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Effect of the Konjunktutforschungstelle Index of Globalization, Bank Specific Characteristic and Macro Economics on the Performance of Banking Companies in Indonesia

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ABSTRACT

This study aims to analyze the effect of globalization, bank specific characteristics and macroeconomics on the performance of banking companies in Indonesia which is assessed based on ROE (return on equity). The variables used in the globalization dimension are the Kof Economic Globalization Index, the Kof Social Globalization Index, and the Kof Political Globalization Index. The variables used in the bank specific characteristic dimensions are bank size and EQASS (equity to asset ratio). While the variables used in the macroeconomic dimension are the inflation rate, GDP (Gross Domestic Product) per capita growth rate, and FDI (Foreign Direct Investment) Inflows part of GDP. This study uses secondary data taken from annual reports published by banking companies from 2010 to 2019. The panel data processing model chosen in this study is the REM (Random Effect Model) model. The results of the analysis of the REM model show that the Kof Economic Globalization Index, the Kof Political Globalization Index, bank size, inflation rate, and GDP (Gross Domestic Product) per capita growth rate have a significant positive effect on ROE (return on equity). Meanwhile, the Kof Social Globalization Index and FDI (Foreign Direct Investment) Inflows part of GDP have a significant negative effect on ROE (return on equity). The variable EQASS (equity to assets ratio) has no significant negative effect on ROE (return on equity).

Keywords: Kof Economic Globalization Index, Kof Social Globalization Index, Kof Political Globalization Index, bank size, EQASS (equity to asset ratio), inflation rate, GDP per capita growth rate, FDI Inflows part of GDP

INTRODUCTION

Since the 2007 financial crisis, international banking has attracted high attention from policy makers, researchers and stakeholders from various financial sectors. Perhaps no sector in the economy can illustrate the potential benefits but also the dangers of stronger integration than banking (Asli Demirguc-Kunt / Chief Economist of the Europe and Central Asia Region of the World Bank), published on 05 July 2017 (World Bank Blog: Globalization and Banking).

In general, the financial performance of banks in Indonesia has consistently decreased. This can be seen from the declining value of ROE (return on equity) which has occurred consistently since 2010. Meanwhile, when measured using ROA (Return on Assets), overall performance of banking companies in Indonesia has also decreased. The decline was caused by various factors which may have come from internal factors (Bank Specific Characteristics), external factors (macroeconomics) and globalization factors (globalization). The factors that companies need to consider in facing globalization

were first introduced by Dunning (1977) known as the Eclectic Theory/ILO theory. In this theory, Dunning argues that there are 3 (three) factors that need to be considered for a company before expanding into the global market, namely (internalization, location, and ownership).

The dynamics of globalization occurring in the world have led to the need for research on the impact of globalization on the banking sector. There are a number of studies that examine the impact of globalization at the micro level. This research, among others, was conducted by Karadagli (2012) who examined the impact of globalization on company performance in China, Brazil, Indonesia, Turkey, Russia, Mexico and India. The results show that the level of globalization of a country has a positive effect on company performance (stock market index). Pangarkar and Wu (2012) found that a high level of globalization had a positive impact on company performance (ROA) in China in the period 1996 to 2001. Peltonen, et al (2008) examined the effect of import penetration on company profitability in fifteen manufacturing industries. in fifteen countries in the 1955-2004 era. The results of the study show that import competition in developing countries generally has the opposite effect on the profitability of manufacturing companies.

To measure the effect of globalization on the performance of banking companies, we need an instrument to measure the level of globalization in a country. One instrument that can be used is the Kof Globalization Index, which is published by the Kof Institute and is updated regularly. The Kof Institute divides globalization into 3 (three dimensions), namely the economic dimension, the social dimension and the political dimension, so that there are 3 (three) main index types in the Kof Globalization Index, namely: Kof Economic Globalization Index, Kof Social Globalization Index and Kof Political Globalization Index . This study adopts these three types of indices as independent variables to examine the effects of globalization on the economic, social and political dimensions of the performance of banking companies in Indonesia.

