

# Capital aspects and share ownership towards banking financial performance in ASEAN member countries

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## ABSTRACT

This research was conducted to examine the effect of capital structure and ownership structure on profitability in the banking sector in Indonesia and the Philippines in 2013-2017. It used the population from conventional commercial banks listed on the Stock Exchange in Indonesia and the Philippines. The data were analyzed using statistical analysis with a structural model. Hypothesis testing results show that the capital structure (DER, CAR, and LDR) affects the banks' profitability in Indonesia. The ownership structure (managerial ownership and institutional ownership) has a significant positive effect on the banks' profitability also in Indonesia. However, the capital structure (DER, CAR, and LDR) has no effect on the banks' profitability in the Philippines. Three capital structure (DER, CAR, and LDR) have no effect on the banks' profitability both in Indonesia and in the Philippines. The ownership structure (managerial ownership and institutional ownership) has a significant positive effect on the banks' profitability of banks both in Indonesia and in the Philippines.

## ABSTRAK

Penelitian ini dilakukan dengan tujuan untuk menguji pengaruh struktur modal dan struktur kepemilikan terhadap profitabilitas pada sektor perbankan di Negara Indonesia dan Philipina pada tahun 2013-2017. Populasi yang digunakan adalah bank-bank umum konvensional yang terdaftar di bursa efek di Indonesia dan Philipina. Teknik analisis data yang digunakan dalam penelitian ini adalah analisis statistik dengan model structural. Hasil pengujian hipotesis menginformasikan bahwa struktur modal (DER, CAR, dan LDR) berpengaruh terhadap profitabilitas perbankan di Negara Indonesia. Struktur kepemilikan (kepemilikan manajerial dan kepemilikan institusional) berpengaruh positif yang signifikan terhadap profitabilitas perbankan di Negara Indonesia. Struktur modal (DER, CAR, dan LDR) tidak berpengaruh terhadap profitabilitas perbankan di Negara Philipina. Struktur modal (DER, CAR, dan LDR) tidak berpengaruh terhadap profitabilitas perbankan di Negara Indonesia dan Philipina. Struktur kepemilikan (kepemilikan manajerial dan kepemilikan institusional) berpengaruh positif yang signifikan terhadap profitabilitas perbankan di Negara Indonesia dan Philipina.

## 1. INTRODUCTION

In Indonesia, banking industry has developed significantly over the past time. Early in 1980, there was no clear law governing the banking industry. Only the state banks were allowed to extend their loan called Bank Indonesia Liquidity Credit (KLBI). In addition, the bank industry development before 1990 was legal when regarding the banking system that was

effective in Law No.7 of 1992. It was a public trust in the banks that began to develop. Finally, this trust had established private banks. In that system, they also established a bank health assessment system. However, after 1990, the banks' performance in Indonesia declined due to a number of bad loans, in which their liquidity was getting lower and lower. Therefore, they need regulation regarding the

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bank's soundness. Also, they found difficulty to implement the system they have established. The most prominent factor with that system was the bank's capital adequacy. Finally, in order to improve the weaknesses that occur in the banks' performance in Indonesia, an API (Indonesian Banking Architecture) was established beginning in January 9, 2004 (Prasanjaya & Ramantha, 2013).

Since 2017, the national banking system has implemented the regulation strictly by supervising the aspects of the bank's performance measurement. This regulation is concerned with the way how to make the bank's financial performance improved. In addition, some efforts have also been undertaken to strengthen the bank's operational effectiveness and sustainable efficiency. In this case, the bank capital and ownership factors are considered to be able to determine the banks' success to achieve their goals. It was noted that the weak banking capital in ASEAN countries was triggered by the global crisis in 2008. This condition caused the banks to have a high asset financing and high loan interest rates, as well as it could also increase their operational costs. Therefore, they had to adjust to that condition carefully. This was also experienced by several banks in Indonesia and those in the Philippines (Subandi & Ghozali, 2013).

Especially, in the Philippines, the banking system at that time, also developed slowly in terms of their financial performance. All these were also caused by disrupted capital aspects due to capital outflow. This condition was caused by political turmoil after the election of a new leader in the Philippines. In addition, all the investors in this country conducted a capital withdrawal significantly. They distributed the capital to the property and consumption sectors when compared to those in the banking sector. The existence of the Central Bank of the Philippines to maintain financial stability is also disturbed very much by changes in investor behavior that affects the composition of share ownership in the banking services industry in the Philippines. This phenomenon makes the researcher interested to investigate. Therefore, this study attempts to see and investigate the effect of capital aspects and ownership on the banks' financial performance in the Philippines.

