Research.

The influence of the proportion of foreign ownership and financial ratio on banking performance in Indonesia in the period of 2017-2019

Yacob P. Sijabat¹, Heni Hirawati², Deni Ramdani³, Aviana Devita⁴, Nava Yansi Anggraeni⁵

Department of Management, Universitas Tidar, Magelang, Indonesia

¹yacobodjjabat@untidar.ac.id, ²heni.hirawati@untidar.ac.id, ³deni.ramdani@untidar.ac.id, ⁴aviana.devita@outlook.com, ⁵navaanggraeni2@gmail.com

* Corresponding author

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Abstract: This research examined the influence of foreign proportions in the shares of banking companies and financial ratios on the performance of companies listed on the Indonesia Stock Exchange in the period 2014-2018. The proportion of foreigners in a banking company uses a comparison of the total amount of foreign shares with the total share ownership. While the proxies of financial ratios are measured using several ratios, including Non-Performing Loans (NPL), Loan to Deposit (LDR), Capital Adequacy Ratio (CAR) and BOPO. Performance proxies are measured using ROA and ROE proxies. The method used is data panel regression using stata 13.0 software. The results of research on the proportion of foreign to the company's performance have a significant effect on ROA alone.

Keywords: Banking Company, Financial Ratios, Proportion of Foreign Ownership

INTRODUCTION

Background

The Bank as a public trust institution and part of the monetary system has a strategic position to support the implementation of national development, in order to increase equitable development and its results, economic growth, and national stability, towards improving the standard of living of the people (Otoritas Jasa Keuangan, 2018).

As part of the economic system, the banking sector serves to allocate funds from surplus parties to those with deficits. If the banking sector is unstable and does not function efficiently, the allocation of funds will not run properly, thus hampering economic growth. Experience shows that an unstable banking sector, especially if it causes a crisis, requires very high cost for its rescue efforts. Valuable lessons have been experienced by Indonesia during the financial crisis of 1998, at which time the cost of the crisis was very significant. In addition, it will take a long time to revive public confidence in the financial system. The 1998 crisis proved that financial system stability is a very important aspect in shaping and maintaining a sustainable economy. An unstable financial system tends to be vulnerable becoming various turmoil, disrupting the turnaround of the economy. Below is explained about the relationship between financial system stability and monetary stability.

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Based on the figure above, the banking sector plays a major role in Indonesia's financial stability. Directly, the financial system is affected by the performance of the banking sector through capital profitability schemes. Therefore, researchers want to know what factors can improve banking performance in Indonesia.

Based on data from IDX, banking stocks are very progressive in the Indonesian stock market, as seen from the year-on-year finance index increase (data attached in the chart below).

Based on research (Defri, 2012) which analyzes the effect of capital adequacy ratio (CAR), liquidity (loan to deposit ratio-LDR), operational efficiency (BOPO) on profitability (return on assets-ROA) of banking companies listed on the Indonesia Stock Exchange (IDX) shows that CAR has a positive and insignificant effect on ROA in banking companies listed on the IDX, LDR has a positive and insignificant effect on ROA in banking companies listed on the IDX, and BOPO has a negative and significant effect on ROA.
ROA in banking companies listed on the IDX. IDX. In addition, several researches examining the influence of foreign ownership in a company are often related to corporate governance and higher internal oversight. They tend to exercise tight controls to ensure the management of the company is controlled and in line with long-term interests and goals. It is also related to better capital capacity and resource capabilities in managing risk and running its business effectively. Based on these reasons, foreign banks are often associated with better performance and higher profitability (Chen, S. H., Liao, 2011); (Nguyen, 2012) and has a strong correlation with better performance for developing countries (Micco, A., Panizza, 2007); (Chen, S. H., Liao, 2011). The results of a research conducted (Chen, S. H., Liao, 2011) found evidence that foreign banks from 12 other countries, including Indonesia, had better performance relative to domestic banks.

Therefore, the researcher re-examined the influence of ownership proportions and financial ratios in banking on the financial performance of banks listed on the Indonesian stock exchange.

Formulation of the Problem

Based on the above background, the formulation of the problem in this research are:
1. Does the proportion of foreign ownership in a bank affect the performance of banks in Indonesia?
2. Does the ratio of Non-Performing Loans (NPL) in a bank affect the performance of banks in Indonesia?
3. Does the Loan to Deposit (LDR) ratio in a bank affect bank the performance of banks in Indonesia?
4. Does the Capital Adequacy Ratio (CAR) in a bank affect the performance of banks in Indonesia?
5. Does the BOPO ratio in a bank affect the performance of banks in Indonesia?