Sufian and Kamarudin (2016) found that the Kof Economic Globalization Index has a positive correlation with the ROA (Return on Assets) of banks in South Africa. Sufian and Habibullah (2012) also found a positive correlation between the Kof Economic Globalization Index in the Actual Flow sub-dimensional and the restriction sub-dimensional on bank performance in China. Nguyen and Nguyen (2018) also found a positive correlation in their research entitled "Globalization and Bank Performance in Vietnam". However, Murugiah and Supramaniam (2021) found a negative correlation between the Kof Economic Globalization Index and the ROE (return on equity) of banks in Malaysia.

The influence of bank size on the performance of banking companies is an interesting issue. This is because there are a number of research results that show different results. In a journal entitled The Impact of Bank size on Profitability "An Empirical Study on Listed Jordanian Commercial Banks", Aladwan (2015) found that bank size has a negative correlation with banking profitability. While Halkos and Alamouris (2004) found that there is a positive correlation between bank size (assets) and bank efficiency in Greece.

Equity to Total assets Ratio (EAR) or also known as EQASS is the ratio between capital and total assets. EQASS is often used to measure the level of attachment or motivation of capital owners to the condition of the company they own. In theory, the greater the EQASS, the greater the engagement/motivation of the capital owners. In addition, an increase in EQASS is also associated with a decrease in risk and a decrease in leverage (Sufian and Habibullah, 2012). An increase in EQASS can also indicate a decrease in banking costs. However, the reduced leverage effect it causes can cause a decrease in company profitability.

The effect of inflation on banking performance is an important and complex issue. Inflation is important because it has become the main concern of investors, shareholders and lenders as well as managers in planning their programs for greater efficiency. Inflation can distort the working of the price system and cause inefficiencies in the allocation of resources. Uncertainty about future inflation rates can affect banking performance. (Umar, Maijama'a & Adamu, 2014). Boyd, et al (2001) found a significant non-linear negative correlation between inflation and the banking sector, Rahman and Serletis (2009) found that the impact of inflation uncertainty can vary depending on the structure and patterns of state finances. Namazi and Salehi (2010) found that an increase in inflation will lead to a decrease in banking performance. However, different results were shown by the teacher's research, et al (2002).

FDI (Foreign Direct Investment) Inflows are the sum of investment flows into the country in the form of equity, income reinvestment, long-term capital, short-term capital and long-term stock market investment. The relationship between FDI (Foreign Direct Investment) Inflows on banking performance is due to the fact that the core business of banking companies is heavily influenced by national economic conditions. At a glance, an increase in FDI (Foreign Direct Investment) Inflows is likely to have a positive impact on a country's economy and at the same time improve the performance of banking companies. However, there are differences in research results in terms of the relationship between FDI (Foreign Direct Investment) Inflows on the performance of banking companies. Jensen (2006) confirms that inward FDI (Foreign Direct Investment) rarely has a negative impact on economic growth. Meanwhile Ozili, et al (2020) found that inward FDI (Foreign Direct Investment) had a positive impact on the performance of banking companies (a decrease in NPLs/non-performance loans). Nwanji, et al (2020) in his journal entitled "Impact of Foreign Direct Investment on the Financial Performance of Listed Deposit Banks in Nigeria" found that inward FDI (Foreign Direct Investment) had a positive impact on the performance of banking companies in Nigeria. However, Oteng-Ababio et all (2016) found a negative correlation between FDI (Foreign Direct Investment) on bank performance in Ghana.

LITERATURE REVIEW

Eclectic Theory

The Eclectic Theory, also known as the ILO Theory, suggests that the decision to make foreign direct investment is based on a combination of three main factors, namely: 1. Internalization, 2. Location, and 3. Ownership. Eclectic Theory is a combination of three theories, namely: industrial organization theory, internalization theory and location theory. The three factors of the Eclectic Theory are connected to one another (Williams, 1997). Eclectic Theory itself was introduced by Dunning in 1977.

Ownership is defined as an advantage that can effectively help companies to compete in the global market. Ownership advantages according to Dunning (1988) may consist of access to markets or raw materials, access to low-cost funds, technology and information, etc. Location advantage is defined as an advantage possessed by an area and can only be used in that area. Examples of these location advantages are cheap labor, cheap natural resources, a favorable climate, cultural, legal, political and financial environment (Dunning & Lundan, 2008). Meanwhile, internalization advantage is an act of avoiding a situation of disadvantage that occurs within the country. Where to avoid the disadvantage, companies make direct investment (Foreign direct investment) abroad. The disadvantage situation that occurs can be caused by adverse government policies, unfavorable domestic markets, high taxes, etc. Eclectic Theory was originally applied to multinational banking by Gray and Gray

(1981) which turned out to be too complicated and general. So that currently Eclectic Theory is applied to banking activities between countries, but competes in the domestic market segment.

