The Impact of Ownership Structures and Risk Management on Financial Performance of Banks in Indonesia

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Abstract

This study investigates the impact of ownership structures and risk management on the financial performance of banks listed on the Indonesia Stock Exchange (IDX) from 2020 to 2022. Specifically, it examines the roles of managerial and institutional ownership, with risk management as a moderating variable. Using multiple linear regression analysis, the study finds that institutional ownership significantly enhances financial performance, while managerial ownership does not show a significant impact. Risk management practices, measured by Non-Performing Loans (NPL), do not directly influence financial performance but have a moderating effect on the relationship between ownership structures and performance, although this effect is not statistically significant. The findings underscore the importance of institutional ownership in driving financial performance and highlight the role of effective risk management in enhancing this relationship. Future research should consider a longer study period and additional variables to provide a more comprehensive understanding of the factors influencing banking performance.

Keywords: *Ownership Structures, Risk Management, Financial Performance, Banks*

Introduction

The financial performance of banks is a cornerstone of economic stability and growth, particularly within emerging markets such as Indonesia (Herdhayinta & Supriyono, 2019) (Sunarya, 2018). Banks in these economies play a pivotal role in facilitating economic activities, influencing credit availability, and fostering investor confidence (Sidarauk & Habiburahman, 2023) (Kasri & Azzahra, 2020; Marlinah, 2017). While extensive research has been conducted on the general determinants of banking performance, there remains a notable gap in understanding how specific ownership structures—particularly managerial and institutional ownership—and risk management practices impact financial outcomes in this context (Dzulhijatussarah & Defrizal, 2024; Lemma & Negash, 2016; Soi & Buigut, 2020).
Managerial ownership refers to the proportion of a bank's equity held by its executives and management, which can affect decision-making processes, risk-taking behavior, and overall performance (M. Y. Barusman & Hidayat, 2017; Laeven

& Levine, 2009; Lee, 2002). Institutional ownership, on the other hand, involves equity held by large organizations such as pension funds, insurance companies, and mutual funds, which can influence governance, strategic priorities, and financial stability (Hutchinson et al., 2015; Travilta Oktaria et al., 2024; Wijaya et al., 2020). Despite the theoretical implications of these ownership structures on banking performance, empirical studies in the context of Indonesian banks are relatively sparse (Amanda et al., 2020; A. R. P. Barusman, 2024; Maesaroh, 2018).

Furthermore, risk management practices are critical in the banking sector due to the inherent financial risks and uncertainties (Djalilov & Ngoc Lam, 2019; Raz, 2018). Effective risk management strategies can mitigate potential financial crises, enhance decision-making, and contribute to overall financial stability (Habiburrahman et al., 2022; Rehman et al., 2019). However, the interaction between risk management practices and ownership structures in shaping banking performance remains underexplored (Rastogi et al., 2021).

This study seeks to bridge this gap by examining how managerial and institutional ownership structures, alongside risk management practices, influence the financial performance of banks listed on the Indonesia Stock Exchange (IDX) over the period from 2020 to 2022. By analyzing these relationships, the research aims to provide deeper insights into the dynamic interplay between ownership structures and risk management in the Indonesian banking sector. Additionally, the study will explore the moderating effect of risk management on the relationship between ownership structures and financial performance, offering a comprehensive understanding of how these factors collectively impact banking outcomes.

Materials and Methods

This study utilizes a quantitative research design to explore the impact of ownership structures and risk management practices on the financial performance of banks. A multiple linear regression analysis is employed to evaluate these relationships, with financial performance measured by Return on Assets (ROA) and risk management assessed through the ratio of Non-Performing Loans (NPL) to total loans. The sample comprises 10 banks listed on the Indonesia Stock Exchange (IDX) for the period from 2020 to 2022. Selection criteria ensured that only banks with consistent and complete data for the entire study period were included. Data were collected from annual reports, financial statements, and other publicly available documents to ensure transparency and reliability.

The variables of interest are defined and measured as follows: Managerial Ownership (KM) is the percentage of shares held by the bank's management, reflecting the influence of executives on performance; Institutional Ownership (KI) is the percentage of shares held by institutional investors, indicating the impact of large, professional investors on governance and performance; Risk Management (MR) is measured by the ratio of Non-Performing Loans (NPL) to total loans, evaluating the effectiveness of the bank's risk management practices; and Financial Performance (ROA) is calculated as net income divided by total assets, serving as a key indicator of the bank's efficiency in generating profits.

