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The effect of ownership structure and non performing loan on financial performance of banking companies in ASEAN

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***Abstract*---**This study analyzes the effect of ownership structure and the level of Non-Performing Loan (NPL) on the financial performance of banking companies in ASEAN, as measured by Return on Equity (ROE). The study uses secondary data from the annual reports of 40 banking companies in ASEAN for the period 2019-2023, using multiple regression analysis methods. The results showed that managerial ownership has a positive but insignificant effect on ROE. In contrast, institutional ownership shows a negative and significant influence on ROE, indicating that strict supervision by institutions can limit management flexibility in strategic decision making. NPL is shown to have a significant negative effect on ROE, indicating that high non-performing loans can reduce the profitability and financial stability of banking companies. The findings are expected to assist bank managers and policy makers in designing optimal strategies to improve financial performance and manage credit risk.

***Keywords*---**Ownership Structure, Non-Performing Loan, Financial Performance.

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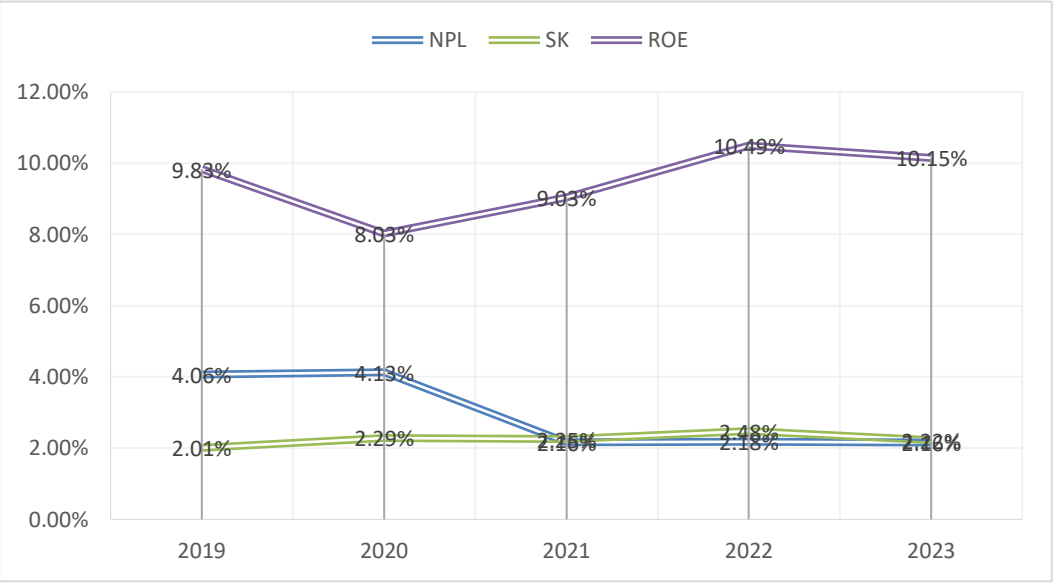
Introduction

The banking sector is an important part of the economic system that functions as a financial institution that manages money circulation and provides various financial services. Banks act as intermediaries between parties who have excess funds (such as individuals, companies, or other institutions) and parties who need funds (such as borrowers or entrepreneurs). (Tumbelaka et al., 2023).. Through main functions such as collecting funds from the public in the form of deposits and channeling funds in the form of credit, the banking sector helps maintain smooth economic activity. In addition, this sector also plays a role in the payment process, investment, and the provision of various other financial products and services, which support business development and investment. (Rahman, Domas and Firmansyah, 2021).

This important role of the banking sector is also felt in the ASEAN region, where it serves as a key catalyst for economic growth and development. With more than 600 million people spread across countries with diverse social and economic conditions, the banking sector in ASEAN is a key pillar in ensuring the smooth flow of money as well as providing access to much-needed financial services to individuals, businesses, and governments (Mambu et al., 2022). (Mambu et al., 2022).. Banks in the region serve not only as providers of deposits and loans, but also as intermediaries between those with surplus funds and those who need funds for investment or business development. The largest asset management in ASEAN is currently held by three banks from Singapore, namely DBS Bank, OCBC Bank, and *United Overseas Bank*. Meanwhile, although Indonesia is still lagging behind some ASEAN countries such as Malaysia and Thailand in terms of asset management, Indonesia has still shown significant progress. In fact, Indonesia managed to place itself in the ranks of the 25 largest banks in the region (Theja, Safriansyah and Amalia, 2021).