When discussing the banking profitability ratio, the researcher intended to determine the bank's financial performance utilizing the assets and financial resources to get profits

for the banks (Pandia, 2012). In this case, the capital aspect greatly determines the amount of financial data sources that can be used to generate profits. For example, capital adequacy ratio (CAR) is capital adequacy ratio owned by the banks to support assets to overcome the possible risk of any risky credit or productive assets (Darmawi, 2011). For that reason, the stronger the bank's capital, the higher the CAR ratio is, having the possibility for the bank to improve the performance (Kasmir, 2016). This statement is in accordance with the result of the research conducted by Dewi, N. V. et al (2017), Kurniasih (2016); Damayanti & Savitri (2012) who stated that the increase in CAR has a significant positive effect on profitability. Besides that, the results of these studies above differ from other studies conducted by Suyono et al (2017).

We can summarize the high proportion of debt to capital owned by the bank by using ratio of debt to equity ratio. This ratio is often also known as the leverage ratio. This leverage ratio is a trigger or lever for the banks to use funding sources that come from the debts to generate profits. However, since this debt has risks, the debt must be protected with sufficient capital. This capital must be owned by the bank (Herry, 2015). A high increase in DER will cause the bank's liquidity risk to be higher. This is in line with the results of research by Tailab (2014) and Niresh (2012). Another different evidence was asserted by Rembet et al (2018), stating that DER has no significant effect on profitability.

The study by Suyono et al (2017) showed that an increase in loan to deposit ratio (LDR) has a significant and negative effect on profitability. However, it is different from that by Damayanti & Savitri (2012) and Kurniasih (2016), finding that an increase in LDR does not have a significant effect on the profitability. A study by Suyono et al (2017) is also supported by Kodongo et al (2015) study. According to Defri (2012), LDR is a ratio that represents the company's ability to provide funds for their debtors' needs.

The next is about the ownership structure. It is part of the composition of company shares owned by management, companies, and other institutions as well as those owned by the public (Rembet et al, 2018). The previous studies found that the ownership structure does not have a significant effect on the banks' financial performance (Rembet et al, 2018) and Wiranata & Nugrahanti (2013). Yet, this finding

is different from the research conducted by Nugrahanti & Novia (2012). Based on such differences, the present study attempts to examine the effect of capital structure with the indicators such as Capital Adequacy Ratio, Debt to Equity Ratio, Loan to Deposit Ratio, and ownership structure with the indicators measuring Managerial Ownership and institutional ownership on the banks' profitability in Indonesia and the Philippines.

## 2. THEORETICAL FRAMEWORK AND HYPOTHESIS

### Positive Accounting Theory

Regarding the positive accounting theory, this study refers to Watts and Zimmerman (1986). They are the initiators or inventors of this theory, arguing that the purpose of accounting theory is to explain and predict the accounting practices. As they describe, accounting theory means to provide the reasons for accounting practices that can predict phenomena. These phenomena are such as the phenomena which are not observed or the phenomena that we cannot investigate. This theory relates to the concepts in the form of testing the hypotheses. After that, Watts and Zimmerman also stated that this theory should be built by academics, based on empirical evidence that has the power to predict. Theories that does not base on the positive accounting theory as referred by Watts and Zimmerman is called a "child theory" which generalizes without scientific research experience (Watts & Zimmerman, 1986). The reason why the researcher uses this positive accounting theory as a guideline is that this theory tries to predict the hypotheses that have been made we can observe such hypotheses. Therefore, that researcher can infer the hypotheses by connecting all existing and interconnected concepts.

Positive accounting theory is relevant to explain the affected financial performance, as the previous researchers have used PAT especially in accounting areas. The researcher did it because PAT is a significant and relevant theory. It is stated that a positive accounting theory does not suggest that companies must be able to explain the accounting policies they use. Positive accounting theory provides freedom to management to choose accounting policies. If they open up opportunities for profit and opportunist behavior, they can do it freely. Positive accounting theory also explains that managers have a rational argument and can choose the best accounting policy they can

do for their own interest.

### Signaling Theory

Signaling theory is broadly related to the available information. In this theory, a financial statement can be used by the investors to make decisions. Using signal theory, we can use the information such as return on assets (ROA) or the rate of return to assets or also how much profit the company derives from their assets. Therefore, if ROA is high, it will be a good signal for investors, as explained by Jogiyanto (2014). It indicates that the information published as an announcement will give a signal to investors when making investment decisions.

According to Scott (2012), this signaling theory is a theory stating that there is encouragement owned by company managers who have good information about their company. Thus, they have high motivation to convey information about the company to their prospective investors that have the aim to increase the company's value through this signal theory. This is also for the company's financial statements. The reason the researcher used this signal theory is that it can motivate the banks' managers to achieve their goals to increase their banks' profitability and finances.

