 medical companies in the KSA. A multi-linear regression analysis has been done along 5 years from 2017 to 2021, included the financial ratios that represents the study variables, Independent variables are (Net Profit Ratio, Return of Assets Ratio (ROA), Return on Equity Ratio (ROE), dependent variables (Debt Ratio, Current Debt Ratio) and the There is a significant relationship between LB and firm's ROA, ROE in study sample where  $R = 50.9\%$  at a significant level less than 5%. There is a significant relationship between LB and firm's ROE in study sample where  $R = 49.5\%$  at a significant level less than 5%, and recommended to apply this type of models on the financial sector in KSA in the future.

**Keywords:** *Financing, Financial Ratios, Debt Financing, Equity Financing, Financial performance.*

## 1. Introduction

The purpose of this study is to analyze the financial performance and financial characteristics of healthcare sector. Healthcare hospitals are statistically significantly higher than non-healthcare companies in terms of several ratios such as research and development health sector in Saudi Arabia. (Abu-Hussain, H. &.et al, 2012).

Healthcare remains a top priority for the government in the Kingdom of Saudi Arabia (KSA), and there are enormous opportunities for growth in this high potential business sector.

The National Transformation Program (NTP), the Ministry of Health (MoH) is relied upon to spend near US\$71 billion of five-years finishing in 2020. (Al-Omar, H. A.,2020)

As per US-based consultancy Aon Hewitt, the medical care area in KSA is relied upon to develop at an accumulate yearly development pace of 12.3% by 2020.(Al-Omar, H. A.,2020)

There is additionally a huge ascent in populace with an expansion in those beyond sixty years old years, just as the reception of compulsory health care coverage in the nation to build efficiencies and decrease costs.

The government in KSA has effectively investigated private area association in the improvement of the medical care infra-framework in the Kingdom. By presenting Public Private Participation (PPP) models for medical services, the public authority is running after

opening worth in the wellbeing framework and optimizing medical care change with plans to expand

private area commitment in all out medical services spending to 35% by 2020..

## 2. Literature Review

The health care framework in the Kingdom of Saudi Arabia can be named a public framework to give free medical services administrations to residents through various governmental organizations. Right now, the developing job and expansion in the cooperation of the private area in giving health care administrations is noted.

The complete number of beds in Saudi clinics is around 64,188 beds, of which around 38,970 beds have a place with the Ministry of Health, and 11043 beds have a place with other government areas, while the private area has around 14,165 beds.

The most recent insights gave by the Ministry of Health for Al-Hujira year 1431, which is by and large comparable to 2009, shows an aggregate of 415 medical clinics in the Kingdom, with 58,126 beds. The nation was additionally 16 legislatures, five private universities of medication, 12 states and seven private schools of dentistry, 15 state run administrations and six private schools of Medical store.

The Ministry of Health runs 62% of medical clinics and 53% of centers and focuses, while government divisions, including the Ministry of Defense, deal with the leftover offices Guard, the Ministry of Interior, and various different services, just as by private substances.

### 3. Research Problem

Aside from the deterioration of socioeconomic factors, the introduction of new innovations, administration, etc., and inadequate financial management of emergency clinic units are all likely major contributors to the upward trend in costssaid because medical clinic units are the largest and most profitable in the public sector, resolving this issue will need significant time, effort, and resources. (Al-Omar, H. A.,2020)

Profitable debt or equity financing is crucial. For the last half century, the subject of how best to organize a company's financing has dominated academic discussions on corporate finance. Although the factors that influence a company's decision to use debt Versus equity financing are well-established, it is still unknown how different types of debt affect a company's value and performance. (Al-Omar, H. A.,2020). So the problem is that the current literature omits industry specific determinants of firms' capital structure when examining the impact of financial leverage on firm performance.

### 4. Research Questions

The research questions for the study were:

1. How do medical companies in KSA identify, analyze, monitor and assess financial ratios?
2. To what extent does debt affect companies' financial performance of healthcare companies sector in KSA?
3. What is the impact of external financing on the ROA and ROE?

