The Influence Of Government Ownership and Foreign Ownership on The Value of Banking Companies in Indonesia

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Abstract

This study examines the influence of government ownership and foreign ownership on the firm value of banking companies listed on the Indonesia Stock Exchange (IDX) for the period 2018–2022. Firm value is proxied by Tobin's Q. The research employs a quantitative approach using panel data regression with the Fixed Effect Model (FEM). The sample consists of 28 banking companies selected through purposive sampling. The results indicate that government ownership has a significant positive effect on firm value, suggesting that state-backed banks enjoy stronger public trust, greater access to government funding, and stronger regulatory support. Foreign ownership also shows a significant positive effect on firm value, reflecting improved corporate governance practices, managerial expertise, and investor confidence brought by foreign shareholders. The findings contribute to the literature on corporate governance and firm value in the context of Indonesian banking, underlining the importance of ownership structure in enhancing shareholder wealth.

Keywords: *government ownership, foreign ownership, firm value, Tobin's Q, banking, Indonesia*

INTRODUCTION

The banking sector is one of the main pillars of Indonesia's financial system which plays a strategic role in encouraging national economic growth. The stability and performance of the banking industry not only have an impact on the profitability of companies, but also on public trust, monetary stability, and the state's ability to finance development. In this context, firm value is a critical indicator that reflects market perception of a bank's long-term prospects.

A phenomenon that attracts the attention of academics and financial practitioners in Indonesia is the high variation in company values among banks listed on the Indonesia Stock Exchange (IDX). Data shows that government-owned banks such as PT Bank Rakyat Indonesia (Persero) Tbk, PT Bank Mandiri (Persero) Tbk, PT Bank Negara Indonesia (Persero) Tbk, and PT Bank Tabungan

Negara (Persero) Tbk consistently record high Tobin's Q values compared to domestic private banks. For example, in 2022, Bank Rakyat Indonesia's Tobin's Q reached 1.85, while some private banks only recorded values below 1.0, indicating that the market values the assets of state-owned banks higher than their book value.

On the other hand, the entry of foreign investors into the Indonesian banking sector also colored the dynamics of share ownership. Based on data from the Financial Services Authority (OJK) in 2022, foreign ownership in several large banks such as PT Bank Central Asia Tbk and PT Bank OCBC NISP Tbk reached more than 40% of the total outstanding shares. This raises relevant academic questions: does a high proportion of foreign ownership consistently increase the value of the company, or does it actually create agency problems between foreign shareholders and domestic management?

The theory underlying the relationship between ownership structure and company value is generally based on agency theory (Jensen & Meckling, 1976) which states that the difference in interests between the principal and management (agent) can create agency costs that have the potential to reduce the value of the company. In the context of government ownership, there is debate among researchers: some argue that government intervention creates inefficiencies (political interference hypothesis), while others argue that government ownership provides a competitive advantage through implicit state guarantees and access to government projects (helping hand hypothesis).

Research related to foreign ownership and company value also shows mixed results. Several studies have found that foreign investors bring better governance practices, stricter management oversight, and technology transfer that improves operational efficiency (Claessens & Djankov, 2002; Nakano & Nguyen, 2012). Nevertheless, other research suggests that overly high foreign ownership can create information asymmetric problems and exploitation by foreign majority shareholders against domestic minority shareholders.

METHOD

Research Design and Approach

This study uses a quantitative approach with a causal research design that aims to test the influence of independent variables on dependent variables. The data used is a data panel which is a combination of time-series and cross-section data, so as to allow the control of unobserved heterogeneity between companies.

Population, Samples, and Sampling Techniques

The research population is all banking companies listed on the Indonesia Stock Exchange (IDX) during the 2018–2022 period, which totals 47 banks. The sampling technique uses purposive sampling with the following criteria: (1) banking companies listed on the IDX consistently during the 2018–2022 period; (2) to publish a fully audited annual financial statement; (3) not experiencing delisting or operational termination during the observation period; (4) have complete share ownership data. Based on these criteria, a sample of 28 banking companies was obtained, so that the total observation amounted to 140 data (28 companies × 5 years).