### The Effect of Debt to Equity Ratio on Profitability

Debt to Equity Ratio (DER) is a ratio used to measure the banks' ability to cover part or all of their debts, both for a long term and a short term, with the funds originating from their own capital (Kasmir, 2016). High or low Debt to Equity Ratio (DER) will affect the level of achievement of Return on Equity (ROE) achieved by the company. If the cost incurred by the loan is smaller than the cost of capital, the source of funds derived from loans or debt will be more effective in generating profits. Conversely, if the cost incurred by loans is greater than the cost of own capital, the source of funds derived from loans or debts is not effective for generating profits.

Companies with their growing profits will strengthen the relationship between DER and profitability, where profitability increases along with low DER. The higher Debt to Equity Ratio (DER) indicates the greater the company's burden on the outsiders. This is probable to reduce the company performance because the level of dependency with outsiders is getting higher. Sartono (2010) states that the greater the use of debt in the capital structure,

the higher the Return on Equity (ROE) of a company has. The test results of the research by Rembet et al (2018) showed that DER did not significantly affect profitability as measured by ROA. On the contrary, a study conducted by Dewi, et al (2015) showed that DER has a negative and significant effect on ROA. Astuti et al (2015) also stated that DER had a negative and significant effect on ROE.

#### **The Effect of Loan to Deposit Ratio on Profitability**

Loan to Deposit Ratio (LDR) is the ratio between all the amount of credit given by the banks and funds received by them. The LDR states, in what degree, the bank's ability to repay the fund withdrawals made by depositors by relying on credit as a source of liquidity to debtors. Loan to Deposit Ratio (LDR) is a measure of the bank's ability to repay withdrawals of funds made by depositors by relying on loans provided as a source of liquidity (Kasmir, 2016). The Loan to Deposit Ratio (LDR) is a ratio used to measure the composition of the amount of credit given compared to the amount of public fund and own capital used.

Agustiningrum (2012) states that the effect of Loan on Deposit ratio (LDR) on profitability such as the size of the bank's Loan to Deposit Ratio (LDR), can affect the bank's profitability. The greater the funds channeled to the customers such as in the form of credit, the lower the idle funds. It also makes the interest income earned higher or vice versa. The smaller the funds channeled to customers in the form of credit, the higher the number of idle funds and the lower the interest income earned. The test result of the study by Dewi, et al (2015) showed that LDR partially has a positive and significant effect on ROA, while the results of the study by Kurniasih (2016) showed that LDR has no significant effect on ROA. Still according to Christiano et al (2014), LDR has a positive and significant effect on profitability

#### **Effect of Capital Adequacy Ratio on Profitability**

Banks have capital that they can use for operating their business. Their capital consists of two types, namely core capital and supplementary capital. The capital adequacy ratio, which the Capital Adequacy Ratio (CAR) also reflects the bank's ability to fund its operational activities (Indroes, 2008). According to Bank Indonesia Regulation

No.10/ 15/ PBI/ 2008, the minimum capital requirement for a bank is 8%. A bank that has sufficient capital leads to higher profitability. It means that the higher the capital invested in the bank, the higher the bank's profitability (Defri, 2012).

Capital Adequacy Ratio (CAR) is a ratio between the ratios of capital to RWA or commonly referred to as risk-weighted assets and according to the government regulations (Kasmir, 2016). The higher the risk, the higher the risk margin, so that it can affect the level of income and the company's smoother operation, which in turn, can affect the level of the amount of credit extended to the public. Damayanti & Savitri's (2012) study shows that CAR has a positive and significant effect on bank profitability. The higher the CAR, the higher the bank's profitability. On the contrary, the study by Suyono et al (2017) shows that CAR does not significantly affect the bank's profitability as measured by ROA. But, Hutagalung et al (2013) state that CAR has a significant effect on bank profitability.

#### **The Effect of Institutional Ownership on Profitability**

Institutional ownership is the share ownership that the corporate and government institutions own. The researcher can measure the proportion of institutional share ownership by comparing the number of shares owned by institutional investors with the company's total capital stock in circulation. According to Baridwan (2011), institutional ownership is owned by an institution or institution at the end of the year. It has a good role for monitoring management because its existence can encourage optimal oversight.

The greater institutional ownership, the greater the voice power and encouragement of the institution to oversee management. As a result, it will provide a greater impetus to optimize the company's value so that the company's performance will continue to increase. The results of a research conducted by previous researchers such as Wiranata & Nugrahanti (2013) stating that institutional ownership does not affect profitability, while a study conducted by Candradewi & Sedana (2016) stating that institutional ownership has a positive and significant effect on profitability (ROA). Also, according to Nugrahanti & Novia (2012), institutional ownership has a positive and significant effect on profitability. This reflects that the low strength of institutional

ownership will affect the weakening of external control over the company. The existence of institutional ownership can help increase more optimal supervision of the company's performance in achieving the company's goals such as to obtain a maximum profit.

