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# THE INFLUENCE OF COMPANY OWNERSHIP AND FINANCIAL PERFORMANCE ON THE PROFITABILITY OF INDONESIAN BANKING COMPANIES IN 2019-2021

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**ABSTRACT**
This research aimed to analyze the influence of company ownership and financial performance on the profitability of Indonesian banking companies in 2019-2021. Corporate ownership is distinguished between foreign, mixed, and local ownership. Financial performance is measured using several financial ratios, namely Net Interest Margin (NIM), Capital Adequacy Ratios (CAR), Operating Efficiency Ratios (OER), Loan to Deposit Ratios (LDR), and Return on Assets (ROA) as a company's profitability ratio. The researchers used financial reports from 47 banking companies in 2019-2021, excluding sharia banks, regional development banks, and foreign bank branch offices. The research method used panel data, descriptive statistical tests, and Eviews 9. The research results are as follows: (1) OER has a negative and significant effect on ROA, (2) NIM has a positive and significant effect on ROA, (3) CAR has a positive and significant effect on ROA, (4) LDR has a positive effect and significant ROA, and (5) company ownership has a positive and significant influence on ROA.

**KEY WORDS**
Company ownership, financial performance, profitability, banking company.

Bank is a business entity that collects funds from the public through savings and distributes them to the public in the form of credits to improve the community's standard of living (Hadianto, 2013). Therefore, a bank is an institution that possesses an intermediary function, namely collecting funds from the public through various forms of savings and channeling funds through credit to the business sector or other parties in need. Return On Assets (ROA) measures the bank's ability to generate profit. A high rate of ROA indicates a good profitability rate and asset utilization (Sholihin, 2013). ROA can be used as a measuring tool, as it considers the bank's ability (management) to increase profitability using existing assets. In addition, ROA is capable of representing other parameters.

Net interest margin (NIM) is the margin between net interest income to outstanding credit. Net interest income is obtained from extended credit interest deducted by sources of funds' interest cost (Warno dan Faridah, 2017). Reducing the cost of funds is necessary to increase the NIM ratio. The cost of funds is the interest fee paid by the bank to each source of funds and the bank concerned. The costs of funds determine a bank's interest rate and generate net income. Five elements determine a bank's interest rate: the cost of loanable funds, the cost of funds after deducting the Statutory Reserve Requirement (SRR), overhead costs, risk factors, spreads (margins between savings interest and credit), and taxes. The cost of funds is the most dominant cost element in the cost of loanable funds. Indonesian Financial Services Authority Circular Draft Letter Number/SEOJK.03/2020 concerning Transparency and Publication of Conventional Commercial Bank Reports stated that Net Interest Margin is calculated by net interest income through interest income deducted by interest expense (annualized).

Foreign banks operating in Indonesia are part of the commercial banks. Foreign banks have the same duties as other commercial banks. Foreign banks distinguish themselves from Indonesian-owned commercial banks as they specialize in certain fields. In addition, foreign banks operate under certain restrictions (Astuti, 2015). The Indonesian banking system tends to be lax, especially regarding foreign ownership. Financial Services Authority Circular Draft Letter Number /SEOJK.03/2020 concerning Transparency and Publication of

Conventional Commercial Bank stated that OER is calculated through total operating expenses divided by total operating income. Indonesian Financial Services Authority Regulation Number 11/POJK.03/2016 concerning Minimum Capital Adequacy Requirements for Commercial Banks stated that the minimum capital adequacy, as referred to in paragraph (1), is calculated using the Minimum Capital Adequacy Ratio. (3) Provision of minimum capital, as referred to in paragraph (1), is set at the lowest: a. 8% (eight percent) of Risk-Weighted Assets (RWA) for Banks with a risk profile rating 1; b. 9% (nine percent) to less than 10% (ten percent) of RWA for Banks with a risk profile rating 2; c. 10% (ten percent) up to less than 11% (eleven percent) of RWA for Banks with risk profile rating 3; or d. 11% (eleven percent) to 14% (fourteen percent) of RWA for Banks with a risk profile rating of 4 or 5. Swasana (2019) explained the Financial Services Authority Regulation Number 56/Pojk.03/2016 Article 6 paragraph (1): A financial institution or legal entity may own more than 40% of the bank's share if it obtains approval from the Financial Services Authority. Companies issuing credits from third-party funds can increase profitability and generate large profits.