LITERATURE REVIEW

Ownership Proportion

Theoretically, foreign capital and significant evidence provide benefits to financial economic growth. Regarding the share ownership structure owned by foreign investors, the ownership structure by some researchers is believed to be able to influence the course of the company which ultimately affects the company's performance in achieving the company's goal of maximizing firm value. This is due to the control they have. Investors who transact shares on the Indonesia Stock Exchange can be based on where the investors live, namely local investors and foreign investors. Funds invested by foreign investors in the stock exchange need to be known because they have a very large impact, if an exchange is dominated by foreign investors, there is a tendency for stock transactions to depend more or less on these foreign investors (Rahman, 2008). Foreign investors tend to invest in stocks that are familiar to them. Foreign investors have a better ability to process the information provided to the public than individual investors who come from within the country (Jiang and Kim, 2004). Vo (2015) states that the large amount of foreign ownership is expected to create better governance and increase transparency in companies. Foreign investors also tend to invest in stocks of companies that are well established and have good governance. Grinbalt and Keloharju (2000) added that foreign investors tend to buy stocks that will become winner stocks in the future and sell stocks that will become looser shares in the future. In addition, the ownership structure of companies in Indonesia is very concentrated, possibly causing agency conflicts between majority and minority shareholders that affect firm value. This can happen because company policies such as debt and investment are closely related to shareholder behavior. Shareholders can consist of the government, families, private
Non-Performing Loan (NPL)

Non-Performing Loan (NPL) is one of the risks faced by banks, which reflects the level of credit risk. NPL is a ratio that compares total non-performing loans to total loans extended to customers. This ratio is one of the indicators for evaluating the level of non-performing loans, the higher the NPL ratio, the greater the credit risk borne by the bank and vice versa. The calculation of the bad credit ratio (NPL) is formulated as follows:

\[ \text{NPL} = \frac{\text{Total Non-Performing Loans}}{\text{Total Credit}} \times 100\% \]

The maximum NPL standard allowed by Bank Indonesia is 5 percent (Bank Indonesia, 2015).

Loan to Deposit Ratio (LDR)

Loan to Deposit Ratio (LDR) is the ratio of credit extended to third parties in Rupiah and foreign currencies, excluding loans to other banks and interbank funds (Bank Indonesia, 2013). Sofyan, (2016) explains that LDR is a ratio to measure a bank's ability to fulfill its obligations. The higher the LDR level generated, the bank's profit increases (it is assumed that the bank is able to channel credit effectively) or the more credit funds are issued, the higher the LDR ratio allows for higher bad credit. The calculation for the LDR ratio is formulated as follows:

\[ \text{LDR} = \frac{\text{Total Credit}}{\text{Third Party Funds}} \times 100\% \]

Bank Indonesia sets a standard LDR rate of 85% to 110%. If a bank has an LDR value that is too high or too low, it indicates that it will be difficult for banks to increase their profits, especially for credit management. The LDR ratio reflects the level of bank liquidity which reflects the ability of the bank to pay its obligations which must be fulfilled immediately. Research conducted by Fitria & Linda, (2012) states that there is a relationship between the LDR and NPL ratio which is shown by the coefficient value of a simple regression analysis conducted by researchers, where every 1% change of the NPL level will cause a decrease in the LDR level.

Capital Adequacy Ratio (CAR)

Barus & Erick, (2016) stated that the Capital Adequacy Ratio (CAR) is a capital adequacy ratio that has a function as a reservoir for the risk of losses that banks may face. The higher the resulting CAR ratio, the better the bank's ability to bear credit risk. To calculate the CAR ratio, the following formula is used:

\[ \text{CAR} = \frac{\text{Capital}}{\text{RWA}} \times 100\% \]

Comparison of the ratio of capital to risk-weighted assets (RWA) results in a ratio of the value of Capital Adequacy Ratio (CAR), the government regulation regarding a minimum CAR ratio of 8 percent to 14 percent (Commissioner & Services, 2015). Research conducted by Adisaputra, (2012) shows that there is a positive influence between the CAR and NPL ratios in line with the statement that the higher the resulting CAR, the lower the value of the NPL and vice versa.

Efficiency Ratio / Operating Cost Ratio

The efficiency ratio is the comparative between operating costs and operating income. This ratio is used to measure the level of efficiency and the ability of the bank to carry out its operational activities. This ratio can be formulated as follows:

\[ \text{OC} / \text{OI} = \frac{\text{Operating Costs}}{\text{Operating Income}} \]

Return On Asset (ROA)

Return On Asset (ROA) is a ratio to measure the company's ability to generate net income from its assets as well as measure the rate of return on investment of the
company (Sukamulja, 2019). ROA calculation is formulated as follows:
ROA = (Net income) / (Total Assets) × 100%

ROA is a means of measuring bank profitability where the ROA level reflects the bank's ability to manage its assets so as to generate a profit. Bank Indonesia sets the ROA value at 1.5 percent. Research conducted by Sukarno & Syaichu, (2006) states that the relationship between ROA and NPL is not significant, where ROA is a ratio that reflects the ability to increase company profits in terms of profitability. Meanwhile, NPL reflects a form of credit that is experiencing problems. Banks that only focus on obtaining income from lending, while earning assets from other businesses also have good prospects such as deposits and other securities also add to the burden of problems faced by the bank.

