

ANALYSIS OF THE IMPACT OWNERSHIP STRUCTURE AND FIRM SIZE ON CREDIT RISK OF PRIVATE BANKS PERIOD 2018-2022

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ABSTRACT

This study aims to investigate the impact of managerial and institutional ownership structure, as well as company size, on credit risk in national private banks in Indonesia during the period of 2018-2022. The population of this study is all national private banks, which amounts to 68 banks. The sample selection is done through purposive sampling, and 14 banks meet the criteria as the research sample. The data analysis method used in this research is panel data regression analysis using SPSS software. In conclusion, these findings suggest that the ownership structure of both managerial ownership and institutional ownership has a significant influence in playing an important role in shaping private bank credit risk, while the firm size does not have a significant impact on credit risk. The study also highlights the importance of good corporate governance implementation in influencing bank risk management.

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1. INTRODUCTION

Banking is an institution of intermediation and support of economic activity in Indonesia. Banks are vulnerable to risks, including credit risks that are risks of failure to pay out loans that require termination because of credit problems and are considered a nightmare for bank managers. Credit risk has a major impact on bank stability and can even have a global impact. Private banks in Indonesia control most of the national banking industry and face operational risks, including credit risks. The risk of private bank credit in Indonesia proxied with NPLs remains relatively stable, at the 3% range for five years. Basically, bank credit risk can be suppressed with a sound banking system and boosting overall financial stability. In addition, the ownership structure and size of the company can also influence the decision-making of managers and will have an impact on financial performance. The larger the bank, the greater the risk it faces, because of the possibility of a large total asset, the credit allocated is also large and in direct proportion to the credit risk arising from the allocation itself.

According to Siswanto Sutojo (1997) the impact of credit risk on banks is that it will reduce bank capital to cover crashed credit costs and when credit risk increases, the bank's role as a financial intermediary cannot function fully. So to minimize the possible credit risks, a sound banking system is needed and boosts overall financial stability. Therefore, in order to keep credit risks under control, banks need to conduct credit management by regularly monitoring the quality of their lending, to be able to warn the authorities of potential banking stress, especially for private banks that are vulnerable in times of crisis and do not have the privileges of state support such as the bank BUMN. The perspective of the agency theory presented by Jensen and Mckeling (1976), which discusses agency conflict, it explains how the outsiders and insiders involved in the company in this case managers and shareholders will behave. Basically, both the outsiders and the insiders are economic beings and have differences of interest, then

conflict will arise between management and capital owners. So the ownership differences between insiders and outsiders can result in the agency cost of the conflict. The conflict arises because insiders have more in-depth information than outsiders who are unlikely to be involved in their day-to-day operational activities. The resolution of the agency theory proposed by Jensen and Mckeling to the conflict of agency is that agency problems can be suppressed by the existence of ownership structure in the company.

The ownership structure of a modern company or bank is usually scattered. This can be seen from the shareholding proportion in a banking company. The composition of shareholders (ownership) consists of internal ownership (insider) and external ownership (outsider). Outsiders can be domestic, foreign, governmental, domestic and foreign individuals. Outsider ownership is also called institutional ownership or temporary institution ownership, insiders are often referred to as managerial ownership. In the context of credit risk, the ownership structure will have a significant influence on bank risk and although the type of ownership may increase or decrease depending on the purposes of the shareholders and risk managers of the bank, ownership structures will still influence manager decisions and risk avoidance. Corporate owners and management both play important roles in risk management so the trusted ownership structure has a major influence on bank credit risk because the ownership structures have control over management in setting policy and strategic planning related to risk-taking behaviour. According to Shleifer & Vishny (1986) this theory of agency also supports the perception that risk-taking is influenced by the structure of ownership. Shareholders or principal with diversified portfolios have more incentives and power to influence decisions to take more risk while managers avoid risk by considering their personal interests in decision-making. This is in line with Eisenhardt's (1989) assumption in Darmawaty (2004) of the three foundations of the theory of agency, namely, the assumptions of self-interest, bounded rationality and non-risk. (risk aversion).

Several studies explain the influence of ownership structures on banking credit risk. According to research by Annisa and Warhdani (2013) as well as agency theory, managerial ownership is a tool to overcome and prevent agency cost or agency conflict within a company. He believes management ownership will reduce the level of bank credit risk. Giving the manager the opportunity to engage in ownership of shares is intended to align the manager's interests with the interests of the shareholders. Such involvement will encourage managers to act cautiously as managers will bear the consequences of their decisions. In addition, managers will be motivated to improve their performance in managing the company. This managerial ownership will be measured by the proportion of shares owned by the managers, commissioners and the company's directors, which will then be stated in the presentation. (Wahidahwati, 2002). Because managerial ownership acts as a supervisory agent, it can reduce the problem of agency between shareholders and managers so that the supervision of managers in a bank will reduce credit risk.