Murugiah and Supramainam (2021) use eclectic theory as a basis for examining the influence of internal variables (Bank Specific Characteristics), external (macroeconomics) and globalization on bank performance in Malaysia.

Globalization

Globalization has become a topic that reaps pros and cons in the international community. Those who are pro think that globalization will provide many benefits for society. In this case globalization will encourage the flow of capital into developing countries in the form of investment and credit, so that it will encourage economic growth. In addition, globalization is considered to have an effect in the form of increasing people's living standards, as well as opening access to new markets (Mohr, 2012).

Globalization causes more open competition between countries in the world. Developing countries open their economies to global markets through economic integration and the presence of international companies within their countries. Globalization is expected to increase the effectiveness of resource allocation and economic growth so that maximum results are obtained from all types of factors due to the fluidity of international factors. The World Bank reports that without a good financial system, economic globalization can bring disaster to developing countries. To measure the impact of globalization, we need a tool or instrument to measure the level of globalization. The Kof Globalization Index is an instrument built to measure the level of globalization of countries in the world. The Kof Globalization Index was built based on the definition of globalization put forward by Clark in 2000 (Potrafke, 2015). According to Clark (2000) globalization is described as the process of creating a network of relationships that exist between actors who are at great distances (across continents), connected through various channels including people, information and ideas, capital and goods (goods).

Kof Economic Globalization Index

The de facto Kof Economic Globalization Index is divided into 2 sub dimensions, namely de facto Trade Globalization and de facto Financial Globalization. De facto Trade Globalization is calculated based on the variable exports and imports of goods as well as exports and imports of services, as well as the diversity of trading partners (partner diversity). De facto Financial Globalization is calculated based on the following variables: Foreign direct investment, Foreign Portfolio Investment, international debt, international reserves, international income payments. The de jure Kof Economic Globalization Index is divided into 2 sub dimensions, namely de jure Trade Globalization and de jure Financial Globalization. De jure Trade Globalization is measured based on variables: trade regulations, trade taxes, tariffs, and trade agreements. De jure Financial Globalization is calculated based on variables: investment restrictions, capital account openness, and international investment agreements. (Gygli et al., 2019). Changes in trade regulations, taxes, duties, tariffs and trade agreements, investment restrictions, openness of capital accounts, and the existence of international investment agreements will affect the economy.

Nguyen and Nguyen (2018) in their research entitled "Globalization and Bank Performance in Vietnam" stated that an increase in actual flow indicated an increase in transnational trade volume and an increase in investment activity between Vietnam and its economic partners from abroad. Meanwhile, the increase in index restriction showed reduced barriers to trade and capital flows which had an impact on increasing the profitability of banks in Vietnam.

Kof Social Globalization Index

The de facto Kof Social Globalization Index consists of 3 (three) sub dimensions, namely: de facto interpersonal globalization which consists of the variables: international voice traffic, transfers, international tourism, international students and migration. Meanwhile, the de facto informational globalization sub-dimensional consists of used internet bandwidth, international patents, and high technology exports. The third sub-dimensional is de facto cultural globalization which consists of variables: trade in cultural goods, trade in personal services, international trademarks, Mc'Donald Restaurants, IKEA Stores. (Gygli et al., 2019)

The de jure Kof Social Globalization Index consists of 3 (three) sub dimensions, namely: de jure interpersonal globalization which consists of the variables: telephone subscriptions, freedom to visit, international airports. Meanwhile, the de jure informational globalization sub-dimensional consists of variables: television access, internet access, and press freedom. The third sub-dimensional is the de jure cultural globalization index which consists of variables: gender parity, human capital, and civil liberties. (Gygli et al., 2019).

