The effect of foreign ownership on financial performance of banking companies listed on the Indonesia Stock Exchange (IDX)

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ABSTRACT

The Regulation of Bank Indonesia (PBI) 2000 which states that foreign investors are allowed to take control of ownership up to 99% of domestic banks in Indonesia has been in a long debate, especially by academics. Some studies prove that the existence of foreign ownership brings benefit, but on other hand, it does not bring any benefit. The purpose of this study is to provide evidence related to the effect of foreign ownership on financial performance of banking companies listed on IDX measured by Loan to Deposit Ratio (LDR), Capital Adequacy Ratio (CAR), Return on Equity (ROE), and Non-Performing Loans (NPLs). The testing involved the samples of 14 banking issuers whose ownership was dominated by foreign investors. The data, 2 years before and after the presence of foreign ownership, were used to get the results related to the effect of foreign ownership on financial performance of banking companies in Indonesia. The results of this study show that there is a significant increase in LDR, there is an insignificant increase in CAR, there is an insignificant decrease in ROE, and there is a significant decrease in NPLs after the presence of foreign ownership on the banking companies listed on the Indonesia Stock Exchange.

ABSTRAK

Peraturan Bank Indonesia (PBI) 2000 yang menyatakan bahwa investor asing diperbolehkan untuk mengambil alih kepemilikan hingga 99% dari bank domestik di Indonesia telah menjadi perdebatan panjang, terutama oleh para akademisi. Beberapa penelitian membuktikan bahwa keberadaan kepemilikan asing membawa manfaat, tetapi di sisi lain, kepemilikan tersebut tidak membawa manfaat apapun. Penelitian ini bertujuan untuk memberikan bukti berkaitan dengan pengaruh kepemilikan asing terhadap kinerja keuangan perusahaan perbankan yang terdaftar di BEI diukur dengan Loan to Deposit Ratio (LDR), Capital Adequacy Ratio (CAR), Return on Equity (ROE), dan Non-Performing Loan (NPL). Pengujian dengan sampel terdiri dari 14 emiten perbankan yang kepemilikannya didominasi oleh investor asing. Data 2 tahun sebelum dan sesudah adanya kepemilikan asing, digunakan untuk mendapatkan hasil berkaitan dengan pengaruh kepemilikan asing terhadap kinerja keuangan perusahaan perbankan di Indonesia. Hasilnya menunjukkan bahwa ada peningkatan yang signifikan pada LDR, ada juga peningkatan signifikan pada CAR, namun ada penurunan signifikan pada ROE, dan penurunan yang signifikan pada NPL setelah adanya kepemilikan asing pada perusahaan perbankan yang terdaftar di Bursa Efek Indonesia.

1. INTRODUCTION

Financial liberalization is characterized by changes in government regulations and this leads to the foreign investors to be able to invest in the equity markets of the country concerned. On the contrary, the domestic investors are allowed to invest in foreign equity markets. For that reason, the impact of financial liberalization can be seen in two opposite sides. In one side, financial liberalization can strengthen the development of the financial sector and lead to the higher growth in a long term due to the influx of foreign capital. In the other side, financial liberalization can encourage high risk-taking due to the intense competition, and increase the

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volatility of the macroeconomic variable, as well as lead to the onset of financial crisis in the economy of the country concerned (Ranciere et al. 2006).

The number of issuers listed on the Indonesia Stock Exchange (IDX) per December 2014 is 507 companies, 41 of which are banking issuers. Therefore, it is interesting to study the group of banking stock is interesting to study because banking stock and this is one of the investor' s primary choice in the capital market. Some banking issuers are permanent residents of LQ-45 group, a collection of blue-chip stocks with the largest market capitalization and excellent stock liquidity. In addition, the issuers of banking sectors also have higher level of foreign ownership than the issuers of other sectors.

