Financial Performance in Indonesian Banks: The Role of Ownership Structure, Dividend Policy, and Credit Risk

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Introduction: This study examines the financial performance of Indonesian banks listed on the IDX from 2021 to 2023 by analyzing the impact of managerial ownership, dividend payout ratios, and credit risk on Return on Equity (ROE). As a critical metric of capital efficiency under strict regulation, ROE serves as the primary indicator for how well institutions generate profit from shareholder capital. The analysis explores the positive alignment of interests via managerial ownership and the signaling power of dividend policies, while assessing the detrimental effect of credit risk—measured by Non-Performing Loans—on asset quality and profitability.

Methodology: This research adopts an explanatory quantitative approach with a causal design. The study population includes 47 banks listed on the IDX, and a census method is used for sampling, yielding 141 total observations. The variables consist of: (1) Managerial Ownership, measured by the percentage of shares owned by management; (2) Dividend Payout Ratio (DPR), representing the proportion of net income distributed as dividends; and (3) Credit Risk, proxied by the NPL ratio. ROE serves as the dependent variable. Multiple linear regression with a 5% significance level is used to assess both individual and simultaneous effects.

Results: The results reveal that managerial ownership has a positive and significant effect on ROE ($p < 0.05$), affirming that greater ownership incentivizes managers to enhance performance. Credit risk has a negative and significant effect on ROE ($p < 0.01$), emphasizing that higher NPL ratios are detrimental to profitability. Meanwhile, the dividend payout ratio shows no significant impact on ROE ($p > 0.05$). This insignificance may be due to dividend policies being more influenced by prudential regulations or liquidity considerations than by profitability—consistent with the signaling theory, which posits that dividends are not always reflective of firm performance in highly regulated industries like banking.

Conclusion: The study concludes that managerial ownership and credit risk significantly affect bank financial performance, while the dividend payout ratio does not. High managerial ownership fosters accountability and efficiency, whereas high credit risk impairs profitability. Dividend policy, in this context, may not be a reliable performance indicator. The insignificance of DPR suggests that dividends may be driven more by institutional constraints than performance metrics.

Practical Value: The findings have direct implications for banking stakeholders. Banks should promote higher managerial ownership to align incentives and improve performance. Strengthening risk management systems through enhanced loan screening, early warning mechanisms, and improved recovery strategies, can help reduce NPLs and bolster profitability. Investors can use managerial ownership and credit risk as key indicators for evaluating bank performance, while regulators should continue refining oversight frameworks in governance and credit risk.

Direction for Future Research: Future studies should explore other financial indicators such as ROA or Net Interest Margin. Including control variables like bank size or leverage could improve model robustness. A longitudinal or qualitative approach would also help capture deeper dynamics in managerial behavior and risk policy implementation.

Keywords: managerial ownership, dividend payout ratio, credit risk, return on equity, financial performance

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