Kof Political Globalization Index

The de facto Kof Political Globalization Index consists of the variables of the number of embassies (embassies), the number of UN peacekeeping missions participated in, and the number of international NGOs in the country. (Gygli et al., 2019). An embassy is an accredited representative of a country in another country. The existence of embassies is in the framework of bilateral relations between countries. The bilateral relationship includes cooperation in the fields of diplomacy, trade, education and culture (Kresnadi, 2016). Embassies facilitate economic cooperation between countries. The economic cooperation can be in the form of bilateral agreements in trade and investment. In addition, the embassy also has the function of providing protection for its citizens who are abroad (accredited country). This protection provides confidence for citizens to carry out economic activities in other accredited countries. The involvement of a country in international activities such as peacekeeping missions shows that the country plays an active role in establishing cooperation between countries. The presence of international NGOs in a country shows the level of openness of that country towards international involvement in managing the country. Political globalization is believed to have a positive correlation to the economy. The Kof Political Globalization Index de jure consists of the following variables: international organizations, international treaties, treaty partner diversity. (Gygli et al., 2019).

Bank sizes

In a journal entitled The Impact of Bank size on Profitability "An Empirical Study On Listed Jordanian Commercial Banks" Dr. Mohammad Suleiman Aladwan (2015) found that bank size has a negative correlation with banking profitability. In this study, Aladwan argues that a bank with a large size will experience higher difficulties in investing its liquidity than a bank with a smaller size. In addition, large banks also have to deal with high initial costs such as technology, etc. Research and development costs are also a burden for large banks which can deplete their profitability. Sufian and Habibullah (2012) argue that increasing bank size can reduce marginal costs to a certain extent, but after exceeding that point, increasing bank size can reduce bank profitability. This is due to bureaucratic reasons, and other reasons.

Sufian and Kamarudin (2016) argue that banks with large assets have a better reputation than banks with small assets. In addition, larger banks have greater market power through an extensive branch network and are more cost efficient. Large banks can also benefit from their improved research and development capabilities which enable

them to offer new banking products and services to consumers with higher sales results and market share.

EQASS

Equity to Total assets Ratio (EAR) or also known as EQASS is the ratio between capital and total assets. Assets of a company can come from liabilities or equity. Liabilities to banking companies can come from customer deposits, deposits from other banks, bonds, etc. Meanwhile, equity/capital in banking companies usually comes from paid-up capital. This means that the greater the EQASS, the greater the composition of own capital to total assets, while the smaller the EQASS means the greater the composition of liabilities to total assets. EQASS is often used to measure the level of attachment or motivation of capital owners to the condition of the company they own. In theory, the greater the EQASS, the greater the engagement/motivation of the capital owners.

Sufian and Habibullah (2012) suggest that an increase in EQASS is associated with a decrease in risk and a decrease in leverage. Banking companies are always trying to increase the collection of customer funds to support their liquidity. This means that an increase in liabilities is considered to be able to increase the company's income. Increased liabilities are also considered to have a leverage effect on the company. However, increased liabilities can also mean increased costs.

Inflation rate

Bank performance is believed to be sensitive to macroeconomic conditions. In general, higher economic growth encourages banks to lend more, allows them to charge higher margins, and improves the quality of their assets (Sufian and Habibullah, 2012).

The extent to which inflation affects bank performance depends on whether future inflation movements can be fully anticipated, which in turn depends on the bank's ability to accurately predict future movements (Sufian and Habibullah, 2012). Bank failure in anticipating changes in inflation and interest rates as well as adjusting interest rates for inflation can increase costs (Perry, 1992). More advanced information technology systems can help banks better anticipate price increases and adjust their interest rates thereby enabling them to obtain higher profitability (Sufian and Kamarudin, 2016).

GDP (Gross Domestic Product) Growth

As an "agent of development" bank performance is sensitive to economic conditions. In general, higher economic growth encourages banks to lend more, provides opportunities for banks to charge higher margins, and improves the quality of their assets (Said & Tumin, 2011). GDP (Gross Domestic Product) is one indicator of national economic growth. An increase in GDP (Gross Domestic Product) is an indicator of the occurrence of national economic growth and vice versa, a decrease in GDP (Gross Domestic Product) is an indicator of a slowdown in economic growth.