Concentrated foreign ownership is a prevalent phenomenon in the countries with growing economy such as Indonesia and the countries of continental Europe. In contrast, in Anglo-Saxon countries, such as Britain and the United States, the ownership structure relatively spreads out (La Porta et al. 1999). The stock ownership is said concentrated if the majority of the stocks are owned by the minority of individuals or groups, so that the stockholders have more dominant stocks than the others (Dallas 2004). The ownership structure is very interesting to study considering an opinion which states that the performance of a bank will be affected by who the owner of the bank is. This is quite reasonable because the owner has a great authority to elect those who will sit in the management that will further define the policy direction of the bank.

The performance of a bank is closely related to the role and function of the bank management (Hadad et al. 2003). The success of a bank to generate earnings is an achievement made by the management in managing the bank well and correctly. The owners of a bank want the management they elect is able to optimize the existing resources so as to produce profit as much as possible. The final objective of the management of a bank is the profit which is reflected in its financial performance (Hadad et al. 2003). To achieve this objective, the owners of a bank will choose the management that is able to run the bank's business well and profitably.

Differences in financial performance of banking companies listed on the Indonesia Stock Exchange can be caused, among others, by how the banks are managed (Rahayu 2009). The process of how the banks are managed and how the banks react to the environment dynamics varies greatly. It could be caused by the differences in ownership, the capability of human resources, the location of operation, the size of the bank, and the philosophy in managing the bank.

The appraisal of the company's financial performance, as a result of management's decision making process, is a complex issue because it involves the effectiveness of capital utilization and the efficiency of the company's activities. The measurement of the bank’s financial performance, in this study, is using liquidity ratio which is proxied by the Loan to Deposit Ratio (LDR), the solvability ratio which is proxied by Capital Adequacy Ratio (CAR), profitability ratio which is proxied by Return on Equity (ROE), and non performing loan ratio which is proxied by Non Performing Loan (NPL).

LDR is the ratio between the total number of the bank loans and the funds received by the bank, in which LDR is an indicator of the ability of the bank to offset its obligations to customers. CAR is the ratio of the performance of the bank to measure the adequacy of the bank’s capital to support risky assets. Non Performing Loan (NPL) is one of the risks faced by a bank in lending. ROE is the ratio between the bank’s net profit and its own capital. These ratios are indicators for the stockholders and potential investors to measure the bank's ability to earn profits related to dividend payments. Meanwhile, the amount of nonperforming loans to total loans is measured by NPL. The total loan is the loan given to the third parties and does not include loan to other banks.

The purpose of this study is to provide an overview of the foreign ownership in the banking companies in Indonesia, especially those listed on the Indonesia Stock Exchange. The study is conducted to provide evidence about the effect of foreign ownership on the bank’s financial performance as measured by LDR, CAR, ROE, and NPL, by comparing the financial performance before and after the existence of foreign ownership.

2. THEORETICAL FRAMEWORK AND HYPOTHESES

Based on banking theory, as Diamond and Dybvig (1986) argued, bank serves as financial intermediary that takes surplus spending units to deficit spending units. Bank accepts deposits from surplus spending units consisting of demand deposits, time deposits, savings deposits, immediate payable liabilities, securities issued, deposit guarantees and others. The funds that can be collected by the bank from the depositors are disbursed in the form of loans and other interest-bearing investments. The function of liquidity creator made by a bank requires the bank to hold liquid reserves. As long as the bank still has sufficient reserves to meet all withdrawals by depositors, the banking system will run well.

Theory of banking proposed by Sinkey (2002), among others, explains that bank carries out the basic functions of financial system comprising: performing payment systems, collecting and distributing funds, carrying out the transformation of economic resources over the time, collecting, processing, and disseminating information for the purpose of decision making, giving way to manage uncertainty and risk control, and providing a way how to deal with the problem of asymmetric information. Intermediation in terms of fund raising can be obtained from various sources. Funds from the first party, in the form of funds invested by the owners for the establishment of the bank, are referred to as capital. Funds from the second party are the source of the bank funds that can be obtained through the interbank money market and the capital market by issuing bonds or other long-term securities. Funds from the third party are the funds derived from the public both in IDR and foreign currencies. Compared with other sources of funds, third party funds are more profitable because they are routine and relatively lower in cost (Megginson 1997: 23). The ability of a bank to raise third party funds is highly influenced by the conditions of competition where the bank operates. The crucial factor in raising public funds is determined by the ability of the management to make price policy in the form of interest that can be offered to customers, and the ability of the management to create a sense of security and convenience for customers (Sinkey 2002: 18).