However, the financial performance of banking companies in ASEAN is affected by various factors, including ownership structure and the level of *Non-Performing Loan* (NPL) in the bank's portfolio. Ownership structure, according to Andarsari (2021)refers to the ownership structure of a company that reflects the parties who own shares or interests, whether individuals, institutions, or governments. This arrangement can affect strategic decision making, operational efficiency, and the level of accountability in company management. In addition, a dominant government, private, or foreign ownership structure can also have a different impact on the way banks operate, including in risk management and business orientation (Purwaningsih, 2019). (Purwaningsih, 2019).

On the other hand, NPLs, which reflect non-performing loans or loans that default after a certain period of time, generally 90 days, play an important role in assessing the asset quality and credit risk of banks. A high level of NPLs can compromise a bank's financial stability and profitability, as banks must allocate reserves to cover potential losses. High NPLs can also reflect weak credit risk management as well as ineffective creditworthiness analysis conducted by the bank. (Kryzanowski et al., 2023).



Graph of Average Non-Performing Loan Ownership Structure and Return on Equity in ASEAN Banking Companies
Source: *annual reports of* banking companies in ASEAN (data processed by the author)

Based on the graph, the phenomenon of ownership structure proxied as managerial ownership increased at 4.12% in 2020 and ROE decreased at 8.03%. This is not in line with agency theory by Jensen and Meckling (1976) recognize that ownership structure is related to monitoring. recognizing that ownership structure is related to monitoring. Agency theory suggests that a managerial ownership situation where directors own shares and are directly involved in the day-to-day running of the company, minimizes conflicts of interest as well as agency problems. (Jensen and Meckling, 1976). ownership structure is widely recognized to provide incentives for large shareholders monitoring management thereby minimizing agency costs (Maher and Andersson, 1976). (Maher and Andersson, 1999).. Similar to managerial ownership, institutional ownership can reduce agency conflicts. This conflict arises when the interests of managers differ from those of owners. Institutional ownership is considered to have an important role in increasing the effectiveness of managerial supervision, which in turn can positively affect firm profitability. Institutional institutions usually have greater resources and deeper expertise in terms of financial analysis and corporate oversight compared to individual shareholders. Therefore, they are better able and motivated to closely monitor managerial activities. With significant ownership, they can influence management decisions through shareholder meetings, the board, or through other actions. Tighter supervision reduces the opportunity for managers to act opportunistically, which in turn reduces agency conflicts. (Al-ahdal *et al.*, 2020)

The ownership structure which is part of *good corporate governance* in this study is proxied by institutional ownership, managerial ownership. Investors believe

that companies that implement *good corporate governance* always try to minimize risk so as to improve the company's financial performance. This is seen from the *Agency Theory* point of view. Graph 1.2 shows that the numbers on NPL tend to be in the same direction as ROE. When there is an increase in NPLs in ASEAN banking companies, it is followed by a decrease in ROE. *Trade-off theory* by Modigliani and Miller (1963) states that the higher the debt (DER), the lower the company's profit. In the context of Non Performing Loan (NPL) on profitability, this theory shows that the higher the NPL, the lower the profitability of the company. It is very important for management to pay attention to non-performing loans which will affect the company's profitability. (Danty and Muliati, 2021).

Based on the focus of this study, the main objective is to analyze the extent to which *ownership structure* and the level of *Non-Performing Loan* (NPL) affect the financial performance of banking companies in ASEAN. This research will examine how differences in ownership patterns have implications for the operational efficiency, strategic decision-making, and financial stability of banks. In addition, this study will also explore the effect of NPL levels as an indicator of asset quality and credit risk on bank profitability, taking into account the economic dynamics in the ASEAN region. The results of this study are expected to contribute significantly to bank management and policy makers in formulating optimal strategies to improve financial performance. This research aims to support the sustainability of the banking sector amidst global competition, while strengthening regional economic stability.