### 5. Overview Of The Financial Performance Of Medical Sector Companies In Ksa

The healthcare sector in the Kingdom of Saudi Arabia (KSA) remains a significant priority of the government, which has resulted in the creation of many opportunities for business growth. In accordance with the government's

Vision 2030 and the programming for the national transformation, the Ministry of Health intends to spend around \$71 billion over the course of the next five years leading up to the year 2020.

According to research conducted by the American consulting company Aon Hewitt, the healthcare business in the KSA is anticipated to see growth of 12.3 percent by the year 2020. The government of Saudi Arabia has been actively pursuing the engagement of the private sector in building the country's health care infrastructure in order to achieve maximum efficiency while simultaneously cutting expenses. To achieve its goal of increasing the private sector's share of health expenditure from its current level of 25 percent to 35 percent by the year 2020, the government is working to unlock the value of the health care system and to promptly assess public-private participation improvements. The current level of private sector participation in health expenditure is 25 percent. (Al-Hanawi M. K.-B., 2019)

### 3. Research Methods

The study sample consists of 8 companies, namely Mouwasat Medical Services Co, which was established in 1974, Saudi Chemical Co, founded in 1986, AYYAN Investment Co, founded in 1993, Dallah Healthcare Co, founded in 1987, Al Hammadi Company for Development and Investment, founded in 1985, and Dr. Sulaiman Al Habib Medical Services Group which was established in 1993 and National Medical Care CO. Which was established in 2003 And Middle East Healthcare Co Which was established in 2004

#### 3.1 Size Of Company In Term Of Assets

The size of Mouwasat Medical Services Co at the end of 2020 in terms of assets reached 3,648.78 million riyals, While the size of Saudi Chemical Co at the end of 2020 in terms of assets amounted to 4,682.79 million riyals, And the size of AYYAN Investment Co at the end of 2020 in terms of assets was 1311.22 million riyals.

Dallah Healthcare Co at the end of 2020 in terms of assets 3987.27 million riyals, and the size of Al Hammadi Company for Development and Investment at the end of 2020 in terms of assets reached 2435.01 million riyals, And the size of Dr. Sulaiman Al Habib Medical Services Group at the end of 2020 in terms of assets, 9481.17 million riyals, and the size of the National Medical Care CO. At the end of 2020, in terms of assets, SAR 1,432.63 million,

The size of Middle East Healthcare Co. At the end of 2020, in terms of assets, 3957.45 million riyals

#### Number Of Branches

- There are two branches of Mouwasat Medical Services,
- While there are 5 branches of Saudi Chemical Co,

- Three branches of AYYAN Investment Co,
- And no branches of Dallah Healthcare Co,
- Two branches of Al Hammadi Company for Development and Investment,
- And there are 3 branches of Dr. Sulaiman Al Habib Medical Services Group
- There are no branches of National Medical Care CO.
- There are no branches of Middle East Healthcare Co.

**Table 3. 1**  
*Number of Branches*

N o	Compan y	establish ed in	size	branch es
1	Mouwas at Medical Services Co	1974	36487 8	2
2	AYYAN Investme nt Co	1986	46827 9	5
3	Dallah Healthca re Co	1993	13112 2	3
4	Al Hammad i Compan y	1987	39872 7	0
5	Dr. Sulaiman Al Habib	1985	24350 1	2
6	Medical Services Group	1993	94811 7	3
7	National Medical Care CO	2003	14326 3	0
8	Middle East	2004	39574 5	0

	Healthca re Co			
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**3.3 Findings**

The rate of (ROA) decreased in the study sample companies and the low level of management's efficiency in using the available assets to achieve profits in the companies of the study sample, as the least efficient companies in 2019 were AYYAN Investment Co and the highest in efficiency in 2019 is Mouwasat Medical Services Co.