Theory of Ownership

Gul et al. (2007) state that the concentration of ownership results in conflicting effect on stock prices. It depends on the nature of the effect. The effect can be either entrenchment effect or alignment effect which is dominant. Entrenchment effect means that concentration of ownership encourages the majority stockholders to utilize organization's resources for personal interests and limits information to outside parties including to minority stockholders. This situation will be responded negatively as indicated by the decline in stock prices. Furthermore, alignment effect means that the concentration of ownership encourages the majority stockholders to align their interests with the interests of the minority stockholders. The majority stockholders have commitment to build a reputation and not to take advantage of the organization's resources for personal interests and try to improve the quantity and quality of information of the company and the minority stakeholders get benefits because the cost of information is low. This will be responded positively as indicated by the rise in stock price.

Hugens (2008) puts forward the theory of ownership that distinguishes between concentrated corporate ownership and non-concentrated corporate ownership. Non-concentrated corporate ownership is defined as the public ownership with the proportion of ownership which is not concentrated on a single owner. The problem of asymmetric information and unconformity or incompatibility of interests between the owners of the company, as a principal, and the manager, as an agent, can occur in public ownership. The problem is associated with managerial opportunism where the manager does not work optimally to reach the goal of achieving the owner's interest and he gets personal gain at the expense of the company.

Foreign Ownership

According to Law No. 25 of 2007 article 1 number 6, foreign ownership is foreign individuals, foreign business entities, and foreign governments that make investment in the territory of the Republic of Indonesia. Thus, the size of foreign ownership is the percentage of company's stock ownership by foreign investors.

In stock ownership, there is a stock block holder that holds at least five percent of the entire equity of a company (Abor and Beikpe 2006). The important element of stock block ownership by external party is the stronger monitoring over the manager or insider so as to reduce the agency problem between management and stockholders (La Porta et al. 1999). The opposite occurs when the stock block ownership is dominated by the company's management. This can make the management feels free to make decisions even it could hurt the company. The stock block ownership which is dominated by management can lower the company value due to the growing problem of agency and the exploitation on minority stockholders (Lins 2003).

The type of stockholders may affect the type of information they demand from the company. For example, the demand for information is getting higher if the company has larger percentage of foreign ownership (Schipper 1981; Siregar et al. 2010). Multinational companies or companies with larger foreign ownership tend to reflect on the practices undertaken by foreign entities, on terms that are not specifically regulated in the rules of domestic legislation in an effort to attract more investment, to meet the expectations of foreign investors, and to ensure their long-term survival prospects (Dimaggio and Powell 1983).

Foreign ownership in a company is a party which is concerned about the increase of good corporate governance (Simerly and Li 2000). According to the agency theory, the decline in company's performance is caused by ineffective relationship between the stockholders and the manager. But when the relationship between the stockholders and the manager can be controlled, the company's performance could be better. When the foreign ownership is higher, the foreign party, as the majority stockholder, will appoint foreigners to serve as commissioners or board of directors. Thus, the alignment of goals to maximize the company's performance will be achieved because the equality of principle between foreign shareholders and management, which is also housed by foreigners, is part of the governance of company management (Simerly and Li 2000).

There are 41 banking companies listed on the Indonesia Stock Exchange by September 2014, in which 30 of them are commercial banks. Along with the liberalization in the banking sector in Indonesia, where foreigners are allowed to hold 99% of the stocks of the domestic bank (Bank Indonesia Regulation No. 2/27/PBI/2000 concerning Commercial Bank, Article 5, paragraph 2), there are currently 14 of 30 commercial banks whose majority shareholders are controlled by foreign parties.