Method

The object of research was conducted at ASEAN Banking Companies in the 2019-2023 period. Data collection using *purposive sampling* technique which obtained a research sample of 40 companies. The research method used is a descriptive method with a quantitative approach using multiple regression analysis. The classical assumption test is carried out before hypothesis testing so that the test results meet the BLUE (Best Linear Unbiased Estimated) criteria. After that, hypothesis testing is carried out with the t statistical test, F test, and coefficient of determination analysis. The model used in this study can be formulated as follows:

Research using secondary data is required is the financial statements and annual reports of Banking Companies in ASEAN in 2018-2023. The company's financial statements must be able to provide the data needed for research variables. The company must have positive profitability in research variables that can be sampled.

Population is a general area of objects and subjects that have certain characteristics. Meanwhile, the population in this study are 143 ASEAN Banking companies (Indonesia, Malaysia, Thailand, Vietnam and Singapore) with the period 2019-2023. The sample is a number of units owned by the population. In this study there are 40 Banking Companies in ASEAN (Indonesia, Malaysia, Thailand, Vietnam and Singapore) with the period 2019-2023. The sample selection was carried out using the *purposevie sampling* technique, which is a

technique used to consider and determine samples with certain criteria. Sugiyono (2020). The following are the sample criteria in this research:

1. Annual Data of ASEAN Banking Companies (Indonesia, Malaysia, Thailand, Vietnam, and Singapore) for the period 2019-2023.
2. The company has positive profitability during the 2019-2023 period.
3. The company has Managerial Ownership and Institutional Ownership during the 2019-2023 period.

Discussion

Classical Assumption Testing
Normality Test

The normality test in this study was carried out using the *Kolmogorov-Smirnov Test* approach. Data can be said to be normally distributed if the *Asymp.Sig (2-tailed)* value> 0.05 and vice versa, if the data is abnormal then the *Asymp.Sig (2-tailed)* value <0.05, the Kolmogorov-Smirnov test results are as follows:

Table 1. Data Normality Test

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		200
Normal Parameters[a,b]	*Mean*	.0000000
	Std. Deviation	.05147643
Most Extreme Differences	*Absolute*	.061
	Positive	.061
	Negative	-.033
Test Statistic		.061
Asymp. Sig. (2-tailed)		.070[c]

a. Test distribution is Normal.
b. Calculated from data.
c. Lilliefors Significance Correction.

Source: SPSS 25.0 Output

Based on the table above, it is known that the sample is 200 data, the average residual value is 0 with a standard deviation of about 0.0515, which indicates a relatively small distribution of data around the middle value. In this test, the significance value (Asymp. Sig.) is 0.070, which is slightly above the significant limit of 0.05. This means that we do not find a significant difference between the distribution of the residual data and the normal distribution. In other words, this result indicates that the residual data can be considered to follow a normal distribution pattern. In conclusion, this test supports the assumption that the residual data tends to be normal, so we can continue the analysis under this assumption. This result also provides reassurance that statistical methods that require normality can be used more safely in further analysis.

Multicollinearity Test

According to Ghozali (2020), the multicollinearity test is intended to see the existence of a linear relationship, both independent variables perfectly or almost perfectly in a regression model and to determine the presence of multicollinearity in the regression model by looking at the *tolerance* value and the *variance inflation factor* (VIF) value. If the *tolerance* value> 0.10 and the VIF value < 10, then there is no multicollinearity. The multicollinearity test results are presented in the table as follows:

Table 2. Multicollinearity Test Table

Coefficients[a]								
		Unstandardized Coefficients		*Standardized Coefficients*	*t*	*Sig.*	*Collinearity Statistics*	
Model		*B*	*Std. Error*	*Beta*			*Tolerance*	*VIF*
1	(*Constant*)	.194	.013		14.967	.000		
	KM	.042	.039	.071	1.058	.291	.838	1.194
	KI	-.131	.016	-.515	-8.138	.000	.936	1.069
	NPL	-.926	.235	-.251	-3.948	.000	.928	1.077

a. Dependent Variable: ROE
Source: SPSS 25.0 Output

The table shows the results of the multicollinearity test on this data, it can be concluded that there is no multicollinearity problem between the independent variables in the model used. This can be seen from the Tolerance and Variance Inflation Factor (VIF) values for each variable. The KM variable has a Tolerance value of 0.838 and a VIF of 1.194, which indicates that this variable does not experience multicollinearity because the Tolerance value is above 0.1 and the VIF is below 10. The KI variable has a Tolerance value of 0.936 and a VIF of 1.069, which also indicates the absence of multicollinearity because it meets the same requirements. Furthermore, the NPL variable with a Tolerance value of 0.928 and a VIF of 1.077 also shows similar results, namely the absence of high correlation with other independent variables.