The presence of foreign banks may have a positive influence on a country's economy. Domestic banks need to compete strictly against foreign banks. Indonesian Financial Service Authority Regulation Number 4/POJK.03/2016 concerning the Soundness Rating of Commercial Banks established the criteria to evaluate banks' financial ratios. Based on the Banking Industry Profile Report for the second quarter of 2020, the financial ratios of Indonesian Conventional Commercial Banks are as follows: (1) CAR 22.55% (composite rating 1), (2) ROA 1.94% (composite rating 1), (3) NIM 4.46% (composite rating 1), (4) OER 84.94% (composite rating 1), (5) NPL 3.10% (composite rating 2), and (6) LDR 89.1% (composite rating 3). Determination of the Composite Rating is categorized into 5 (five). Smaller ranking order indicates the soundness of a bank's condition (Bank Indonesia, 2012). Two perspectives determine the presence of foreign banks in Indonesia. First, foreign banks are not profitable for domestic businesses or domestic banks. Domestic banks or businesses cannot compete in business, especially in developing countries. Foreign banks will deter domestic banks' development. Second, foreign banks increase competition and motivate domestic banks to produce better goods and services. Domestic banks must improve service quality at affordable prices, creating healthy competition and improving the economy (Kevin, 2017). Jeon *et al*. (2010) stated that foreign banks played a crucial role in the restructuring and internationalization of banking markets in developing country economies.

Bank ownership in Asian countries showed that state-owned banks generally have lower profitability than privately-owned banks. Furthermore, government ownership has a negative and significant effect on bank performance. Rahman and Reja (2014) found a positive and significant relationship between government ownership of banks on profitability. Dat (2013) concluded otherwise that state-owned banks had a positive and significant effect on profitability in Vietnam. In this study, a bank is categorized as foreign-owned if most of its shares are owned by foreigners or at least 50 percent are foreign capital (Sabrina & Muharam, 2015).

Several studies of foreign ownership of banks showed mixed results. Kobeissi (2010) and Heryanto (2012) state that foreign ownership positively and significantly influences profitability. However, Xu and Hu (2013) and Rahman and Reja (2014) state that no significant effect exists between foreign ownership and bank profitability. In addition, risk factors are crucial to analyzing financial performance due to the current complexity of the banking business. Management needs to consider existing risks before taking action. Liquidity and credit risks are widely used as risk indicators affecting a bank's financial performance. State-owned banks are often associated with poor performance, such as low profitability, inefficiency, slow productivity, growth, and greater risks. According to Heryanto (2012), the government (as a shareholder) does not focus on achieving maximum profit and therefore causes a conflict of interest with the bank's management. The conflict of interest caused low performance and efficiency of state-owned banks. Indonesian Financial Services Authority Regulation No. 12 of 2021 concerning Commercial Banks allows foreign parties to control 99% of bank shares in Indonesia.

Furthermore, Indonesian Financial Services Authority Regulation No.56 of 2016 Article 2 Paragraph 2 stated that the maximum limit of bank shared ownership for each category of the shareholder is: 40% for banks and non-bank financial institutions, 30% for non-financial institution legal entities, and 20% for individual shareholders. Indonesian Financial Services Authority Regulation No. 12/POJK.03/2021 Article 13 Paragraph 2 concerning Commercial Banks stated that foreign citizens or legal entities' ownership of Indonesian banks is at most 99% of paid-up capital.

In this study, the researchers used Operating Expenses and Operational Income (OER), Net Interest Margin (NIM), Capital Adequacy Ratio (CAR), and Loan to Deposit Ratio (LDR) to describe a bank's financial performance. The foreign acquisitions of small banks adhere to the Financial Services Authority's objective to strengthen the banking industry. Indonesian Financial Services Authority Regulation No.12/POJK.03/2020 concerning Consolidation of Commercial Banks regulates bank core capital to be at least IDR 3 trillion in 2022. Furthermore, the Indonesian Financial Services Authority allows foreign companies to acquire more than 40% of local banks.

The Indonesian Financial Service Authority Regulation states that foreign companies may own up to 40 percent of shares. Indonesian Financial Service Authority permits foreign companies to own larger local bank shares as long as the companies are willing to enter into a business merger. For example, Japanese MUFG may own Danamon if they merge with Bank Nusantara Parahyangan (BNP).

Based on the background of the study, the researchers performed research to analyze the influence of company ownership and financial performance on the profitability of Indonesian banking companies in 2019 – 2021.

## LITERATURE REVIEW

ROA determines the company's ability to obtain profits from various policies and decisions. ROA measures a company's profitability by dividing net income and the average total assets. The average total assets calculation is the total assets at the beginning of the year added with the total assets at the end of the year divided by two. In addition, ROA is calculated by multiplying Net Profit Margin by asset turnover (net sales divided by average total assets). In addition, ROA illustrates the extent of returns generated from investment (Kasmir, 2018).