Loan to Deposit Ratio (LDR)

LDR is the ratio between the total number of bank loans and the funds received by the bank. Besides that, LDR shows the bank's ability to repay the withdrawal of funds by depositors by relying on loans. In other words, how the loans given to customers can offset the obligations of the bank to immediately meet the demands of the depositors who want to withdraw the money which has been used by the bank to extend loans. This is because the amount of funds needed to finance loans is getting greater. LDR is the bank's liquidity ratio which is an indicator of the vulnerability and the ability of a bank. Some banking practitioners agree that the safe limit of the LDR of a bank is approximately 80%, but the tolerance limit is ranging from 85% to 100% (Dendawijaya 2003).

Capital Adequacy Ratio (CAR)

CAR is a benchmark of capital ratio assessment in the context of the level of the soundness of every bank. The size of CAR is measured by the ratio between own capital and Risk Weighted Assets (RWA). Bank Indonesia has officially announced the implementation of the Indonesian Banking Architecture (API), a blueprint of the direction and order of the national banking system in the future. One of the API's programs requires a minimum capital for commercial banks with a minimum CAR of 8% at the latest in 2010. According to Dendawijaya (2003), the higher the value of CAR indicates that the bank has adequate capital to support its needs and to bear the risks incurred, including credit risk.

Return on Equity (ROE)

Profitability is the end result of a number of policies and decisions of the company management (Brigham and Houston 2009). Thus, it can be said the company's profitability is the company's ability to generate net income from the activities undertaken in the accounting period. The profit that becomes the measurement of the company performance should be evaluated from one period to the next and from how the actual profit is compared with the planned profit. ROE shows the company's ability to generate profit after tax by using its own capital. This ratio is important for the stockholders to know the effectiveness and the efficiency of its own capital management conducted by the company management. The higher this ratio, the more efficient the use of its own capital performed by the company management.

Non Performing Loan (NPL)

The basic function of a bank is to carry out the function of intermediation. In carrying out the function, the bank encounters a lot of risks. The main risk in lending is credit risk. Banks need to conduct an analysis of the collectability of the loans disbursed. Collectability analysis needs to be done with the aim to smooth the task of securing the facilities given to customers so that the attitudes and ways of dealing with customers can be tailored to the smooth credit (Abdullah 2003: 96). The higher the NPL shows that the bank is not professional in managing loans. And, this also provides an indication that the level of risk on lending is quite high. The smaller the NPL indicates the better management of the loans and has positive effect on NIM (Arman 2014).

Previous Researches

Research by Earle et al. (2005) examined the concentration of ownership and company performance at the Budapest Stock Exchange. Concentration of ownership in this research is defined as the largest shareholder. The company performance is measured by profitability with return on equity (ROE) as a ratio between income before tax and equity value. This research was conducted in all companies listed on the Budapest Stock Exchange from 1999 to 2004. The concentration of ownership is as the independent variable, while the performance of the corporation is as the dependent variable. The results show that the concentration of foreign ownership measured by the largest ownership statistically has positive effect on company performance. It is based on the reason that the concentration of large ownership will be able to reduce the agency problem. Through the largest ownership of the stocks, the stockholders have greater right to determine the management and can perform more intensive control.

Majumdar and Chibber (1999) found that foreign ownership has a positive effect on company performance in India. The increasing number of foreigners who invest in companies in India will increase the company performance. This occurs because the foreigners, who have made investment, have good management systems, technology and innovation, expertise and marketing that bring positive influence on the company.