Heteroscedasticity Test

The heteroscedasticity test is used to test whether in the regression model there is an inequality of variance from the residuals for all observations in the regression model. The Glejser test is the test used in this study to see if there is a heteroscedasticity problem in this study. The following are the results of the heteroscedasticity test in this study which are available in the table

Table 3. Heteroscedasticity Test

Coefficients[a]						
		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	.065	.007		8.862	.000
	KM	.006	.022	.018	.251	.802
	KI	-.045	.009	-.344	-4.953	.058
	NPL	.003	.133	.002	.024	.981

a. Dependent Variable: ABSRES
Source: SPSS 25.0 Output

Based on the table, it can be concluded that the significance (Sig.) shown indicates whether each coefficient is statistically significant or not. In the context of heteroscedasticity tests, usually a significance value above 0.05 indicates that the variable does not contribute to heteroscedasticity.

These results show that all independent variables have significance values above 0.05, namely KM (0.802), KI (0.058), NPL (0.981), and LDR (0.902), all of which are insignificant. Therefore, it can be concluded that this model tends to fulfill the assumption of homoscedasticity, where the residual variance is constant across the range of independent variables, and there is no significant heteroscedasticity problem in this model.

Autocorrelation Test

The autocorrelation test is used for a purpose, namely to determine whether there is a correlation between members of a series of data that is observed and analyzed according to space or according to time or *time series*. This test aims to see if there is a correlation between confounding errors in period t and errors in period t-1 or earlier. A good regression model is a regression that is free from autocorrelation. According to Ghozali (2020). The autocorrelation test tests the correlation of errors in the time series. Durbin Waston test tool as a detector of autocorrelation. If the value of dU < Dw < 4 - dL, it can be seen whether or not autocorrelation occurs.

Table 4. Autocorrelation Test

Model Summary[b]					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.519[a]	.270	.255	.0520017	1.815

a. Predictors: (Constant), LDR, KI, NPL, KM
b. Dependent Variable: ROE
Source: SPSS 25.0 Output

Based on the results of Table 4, it can be seen that the model has a DW value of 1.815. At n = 200 and k 4-1 = 3, obtained from the Durbin-Watson table 5% dL

value = 1.173 and dU value = 1.799. Terms dU < Dw < 4, 1.799 < 1.815 < 4-1.173. This shows that the test results produce data that does not occur autocorrelation with 1.799 < 1.815 < 2.827.

Hypothesis Test
Model Fit Test (F Test)

The F test is conducted to determine whether the independent variables collected in the research regression model have a joint influence on the dependent variable. This test is seen through the criteria by looking at the value of the probability (sig), if the *value of* sig <0.05, then the equation of the regression model has suitability and is suitable for use in testing. Conversely, if the sig value> 0.05. then the regression model equation does not have suitability or is not suitable for use as a regression model. The F-value test results are presented in table 4.9 as follows:

Table 5. F-value Test Results

ANOVA[a]

Model		*Sum of Squares*	*df*	*Mean Square*	*F*	*Sig.*
1	*Regression*	.195	4	.049	18.002	.000[b]
	Residuals	.527	195	.003		
	Total	.722	199			

a. Dependent Variable: ROE
b. Predictors: (Constant), LDR, KI, NPL, KM
Source: SPSS 25.0 Output

The table above shows the significance test of the regression model used to predict the Return on Equitys (ROE) variable using independent variables such as, Institutional Ownership (KI), Non-Performing Loan (NPL), and Managerial Ownership (KM). Based on the table, the F value is obtained at 18.002 with a significance level (Sig.) of 0.000, which means that this regression model is significant.

