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The Influence of Bank Ownership, Company Size on Bank Stability: A Study in the Southeast Asian Region

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Abstract

This study aims to determine the influence of bank ownership and company size on bank stability in banking companies within the Southeast Asian region. The population of this study comprises banking companies from ASEAN-5 countries (Indonesia, Malaysia, the Philippines, Singapore, and Thailand) over the period from 2013 to 2022. Based on data availability, a sample of 100 banking companies over 10 periods, resulting in a total of 1000 panel observations, was analyzed. Linear regression analysis of the panel data was conducted using Eviews12 software. The results indicate that both bank ownership and company size have a negative and significant impact on bank stability. These findings suggest that banks should enhance transparency and diversification in their holdings to mitigate risks associated with high concentrations of ownership, particularly in large banks. This research highlights the need for regulatory frameworks that promote stable and resilient banking systems in the Southeast Asian region.

Keywords: Bank Ownership, Company Size, Bank Stability.

INTRODUCTION

Bank stability is the main pillar in maintaining a country's economic and financial stability. Banks play a central role in the financial system by collecting funds from the public and channelling them back as a credit to productive sectors (Misman & Bhatti, 2020). Through this intermediation function, banks support economic growth and job creation. In addition, banks also provide various financial services that are important to people and businesses, such as payments, investments, and risk management (Pak, 2019).

The financial crises that occurred in various countries show that bank instability can have a significant negative impact on the economy (Hertati et al., 2020). For example, the 1997 Asian crisis and the 2008 global financial crisis that hit the East Asia & Pacific region show how quickly bank instability can spread and cause widespread financial crises. These crises often result in economic recessions, increased unemployment, and a decline in people's welfare (Ali & Puah, 2019).

Bank instability can shake public confidence in the financial system, result in massive withdrawals (bank runs), and disrupt financial intermediation functions. Maintaining bank stability is essential to prevent these negative impacts and ensure long-term economic stability (Diaconu & Oanea, 2015). A stable bank can significantly contribute to sustainable economic growth and society's overall well-being (Mateev et al., 2023).

Bank ownership is an important factor that affects bank stability which has characteristics and impacts on bank stability. Owned banks tend to have higher stability in crisis situations because they have full support from state authorities(Ovi et al., 2014). However, they may face challenges in terms of efficiency and innovation. Banks with a focus on profitability and efficiency tend to be more responsive to market changes but can be more susceptible to economic instability. Banks with better global expertise and risk diversification are often more innovative and efficient but can face challenges in navigating regulation and building trust in local markets. (Boulanouar et al., 2021).

Ownership structure refers to the power to control a company which implies the capacity to determine and make decisions regarding company policies (Evada Dewata & Isnurhadi, 2012). Changes in the bank's ownership structure can affect risk management policies and practices in banks. For example, privatization of government-owned banks can improve efficiency and competitiveness, but it can also increase risks if not followed by adequate supervision.

Southeast Asia's banking industry has different characteristics which is a region with rapid economic growth but faces financial stability challenges (Soebyakto et al., 2020). This rapid growth is often accompanied by high financial risks, which require a stable banking system and effective regulation to manage these risks. Financial stability challenges in the region can come from various sources, including market volatility, changes in economic policy, and external shocks such as global crises (Banna & Alam, 2021).

This diverse Southeast Asian region also requires special attention to bank size variables in bank stability analysis (Nguyen & Dang, 2022). The size of the bank can affect stability significantly. Larger banks tend to have more resources, such as stronger capital, advanced technology, and better access to international markets. With greater resources, these banks can better manage risk and absorb economic shocks, so they tend to be more stable in the face of economic and financial uncertainty (Boulanouar et al., 2021).

While large banks have an advantage in terms of resources and risk management capabilities, they can also face higher systemic risks. Systemic risk can have a far-reaching impact on the entire financial system if large banks struggle or fail (Mateev et al., 2023). Large banks often have very extensive and complex networks, so the failure of one large bank can trigger a domino effect that threatens the stability of the banking system as a whole. Based on the phenomenon that occurred, the researcher investigated "The Influence of Bank Ownership, Company Size on Bank Stability: A Study in the Southeast Asian Region"

This research aims to investigate how bank ownership and size influence bank stability in Southeast Asia. Banks play a crucial role in economic stability by channeling funds and providing financial services. The study examines state-owned banks' potential stability versus efficiency challenges, and private banks' market responsiveness versus susceptibility to instability. It also considers how larger banks' extensive resources can enhance risk management yet pose systemic risks. The findings aim to offer insights into maintaining economic stability and well-being in this rapidly growing but volatile region.