**The Effect of Managerial Ownership on Profitability**

Managerial ownership is a condition where the manager takes part in the company's capital structure. In other words, the manager has a dual role, namely as a manager and as a shareholder in the company. In financial statements, this situation is presented by the large percentage of ownership by managers (Rembet et al, 2018). The researcher can measure managerial ownership by using the proportion of shares owned by the company at the end of the year and expressed as a percentage. The greater the proportion of shares of managerial ownership in the company, then management will also try even harder for the interests of shareholders.

Large management ownership will be effective for the company to manage their activities. The greater the ownership of shares by management, the less the tendency of management to optimize the use of resources. It can cause the management's performance to increase. The ownership of shares owned

by the Board of management directors and managers can finally increase the company's maximum profitability.

The study by Wiranata & Nugrahanti (2013) states that managerial ownership does not significantly affect profitability. Neither did the study by Rembet et al (2018). Their results also show that managerial ownership does not significantly affect profitability. On the contrary, a study conducted by Candradewi & Sedana (2016) states that managerial ownership has a positive and significant effect on profitability. Based on the arguments and theoretical basis above, the researcher draws a framework of this research presented on Figure 1.

As in the theoretical framework and in the research framework in Figure 2, the researcher proposes the hypotheses as follows:

**Research Hypotheses:**

- H<sub>1</sub>: Do the capital structure and ownership structure affect the banks' profitability in Indonesia?
- H<sub>2</sub>: Do the capital structure and ownership structure affect the banks' profitability in the Philippines?
- H<sub>3</sub>: Is there a different effect of capital structure and ownership structure on the banks' profitability in Indonesia and the Philippines?

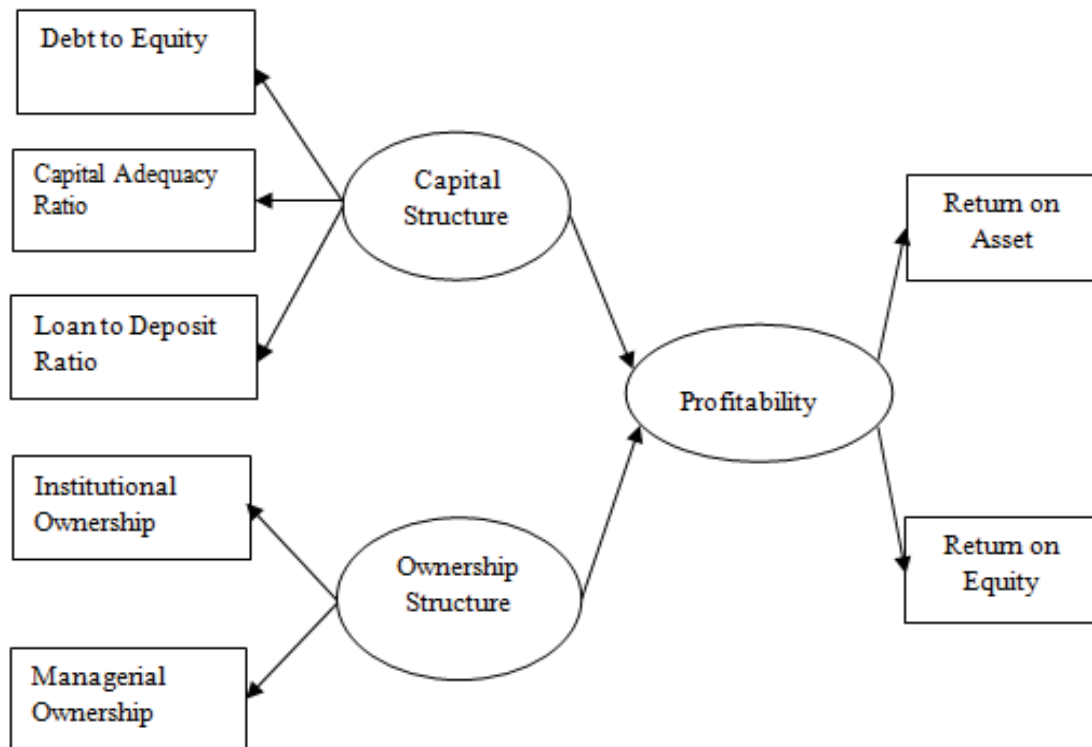


Figure 1: Research Framework

### 3. RESEARCH METHOD

This study used the sample taken only from the banks in two ASEAN countries, namely the banks in Indonesia and those in the Philippines over a five-year period, 2013-2017. This study used panel data such as 152 Philippines Banks and 175 Indonesia Banks. The researcher took the data from their annual financial statements on the official website, namely [www.idx.co.id](http://www.idx.co.id) and [www.set.or.ph](http://www.set.or.ph). This study used some variables such as dependent variable (Y): profitability.