This indicates that statistically, the independent variables together have a significant influence on the dependent variable ROE. In addition, the total Sum of Squares is 0.722, with a Sum of Squares for regression of 0.195 and for residual of 0.527, which indicates the proportion of ROE variability that can be explained by this model. With a higher mean square value in the regression model than the residual, this result strengthens the evidence that the regression model used has a fairly strong predictive power on ROE.

Partial Test (T-Test)

Partial Test or T-value Test can be used to determine empirically the effect of the independent variables studied on the dependent variable partially. Based on the results of empirical analysis, the formulation of regression for the research model is as follows:

ROE = 0.194 + 0.042KM - 0.131KI - 0.926NPL

The criteria obtained from the t-test are by looking at the results of the significance value or Sig and the direction of the coefficient. If the significance value obtained is> 0.05 and or the regression coefficient value is opposite or negative, then the alternative hypothesis results are not supported. Conversely, if the significance value obtained is <0.05 and the regression coefficient is in the same direction or positive, then the alternative hypothesis is supported. The results of the t-value test of the hypotheses are in the following table:

Table 6. t-test results

Coefficients[a]

Model		*Unstandardized Coefficients*		*Standardized Coefficients*		
		B	*Std. Error*	*Beta*	*t*	*Sig.*
1	(Constant)	.194	.013		14.967	.000
	KM	.042	.039	.071	1.058	.291
	KI	-.131	.016	-.515	-8.138	.000
	NPL	-.926	.235	-.251	-3.948	.000

a. Dependent Variable: ROE

Source: SPSS 25.0 Output

1. Based on table, Managerial Ownership has a regression coefficient value of 0.042 with a positive or unidirectional value and a significance of 0.291> α 0.05. These results indicate that the Managerial Ownership variable is proven to have a positive and insignificant effect on ROE.
2. Based on table, Institutional Ownership has a regression coefficient value of -0.131 with a negative and unidirectional value and a significance of 0.000. < α 0.05. These results indicate that the Institutional Ownership variable has a negative and significant effect on ROE**.**
3. Based on table, *Non Performing Loan* has a regression coefficient of -0.926 with a negative or unidirectional value and a significance of 0.000 < α 0.05. These results indicate that the *Non Performing Loan* variable is proven to have a negative and significant effect on ROE**.**

Discussion of Research Results

Managerial Ownership on Financial Performance

Based on the T test results, it is found that Managerial Ownership has a regression coefficient value of 0.042 with a positive or unidirectional value and a significance of 0.291> α 0.05. so that the first hypothesis (H_1) which states that Managerial Ownership has a positive and significant effect on *Return on Equity* is accepted (H_1 is not supported).

Managerial ownership does not show a significant effect on financial performance, proxied by Return on Equity (ROE), in banking companies due to several factors that limit managerial roles and space in improving asset efficiency. One reason is the high regulation in the banking sector that limits managerial flexibility to make strategic decisions aimed at improving asset efficiency. (M. Jensen, 1986). In

addition, in the banking industry, share ownership by managers is often in the minority so they have less incentive to prioritize specific ROE performance. (Morck, Shleifer and Vishny, 1988).. Another factor at play is the large external influences on banking performance, such as interest rate fluctuations, macroeconomic conditions, and financial market volatility that limit the impact of managerial ownership on ROE improvement (Demsetz and Villalanche, 1988). (Demsetz and Villalonga, 2001).. Complexity in the banking sector also requires managers to focus more on managing risk and stability, rather than simply pursuing asset efficiency (Berger and Bonaccorsi, 2001). (Berger and Bonaccorsi in Patti, 2006)..

The results of this study are in line with the results of the study Nababan *et al.* (2021); Aisyah and Trisnaningsih (2021); Widyati and Maria (2023); found that managerial ownership has no effect on financial performance. However, it is not in line with the results of research by Alodat *et al.* (2022); Alabdullah and Zubon (2023); Purnama and Muchtar (2024)found that managerial ownership has a positive and significant effect on financial performance. Ali *et al.* (2022)found that managerial ownership has a negative and significant effect on financial performance.

The Effect of *Institutional Ownership* on Financial Performance

Based on the results of the T test, it is found that Institutional Ownership has a regression coefficient value of -0.131 with a negative and unidirectional value and a significance of 0.000. < α 0.05, so the second hypothesis (H_2) which states that Institutional Ownership has a significant positive effect on Financial Performance proxied by *Return on Equity* (H_2 is not supported).