RESEARCH METHODS

The population in this study is banks in Southeast Asia. The study sample consisted of 5 Southeast Asian countries from 2012 to 2022. The data sample was selected based on the disclosure of complete financial statements for at least ten years. This is done to make it easier to process data and for better test results.

The data collection method is carried out by the secondary data method, which is the secondary data collection method obtained indirectly through datasets obtained from BankFocus & World Bank. The data obtained consisted of 5 countries, namely Indonesia, Malaysia, the Philippines, Singapore, and Thailand, which were included in the Southeast Asian region in the 2013-2022 period. Based on the availability of data, the sample used consisted of 10 periods with 100 companies so a total of 1000 observation panels were obtained. The linear regression analysis technique of panel data uses Eviews12 tools.

RESULT AND DISCUSSION

1. The value of the constant in your regression result shows a positive value of 191.0450. This shows that in a condition where there is no influence from the independent variables of bank ownership and the size of the listed company, the stability of the bank is still represented by a significant positive value.
2. The value of the regression coefficient of the X1_1OWN variable is -1.129264 with a t_hitung value of -2.388125 and a probability value (Prob.) of 0.0171, states that bank ownership has a negative effect on bank stability (ZROA). A probability of less than 0.05 indicates that the negative effect of bank ownership on bank stability is statistically significant. This suggests that the higher the bank ownership, the more negative the stability of banks in Southeast Asia, with strong statistical significance.
3. The value of the regression coefficient of the X3_1SIZE variable is -3.344801 with a t_hitung value of -2.927060 and a probability value (Prob.) of 0.0035, states that the size of the company has a negative effect on the stability of the bank. A probability of less than 0.05 indicates that the negative relationship between company size and bank stability is also statistically significant. This shows that the larger the size of the company, the more it will have a negative impact on the stability of banks in Southeast Asia, with high statistical significance.

Discussion

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Bank ownership has a negative and significant effect on the stability of banks in Southeast Asia. These results are in line with research from (Moudud-Ul-Huq et al., 2022); (Shahriar et al., 2023); (Park & Oh, 2022); (Boulanouar et al., 2021); (Marie et al., 2021); (Muizzuddin et al., 2021); (Chol et al., 2020); (Partovi & Matousek, 2019); (Bermpei et al., 2018); (Ghosh, 2016); (Lee & Hsieh, 2014); (Perotti & Vorage, 2010). These results reveal that 1) shows that the higher ownership of banks will have a negative impact on the stability of banks in Southeast Asia, with strong statistical significance.

These results suggest that ownership can influence strategic decision-making and risk policy in banks, affecting financial stability. The study found that the higher the proportion of a bank's ownership, the more likely it is that the bank will experience instability. This can be due to potential conflicts of interest and the lack of diversification of risks often associated with concentration of ownership.

Through the lens of agency theory where concentrated ownership leads to management decisions that are more oriented towards short-term profits or owners' agendas that can ignore long-term stability. Banks with concentrated holdings may take on higher risks in investments or operations, which can disrupt their financial stability especially in an economically unstable environment. Other factors could include a lack of diversification in decision-making or the potential for certain political or group influences to override objective strategic decisions.

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The analysis shows that the size of the company has a negative and significant influence on the stability of the bank. These results are in line with research from (Chai et al., 2022); (Wu et al., 2022); (Ali & Puah, 2019); ((Ozili, 2019); (Kim et al., 2020); (Kim et al., 2020) (Anginer et al., 2018); (Ali & Puah, 2018); (Pawlowska, 2016); (Ovi et al., 2014). These results state that large sizes can affect stability due to factors such as market concentration and exposure to large risks that are not well diversified. Dependence on s Efficient internal structures and strong regulations are crucial for large banks to ensure their stability amid market fluctuations.

The research supports the idea that larger banks, despite having more resources and wider access to capital markets, also face greater systemic risks that could threaten the stability of companies. These risks include difficulties in managing complex operations and the potential for failure that could lead to systemic losses in the economy especially for large banks with highly concentrated holdings. Effective policy implementation and strict supervision can be key to ensuring long-term stability in Southeast Asia's banking sector, with a focus on the balance between growth and stability.

CONCLUSION

The research concludes that in the Southeast Asia region, bank ownership and company size both have a negative and significant impact on bank stability. This suggests that different ownership structures can contribute to instability and that larger banks may face greater challenges in maintaining stability. These findings underscore the complexities and risks related to bank ownership and size within the financial landscape of Southeast Asia.

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