Y = Profitability

Independent variables as X such as the following:

X<sub>1</sub> = DER (Debt to Equity Ratio)

X<sub>2</sub> = CAR (Capital Adequacy Ratio)

X<sub>3</sub> = LDR (Loan to Deposit Ratio)

X<sub>4</sub> = Institutional Ownership

X<sub>5</sub> = Managerial Ownership

#### Operational Definition and Variable Measurement

This study used form letter of Bank Indonesia (BI) Number 13/24/DPNP/2011 to calculate Return on Assets (ROA) and Return on Equity (ROE) as the indicators of the banks' profitability. ROA is a ratio that shows the return on the assets used in the company and is a measure of the effectiveness of management in managing its investments. Then, Return on Equity (ROE), the bank's average return on equity is used to measure the level of profits generated from their equity.

#### Debt to Equity Ratio (DER)

Debt to Equity Ratio (DER) is the ratio used to assess debt with equity. This ratio is resulted by comparing all the debts, including current debts and all equities. This ratio is useful to see the funds provided by the borrower (creditor) with the company owners. In other words, this ratio serves to see every rupiah of its own capital that is used for debt guarantees (Kasmir, 2016). For creditors (banks), the greater the DER, the less profitable it can be due to the greater risk that may occur in the company. However, for companies, the bigger the DER, the better. The following is the DER calculation formula:

Debt to Equity Ratio = Total Debt / Equity

#### Capital Adequacy Ratio (CAR)

Capital Adequacy Ratio (CAR) is the ratio of the bank performance, used to measure the bank's capital adequacy to support assets that

generate the risk. It can be about the loans they provided. Capital Adequacy Ratio (CAR) is a capital ratio that shows the bank's ability to provide funds for business development and to accommodate the possible risk of losses resulting from bank operations (Kasmir, 2016). The following is the CAR calculation formula:

$$\text{CAR} = \frac{\text{Capital}}{\text{Risk - Weighted Assets}} \times 100\%$$

#### Loan to Deposit Ratio (LDR)

Loan to Deposit Ratio (LDR) is a ratio used to measure how much the bank's ability to pay debts and repay to depositors (third parties and can meet credit requests submitted without any suspension. Loan to Deposit Ratio (LDR) is the ratio used to measure the composition of the credit given compared to the amount of public funds and own capital used. The maximum Loan to Deposit Ratio (DER) according to the government regulation is 110% (Kasmir, 2016). The following is the LDR calculation formula:

$$\text{LDR} = \frac{\text{Loan}}{\text{Total Deposit} + \text{Equity}} \times 100\%$$

#### Institutional Ownership

Institutional ownership is a condition where an institution has a stake in a company. This institution can be in the form of government institutions, private institutions, and domestic and foreign institutions. The presence of institutional investors is considered capable of being an effective monitoring mechanism in every decision taken by the managers. The bigger the institutional ownership, the bigger the urge to oversee management so that the company's performance can increase. It can also benefit shareholders because they get the maximum profit (Sawitri et al, 2017). The following is the formula for calculating institutional ownership:

$$\text{KI} = \frac{\sum \text{SI}}{\sum \text{SB}} \times 100\%$$

Description:

KI = Institutional ownership

$\sum \text{SI}$  = A number of shares owned by institutions

$\sum \text{SB}$  = A number of The existing Shares

#### Managerial Ownership

Managerial ownership is ownership showing the condition of the company's stock manager. In other words, the manager is also a

shareholder (Tjeleni, 2013).

$$KM = \frac{\sum SM}{\sum SB} \times 100\%$$

Description:

- KM = Managerial ownership
- $\sum SM$  = A number of shares owned by managers
- $\sum SB$  = A number of the existing shares

The researcher analyzed the data using PLS (Partial Least Square) with smartPLS 6.0. In this case, PLS is a variant-based Structural Equation Model (SEM). SEM is a multivariate technique which is a combination of factor analysis and correlation analysis (Santoso, 2014)

#### 4. DATA ANALYSIS AND DISCUSSIONS

##### Descriptive Analysis

Descriptive analysis aims to describe thoroughly the variables the study used. This study only conducted a descriptive analysis based on the data of maximum, minimum, average (mean) and standard deviation. In this study, the variable described is profitability proxies by Return on Assets (ROA) and Return on Equity (ROE), while the independent variable capital structure is measured by Debt to Equity Ratio (DER), Loan to Deposit Ratio (LDR), Capital Adequacy Ratio (CAR), and ownership structure as measured by managerial ownership, institutional ownership.