On the other hand, institutional ownership is also an aspect of corporate governance that can reduce agency costs. This is because institutional ownership is a source of power that can be used to support or oppose policies made by managers. High institutional ownership will also result in more intensive surveillance efforts that can limit opportunistic behaviour by managers, thereby reducing potential credit risks. Research by Laksono, Jimmy Dwi dan Ignatius Roni Setyawan (2019) on banking companies suggests that there is an influence between the size of the company on credit risk. Where banks of large size, have high credit risk and vice versa.

Based on the above description, to further demonstrate the application of the agency theory on ownership structure, and the phenomenon of gap research on the influence of the size of the company, the author intends to reorganize the study that analyzes the impact between the structure of ownership and the size and smallness of a company's size on credit risk in the national private bank group in Indonesia with the title research: "Analysis Of The Impact Ownership Structure And Firm Size On Credit Risk Of Private Banks Period 2018-2022".

2. METHOD

This study uses descriptive and associative research design. Descriptive research design is to know the value of each variable, whether one or more variables are independent properties without making relationships or comparisons with other variables. The population of this study is approximately 68 private banks. The sampling method used in this initiative is purposive samplings. Samples that have been determined based on the

purpose and purpose of the research then obtained 14 samples of private banks period 2018-2022.

Operational defense is changing concepts that are still abstract with words that describe behavior or symptoms that can be tested and determined by others based on the variables used. The operational defenses of each variable used in this study are:

a. Credit risk (Y)

The credit risk variable is proxied with a non-performing loan ratio that can be formulated as follows:

$$NPL = \frac{\text{Total NPL}}{\text{Total Credits}}$$

b. Management ownership (X1)

Management ownership is the share held by a manager in a company. Managing ownership can be calculated by comparing the total share ownership by the board of directors and/or commissioners with the total stock turnover.

$$\text{Management ownership (X1)} = \frac{\text{Amount of Share Ownership By Managers}}{\text{Total Outstanding shares}}$$

c. Institutional ownership (X2)

Institutional ownership is the share owned by an institution in a company. Institutional holding can be calculated by comparing the total share ownership by the institution with the total stock turnover.

$$\text{Institutional ownership (X2)} = \frac{\text{The amount of ownership of the institution's shares}}{\text{Total Outstanding shares}}$$

d. Firm size (X3)

As a proxy of Firm size (size), generally studies that investigate the relationship between size and profitability of a company using the natural logarithm of total assets (Ln TA), this is used to reduce the significant difference between the size of the Firm that is too big, then the total value of the assets is formed into natural Logarithms, the conversion of the form of a natural logarithm is aimed at making the total data of distributed assets normal. The size of an enterprise is measured using the log natural of the Total asset (Klapper and Love, 2002).

$$\text{Firm Size} = \text{Ln} \{ \text{Total Asset} \}$$

The data collection is done using documentation techniques. Collecting, classifying and analysing data related to the problem to be investigated. This data collection technique is done by downloading through the website www.ojk.co.id, www.idx.co.id and the official website of each bank. The data analysis method used in this study is using panel data regression analysis with the help of SPSS software. The regression equation model used in this study is as follows:

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + e$$

Description:

Y	=	NPL
X1	=	Management ownership
X2	=	Institutional ownership
X4	=	Firm size
b1... b3	=	Regression coefficient
e	=	Error

3. RESULTS AND DISCUSSION

Multiple Linear Regression Analysis

Table .1 Multiple Linear Regression Analysis Results

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-2,130	2,128		-1,068	,270
	X1	,036	,016	,780	3,342	,002
	X2	,039	,011	,478	2,348	,024
	X3	,137	,089	,211	1,355	,191

a. Dependent Variable: Y

Source: SPSS data processing results, 2023

Based on the results in the table above, the following multiple regression equation is obtained:

$$Y = -2,130 + 0,036X1 + 0,039X2 + 0,137$$

From the multiple regression equation above, it shows several things, namely as follows:

- The constant intercept value is -2.130. This result can be interpreted that if the magnitude of the whole independent variable value is 0, then the NPL will decrease by 2.130.
- The value of the regression coefficient of the managerial ownership variable is 0.036. The result can be interpreted as that when the management ownership increases by one percent, then the NPL will increase by 0.036 assuming all other independent variables are constant.
- The value of the regression coefficient of the institutional ownership variable is 0.039. The result can be interpreted as that if the institutionalized ownership increases by one percent, then the value of NPL will increase by 0.039 assuming all other independent variables are constant.
- The value of the variable coefficient of the Firm Size is 0.137. The result can be interpreted as that if the Firm size increases by one percent, then the NPL will have an increase of 0.137 assuming all other independent variables are constant.