ROA is calculated through Net Profit divided by Total Assets (Fernos, 2017). ROA measures a bank's ability to generate profits relative to its total assets. ROA measures a company's ability to generate net income based on a certain level of assets (Hanafi dan Halim, 2009). Profitability is the ability of a company to earn profit in a certain period. Profitability ratios measure a company's ability to earn profits concerning sales, total assets, and equity. ROA ratio indicates a bank's ability to generate profits using its assets. Higher ROA indicates effective bank performance (Taswan, 2010). According to Syamsurizal (2016), ROA calculation is profit before tax divided by total assets multiplied by one hundred percent. Therefore, ROA is a company's financial ratio related to profitability. ROA measures a company's ability to generate profits at a certain income level, assets, and capital.

According to Veithzal (2013), Operating Efficiency Ratio (OER) measures the efficiency of a bank's operational activities. OER is often referred to as the efficiency ratio, which measures the bank's ability to control operating costs and operating income. A small OER ratio indicates higher operational cost efficiency, reducing risk factors. OER ratio indicates the operational risk borne by the bank. (Pamularsih, 2015). OER measures the ratio between operational costs or intermediation costs to operating income earned by the bank. A lower OER ratio indicates better bank condition (Christaria dan Ratnawati, 2016).

According to Chatarine dan Lestari (2014), operational performance is the bank's ability to manage its operational costs and income. Oktaviantari and Wiagustini (2013) stated that banks possessing high OER ratios do not perform operational activities efficiently. According to Fiscal and Lusiana (2014), the phenomenon adhered to the existing theory, which stated that lower OER increases ROA. A small OER ratio indicates good financial performance.

Determining operational efficiency is necessary to determine a bank's operational activity, such as the main business operation, adherence to management and stakeholders' goals, and production factors usage. The OER ratio is calculated using the formula: Total Operating Expense divided by Total Operating Income (Fernos, 2017). OER is the ratio between operating costs to operating income. According to Sudarmawanti (2017), banks are agents of trust, agents of development, and agents of services. Therefore, banks provide services to the community by collecting and channeling funds. The operational cost measures the efficiency level of banks' operational activity. The bank incurs operating costs to carry out its main business activities (such as interest, labor, marketing, and other operating costs). Operating income is the main income of the bank, namely interest obtained from loans and other operating income. A lower operating income ratio indicates a higher efficiency level of operational cost, reducing the risk factors. Therefore, the operational efficiency variable proxied by OER negatively influences financial performance proxied by ROA. Based on the explanation, OER illustrates the efficiency of a bank's operational activity.

*Net Interest Margin* (NIM) measures profitability or bank effectiveness. NIM measures the margin between net interest income and average earning assets. A higher NIM ratio indicates effective bank operation to earn profits. Keyness' money supply theory states that other variables, in addition to interest rate, affect credits. If a debtor has higher interest income than interest expense, the debtor makes good payments and shows good economic condition. Banks may offer money due to good economic conditions (Sukirno, 2016). Net interest income is calculated through interest income deducted from interest expenses. The net interest income ratio is crucial in good bank management. Determining the net interest income ratio may deter risk factors and problems. A higher net interest income ratio affects interest income from productive assets and therefore deter risk factors. However, it is necessary to implement good management in every bank operation. NIM shows the bank's ability to manage productive assets and generate net interest income.

Net interest income is obtained from extending credit or loans. In addition, banks have interest expense obligations to depositors. A higher net interest income ratio indicates the high-interest income of a bank's productive asset and therefore reduces risk factors. A higher NIM ratio increases a bank's profitability and financial performance (Sudarmawanti, 2017). Net Interest Margin (NIM) measures a bank's ability to generate net interest income through productive assets (Taswan, 2015). Net Interest Margin (NIM) demonstrates the bank's ability to manage productive assets and generate net interest income. NIM is a comparison between net interest income and average earning assets. NIM measures a bank's ability to earn net interest income compared to the number of loans disbursed. NIM is calculated by net interest income divided by earning assets (Mandala dan Prathama, 2014). Bank's productive assets generate income through credit, securities, interbank fund placements, acceptance claims, claims on securities purchased under reverse repurchase agreements, derivative claims, participation, administrative account transactions, etc.

NIM measures the level of profitability, namely the comparison between net interest income and average earning assets. A higher NIM ratio indicates effective bank operation to earn profit. Satrio and Endang (2017) stated that NIM positively influences credit extension. Onny (2016)'s research showed that NIM has a negative influence on credit extension. In addition, Endang and Satrio (2017) show that NIM does not influence banking credit extension. Wiwik and Dwi (2019) show that NIM positively influences banking credit extension. Akmalia (2017) shows that NIM positively influences banking credit extension. Based on the previous descriptions, NIM measures a bank's ability to generate net interest income using productive asset management.