Variable Operational Definitions

The variables in this study are defined as follows:

Table 1. Operational Definition of Research Variables

Variable	Definition	Measurement	Source
Tobin's Q (Y)	Company Values	(MVE + Debt) / Total Assets	Financial Statements
GOVOWN (X1)	Government Ownership	% Government Shares / Total Shares	Financial Statements
FORTOWN (X2)	Foreign Ownership	% of Foreign Shares / Total Shares	Financial Statements
SIZE (Z1)	Company Size	Ln(Total Assets)	Financial Statements
LENGTH (Z2)	Profitability	Net Profit / Total Assets	Financial Statements
CAR (Z3)	Capital Adequacy	Capital / ATMR	Financial Statements

Research Model

The panel data regression model used in this study is as follows:

$$\text{TobinsQ\_it} = \alpha + \beta1\ \text{GOVOWN\_it} + \beta2\ \text{FORTOWN\_it} + \beta3\ \text{SIZE\_it} + \beta4\ \text{ROA\_it} + \beta5\ \text{CAR\_it} + \varepsilon\text{\_it}$$

where TobinsQ_it is the value of the company bank I in year t; GOVOWN_it is the proportion of government ownership; FORTOWN_it is the proportion of foreign ownership; SIZE_it is the size of the company; ROA_it is profitability; CAR_it is the ratio of capital adequacy; α is a constant; β1–β5 is the regression coefficient; and ε_it is an error term.

Data Analysis Techniques

Data analysis was carried out through a series of stages: (1) Descriptive statistics to describe the characteristics of the research variables; (2) Panel model selection test through Chow Test (PLS vs FEM), Hausman Test (FEM vs REM), and Lagrange Multiplier Test (REM vs PLS); (3)

Classical assumption tests include multicollinearity, heteroscedasticity, and autocorrelation tests; (4) Estimation of the panel data regression model; (5) Hypothesis test through t-test (partial) and F-test (simultaneous) with a significance level of 5%. The entire analysis process was carried out using EViews 12 and STATA 17 software.

RESULTS AND DISCUSSION

Descriptive Statistics

Table 2. Descriptive Statistics of Research Variables (2018–2022)

Variable	N	Red	Std. Dev.	Min	Max
Tobin's Q	140	1.247	0.418	0.612	2.893
GOVOWN (%)	140	24.63	30.41	0.00	80.00
FORTOWN (%)	140	18.75	19.82	0.00	67.45
SIZE (Ln)	140	31.42	1.87	27.94	34.89
LENGTH (%)	140	1.42	1.18	-3.21	4.52
CAR (%)	140	22.36	6.74	13.24	45.67

Descriptive statistics show that the average Tobin's Q of the sample banking company is 1,247, which means that on average the market value of the bank is higher than its book value, indicating positive market expectations for the banking sector. The average government ownership was 24.63% with high variation (std. dev. 30.41%), reflecting a significant difference between state-owned banks (ownership >50%) and private banks (0% ownership). Foreign ownership averaged 18.75%, with a maximum value of 67.45% found in banks that have established strategic partnerships with international financial institutions.

Panel Data Regression Model Selection

Table 3. Panel Data Regression Model Selection Test Results

Testing	Null Hypothesis	Statistics	Verdict
Chow Test (PLS vs FEM)	Pls be better	$F = 12.47$ ($p < 0.01$)	Subtract H0 → FEM
Hausman Test (FEM vs REM)	REM is better	$\chi^2 = 18.32$ ($p < 0.01$)	Subtract H0 → FEM

The results of the Chow test showed that the Fixed Effect Model (FEM) was better than the Pooled Least Square (PLS) with an F-statistical value of 12.47 ($p < 0.01$). Then Hausman's test confirmed that FEM was more accurate than the Random Effect Model (REM) with a chi-square value of

18.32 ($p < 0.01$). Thus, the estimation model used in this study is the Fixed Effect Model.