In general, an increase in GDP (Gross Domestic Product) is believed to have a positive impact on banking performance. Intuitively, an increase in GDP (Gross Domestic Product) is expected to increase bank profitability. At a time when GDP (Gross Domestic Product) growth was slowing down, especially during a recession, credit quality decreased, the default rate increased so that the level of bank profitability decreased. In this situation, a negative relationship between economic growth and banking profitability may occur. This may be due to intense competition between banks for a larger market share during the recession (Sufian and Habibullah, 2012). In his research on banking in Nigeria, Olokoyo (2019) stated that GDP (Gross Domestic Product) growth is an important predictor of banking performance in Nigeria.

FDI (Foreign Direct Investment) Inflows

FDI (Foreign Direct Investment) Inflows is one of the macroeconomic indicators which is defined as the sum of investment flows into the country in the form of equity, income reinvestment, long-term capital, short-term capital and long-term stock market investment. The relationship between FDI (Foreign Direct Investment) Inflows on banking performance is due to the fact that the core business of banking companies is heavily influenced by national economic conditions. In theory, FDI (Foreign Direct Investment) inflows will enter a country if the economic conditions in that country are predicted to be able to provide a return that investors consider appropriate. So when FDI (Foreign Direct Investment) Inflows increase, it can be interpreted that the country's economic conditions are improving. Therefore, at a glance, an increase in FDI (Foreign Direct Investment) Inflows is likely to have a positive impact on a country's economy and simultaneously improve the performance of banking companies.

The negative impact of FDI (Foreign Direct Investment) inflows on the ROE (return on equity) of banking companies in Indonesia may be explained by a phenomenon where there are a number of companies whose shares are partly owned by foreign investors actually have a lower ROE (return on equity) compared to domestic company. According to Dunning and Lundan (2008) and Mataloni (2000) this is due to efforts by foreign investors to transfer profits to the parent company (transfer pricing) by eroding profits from domestic companies (which they own) through various types of additional costs incurred. must be paid to the parent company.

MATERIALS & METHODS

This research is a quantitative associative research, which aims to analyze the influence or relationship between two or more variables, or explain the relationship between independent variables and variables. This research uses data available on the OJK (Financial Services Authority), the website of each banking company studied. KOF Swiss Economic Institute, and World bank data. This research is limited to the period 2010 to 2019. This is because at the end of 2019 there was a global pandemic which caused the situation to become abnormal and it was feared that it could lead to bias in the research. The sampling technique used is saturated sampling technique, in which all members of the population who meet the criteria to become members of the population are used as research samples. The population of the study were 31 (thirty one) conventional banks consisting of state-owned banks and national private banks. Based on the search conducted by the researchers, there were 31 banking companies that met the requirements to be used as research samples. The data contained in this study consisted of time series data and cross section data. The data analysis technique used to test the hypothesis in this study is descriptive analysis and multiple linear regression analysis of panel data.

RESULT

Descriptive Statistical Analysis

This study uses secondary data with panel data types consisting of time series data and cross section data. Time series data is in the form of annual data with an observed period of 10 years, from 2010 to 2019. Meanwhile, cross section data is in the form of data from the 31 banks that are the research sample. The panel data formed in this study is unbalanced panel data, this is because there are 4 empty observations because the data cannot be obtained. So that the total research observations amounted to 306 observations.

Table 1 Descriptive Statistics

Date: 10/21/22 Time: 00:54									
Sample: 2010 2019									
	Y_ROE_W	X1_KOFECGI	X2_KOFSOGI	X3_KOFPOGI	X4_LN_TOTAL_ASSET	X5_*EQASS*	X6_INF_RATE	X7_GDP_PER_CAPITA_GROWTH	X8_FDI_NET_*INFLOWS*_PART_OF_GDP
Mean	0.099283	50.60872	51.98682	86.04121	31.18983	0.134250	0.047443	0.040882	0.020860
Median	0.096250	49.65018	52.41447	86.47210	30.97541	0.127250	0.042800	0.038726	0.022976
Maximum	0.234100	53.31366	53.32169	87.45646	34.88715	0.515600	0.064100	0.048123	0.028200
Minimum	-0.039400	48.48496	50.35536	83.86968	26.72573	0.052100	0.030300	0.035551	0.004874
Std. Dev.	0.081747	1.717538	0.928618	1.211330	1.882026	0.049427	0.012943	0.004371	0.006011
Observations	306	306	306	306	306	306	306	306	306