Bank capital must be used to deter the risk of loss due to the movement of bank assets as a financial intermediary. The movement of liabilities toward assets will cause various risks. The increasing role of bank assets as a profit generator must be maintained. The amount of a bank's capital will affect the level of public confidence in the bank's performance (Sinungan, 2016). CAR measures the bank's capital adequacy to support risky assets, such as customer loans. CAR measures how a bank may cover reduced assets through available

equity. A higher CAR indicates the soundness level of a bank (Kasmir, 2016). Adnan et al. (2016) stated that CAR has a positive relationship with banking credit extension. CAR is a comparison between owned capital and risk-weighted assets.

Good capital management facilitates credit extension. Furthermore, the ideal amount of bank capital encourages the community to invest. (Ariwidanta, 2016). CAR determines the adequacy of capital owned to support assets. CAR indicates a bank's ability to cover declining assets due to losses and risky assets (Eng, 2013). According to Prasanjaya and Ramantha (2013), banks with high capital are considered relatively safer than those with low capital. Banks possessing high capital usually have lower needs for external funding.

Indonesian Financial Services Authority determines that the CAR ratio is at least 8 percent. CAR determines a bank's ability to cover losses caused by risky assets. CAR is correlated to profitability. CAR calculates if a bank's capital is sufficient to support its needs (Ervani, 2010). A higher CAR ratio shows the bank's ability to earn profits. Therefore, CAR has a positive influence on profit and may improve ROA. According to Dendawijaya (2012), CAR indicates how the bank's capital, in addition to obtaining sources of funds from outside the bank (such as public funds, loans, etc.), can finance risky bank assets (loans, investments, securities, bills at other banks). CAR is calculated through Capital divided by risk-weighted assets multiplied by one hundred percent (Syamsurizal, 2016). Bank capital has a very important role. Capital adequacy can be measured using the CAR ratio. Bank management needs to pay attention to the CAR ratio, ensuring that the bank neither lacks funds nor possesses excess funds. Capital is the main source of bank operation financing. Furthermore, Capital acts as a buffer for possible risk of loss.

Higher capital indicates the bank's strength to deter unexpected risks. Therefore, the banks may increase public confidence (Anjani & Purnawati, 2014). However, banks possessing a high CAR ratio may generate idle funds. Bank management cannot peruse the idle funds nor benefit from them. Bank capital consists of core and supplementary capital (Idroes, 2008). CAR is a mediating variable for the influence of NPL and LDR/LFR on profitability. CAR is a determining factor of bank operations (raising and channeling funds).

Based on the previous descriptions, CAR indicates a bank's ability to maintain sufficient capital. CAR indicates the bank's ability to measure, identify, control, and monitor risks that may affect the amount of capital.

According to Julaeha (2015), LDR measures a bank's ability to meet its obligations. Higher LDR indicates higher profit (assuming the bank can extend credits effectively) and therefore increases the bank's performance. The LDR ratio affects a bank's performance. Profitability analysis may use profit motive to measure company performance. ROA may measure the profitability ratio of a bank. ROA takes into account bank management in obtaining overall profits.

A higher ROA indicates good bank's assets. LDR illustrates the ratio between fundraising and channeling (Yatiningsih, 2015). The LDR ratio influences a bank's profitability. A higher LDR ratio shows good profitability. Therefore, LDR has a positive influence on ROA.

Based on the description, LDR is the bank's ability to pay back withdrawals made by depositors by relying on credit provided as a source of liquidity.

The ownership structure is a mechanism to reduce conflict between management and shareholders (Faisal, 2005). The modern economy shows that company management is increasingly separated from company ownership. The agency theory states that the company owner (principal) hands the company management to professionals (agents) to run a business. Separating management and ownership allows the owner to obtain maximum profit at an efficient cost. Family ownership is a company founded by a family. A certain percentage of the family owns shares or the company. In addition, there are family members who hold positions in the company. Family ownership is a family business in which the family exercises power over the company's organization and strategy through ownership, top management, or the board of directors. (Chu, 2009). Based on agency theory, the ownership structure of a company can affect agency problems. Family-owned companies tend to have

family members in the management, reducing agency conflicts. However, agency conflicts tend to emerge in non-family-owned companies, interfering with company performance.

Sudarma (2004) explains managerial ownership is when a manager owns company shares or is a shareholder. Managerial share ownership may unite the interest of shareholders and managers. Higher managerial share ownership proportion increases the company's performance. Managers, who are shareholders at the same time, will align management and shareholders' interest. Managers who are not shareholders, however, may pursue their personal interests. According to Abukosim (2014) and Ayub (2008), research on managerial ownership, institutional ownership, foreign ownership, and concentrated ownership stated that managerial ownership had a significant negative influence. Managers tend to pursue their personal interests instead of the company's interest. Institutional ownership refers to an institution's ownership over a company's share (Tarjo, 2008). Institutional ownership increases supervision of management performance, as share ownership represents a source of power that can be used to support or reverse the performance and value of the company (Fury dan Dina, 2011). Supervision carried out by institutional investors depends on the investment size. The higher the institutional ownership of a company, the stronger the external control over the company, reducing agency costs (Nam, 2012).