Descriptive statistical result on Table 1 indicates that the lowest return on assets is 0,2237 owned by the Bank Danamon in 2016. The lowest return on equity is 0,0511 owned by the Bank Arta Graha in 2016. The value of debt to equity the lowest is owned by Bukopin Bank in 2015 with a value of 0,2876. The lowest loan to deposit ratio of 0,9002 is owned by Bank Nobu Indonesia in 2016. The lowest capital adequacy ratio of 0,1290 is owned by Bank Permata Indonesia in 2017. The last managerial

ownership was the Bank Panin in 2017 of 0,1009 and the lowest institutional ownership was Bank Mestika Darma of 0,0005 in 2017.

Descriptive analysis results also inform that the highest return on assets is 0.3172 owned by Bank Central Asia in 2017. The highest return on equity value is 0,6329 owned by banks Bank Rakyat Indonesia in 2016. Debt to equity value, the highest is owned by the QNB Indonesia Bank in 2017 with a value of 8,2002. The highest loan to deposit ratio of 6,3187 is owned by Bank Rakyat Indonesia in 2016, the highest capital adequacy ratio of 0,2417 is owned by Bank BRI in 2017. The highest managerial ownership is the Bank Tabungan Negara in 2017 amounted to 0,5422 and the highest institutional ownership was the Bank Panin 0,3128 in 2016.

Descriptive statistical results on Table 2 inform that the lowest return on assets is 0,0310 owned by the bank of commerce in 2015. The lowest return on equity is 0,1119 owned by the First Commercial bank Manila bank in 2016. The value of debt to equity the lowest is owned by FICO bank in 2016 with a value of 0,3107. The lowest loan to deposit ratio of 0,1141 is owned by BDO Unibank in 2017, the lowest capital adequacy ratio of 0,0818 is owned by DBP bank Philippine in 2016. The last managerial ownership was the Philippine bank of communications bank in 2017 of 0,0002 and the lowest institutional ownership was the Robinsons bank corporation of 0,0040 in 2016.

Descriptive analysis results also inform that the highest return on assets is 0,4106 owned by Philippine veterans' bank in 2016. The highest return on equity value is 0,7683 owned by banks Bank of the Philippine island in 2015. For the debt to equity value, the highest is owned by the Central Asian Bank in 2017 with a value of 9,2113 the highest loan to deposit ratio of 6,3071 is owned by Standard chartered Bank Philippines in 2015.

**Table 1**  
**Descriptive Statistical Analysis in Indonesia**

	Minimum Statistic	Maximum Statistic	Mean Statistic	Std. Deviation Statistic
ROA	0,2237	0,3172	0,270450	0,0352007
ROE	0,0511	0,6329	0,074270	0,2201911
DER	0,2876	8,2002	2,620081	3,4117821
LDR	0,9002	6,3187	2,459011	2,5117955
CAR	0,1290	0,2417	0,180026	0,1311025
KM	0,1009	0,5422	0,207221	0,1973226
KI	0,0005	0,3128	0,156635	0,1814420

Source: SPSS, 2019

The highest capital adequacy ratio of 0, 2513 is owned by Maybank Philippine bank in 2017. The highest managerial ownership is the DBP bank Philippine in 2017 amounted to 0, 6819 and the highest institutional ownership was the Philippine UCPB bank of 0, 5421 in 2017.

As the researcher described earlier this study attempts to determine the effect of capital structure and ownership structure on profitability in conventional banking companies in Indonesia and the Philippines in 2013-2017. The results of hypothesis testing in Indonesia show that capital structure has a positive effect on profitability. Also, ownership structure has a positive effect on the bank profitability. So does the hypothesis test results in the Philippines. It also shows that capital structure has a positive effect on profitability but ownership structure has a negative effect on profitability. To evaluate the structural relationship between latent variables, the researcher did the hypothesis testing using the path coefficient between variables by comparing the p-value with alpha (0.1). This is to ensure the presence or absence of the effect of independent variables on the dependent variable as seen on Table 3.

The researcher also did the hypothesis testing to prove the estimates of research

hypotheses. It consists of two hypotheses as the following.

H<sub>1</sub>: *Capital structure has a significant effect on profitability.*

Based on Table 3, the first hypothesis testing obtained p-values of 0.0445. It is smaller than the alpha value of 0.05 (5%). On Table 4, it shows that the value of the path coefficients is 0.1162. Thus, it stated that the capital structure has a significant and positive effect on profitability. These results indicate that H1 is accepted.