Data Analysis Results
Hypothesis test (t-statistic test)

Table 2 Independent variable correlation test results on the dependent variable

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-3.337862	1.228559	-2.716891	0.0070
X1_KOFECGI	0.011183	0.003563	3.138500	0.0019
X2_KOFSOGI	-0.012059	0.007257	-1.661771	0.0976
X3_KOFPOGI	0.025681	0.011770	2.181965	0.0299
X4_LN_TOTAL_ASSET	0.028393	0.003454	8.220936	0.0000
X5_*EQASS*	-0.095557	0.077446	-1.233852	0.2182
X6_INF_RATE	2.254486	0.660255	3.414569	0.0007
X7_GDP_PER_CAPITA_GROWTH	8.383917	2.566690	3.266431	0.0012
X8_FDI_NET_*INFLOWS*_PART_OF_GDP	-1.639751	0.711726	-2.303909	0.0219

Table 3 Result Hypothesis Test

VARIABLES	CONCLUSION	HYPOTHESIS RESULT	IMPACT	RESULT
X1 KOFECGI	Rejected H0	SIGNIFICANT	POSITIVE	REJECTED
X2 *KOFSOGI*	Accepted H0	SIGNIFICANT ON 10 %	NEGATIVE	ACCEPTED
X3 *KOFPOGI*	Rejected H0	SIGNIFICANT	POSITIVE	ACCEPTED
LN X4 TOTAL ASSET	Rejected H0	SIGNIFICANT	POSITIVE	ACCEPTED
X5*EQASS*	Accepted H0	INSIGNIFICANT	NEGATIVE	REJECTED
X6 INF *RATE*	Rejected H0	SIGNIFICANT	POSITIVE	REJECTED
X7 GDP PERCAPITA	Rejected H0	SIGNIFICANT	POSITIVE	ACCEPTED
X8 FDI NET *INFLOWS* PART OF GDP	Rejected H0	SIGNIFICANT	NEGATIVE	ACCEPTED

DISCUSSION

Effect of the Kof Economic Globalization Index on the ROE (return on equity) of banking companies in Indonesia

The results of the hypothesis test showed a p-value of 0.0019 and a t-statistic of 3.138500. These values indicate that there is a significant positive effect of the Kof Economic Globalization Index on the ROE (return on equity) of banking companies in Indonesia (rejecting H1). This is contrary to the hypothesis built in this study. The construction of the hypothesis in this study is built based on the opinion that Economic Globalization causes more open competition internationally, where the weak competitiveness of developing countries will have a negative impact on developing countries, when they have to compete in global markets.

The significant positive impact of economic globalization on the performance of banking companies in Indonesia actually shows the competitive advantages of the Indonesian economy. This has been proven that in 2018 the government of the USA (United State of America) removed Indonesia from the list of developing countries and considered Indonesia a developed country. Despite reaping the pros and cons, this might explain the underlying conditions regarding the significant positive influence of

economic globalization on the performance of banking companies in Indonesia. The results of this study are in accordance with Sufian and Habibullah (2012), Sufian and Kamarudin (2016), and Nguyen and Nguyen (2018) who found a positive correlation between the Kof Economic Globalization Index and the performance of banking companies.

Effect of the Kof Social Globalization Index on the ROE (return on equity) of banking companies in Indonesia

The results of the hypothesis test showed a p-value of 0.0976 and a t-statistic of -1.661771. These values indicate that the Kof Social Globalization Index has a significant negative effect on the ROE (return on equity) of banking companies in Indonesia at a significance level of 10% (accepting H2). This is consistent with the hypothesis developed in this study, namely the Kof Social Globalization Index has a significant negative effect on the ROE (return on equity) of banking companies in Indonesia.

The results of research from Liu and Zhang (2014) on the effect of social interaction on stock market participation in China and research by Hong, Kubik and Stein (2004) on the correlation between social interaction and participation in the stock market conducted in the USA, show that there is a correlation between social interaction on participation in the stock market. This shows that the dissemination of information and social relations can affect the pattern of financial management by the community. Globally, this can happen through personal contact (interpersonal globalization) and information transfer (informational globalization), where people are increasingly exposed to information about financial management and various non-banking financial service products, giving rise to an increase in financial literacy and inclusion.