The rate of (ROE) decreased in the study sample companies, with the exception of two companies: Dr. Sulaiman Al Habib Medical Services Group and Mouwasat Medical Services Co Which had a high ROE increase in the liquidity position of the study sample companies, with the exception of Saudi Chemical Co, which shows the high ability of the study sample companies to cover their obligations and short-term operating expenses.

increase in the net income value in most of the study sample companies and a fluctuation in the level of financial strength in the companies of the study sample, as the least efficient company in 2019 was Saudi Chemical Co and the highest in efficiency in 2019 was Mouwasat Medical Services Co.

the value of the Debt Exposure of total debts fluctuated in the companies of the study sample, it is moderate in most of the companies of the study sample, with the exception of three high companies in them, namely Mouwasat Medical Services Co, Saudi Chemical Co, and Middle East Healthcares Co And two companies are low on it, National Medical Care CO. And AYYAN Investment Co

The increase in the value of Islamic finance was found in all companies of the study sample, with the exception of one company, AYYAN Investment Co, and its level fluctuated between high and low in most of the study sample companies during the study period.

The best companies are Mouwasat Medical Services Co It is followed by Saudi Chemical Co Then Dr. Sulaiman Al Habib Medical Services Group Then Middle East Healthcares Co They are followed by Dallah Healthcare Co Then Al Hammadi Company for Development and Investment While the lowest was National Medical Care CO. and AYYAN Investment Co.

**7. Implications**

Theoretical implications, practical implications, legal implications, industry use, effects on government policy, bridging the research gap, importance for additional Literatures. This study will have many effective effects regarding the medical industry in Saudi Arabia

1- Theoretical implications: After studying, knowing and clarifying the importance of financial performance in medical companies, as well as the

importance of the job of the external debtor, the importance of his presence, and what are the powers that must be given to him in order to ensure that his work tasks are fully carried out, this undoubtedly leads to an increase in interest. And pay attention to this function and its existence and activate its role in the medical companies, as financial performance and external debt. As it is of a high degree of importance, as evidenced by the large number of tasks entrusted to them, their seriousness and the high degree of sensitivity in companies.

One of the theoretical implications expected to occur as a result of the effective implementation of the role of financial performance and the role of the external debtor in medical companies in KSA is that the problems facing companies in the current period will decrease, as a result of anticipating their occurrence before and planning how to confront and deal with them.

All of you are expected to reduce the gaps in financial errors and financial reports that are issued by the financial management in companies as a result of the work of the external debtor and his review of the work of the financial department and monitoring the reports issued by them.

It can also be said that administrative problems that result from lack of control and scrutiny, which leads some employees, workers, or even administrators in companies to override or violate company laws, which undoubtedly harm the company. Managing risks, and activating the role of the external debtor in the company. All of this is theoretically expected to happen, as an obvious and expected result and theoretical implications for activating the role of external debtor in KSA medical companies.

## 7. Recommendations for Future Study

We recommend that researchers who will do research work in the same field of medical companies and the roles of internal observers and the work of financial performance in medical companies pay attention to several important points to obtain good results from their research:

- a. Pay attention to the fact that all information is reliable and from sources that are professional, credible and specialized
- b. Paying attention to the details included in the research framework and not neglecting them
- c. Supporting research with sources of credibility and academic credibility in the same field
- d. Pay attention to the good arrangement and presentation of information and data, and list the search results.

## 8. Conclusion

In the pages of this research, many important and necessary steps have been taken to reach the desired results at the end of this research, while preserving the academic character and the features of modern scientific research and its conditions, while implementing the steps. Where we first studied the problem in question and scrutinized its details and all its aspects, which is the absence of an effective and real role for financial performance nor the external debtor in the medical companies in KSA, which significantly affects the

companies in particular, and the work environment and the economic, legal and practical climate in a way. Year in the country

Then we studied theories and studies related to our field of research, where we conducted an audit tour of books, researches, studies and theories previously published in an accredited and academic way, regarding the field of medical companies, the relationship of financial performance and the position of external debtor in these companies, and the implications of losing these two positions in medical companies, and the implications for their presence in the medical companies at KSA and we gathered correct information from its reliable and specialized scientific sources in the field of companies working in the medical field, to give the research the status of credibility in terms of sound and reliable reference. This reliable information that we have used effectively in our research, so information and data are always the basis of all scientific research work.

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