Research by Subika et al. (2011) examined the relationship between the ownership structure and the banking company's financial performance in 20 countries in Middle East and North Africa. The research involved 249 banks with the data collected from 2000 to 2002. The results show that the sizeable foreign ownership has a significant effect on the bank performance as measured by ROE, LDR, and CAR. Research by Kuntz and Enrica (1999) examines the relationship between the foreign ownership which is defined as foreign parties who control 50% or more and the ratio of nonperforming loans (NPL). The research was carried out in banking companies in 80 countries, both developing countries and developed countries. The number of the banks observed was 7,900 commercial banks. The results show that foreign ownership has negative effect on NPL. It is because banks with foreign ownership can operate with better operational technique and technology than domestic banks.

However, different results are shown in the research done by Garcia and Daniel (2010) that examines the relationship between ownership structure and banking performance in China from 2003 to 2008. The research involves 49 major banks. The result shows that there is no clear correlation between ownership structure and banking performance in general. The research by Zouari et al. (2012) also examines the relationship between ownership structure and banking performance. The study involves 53 major Islamic banks spread over 15 countries from 2005 to 2009. The results show that there is no clear relationship between concentrated ownership and banking performance as measured by ROA and ROE. Family and state ownership has a positive effect, while foreign and institutional ownership has no relationship with banking performance.

Hypothesis Development

Differences in financial performance of banking companies listed on the Indonesia Stock Exchange, among others, are caused by differences in ownership, human resource capacity, and philosophy in the management (Rahayu 2009). In addition, the benefit of the banks with foreign ownership, according to (Simerly and Li 2000), is the presence of the support of information technology systems and networks they possess compared to other bank groups.

In terms of liquidity (LDR), most foreign banks have a strong base in the corporate sector and not focus on the retail. Besides, the banks with foreign ownership have always received liquidity support from parent company (Abraham 2014). In terms of capital, banks with foreign ownership can also easily receive funds from their parent company in the form of dollars (Fauzi 2014). In addition, the financial performance of the banks with foreign ownership also tends to be better, especially because of the improvement in BOPO ratio indicating a high efficiency of the bank (Fuazi 2014). In terms of nonperforming loans (NPL), banks with foreign ownership operate with better operational technique and technology than the domestic banks (Kuntz and Enrica 1999) so as to be able to control the nonperforming loans. Based on these studies, the hypothesis is developed as follows:

Foreign ownership has a significant positive effect on LDR of banking companies listed on IDX, which is characterized by a significant increase in LDR after the presence of foreign ownership.

Foreign ownership has a significant positive effect on CAR of banking companies listed on IDX, which is characterized by a significant increase in CAR after the presence of foreign ownership.

Foreign ownership has a significant positive effect on ROE of banking companies listed on IDX, which is characterized by a significant increase in ROE after the presence of foreign ownership.

Table 1
Foreign Ownership in Banking Companies Listed on IDX

No.	Names of Bank	Foreign Ownership	Portion (%)
1.	Bank ICB Bumiputera	ICB Financial Group	41.07
2.	Bank Ekonomi Raharja	HSBC, London	98.94
3.	Bank Central Asia	Mauritius Ltd.	47.15
4.	Bank Nusantara Parahyangan	ACOM Co Ltd	66.15
5.	Bank Danamon Indonesia	Asia Financial	67.37
6.	Bank Pundi Indonesia	Recapital Securities	68.85
7.	Bank QNB Kesawan	Qatar National Bank	78.59
8.	Bank CIMB Niaga	CIMB Group, Malaysia	96.92
9.	Bank BII (Maybank)	Sorak Financial Pte Ltd	45.02
10.	Bank Permata	Standard Chartered	44.56
11.	Bank of India Indonesia	Bank of India	76.00
12.	Bank BTPN	Sumitomo Mitsui Banking	40.01
13.	Bank Windu Kentjana	UBS AG Singapura	50.41
14.	Bank OCBC NISP	OCBC, Singapura	85.08

Source: IDX and IPOT, processed.

Foreign ownership has a significant negative effect on NPL of banking companies listed on IDX, which is characterized by a significant decrease in NPL after the presence of foreign ownership.