Effect of the Kof Political Globalization Index on the ROE (return on equity) of banking companies in Indonesia

The results of the hypothesis test showed a p-value of 0.0299 and a t-statistic of 2.181965. These values indicate that the Kof Political Globalization Index has a significant positive effect on the ROE (return on equity) of banking companies in Indonesia (receiving H3). This is in accordance with the hypothesis developed in this study, namely the Kof Political Globalization Index has a significant positive effect on the ROE (return on equity) of banking companies in Indonesia.

In cross-country economic activities, economic activities will be carried out freely if good political relations are established between countries. Embassies can facilitate economic cooperation between countries. So that the more the number of embassies in a country, the greater the opportunities for economic cooperation between countries. The economic cooperation can be in the form of bilateral agreements in trade and investment. In addition, good diplomatic relations between countries can provide a sense of security for foreign nationals to carry out economic activities (export, import, investment, consumption, etc.) in the destination country. Gygly (2019) in a journal entitled "The KOF Globalization Index-Revisited" states that the Kof Political Globalization Index captures the government policy diffusion process. This means that the Kof Political Globalization Index shows the level of policy synergy between governments. The higher the value of the Kof Political Globalization Index, the higher the synergy of the policies of the country's government with its partner countries.

Effect of Bank size on ROE (return on equity) of banking companies in Indonesia

The results of the hypothesis test showed a p-value of 0.0000 and a t-statistic value of 8.220936. These values indicate that bank size has a significant positive effect on ROE (return on equity) of banking companies in Indonesia (accepting H4). This is in

accordance with the hypothesis built in this study.

According to Sufian (2011) this is because larger banks have greater market power as well as cheaper input costs. In addition, an increase in the allocation of fixed costs led to an increase in efficiency in the operations of banking companies. Sufian and Kamruddin (2016) in their research journal entitled "The impact of globalization on the performance of Banks in South Africa" argue that banks with large assets have a better reputation than banks with small assets. In addition, larger banks have greater market power through an extensive branch network and more efficient operational costs. In addition, banks with large assets can also benefit from their research and development capabilities which are considered better to win the competition and gain a higher market share. Nguyen and Nguyen (2018) argue that larger banks are often claimed to have advantages in accessing additional sources of financing and are more likely to survive than smaller banks. In addition, Indonesia as a developing country has stronger potential for economic expansion, which means that there is still ample room for banking growth.

The results of this study are in accordance with previous research conducted by Sufian (2011), Gut, et. All (2011), as well as Sufian and Kamaruddin (2016), who found a positive correlation between bank size and the performance of banking companies.

Effect of EQASS on ROE (return on equity) of banking companies in Indonesia

The results of the hypothesis test showed a p-value of 0.2182 and a t-statistic of -1.233852. These values indicate that EQASS has no significant negative effect on ROE (return on equity) of banking companies in Indonesia (rejecting H5). This is contrary to the hypothesis developed in this study, where theoretically, the greater the EQASS, the greater the engagement/motivation of the capital owners. In addition, an increase in EQASS can indicate a decrease in banking costs while reducing leverage. The results of this study are similar to those of Berger (1995) who found a negative correlation between EQASS and banking efficiency.

Effect of the inflation rate on the ROE (return on equity) of banking companies in Indonesia

The results of the hypothesis test showed a p-value of 0.0007 and a t-statistic of 3.414569. These values indicate that the inflation rate has a significant positive effect on the ROE (return on equity) of banking companies in Indonesia (rejecting H6). This contradicts the hypothesis developed in this study, namely: Inflation rate has a significant negative effect on ROE (return on equity) of banking companies in Indonesia.

The positive effect of the inflation rate on the ROE (return on equity) of banking companies in Indonesia may be due to the relatively low level of inflation uncertainty in Indonesia. The low level of inflation uncertainty is due to the low inflation rate in Indonesia. This is in accordance with Kormendi and Meguire's research (1995) which shows that the level of inflation uncertainty is low in countries with economies that have low inflation rates. In addition, the ability of banks in Indonesia to predict future inflation movements will also enable banks to adjust interest rates, in order to obtain maximum profits. These results are consistent with previous research conducted by Guru, et al (2002), and Tan and Floros (2012) who found that there was a positive correlation between inflation and bank profitability.