Wahida *et al*. (2020) explained that institutional ownership reduces agency conflict between shareholders and managers. An institutional investor may improve the supervision of management performance. As institutional investors hold higher shares, the institution can fully monitor each manager's performance, causing agency conflicts between shareholders and managers. Foreign ownership is the proportion of the company's ordinary shares owned by foreign individuals, legal entities, and the government. Foreign ownership is concerned with improving good corporate governance (Fauzi, 2006) and company performance. External party owner tends to be different from internal party owners. Furthermore, external party owners are unlikely to be involved in daily business matters. According to Peilouw (2017), foreign ownership supervises the managers and therefore improves company performance and reduces agency costs. In addition, the management uses debt efficiently. Therefore, foreign ownership has a negative influence on debt policy. Prayoga and Almilia (2013) found that higher foreign institutions ownership increases foreign debt due to the inflow of foreign capital into the company. This phenomenon increases risk management disclosures required by foreign shareholders. Therefore, there is a positive influence of foreign ownership on debt policy.

Hadi and Mangoting (2014) examined bank ownership based on power distribution and shareholder influence over the company's operations. The company's ownership structure is divided into concentrated ownership and dispersed ownership. The dispersed ownership structure perfectly differs between owners and managers as company controllers. According to Hastuti (2005), differing interest between owner and manager causes agency conflict. Separating functions of owners and management has a negative impact, namely, the flexibility of company management to maximize profits. As a result, the management would maximize its personal interest. The management and other parties do not have adequate resources and access to obtain information and monitor management actions. Therefore, managers can perform tax aggressiveness to maximize company profits.

A concentrated ownership structure is a public company owned mostly by certain parties. The party can be an individual, family, institution, country, or foreign party. According to Chen et al. (2010), concentrated ownership, for example, is shareholders who are concentrated in a family. These shareholders do not perform tax aggressiveness because the owner avoids the risk of fines, sanctions, and damage to the company's reputation. A single shareholder possessing 50% shares or more has certain voting rights and, therefore, effectively controls company management. The majority of shareholders have voting rights to influence managers, therefore directing them to act according to the shareholders' interest. Otherwise, the shareholders can replace uncooperative managers. Zhou (2011) states that concentrated ownership and board characteristics affect tax aggressiveness. Zhou found that board characteristics affect tax aggressiveness. The board may reduce director supervision

on manager performance. Board characteristic has never been studied in Indonesia. Zhou divided the board characters into three. One of the characters is the composition of board members (insiders and outsiders). If most board members are insiders, the company tends to perform tax aggressiveness to increase bonuses and dividends. Therefore, the insider's supervisory role tends to be dependent. Outsider board members' supervision tends to be independent. Therefore, outsider supervision is more efficient compared to insider.

Managerial ownership is when a manager owns company shares or is a shareholder (Christiawan & Tarigan, 2007). Taswan (2003) states that if insiders are willing to invest their capital into internal projects, then the insiders' equity can act as a signal of the company's value. Institutional ownership is an institution's ownership over a company's share, such as banks, insurance companies, and government companies (Christiawan & Tarigan, 2007). Institutions carry out stronger supervision of management policies and company assets to increase company value.

Public ownership is public or community ownership over company shares (Nur'aeni, 2010). The public wants a large profit from the companies to obtain a bigger share profit. The public is concentrated on short-term interests to get returns immediately. Therefore, the company tends to report non-conservative earnings due to the high public ownership structure. Nur'aeni's (2010) research on the influence of share ownership structure on company performance and value of manufacturing companies listed on the Indonesia Stock Exchange (IDX). The research result showed that managerial ownership did not influence company performance. Institutional ownership influences company performance. Public ownership did not influence company performance.

According to Puspito (2011), bank ownership is managers (who actively participate in decision-making, such as directors and commissioners) ownership over the bank's share. Managerial ownership is measured through the proportion of shares owned by the company at the end of the year and is expressed as a percentage. The ownership structure is very important in determining the company's value. Two aspects to consider are (1) external ownership of the company and (2) managerial ownership. External owners differ from managers and are less likely to be involved in day-to-day business affairs (Widyastuti, 2004). Therefore, bank ownership refers to the proportion of institutional and managerial ownership of company shares.