H<sub>2</sub>: *Ownership structure has a significant effect on profitability.*

Based on Table 3, the first hypothesis test obtained p-values of 0.0010. It is smaller than the alpha value of 0.05 (5%). On Table 4, it shows that the value of the path coefficients is 0.3121. Therefore, it indicates that the structure ownership has a significant positive effect on profitability. This shows that H2 is accepted.

The next is the hypothesis testing to prove the estimates of research consisting of two hypotheses in the Philippines, namely:

H<sub>1</sub>: *Capital structure affects profitability.*

**Table 2**  
**Descriptive Statistical Analysis in Philippines**

	Minimum Statistic	Maximum Statistic	Mean Statistic	Std. Deviation Statistic
ROA	0,0310	0,4106	0,2208	0,0137
ROE	0,1119	0,7683	0,4401	0,1318
DER	0,3107	9,2113	1,8279	3,4117
LDR	0,1141	6,3071	0,8662	0,5097
CAR	0,0818	0,2513	0,1665	0,0201
KM	0,0002	0,6819	0,3411	0,2377
KI	0,0040	0,5421	0,2730	0,1405

Source: SPSS, 2019

**Table 3**  
**P-value of Indonesia**

Variable	Profit
SM	0,0445
SK	0,0010

Source: Results of the Processed PLS 6.0 Analysis, Attachment

**Table 4**  
**Path Coefficients of Indonesia**

Variable	Profit
SM	0,1162
SK	0,3121

Source: The Results of the Processed WarpPLS 6.0 Analysis



Based on Table 5, the first hypothesis testing obtained p-values of 0.1738 in which it is greater than the value of alpha = 0.05 (5%). On Table 6, it shows that the value of the path coefficients of -0.0542, then it can be stated that the capital structure has no effect on profitability. This shows that H<sub>1</sub> was rejected.

H<sub>2</sub>: *Ownership structure affects profitability.*

Based on Table 5, the first hypothesis testing obtained p-values of 0.0283, in which the value is smaller than that of alpha = 0.05 (5%). On Table 6, it shows that the value of the path coefficients is 0.201. In this case, it can be stated that ownership structure has a significant and positive effect on profitability. It shows that H<sub>2</sub> is also accepted. The results of hypothesis testing both in Indonesia and the Philippines show that capital structure does not affect profitability. Yet, ownership structure positively affects probability.

**The Effect of Debt to Equity Ratio (DER) on Profitability**

This study indicates that commercial banks' performance in Indonesia could cover part or all of their debts, both in the long term and short term. Thus, they have their ability to do it. The DER increase is due to the companies' large burden on outsiders that can lower company performance. It is because of the higher level of dependency with outsiders. The results of this study also indicate that commercial banks' performance in the Philippines could not cover all or part of their debts, both in the long term and short term. If the costs incurred by the loan are less than the cost of capital alone, then the source of funds from loans or debt will be more effective in generating profits.

According to the theories prescribed in this study, the signaling theory shows how companies give signals to their users about their financial statements. This signal is an action taken by management aimed at stakeholders to demonstrate the capabilities expressed in the annual report. By showing a good performance, they can provide a good signal to the investors to invest in order to obtain the desired profit. The results of this study are in line with research conducted by Rembet et al (2018), Tailab (2014); Niresh (2012).

**The Effect of Loan to Deposit Ratio (LDR) on Profitability**

This study indicates that the commercial banks' performance in Indonesia has a good ability in lending. The increase in LDR is due to credit growth that is greater than the growth of third party funds they collected. Therefore, they have the opportunity to get a high level of profit. This study also indicates that the commercial banks' performance in the Philippines also has a good ability in lending. The increase in LDR is due to credit growth that is greater than the growth of third party funds collected by the banks so that the bank has the opportunity to get a high level of profit.

According to signaling theory, if a company has a positive sign about their financial condition, it will increase investor confidence. The investors as depositors or shareholders do not want to withdraw their money from the banks. If the bank could distribute credit while the funds is small, the bank can also still get a profit. The results of this study are in line with research conducted by Damayanti & Savitri (2012), Kodongo et al (2015) and Suyono et al (2017).