Return On Equity (ROE)

Return On Equity (ROE) is a financial ratio that compares the profit after tax with equity, shareholders invest to get the maximum return, and ROE can provide a signal to what extent the return is possible. The higher ROE reflects the company's ability to generate high profits for shareholders. The higher the company's ability to generate profits, the more attractive it will be for investors. This causes the demand for shares to increase and further increase the stock price, thus ROE will affect stock returns, the relationship between ROE and share returns is positive (Putri 2007).

RESEARCH METHODOLOGY

The research objects are banks listed on the Indonesia Stock Exchange. Researchers took samples of banking companies listed on the IDX from 2017-2019. The data source is obtained from TICMI (The Indonesia Capital Market Institute). The sample selection used a purposive sampling method that used banking data that submitted routine financial reports for 3 consecutive years.

The analysis method used is multiple linear regression (multiple regression) using Stata 13.0 with the equation model as follows:

\[ Y = \alpha + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \ldots + \mu \beta \]

Where:
\[ Y \] = Performance (ROA, ROE)
\[ X_1 \] = Foreign Proportion
\[ X_2 \] = NPL
\[ X_3 \] = LDR
\[ X_4 \] = CAR
\[ X_5 \] = BOPO
\[ \alpha \] = Constant
\[ \beta_1, \beta_2, \beta_3 \] = Regression Coefficient
\[ \mu \] = Term of Error

RESULTS AND DISCUSSION

Classic Assumptions

Multicollinearity check using stata 13.0 resulted in the conclusion that there is no
The value above shows the correlation between variables, it is stated that it accepts $H_0$ or there is no multicollinearity problem if the correlation value between variables is not more than 0.75.

**Heteroscedasticity check** using the stata 13.0 results in the conclusion that there is heteroscedasticity as evidenced by the following results:

Breusch-Pagan / Cook-Weisberg test for heteroscedasticity

$H_0$: Constant variance

Variables: fitted values of ROAY

$\chi^2(1) = 116.07$

$Prob > \chi^2 = 0.0000$

Receive $H_1$ or there is an indication of heteroscedasticity if the value ($Prob> \chi^2$) < Alpha (0.05).

**Autocorrelation check** using stata 13.0 results in the conclusion that there is no autocorrelation problem because the value ($prob> \chi^2$) < Alpha (0.05).

Wooldridge test for autocorrelation in panel data

$H_0$: no first-order autocorrelation

$F(1, 42) = 2.086$

$Prob > F = 0.1561$

Researchers do robust and regress the research variables to produce the best results. Here’s the table

<table>
<thead>
<tr>
<th>VARIABLES</th>
<th>ROAY (OLS)</th>
<th>ROAY (FE)</th>
<th>ROAY (RE)</th>
<th>ROAY (OLS robust error)</th>
<th>ROAY (FE robust error)</th>
</tr>
</thead>
<tbody>
<tr>
<td>ForeignX</td>
<td>0.608</td>
<td>0.217**</td>
<td>0.005</td>
<td>0.005</td>
<td>0.017**</td>
</tr>
<tr>
<td>CARX</td>
<td>1.844***</td>
<td>3.232***</td>
<td>1.938***</td>
<td>1.844</td>
<td>3.232***</td>
</tr>
<tr>
<td>LDRX</td>
<td>-1.054*</td>
<td>-1.715</td>
<td>-1.111*</td>
<td>-1.054*</td>
<td>-1.715*</td>
</tr>
<tr>
<td>BOPOX</td>
<td>-4.707****</td>
<td>-6.229***</td>
<td>-4.796***</td>
<td>-4.707****</td>
<td>-6.229****</td>
</tr>
<tr>
<td>Constant</td>
<td>5.030***</td>
<td>6.387***</td>
<td>5.134***</td>
<td>5.030***</td>
<td>6.387***</td>
</tr>
</tbody>
</table>

| Observations  | 131        | 131       | 131       | 131                     | 131                    |
| R-squared     | 0.544      | 0.555     | 0.544     | 0.544                   | 0.555                  |
| Number of kode| 44         | 44        | 44        |                         | 44                     |
| Hausman chi$^2$| 13.70**    |           |           |                         | 0.0176                 |

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The researcher performed two regressions using two Y variables (ROA and ROE performance). Some variables have a significant effect on certain alpha levels and some have no effect.

CONCLUSIONS AND SUGGESTIONS

From the research that has been done, it is concluded that the proportion of foreign ownership (foreign securities) only affects ROA. This proves that most foreign investors choose to invest in stocks with good ROA performance values. However, further research is needed that can measure other influences that affect company performance. Thank you to LPPM, Tidar University as the facilitator of the research that has been done.

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