The shareholding structure reflects power distribution and influence among shareholders over the company's operational activities (Nuryaman, 2008). Harjono (2009) explains that the ownership structure based on the type of investment is divided into domestic and foreign investments. According to Fitriani (2001), the company's affiliation with foreign companies (multinational) may make broader disclosures. Multinational companies have better training than parent companies in foreign countries. For example, there is a greater stakeholders' demand for high-quality information disclosure as multinational companies operate globally. Therefore, the stakeholders require more information. Foreign countries, especially Europe and the United States, are concerned about social issues. Therefore, companies possessing a higher percentage of foreign ownership are expected to provide better social responsibility disclosures. Multinational companies generally benefit from stakeholders, typically based on the home market (the market where they operate), who can provide survivability in the long term (Cahyono, 2011). Companies with a higher percentage of foreign ownership can achieve better financial performance. Czech et al. (1997), D'Souza, Megginson, Nash (2001), and Christina (2009) found that foreign ownership has a positive effect on company ROA and ROE. Wiranata and Nugrahanti (2013) have found that foreign ownership positively affects Indian company performance. Increasing foreign investment will improve company performance. Foreign parties tend to have a better management system, technology, innovation, expertise, and marketing. Therefore, foreign investment has a positive influence on companies. According to agency theory, a bad relationship between shareholders and manager decreases company performance. On the other hand, a good relationship between shareholders and managers increases company performance. When foreign investors have the majority of the share, they elect fellow foreigners as members of commissary/director boards. Similar principles between foreign

shareholders and management align both parties' interests and therefore maximize company performance. Foreign capital ownership increases company performance (Asiedu dan Esfahani, 2001; Raff et al., 2009; Karabay, 2010). According to Asiedu and Esfahani (2001), foreign capital ownership will increase company performance if the foreign company increases personal input (technology, knowledge, and infrastructure) to the designated company and country. Karabay (2010) and Asiedu and Esfahani (2001) state that limiting foreign capital ownership will also affect foreign capital ownership in maximizing company performance.

Raff et al. (2009) studied the influence of a foreign parent company on the company's condition after an investment. Raff et al. (2009) state that higher foreign ownership increases company performance as long as the multinational parent company has a high productivity level. In addition, foreign ownership does not depend on the size of the local market and therefore increases local wages. This research model used Greenaway, Guariglia, and Yu (2014). The productivity level of a company depends on the foreign capital ownership structure. Foreign ownership refers to the percentage of outstanding shares owned by foreign investors. Foreign companies refer to foreign individuals, governments, and legal entities. Foreign parties' investment improves company performance, as foreign companies tend to have good management systems, technology, innovation, expertise, and marketing. (Lee, 2008) argued that foreign ownership influences management due to experience in finance and business. Foreign shareholders tend to assign fellow foreigners as members of commissioners or a board of directors and therefore align the shareholders and management interests. The use of debt as an additional asset fund may increase company profits and therefore increase profits for equity holders (Brigham & Houston, 2020). Foreign companies tend to have good management, finance, and human resources. Therefore, foreign ownership may increase company value (Wiranata & Nugrahanti, 2013).

However, according to Abukosim et al. (2014) and Hasnawati and Sawir (2015), foreign ownership negatively influences company value. In contrast, Sherley and Meiliana (2014) and Nikmah et al. (2013) show that foreign ownership positively influences company value. Saputra (2010) and Kumar (2004) find that foreign ownership does not influence company value. The percentage of foreign ownership is calculated by comparing the amount of capital from foreign parties, and the total capital or percentage of foreign ownership disclosed in the company's published annual report. Foreign ownership is the proportion of the company's ordinary shares owned by foreign individuals, legal entities, and the government. Foreign ownership improves good corporate governance and increases financial performance and confidence (Sari, 2020).

According to Chai (2010), the most appropriate foreign ownership is more than 5 percent. Foreign ownership refers to foreign investors' ownership over company shares. Foreign ownership is concerned with dividend policy. Based on agency theory, foreign ownership reduces agency conflicts in a company (Hanafi, 2016). Higher foreign ownership indicates higher supervision and monitoring of managers. Foreign ownership tends to have good knowledge of managerial monitoring.

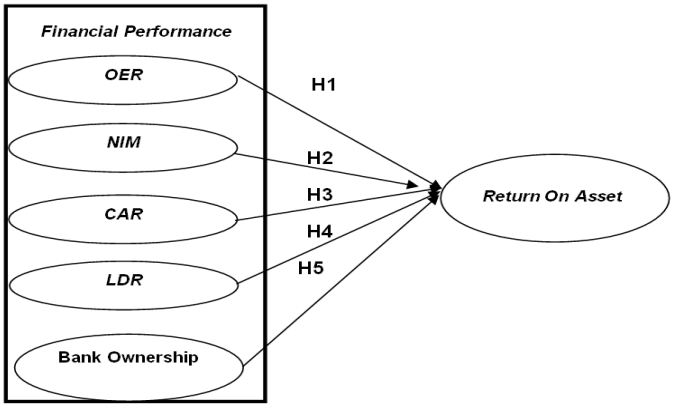


Figure 1 – Conceptual Framework

Hypothesis:

- Hypothesis 1: EOR has a negative and significant influence on ROA;
- Hypothesis 2: NIM has a positive and significant influence on ROA;
- Hypothesis 3: CAR has a positive and significant influence on ROA;
- Hypothesis 4: LDR has a positive and significant influence on ROA;
- Hypothesis 5: Bank Ownership has a positive and significant influence on ROA.