To ensure the validity and reliability of the regression analysis, several statistical tests were conducted using IBM SPSS Statistics. The Kolmogorov-Smirnov test assessed the normality of the data distribution, while Variance Inflation Factor (VIF) and Tolerance values were used to detect multicollinearity among the independent variables. Heteroscedasticity was tested to confirm constant variance of residuals, and the Runs Test was employed to detect autocorrelation in the data. Hypotheses regarding the relationships between ownership structures, risk management, and financial performance were tested using multiple linear regression analysis, with the regression model specified as:

$$Y = 3.895 + 0.135\ KM + 0.316\ KI + 0.047\ MR + 1.836\ KM*MR + 2.412\ KI*MR + e$$

where (Y) represents financial performance (ROA), (KM) denotes managerial ownership, (KI) signifies institutional ownership, (MR) indicates risk management, and (KM*MR) and (KI*MR) are interaction terms representing the moderating effect of risk management on the relationship between managerial/institutional ownership and financial performance. The error term (epsilon) accounts for unexplained variability. This model aims to elucidate the direct and moderating effects of ownership structures and risk management on bank performance.

Result and Discussion

The analysis of the financial performance of Indonesian banks listed on the IDX from 2020 to 2022 reveals key insights into the impact of ownership structures and risk management practices. The findings show that institutional ownership varied significantly among the sampled banks, indicating differing levels of influence by large organizations such as pension funds and mutual funds on bank governance and strategic priorities. This variability supports the notion that institutional ownership can enhance governance and financial stability, aligning with theoretical perspectives that emphasize the role of institutional investors in promoting long-term financial health. On the other hand, managerial ownership was relatively low across the sample, suggesting a potential limitation in the alignment between management and shareholder interests. This low level of managerial ownership may influence risk-taking behavior and financial performance, although its impact appears less pronounced in the Indonesian banking context, potentially due to the concentrated ownership structures prevalent in the region.

The average Non-Performing Loan (NPL) ratio was within acceptable limits, indicating that the banks in the sample implemented effective risk management practices. This finding underscores the importance of robust risk management strategies in sustaining financial performance, particularly in the context of emerging markets like Indonesia, where financial stability is crucial. Diagnostic tests further confirmed the reliability of the analysis. The Kolmogorov-Smirnov test produced a significance value of 0.200, confirming that the data followed a normal distribution, while the Variance Inflation Factor (VIF) values were consistently below 10, and Tolerance values were above 0.1, indicating no multicollinearity issues

among the independent variables. Additionally, the heteroscedasticity test showed significance values greater than 0.05 for all independent variables, suggesting that heteroscedasticity was not a concern, thus ensuring the stability and consistency of the model's estimates.

Furthermore, the study explored the interaction between ownership structures and risk management practices, revealing that effective risk management can enhance the positive impact of institutional ownership on financial performance while mitigating potential adverse effects associated with low managerial ownership. This interaction highlights the dynamic interplay between ownership structures and risk management, reinforcing the importance of both factors in shaping the financial outcomes of banks in emerging markets. Overall, the findings provide a comprehensive understanding of how ownership structures and risk management practices collectively influence the financial performance of Indonesian banks, offering valuable insights for policymakers, investors, and bank management.

Conclusion

This study aims to provide a comprehensive understanding of how ownership structures and risk management practices impact the financial performance of banks listed on the Indonesia Stock Exchange (IDX). By employing a rigorous quantitative approach through multiple linear regression analysis, this research will reveal the direct effects of managerial and institutional ownership on financial performance, as well as the moderating role of risk management. The use of Return on Assets (ROA) as a measure of financial performance, alongside the ratio of Non-Performing Loans (NPL) to total loans as a proxy for risk management, will offer valuable insights into the dynamics of bank performance within the Indonesian context.

The analysis will elucidate whether managerial ownership influences financial performance differently compared to institutional ownership and how effectively risk management practices mitigate potential negative impacts associated with ownership structures. The findings are expected to contribute to the broader understanding of banking performance determinants and provide actionable insights for policymakers, regulators, and financial institutions seeking to enhance stability and growth in the banking sector. By addressing the gaps in existing research, this study will offer a more nuanced perspective on the interplay between ownership structures, risk management, and financial performance, ultimately supporting the development of more effective strategies for managing banks in emerging markets.

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