3. RESEARCH METHOD

The data were secondary data, published by the Indonesia Stock Exchange (IDX) 2009-2013 and PT BEI's Annual Report 2009-2013. The population was the entire banking sector issuers listed on the Indonesia Stock Exchange until December 2014 consisting of 41 issuers. The sampling used criteria in the form of banking sector issuers that have complete data on the proportion of foreign ownership which is greater than 40 percent and the data of LDR, CAR, and ROE which were available in full. Based on these criteria, the number of samples in this study consists of 14 banking companies as in Table 1.

Table 1 shows the largest foreign ownership of all banking companies listed on IDX. Based on Table 1, there are two banking companies owned by foreign investors with more than 90 percent. They are Bank Ekonomi Raharja owned by HSBC London (98.94 percent) and Bank CIMB Niaga owned by CIMB Group of Malaysia (96.92 percent). There are still several banking companies owned by foreign investors, but the samples in the study are limited to the stockholding above 40 percent.

The data of the financial performance of the banks consisting of LDR, CAR, ROE, and NPL used secondary data from IDX 2009-2013 and the Annual Report of PT BEI 2009-2013. The data of LDR, CAR, ROE and NPL two years before and after the acquisition of the banks by foreign investors are used to examine whether there is an effect of foreign ownership on financial performance of the banks. It used paired sample model t-test for analysis by using supporting tool SPSS version 20.

4. DATA ANALYSIS AND DISCUSSION

Data Analysis

The data processing was done by comparing LDR, CAR, ROE and NPL 2 years before and 2 years after the presence of foreign ownership in banking companies listed on the Indonesia Stock Exchange. All these can be seen in Table 2.

Hipotesis Testing

The Effect of Foreign Ownership on LDR

As seen in Table 2, the mean value of LDR before the presence of foreign ownership in banking companies listed in IDX is 75.62 percent, while the mean value of LDR after the presence of foreign ownership is 85.50 percent. It means that there is an increase in the mean value of LDR after the presence of foreign ownership. Then, the result of significance test is 0.000, meaning that foreign ownership has significant and positive effect on the LDR of banking companies listed on IDX which is characterized by a significant increase in LDR after the presence of foreign ownership.

The Effect of Foreign Ownership on CAR

Again, as presented in Table 2, the mean value of CAR before the presence of foreign ownership in banking companies listed on IDX is 14.84 percent, while the mean value of CAR after the presence foreign ownership is 15.35 percent. It means that there is an increase in the mean value of CAR after the presence of foreign ownership. Then, the result of significance test is 0.619, meaning that foreign

Table 2
The effect of Foreign Ownership on Financial Performance of Banking Companies Listed on IDX

Paired Samples Statistic

	Mean	N	Std. Deviation	Std. Error Mean	Sig. (2-tailed
LDR Before	75.6243	28	13.22371	2.49905	.000
After	85.5004	28	9.15745	1.73060	
CAR Before	14.8489	28	6.11539	1.15570	.619
After	15.3521	28	5.13900	.97118	
ROE Before	7.8879	28	11.05847	2.08985	.350
After	6.1211	28	8.05119	1.52153	
NPL Before	3.9246	28	4.22851	.79911	.010
After	2.1032	28	1.66464	.31459	

Source : Output SPSS processed.

ownership has no effect on the CAR of banking companies listed on IDX which is characterized by an insignificant increase in CAR after the presence of foreign ownership.

The Effect of Foreign Ownership on ROE

As on Table 2, the mean value of ROE before the presence of foreign ownership in banking companies listed on IDX is7.88 percent, while the mean value of ROE after the presence of foreign ownership is 6.12 percent. It means that there is a decline in the mean value of ROE after the presence of foreign ownership. Then, the result of significance test is 0.350, meaning that foreign ownership has no affect on the ROE of banking companies listed on IDX, which is characterized by an insignificant decrease in ROE after the presence of foreign ownership.