Effect of GDP (Gross Domestic Product) per capita growth rate on ROE (return on equity) of banking companies in Indonesia

The results of the hypothesis test showed a p-value of 0.0012 and a t-statistic of 3.266431. These values indicate that the GDP (Gross Domestic Product) per capita

growth rate has a significant positive effect on the ROE (return on equity) of banking companies in Indonesia (accepting H7). This is in accordance with the hypothesis developed in this study, namely: (Gross Domestic Product) per capita growth rate has a significant positive effect on the ROE (return on equity) of banking companies in Indonesia.
The results of this study are in accordance with the results of research conducted by Festic and Beko (2008) who found a positive effect of GDP growth on the performance of banking companies in Togo. Gul, et al (2011) also found a positive correlation between GDP (Gross Domestic Product) and ROA (Return On Assets) of banking companies in Pakistan. In addition, Sufian (2011) found a positive correlation between GDP (Gross Domestic Product) and the efficiency of banking companies. Sufian and Habibullah (2012) found a positive correlation between GDP (Gross Domestic Product) and the performance of banking companies in China. Sufian and Habibullah (2012) found a positive correlation between GDP (Gross Domestic Product) and the efficiency of banking companies.

Effect of FDI (Foreign Direct Investment) Inflows on ROE (return on Equity) of banking companies in Indonesia
The results of the hypothesis test showed a p-value of 0.0219 and a t-statistic of -2.303909. These values indicate that FDI (Foreign Direct Investment) Inflows have a significant negative effect on the ROE (return on equity) of banking companies in Indonesia (accepting H8). This is consistent with the hypothesis developed in this study, namely: FDI (Foreign Direct Investment) Inflows have a significant negative effect on ROE (return on equity) of banking companies in Indonesia.
The negative impact of FDI (Foreign Direct Investment) inflows on the ROE (return on equity) of banking companies in Indonesia may be explained by a phenomenon where companies whose shares are partly owned by foreign investors have a lower ROE (return on equity) compared to foreign investment companies. domestic. According to Dunning and Lundan (2008) and Mataloni (2000) this is due to efforts by foreign investors to transfer profits to the parent company (transfer pricing) by eroding profits from domestic companies through various types of additional fees that must be paid to the company. parent company, in the form of management fee, etc. In addition, FDI (Foreign Direct Investment) also causes tighter competition in the domestic market which can lead to reduced market share and decreased company profits. Meyer and Sinani (2009) suspect that the inflow of foreign capital to companies operating in the country can have a negative impact on local companies depending on the awareness, capability, and motivation of local companies in facing increasingly fierce competition due to the presence of multinational companies in the country.
The results of this study are consistent with previous research conducted by Jensen (2006) who found that inward FDI (Foreign Direct Investment) has a negative impact on firm performance. Likewise Oteng-Ababio et all (2016) also found a negative correlation between FDI (Foreign Direct Investment) on bank performance in Ghana.

CONCLUSION

Based on the analysis of the research results described above, the following conclusions can be drawn:

1. The Kof Economic Globalization Index has a significant positive impact on the ROE (return on equity) of banking companies in Indonesia.
2. The Kof Social Globalization Index has a significant negative impact on the ROE (return on equity) of banking companies in Indonesia.
3. The Kof Political Globalization Index has a significant positive impact on the ROE (return on equity) of banking companies in Indonesia.

4. Bank size (ln total assets) has a significant positive impact on the ROE (return on equity) of banking companies in Indonesia.
5. EQASS (Equity to assets Ratio) does not have a significant impact on the ROE (return on equity) of banking companies in Indonesia.
6. The inflation rate has a significant positive impact on the ROE (return on equity) of banking companies in Indonesia.
7. GDP (Gross Domestic Product) per capita growth rate has a significant positive impact on the ROE (return on equity) of banking companies in Indonesia.
8. FDI (Foreign Direct Investment) Inflows have a significant negative impact on the ROE (return on equity) of banking companies in Indonesia.
9. The results showed that there were 7 (seven) independent variables that had a significant influence on the dependent variable and only 1 (one) independent variable which was not significant to the dependent variable. This shows the relevance of using Eclectic theory in the field of management.

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