Coefficient of Determination Test

Table 2. Coefficient of Determination Test Results (R2)
Model Summary^b

Model	R	R Square	Adjusted R Square
1	,532 ^a	,187	,153

a. Predictors: (Constant), X3, X2, X1
 b. Dependent Variable: Y

Source: SPSS data processing results, 2023

Based on the above table, the correlation value (R) between the independent and dependent variables is 0.532 or 53.2%, which means that the relationship between the variable is strong enough. Meanwhile, the value of the Adjusted R Square determination coefficient is 0.153. It shows that the credit risk of national private banks influenced by managerial ownership, institutional ownership and firm size of 15.3% and 84.7% is affected by other variables outside the study.

Partial Test (t Test)

Table 3. Partial Test (t Test)

Model		Coefficients ^a				
		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-2,130	2,128		-1,068	,270
	X1	,036	,016	,780	3,342	,002
	X2	,039	,011	,478	2,348	,024
	X3	,137	,089	,211	1,355	,191

a. Dependent Variable: Y

Source: SPSS data processing results, 2023

Based on the results of the calculations in table 3.11, the following results are obtained:

1. H1 : Effect of Managerial Ownership (X1) on NPL (Y). The result of the t test in the table above obtained the value of the managerial ownership variable of $0.002 < 0.05$ value of significance, then H_0 was rejected and H1 accepted. In other words, there is a defining influence of managerial ownership on NPLs, so it can be concluded that partly management ownership has an influence on credit risk. This phenomenon differs from agency theory, which according to the theory put forward by Jensen and Mckeling, management ownership can reduce credit risk because with the manager becoming the owner of the company, the manager has a sense of ownership towards the company and will try to improve its performance and avoid moral hazard behavior, thus minimizing the possibility of its operational risk.
2. H2 : The Effect of Institutional Ownership (X2) on NPL (Y) . The result of the t test in the table above obtained the value of the institutional ownership variable of $0.024 < 0.05$ value of significance, then H_0 was rejected, and H2 was accepted. In other words, there is a defining influence of institutional ownership on NPLs, so it can be concluded that partially institutional property has an influence on credit risk. As for the direction of the positive influence of ownership of the institution on credit risk can occur due to the existence of a conflict of interest or conflicts of interest supported by the proportion of votes in the company. Based on the data of the research, it was found that the institution's ownership is more owned by companies operating in the financial sector such as insurance, banks and investment companies, with the total ownership by the institution generally above the percentage of 50%. According to the hypothesis of conflict of interest and strategic alignment by Pounds (1988), the higher amount of ownership by the institution in the company will make the investor's control over the company even greater. According to Pounds this condition can make all the decisions taken by the company related to its operations taking into account the interests of the institution's investor. McConnel (1990) expressed his view on the strategic alignment hypothesis, that institutions and managers can work together to mutually benefit but exclude corporate profits.
3. H3 : The impact of firm size (X3) on NPLs (Y). The result of the t test in the table above obtained a variable size significance value of $0.191 > 0.05$ value of significance. In other words, there is no significant influence of the firm size on the NPL, so it can be concluded that partially the size has no influence on the credit risk. So H_0 is accepted and H3 rejected. The results of this test differ from the results of the study of Laksono & Setiawan (2019) which showed the influence of the firm size on credit risk. Differences between the results of this study are possible because the location of the study and the observation or the current sample of the research is smaller than the two studies.

Simultaneous Test (Test f)

Table 4. Simultaneous Test Results (Test f)

ANOVA ^a						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	15,446	2	5,649	2,787	,016 ^b
	Residual	72,520	54	1,465		
	Total	87,966	55			
a. Dependent Variable: Y						
b. Predictors: (Constant), X3, X2, X1						

Source: SPSS data processing results, 2023

Based on the table of results of the F test above, obtained a significance of $0.016 < 0.05$ then simultaneously variables managerial ownership (x1), institutional ownership (x2) and Firm size (x3) have a significant impact on credit risk. This test is also done by comparing the values of f_{calung} and f_{table} . With a f_{table} value of $2.560 < (f_{calung}) 2.787$ so that the value of $F_{calung} > f_{table}$ thus, it can be concluded that managerial ownership (x1), institutional ownership(x2) and the firm size (x3) simultaneously have a significant influence on the credit risk.

4. CONCLUSION

Managerial ownership has a significant positive impact on credit risk. This suggests that the higher the level or proportion of ownership by managers will increase the credit risks. This can happen due to moral hazard and adverse selection. Institutional ownership has a significant positive impact on credit risk. This suggests that the higher the level or proportion of ownership by the institution will increase the credit risk, which may be due to the existence of conflict of interest by the institutional owner. The firm size does not have a significant impact on the credit risk. This indicates that the low level of assets held by the bank does not affect the risk of credit because the total assets acquired by a bank are not solely the result of credit activities. Based on the results of simultaneous research variables managerial ownership (x1), institutional ownership(x2) and firm size (x3) have a significant influence on credit risk.

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