The Effect of Foreign Ownership on NPL

Based on Table 2, it shows that the mean value of NPL before the presence of foreign ownership in banking companies listed on IDX is 3.92 percent, while the mean value of NPL after the presence of foreign ownership is 2.10 percent. It means that there is a decline in the mean value of NPL after the presence of foreign ownership. Then, the result of significance test is 0.010, meaning that foreign ownership has significant and negative effect on NPL of banking companies listed on IDX which is characterized by a significant decline in NPL after the presence of foreign ownership.

Discussion

The Effect of Foreign Ownership on LDR

The mean value of LDR increases by 9.88 percent (from 75.62 percent to 85.50 percent) after the percent of foreign ownership. LDR shows the size of the liquidity of the bank. The function of liquidity creator made by a bank requires the bank to hold liquid reserves. As long as the bank still has sufficient reserves to meet all withdrawals by depositors, the banking system will run properly, Diamond and Dybvig (1986). The bank that has LDR less than 80 percent is said to be ineffective because part of the funding is not channeled well. While good LDR according to the provisions of Bank Indonesia is 85-100 percent. The ability of the bank to raise the mean value of LDR up to 85 percent indicates that the presence of foreign ownership manages to improve the company's liquidity. Thus, the hypothesis number 1 is accepted.

This condition occurs because; first, banks with foreign ownership always receive liquidity support from parent company (Abraham 2014); second, most banks with foreign ownership have a strong base in the corporate sector and not focus on retail (Abraham 2014); and third, banks with foreign ownership focus on the service of fee-based income (Arman 2014). The result is consistent with the study by Subika et al. (2011) stating that the presence of foreign ownership has an effect on Loan to Deposit Ratio (LDR).

The effect of Foreign Ownership on CAR

Based on Table 2, by comparing the mean value of CAR between two years before and two years after the presence of foreign ownership in banking companies listed on IDX, the result shows an increase in CAR, but statistically, the relationship is insignificant. According to Dendawijaya (2003), the high value of CAR indicates that the bank has adequate capital to support the needs and to bear the risks posed including credit risk. Thus the hypothesis number 2 is rejected.

The result of this study explains that the presence of foreign ownership in national private banks is not necessarily followed by the addition of own capital (Siregar 2013). This condition is essential to offset the Risk Weighted Assets (RWA). The result of this study is consistent with the result of the research by Garcia (2010) examining the relationship between the ownership structure and the banking performance in China which shows unclear correlation between ownership structure and banking performance in general. The results of the research by Fauzi (2014) which states that banks with foreign ownership can easily obtain funding from their parent company in the form of dollars is not proven in this study. Likewise, the results of the research by Subika et al. (2011) stating that foreign ownership has an effect on CAR is not true in the case of bank ownership by foreign investors in Indonesia.

The Effect of Foreign Ownership on ROE

The data processing in Table 2 was done by comparing the mean value of ROE between two years before and two years after the presence of foreign ownership in banking companies listed on IDX, the result shows that there is an insignificant decrease in the mean value of ROE from 7.88 percent before the presence of foreign ownership to 6.12 percent after the presence of foreign ownership. The high stock block ownership by external parties leads to the stronger control over the manager or insider so as to reduce the agency problem between management and stockholders (La Porta et al. 1999). The existence of majority ownership means that the stockholders have greater right to determine the management and can perform more intensive control, Earle et al. (2005). Such condition is expected to be able to improve the financial performance of the company. But in this study it is not proven. Thus, the hypothesis number 3 is rejected.