Ownership structure has a significant impact on a company's financial performance. This ownership structure includes the division of shares between majority and minority shareholders, as well as the roles played by management, institutional investors and individuals in corporate decision-making. In companies where majority shareholders have greater control, strategic decisions can often be made more efficiently and purposefully, potentially improving long-term financial performance. However, the power imbalance that exists in such ownership structures can neglect the interests of minority shareholders, which can reduce the transparency and credibility of the company.

Research shows that institutional ownership can have a negative and significant impact on financial performance, especially in banking companies in ASEAN, when performance is measured using Return on Equity (ROE). This negative effect occurs because institutional investors often encourage companies to be more conservative in risk-taking and investment to maintain long-term stability, which can limit the potential for increasing ROE in the short term. (Amihud and Lev, 1981). In addition, the pressure from institutional ownership to adhere to strict governance standards also increases operating costs and reduces management's flexibility to make profitable decisions quickly, thus impacting the efficiency of the firm's productive assets (Shleifer and Vishny, 1981). (Shleifer and Vishny, 1986).. As a result, banks may focus more on maintaining stability and dividend

distribution as opposed to reinvestment in productive assets, which lowers the potential for overall ROE improvement (Jensen, 1986).

On the other hand, a more diversified ownership structure, such as that found in companies with many minority shareholders, may encourage more inclusive and responsible decision-making, as such decisions must take into account the various interests of stakeholders. Conversely, if the company is more controlled by individual investors with short-term interests, decisions may be more focused on short-term outcomes, which may negatively impact the stability and financial performance of the company. (Halim and Suhartono, 2021)

The Effect of *Non Performing Loan* on Financial Performance

NPLs or non-performing loans have a direct impact on the financial performance of companies, especially banks. A high NPL ratio indicates that many debtors are defaulting on their loans, which risks reducing the bank's income from loan interest. This can also affect the liquidity of the bank, as funds that could have been used to provide new loans or investments are hampered. In addition, banks have to reserve more funds to cover potential losses due to NPLs, which can reduce their profitability and solvency. Overall, high NPLs can undermine investor and customer confidence, lower the bank's financial performance, and impact the overall economic stability of the firm. (Putri et al., 2023).

Based on the results of the T test, it is found that the *Non Performing Loan* has a regression coefficient value of -0.926 with a negative or unidirectional value and a significance of 0.000 < α 0.05, so that the third hypothesis (H_3) which states that *Non Performing Loan* has a significant negative effect on Financial Performance proxied by *Return on Equity* (H_3 is supported).

Negative Effect of NPL on Financial Performance of ASEAN Banks NPL is an asset quality indicator that measures the percentage of non-performing loans or those at risk of default. High NPLs are generally seen as a signal of problems in credit risk management, which can have a negative impact on the bank's financial performance. In the context of financial performance proxied by Return on Equity (ROE), NPLs are shown to have a negative and significant influence, especially in the ASEAN banking sector. ROE measures the effectiveness of banks in generating profits from their assets, so the greater the NPL ratio, the lower the efficiency and effectiveness of banks in managing their assets for profit. (Dahlan and Susanto, 2020).

The results of this study are in line with research Aji and Manda (2021); Nyale and Sari Manurung (2024) found that *nonpromising loans* have a negative and significant effect on financial performance. However, it is not in line with the results of research by Žunić *et al.* (2021); found that *non-promising loans* have a positive and significant effect on financial performance. Vaneca Sante *et al.* (2021); Debora and Tipa (2023). found that *non-promising loans* have no effect on financial performance.

Conclusion

The average ROE in ASEAN Banking Companies in 2019-2023 fluctuates. Along with the independent variables in the study such as Managerial Ownership, Institutional Ownership*, Non Performing Loan*, *Long Term Debt Ratio* experienced changes in average value from year to year. The research results can be concluded as follows:

1. Partially proves that the Managerial Ownership variable has no significant effect on Financial Performance.
2. Partially proves that institutional ownership has a significant negative effect on financial performance.

Partially proves that the *Non Performing Loan* variable has a negative and significant effect on Financial Performance.

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