**Table 5**  
**P-value of the Philippines**

Variable	Profit
SM	0,1738
SK	0,0283

Source: Results of the processed WarpPLS 6.0 Analysis

**Table 6**  
**Path Coefficients of the Philippines**

Variable	Profit
SM	-0.0542
SK	0.2017

Source: Results of the Processed WarpPLS 6.0 Analysis

### **The Effect of Capital Adequacy Ratio (CAR) on Profitability**

This study indicates that commercial banks' performance in Indonesia has sufficient capital and could manage their assets well. For that reason, they could save by themselves when a problem occurs. The higher the CAR, the stronger the bank's ability to bear the risk of any risky credit or productive assets that will increase profits at the bank. This study also indicates that the level of capital adequacy owned by a bank has an effect on the increase of bank profits, one of which is an increase in interest. However, in reality, the commercial banks in the Philippines did not optimize the existing capital so that they did not achieve an increase in the bank's profit. This happens because banking regulations require a minimum CAR of 8%, resulting in banks always trying to keep their CARs in accordance with the provisions.

### **The Effect of Managerial Ownership on Profitability**

This study indicates that the commercial banks' performance in Indonesia could improve their performance by increasing the proportion of managerial ownership in companies as measured by ROA directly. The greater the proportion of managerial ownership, the smaller the chance of conflict, because if the owner acts as the manager of the company, making decisions will be very careful so as not to harm the company. Ultimately, it can improve the banks' performance. This study also indicated that the commercial banks' performance in the Philippines can improve their performance by increasing the proportion of managerial ownership as measured by ROA directly. The greater the proportion of managerial ownership, the smaller the chance of conflict, because if the owner acts as the manager of the company, making decisions will be very careful for not to harm the company, and ultimately can improve company performance.

According to the theory that is agency theory, it shows that managerial stock ownership will require managers to always be careful in making decisions because the results of these decisions will have a direct impact on the shares owned by managers. The greater the proportion of managerial ownership in company shares, the better the performance of the company. The results of this study are in line with research conducted by Nugrahanti

& Novia (2012) showing that managerial ownership has a positive effect on profitability.

### **The Effect of Institutional Ownership on Profitability**

This study also indicates that the commercial banks' performance in Indonesia can increase supervision activity by institutions so that it can hinder the managers' opportunistic behavior. Besides that, it can help corporate decision making to improve the company's financial performance. This study also indicates that the commercial banks' performance in the Philippines can increase institutional supervision. Thus, they can also hinder the managers' opportunistic behavior, and can help corporate decision making, so as to improve the company's financial performance.

According to the theory that is agency theory, a large proportion of institutional ownership can increase supervision by the institutions. It can prevent the managers from being opportunistic and it can also help to make corporate decision to improve corporate financial performance. The existence of institutional investors in the company can help reduce agency problems that occur, namely problems that arise between the management and the shareholders. The results of this study are in line with that conducted by Nugrahanti & Novia (2012), showing that managerial ownership has a positive effect on profitability.

## **5. CONCLUSION, IMPLICATION, SUGGESTION, AND LIMITATIONS**

This study was done to examine the effect of capital structure and ownership structure on profitability in the banking sector in Indonesia and the Philippines in 2013-2017. It shows that capital structure (DER, CAR, and LDR) affect the banks' profitability in Indonesia in 2013-2017. Therefore, this study provides evidence that DER, CAR, and LDR affect the profitability of banks in Indonesia, as stated in the hypothesis that it is true. Thus, the hypothesis is accepted.

The ownership structure (managerial ownership and institutional ownership) has a significant and positive effect on the banks' profitability in Indonesia in 2013-2017. From this evidence, the hypothesis stating managerial ownership and institutional ownership over profitability is accepted. However, capital structure (DER, CAR, and LDR) has no effect on the banks' profitability in the Philippines in 2013-2017. This shows that DER, CAR, and

LDR have no effect on profitability because there are phenomena that differently occur in the banking financial statements in Indonesia and the Philippines. The ownership structure (managerial ownership and institutional ownership) has a significant and positive effect on bank profitability in the Philippines in 2013-2017. The capital structure (DER, CAR, and LDR) does not affect the profitability of banks in Indonesia and the Philippines in 2013-2017. DER, CAR, and LDR have no effect on profitability because there are phenomena that occur in the financial statements of banks in Indonesia and the Philippines. The ownership structure (managerial ownership and institutional ownership) has a significant positive effect on the profitability of banks in Indonesia and the Philippines.

This study, however, has also limitations. Several annual reports were prepared not using international languages (English) which might cause the researcher unable to read the financial statements well so that elimination was carried out. There are several companies in the banking sector whose financial statements cannot be accessed through the stock exchange. Their financial reports can only be accessed through the web of each of the banking sector companies. Therefore, for further study, the researchers can use more countries as the sample. It is not only in Indonesia and the Philippines. It can be in all countries in ASEAN.

It can be implied that for the banks in Indonesia, capital structure needs to be paid attention because it can affect the banks' profitability. It also deals with ownership structure for the banks in Indonesia to pay attention. However, it can be different from that in the Philippines. Therefore, further studies on the same purpose can be done for providing more evidence.

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