## METHODS OF RESEARCH

### Research Sample and Population

The total population referred to the Indonesian Financial Service Authority's Banking Statistics data of July 2021. The total number of commercial banks in Indonesia is 107 banks. The research sample was the financial statements of 47 commercial banks in Indonesia for 2019 – 2021, excluding Sharia banks, regional development banks, and foreign bank branch offices.

Table 1 – Calculation

| Variable | Calculation | Reference |
|---|---|---|
| EOR | Total Operational Expense x 100 %<br>Total Operational Income | Rohimah (2021) |
| NIM | Net interest income x 100 %<br>Productive Assets | Putri (2019) |
| CAR | Bank Capital x 100 %<br>Risk-Weighted Assets | Putri (2019) |
| LDR | Total Extended Credits x100 %<br>Total Third-Party Funds | Putri (2019) |
| Company Ownership | Total Share x 100 %<br>Total Outstanding Shares | Wiranata and Nugrahanti (2013) |
| *Return On Asset* | Net Profit x 100 %<br>Total Asset | Putri (2019) |
| Foreign Ownership (Dummy) | Foreign ownership of more than 50 percent in this study uses a dummy variable indicating the presence or absence of foreign ownership in the sample companies, with 1 indicating the presence of foreign ownership and 0 indicating the absence of foreign ownership. | Priyanto and Qibthiyyah (2020) |

### Data Analysis Technique

This research referred to Rinofah (2021) and therefore used Panel Data. Panel Data is a combination of time series and cross-section data types. Panel data has dimensions of time and space. Panel data is also called pooled data, a combination of time series and cross-section data, micro panel data, longitudinal data, event history analysis, or cohort analysis. The researchers analyzed the influence of Financial Performance and Bank Ownership on Profitability in banking companies through panel data analysis using the Eviews program version 9.

## RESULTS AND DISCUSSION

### Hypotheses Testing

The research findings show that EOR has a negative and significant influence on ROA, NIM has a positive and significant influence on ROA, CAR has a positive and significant influence on ROA, and LDR has a positive and significant influence on ROA.

*Hypothesis 1:*

- Ho1: EOR has no negative and significant influence on ROA;
- Ha1: EOR has a negative and significant influence on ROA.

EOR has a negative and significant effect on ROA, as indicated by the standardized coefficient beta value of -0.204040 and a significant value of 0.0020. Due to a significant value < 0.05, therefore Ho1 is rejected Ha1 is accepted. Higher EOR reduces ROA. EOR describes the efficiency of bank operations. Operational expenses are the interest cost extended to the customers. Operating income refers to interest earned from the customers. EOR illustrates the company's performance in generating profit for a certain period. It is necessary to determine EOR to improve company performance. EOR compares the operational expense and operating income. Based on research findings, higher EOR increases the bank's ROA. The banks obtained greater profits and used fewer operational expenses (Krawish, 2011). EOR determines the extent of operating income to cover the operational expense. Therefore, a higher EOR ratio shows the bank's ability to minimalize operational expenses and maximize operating income. A higher EOR ratio benefits a bank due to its high efficiency and effectiveness (Guan *et al*., 2017). The research result supported Ayub, Alam, and Sobarsyah (2021). *p-value* < 0.05 with a beta value of -0.580 indicates that a higher EOR improves a company's ROA.

Table 2 – Hypothesis Testing Result

| Hypothesis | *Standardized Coefficient Beta* | *p-value* | Result |
|---|---|---|---|
| H1: EOR → ROA | -0.204040 | 0.0020 | H1 accepted |
| H2: NIM → ROA | 0.342080 | 0.0200 | H2 accepted |
| H3: CAR → ROA | 0.200800 | 0.0210 | H3 accepted |
| H4: LDR → ROA | 0.400400 | 0.0200 | H4 accepted |
| H5: Bank Ownership → ROA | 0.706500 | 0.0100 | H5 accepted |

*Source: Eviews.*

*Hypothesis 2:*

- Ho2: NIM has no positive and significant influence on ROA;
- Ha2: NIM has a positive and significant influence on ROA.