The result of this study explains that the existence of foreign ownership in national private banks does not affect the profits of the banks. Such condition is primarily caused by; first, based on the analysis of Du Pont (Sinkey 2002: 131), one of the important factors that determine the amount of ROE is the efficiency of the bank operation. The entry of foreign investors with the number of foreign employees who sit as directors and commissioners is presumed to be one of the causes of the high cost of bank operations (Arman 2014). Second; bank loan interest rate of the banks with foreign ownership is lower than that of the local banks. This is in line with the results of the study by Endang KT Subari, (2014) stating that the lowest ratio of the ROE is the banks in group Book 3 whose majority stockholders are foreign parties, primarily due to the interest rate of foreign bank loans which is lower than the that of the banks in group Book 4. Third; It is due to the low credit growth of foreign ownership. This is in line with the results of the study by Halim, (2012) stating that the average credit growth of the banks with foreign ownership is still lower than that of the local banks. The result of the research by Majumdar and Chibber (1999), which state that the increasing number of foreign parties who invest their stocks in companies in India will improve the performance of the companies because the foreign parties have better management systems, technology and innovation, expertise and marketing is not proven in this research.

The Effect of Foreign Ownership on NPL

Based on the data processing in Table 2 by comparing the mean value of NPL between two years before and two years after the presence of foreign ownership in banking companies listed on IDX, the result shows that there is a significant decrease in the mean value of NPL from 3.92 percent before the presence of foreign ownership to 1.10 percent after the presence of foreign ownership. Thus, the hypothesis number 4 is accepted.

The result of this study explains that the presence of foreign ownership has succeeded in reducing non-performing loans. It is due to the banks with foreign ownership using better operational technique and technology than the domestic banks, Kuntz and Enrica (1999). This condition is also supported by Bank Indonesia policy. The issuance of Bank Indonesia Regulation (PBI) No. 15/2/PBI/2013, regarding the determination of the status and follow-up of surveillance of conventional commercial banks which, among other, regulates the intensive supervision of the banks that have the potential difficulties which endanger its survival. One of the criteria of the bank that has potential difficulties which endanger its survival is based on the level of NPL. The net ration of nonperforming loans (NPL) which is more than 5% of the total loans will be included in the category of the banks with intensive supervision. The impact of this regulation, all banks have to manage their non-performing loans, including performing various efforts such as renegotiation or rescheduling of non-performing loans.

5. CONCLUSION, IMPLICATION, SUGGESTION, AND LIMITATIONS

The results of this study prove that:

1. Foreign ownership has a significant positive effect on Loan to Deposit Ratio (LDR) of bank-

ing companies listed on the Indonesia Stock Exchange, which is characterized by a significant increase in LDR after the presence of foreign ownership.
2. Foreign ownership has no effect on Capital Adequacy Ratio (CAR) of banking companies listed on the Indonesia Stock Exchange, which is characterized by the absence of significant increase in CAR after the presence of foreign ownership.
3. Foreign ownership has no effect on Return on Equity (ROE) of banking companies listed on the Indonesia Stock Exchange, which is characterized by the absence of significant increase in ROE after the presence foreign ownership.
4. Foreign ownership has significant negative effect on Non Performing Loan (NPL) of banking companies listed on the Indonesia Stock Exchange, which is characterized by the existence of significant decline in NPL after the presence of foreign ownership.

The presence of foreign ownership in banking companies listed on the Indonesia Stock Exchange proves to have no effect on Capital Adequacy Ratio (CAR). It shows the implication that the entry of foreign investors is not able to improve the capital adequacy ratio. Therefore, it is suggested that the Financial Services Authority (OJK) add the rules regarding the addition of own capital in the case of the ownership acquisition of banking companies in Indonesia by foreign parties.

The presence of foreign ownership in banking companies listed on the Indonesia Stock Exchange proves to have no effect on the profitability ratio (ROE). It shows the implication that the entry of foreign investors has no effect on the company's profit. Therefore, it is suggested that Financial Services Authority (OJK) review the rules regarding the permissibility of foreign ownership up to 99 percent on the national private bank because it proves to have no effect on bank's profits.

The limitations of this study include the unavailability of sufficiently long time series of financial performance data to be compared between before and after the entry of foreign ownership, because in some cases the process of acquisition occurred in the last few years.

Further researches are recommended to test the entry of foreign ownership in other sectors (apart from the case of banking companies) to obtain a more complete picture of the effect of foreign ownership on financial performance of companies in Indonesia.

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