Regression Results of Panel Data (Fixed Effect Model)

Table 4. Regression Results of Panel Fixed Effect Model Data

Variable	Coefficients	Std. Error	t-Statistics	Prob.	Remarks
Constant (α)	−2.4137	0.6823	−3,538	0.0006	
GOVOWN (X1)	0.0082	0.0021	3.905	0.0002	***
FORTOWN (X2)	0.0065	0.0024	2.708	0.0076	***
SIZE (Z1)	0.1423	0.0384	3.706	0.0003	***
LENGTH (Z2)	0.1872	0.0423	4.426	0.0000	***
CAR (Z3)	0.0134	0.0087	1.540	0.1260	NS
R-squared: 0.7234 | Adj. R-squared: 0.7012 | F-statistic: 68.47 (p < 0.0001) | N = 140					

*– Dependent Variable: Tobin's Q Remarks: *** significant at α = 1%; ** significant at α = 5%; * significant at α = 10%; ns = insignificant*

Discussion

The Influence of Government Ownership on Company Value

The results of the estimation show that government ownership (GOVOWN) has a coefficient of 0.0082 with a t-statistic of 3.905 and a probability of 0.0002, so H1 is accepted. This means that every 1% increase in government ownership on average increases Tobin's Q by 0.0082 percentage points per paribus. These findings support the helping hand hypothesis and are consistent with the research of Sufian and Habibullah (2022) and Trinh et al. (2022) which found the positive influence of government ownership on the market value of banks in Asia.

This positive influence can be explained through several mechanisms. First, state-owned banks in Indonesia such as BRI, BNI, Mandiri, and BTN enjoy implicit government guarantees that increase customer and investor confidence. Second, these banks gain preferential access to government infrastructure projects and credit disbursement programs that strengthen their competitive position. Third, during the COVID-19 pandemic period (2020–2021), state-owned banks spearheaded the national economic recovery program through various credit restructuring and interest subsidy schemes, which actually increased assets under management and public trust.

This finding is different from the political interference hypothesis put forward by Shleifer and Vishny (1994). In the context of post-reform Indonesia, the government has succeeded in transforming the management of state-owned banks through the application of stricter principles of good corporate governance (GCG), increased transparency, and professionalization of management. This reduces the potential for inefficient political intervention and strengthens the operational performance of state-owned banks.

The Influence of Foreign Ownership on Company Value

Foreign ownership (FORTOWN) shows a positive coefficient of 0.0065 with a t-statistic of 2.708 and a probability of 0.0076, so H2 is accepted. These findings confirm that foreign investors have a positive impact on the value of Indonesian banking companies, consistent with the research of Nguyen et al. (2021) and Ferreira and Matos (2008).

The mechanism of the positive influence of foreign ownership can be understood from several perspectives. First, institutional foreign investors tend to bring higher international corporate governance standards, including more transparent disclosure practices, a more independent composition of the board of commissioners, and a more sophisticated internal control system. Second, foreign ownership is often accompanied by the transfer of digital banking technology and risk management expertise that improves operational efficiency. Third, the presence of prominent foreign investors serves as a positive signal to other investors about the quality of the bank's management and prospects, which ultimately drives the stock price and Tobin's Q.

However, it should be noted that in the sample of this study, most of the banks with significant foreign ownership are mid- to large-cap banks that have implemented good GCG practices, so it is possible that this positive relationship also reflects the selection effect where foreign investors tend to enter high-quality banks.

CONCLUSION

This study has examined the influence of government ownership and foreign ownership on the value of banking companies listed on the IDX for the period 2018–2022 using the Fixed Effect Model with 140 observations from 28 banks.

First, government ownership has been proven to have a positive and significant effect on the value of banking companies (coefficient = 0.0082; $p < 0.01$). These findings support the helping hand hypothesis and indicate that state ownership in Indonesia's banking sector provides a competitive advantage through implicit government guarantees, preferential access to government projects, and higher public trust.

Second, foreign ownership has a positive and significant effect on the value of the company (coefficient = 0.0065; $p < 0.01$). These results confirm that foreign investors contribute to the increase in the value of the company through the transfer of better corporate governance practices, more effective management monitoring, and positive signals to the market.

The managerial implications of this study include: (1) The government needs to maintain and optimize its role in state-owned banks through strengthening governance and digital transformation; (2) Indonesian banks can consider attracting strategic foreign investors who bring added value in the form of technology and management expertise; (3) Regulators need to design foreign ownership policies that balance the national interests and the governance benefits brought by foreign investors.

This study has several limitations, including not considering the dimension of the type of foreign investors (strategic vs portfolio) and not exploring the non-linear effects of the two ownership variables. Future research suggests using a threshold regression approach to identify optimal levels of ownership that maximize the value of banking firms.

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