NIM has a positive and significant influence on ROA, as indicated by the standardized coefficient beta value of 0.342080 and a significant value of 0.0200. Due to a significant value < 0.05, therefore Ho2 is rejected, and Ha2 is accepted. The biggest source of bank income comes from the net interest margin. Therefore, banks must use productive assets like credits to obtain interest income. Net interest income is the interest obtained from bank interest. Higher interest income than interest cost indicates that high profitability rate. Based on the managerial theory of income efficiency, banks capable of taking advantage of good productive assets may improve ROA and profitability. (Azzam dan Siddiqui, 2012). NIM reflects market risk due to changing market conditions. The fluctuating market condition may harm the banks (Hasibuan, 2007). NIM measures the capability of bank management to generate interest income. In addition, NIM pays attention to bank performance in extending credit, as bank operating income depends on the margin between credit and interest (Mahardian, 2008). The research findings supported Ayaydin and Karakaya (2014). *p-value* < 0. 05 with a beta value of 0.323 indicates that higher NIM improves ROA.

*Hypothesis 3:*

- Ho3: CAR has no positive and significant influence on ROA;
- Ha3: CAR has a positive and significant influence on ROA.

CAR has a positive and significant influence on ROA, as indicated by a standardized coefficient beta value of 0.200800 and a significance value of 0.0210. Since the significance value < 0.05, Ho3 is rejected, and Ha3 is accepted. CAR determines the soundness level of a bank and its capital. It is necessary to measure CAR to support risky assets. The research result supported Olatayo *et al*. (2019). *p-value* < 0.05 and beta value of 0,846 indicates that higher CAR improves ROA.

*Hypothesis 4:*

- Ho4: LDR has no positive and significant influence on ROA;
- Ha4: LDR has a positive and significant influence on ROA.

LDR has a positive and significant influence on ROA, as indicated by the standardized coefficient beta value of 0.400400 and a significance value of 0.0200. Since the significance value < 0.05, Ho4 is rejected, and Ha4 is accepted. Lukman (2012) explained that LDR is the ratio of total extended credit and raised funds. LDR measures a bank's ability to repay depositors' withdrawals by relying on loans as a source of liquidity. LDR can be measured from the margin of total credit extended to third-party funds. Total extended credit determines the bank's profit. The bank will lose money if a bank is unable to extend credit while having idle funds. Higher LDR increases the company's profit (assuming the bank can extend credit effectively and have few bad loans (Arniati, 2018). LDR is the ratio between the total extended credit and raised funds. Therefore, a higher loan and deposit balance increases the bank's profit (assuming the bank extends credit effectively). Higher bank profit increases performance and ROA (Jha dan Hui, 2012). The research result supported Rajindra *et al*. (2021). *p-value* < 0.05 and a beta value of 0.160 indicates that higher LDR increases ROA.

*Hypothesis 5:*

- Ho5: Company Ownership has no positive and significant influence on ROA;
- Ha5: Company Ownership has a positive and significant influence on ROA.

Company ownership has a positive and significant influence on ROA, as indicated by a standardized coefficient beta value of 0.706500 and a significance value of 0.0100. Since the significance value < 0.05, Ho5 is rejected, and Ha5 is accepted. Nadir (2017) states that managerial ownership refers to manager ownership over a company's shares. Allowing the managers to own shares encourage managers to act according to the company's interest. The managers will have to take responsibility for decision-making. In addition, managerial ownership encourages the manager to improve company performance. Ownership structure refers to various parties' ownership over company shares. Several researchers stated that company ownership structure affects performance (Widyastuti, 2009). The research result supports Al Qudah (2016). p-value < 0.05 and a beta value of 0.358 indicates that Company Ownership improves ROA.

## CONCLUSION

Hypothesis 1 was accepted. Therefore, EOR has a negative and significant influence on ROA. Higher EOR reduces ROA.

Hypothesis 2 was accepted. NIM has a positive and significant influence on ROA.

Hypothesis 3 was accepted. CAR has a positive and significant influence on ROA.

Hypothesis 4 was accepted. LDR has a positive and significant influence on ROA.

Hypothesis 5 was accepted. Therefore, company ownership has a positive and significant influence on ROA.

*Managerial Implication:*

- For financial managers, the research result can be used as a reference for decision-making in financial management. It is necessary to improve Financial Performance and Company Ownership to increase ROA;
- For investors, the research result provides information on the importance of Financial Performance, Company Ownership, and Profitability;

- For academics, the research result provides information on the positive and significant influence of Financial Performance and Bank Ownership on Profitability.

*Suggestions:*

- Future research needs to study companies other than banking company issuers listed on the Indonesia Stock Exchange (IDX) in 2019-2021;
- Study managerial ownership, as Quang and Xin (2014) suggested.

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