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The Effect of Bank Soundness Level on Dividend Policy Using the RGEC Method in the Banking Sector Listed on the Indonesia Stock Exchange

Gita Terawati, Dian Safitri Pantja Koesoemasari, Harsuti
Universitas Wijayakusuma Purwokerto, Indonesia
gterawati@gmail.com; diansafitripkoesoemasari@unwiku.ac.id

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Abstract

This study examines the effect of credit risk, liquidity risk, Good Corporate Governance (GCG), earnings, and capital on dividend policy, proxied by the Dividend Payout Ratio (DPR), among banking firms listed on the Indonesia Stock Exchange during the 2020–2024 period. The study is motivated by inconsistent empirical findings on the determinants of dividend policy, particularly in the banking sector, which operates under strict regulatory frameworks and has financial structures that differ from those of other industries. This study aims to analyze the effect of each determinant on dividend policy and identify the dominant factor influencing DPR. A quantitative approach was employed using panel data regression analysis. The sample consisted of banking firms listed on the Indonesia Stock Exchange during the study period. The analysis applied the Common Effect Model, Fixed Effect Model, and Random Effect Model, with model selection determined through the Chow and Hausman tests. Classical assumption testing and statistical significance testing were also conducted to ensure model validity and robustness. The findings show that, partially, only the Loan to Deposit Ratio (LDR) has a

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positive and statistically significant effect on DPR. In contrast, Non-Performing Loan (NPL), GCG, Return on Assets (ROA), and Capital Adequacy Ratio (CAR) do not have statistically significant effects on dividend policy. However, the simultaneous test indicates that all independent variables jointly have a significant effect on DPR. These findings suggest that dividend policy in the banking sector is primarily driven by intermediation efficiency and liquidity management rather than by risk exposure, governance mechanisms, profitability, or capital adequacy. This study concludes that liquidity is the key determinant of dividend policy in Indonesian banking firms. The study contributes to the literature on dividend policy determinants in regulated financial institutions and provides practical implications for bank management and investors by emphasizing liquidity indicators as critical considerations in dividend policy formulation and investment decision-making.

Keywords: Banking Firms; Dividend Policy; Good Corporate Governance; Liquidity Risk; Panel Data Regression

INTRODUCTION

The banking sector plays a strategic role in the economy because it functions as a financial intermediary that collects funds from the public and redistributes them in the form of credit to support economic activities and national development (Kasmir, 2019). Banks are also responsible for improving public welfare through their intermediation activities and various financial services (Otoritas Jasa Keuangan, 2025). In addition, banks serve as agents of trust that maintain public confidence in the financial system. Banks also act as agents of development by supporting economic growth through financing productive sectors (Ross et al., 2022). Furthermore, banks provide financial services that facilitate payment systems and enhance economic efficiency (Otoritas Jasa Keuangan, 2025). Therefore, the sustainability and soundness of the banking industry are essential for maintaining public trust and supporting national economic growth (Ross et al., 2022).

As publicly listed companies, banks are not only required to maintain operational stability and financial soundness but are also expected to generate value for shareholders (Amalia & Wulandari, 2023). One of the most important forms of return expected by investors is dividends (Darmawan, 2018). Dividend policy refers to management's decision regarding the proportion of net income distributed to shareholders and the portion retained for operational and expansion purposes (Amalia & Wulandari, 2023). This policy is important

because it directly affects shareholder welfare and the sustainability of corporate growth (Darmawan, 2018). Previous studies have shown that company characteristics and corporate financial policies play an important role in determining dividend distribution decisions to shareholders (Rokhayati et al., 2021). Dividend policy is also considered a strategic corporate policy because it reflects management decisions regarding the allocation of profits between dividend payments and retained earnings to support future growth (Febriana et al., 2024).

According to the Bird in the Hand Theory, investors tend to prefer current dividends rather than uncertain future capital gains (Gordon, 1963). Dividend payments are considered more certain than future investment returns that have not yet been realized (Lintner, 1962). Consistent dividend payments can reduce investor uncertainty and increase firm value (Gordon, 1963). In the banking industry, which is characterized by relatively high levels of risk, the ability to distribute dividends is often regarded as an important indicator of a bank's financial health and future prospects (Abdullah & Wahjusaputri, 2018). Dividend policy is therefore considered a crucial factor in investors' decision-making processes (Ross et al., 2022).

Signalling Theory explains that dividend policy can serve as a signal provided by management regarding a company's financial condition and future prospects (Spence, 1973). Dividend announcements provide information that can reduce information asymmetry between management and investors (Ross et al., 2022). Companies that are able to maintain or increase dividend payments are generally perceived as having strong financial performance and positive future prospects (Handayani & Yuvisa Ibrani, 2023). Such positive signals can enhance investor confidence and ultimately increase firm value (Gambacorta et al., 2020).

Agency Theory suggests that dividend policy can also function as a mechanism to reduce conflicts of interest between managers and shareholders (Jensen & Meckling, 1976). Shareholders generally prefer profits to be distributed as dividends (Darmawan, 2018). In contrast, managers often prefer to retain earnings as an internal source of financing for future investments (Ross et al., 2022). Consequently, dividend policy becomes an important indicator for assessing whether management actions align with shareholders' interests (Jensen & Meckling, 1976).

The ability of banks to distribute dividends is closely related to their financial soundness (Pratikto & Afiq, 2021). Bank soundness reflects a bank's ability to conduct business activities normally, fulfill its obligations, manage risks, and maintain long-term

sustainability (Pratikto & Afiq, 2021). A healthy bank is able to maintain public confidence and perform its intermediation function effectively (Salempang & Saerang, 2022). Bank soundness also contributes to the stability of the national financial system.

The assessment of bank soundness in Indonesia currently uses the Risk Profile, Good Corporate Governance, Earnings, and Capital (RGEC) approach (Otoritas Jasa Keuangan, 2025). The RGEC method is considered more comprehensive because it emphasizes risk-based assessment and governance quality (Ikatan Bankir Indonesia, 2016). This approach is capable of providing a more accurate and sustainable evaluation of a bank's overall condition (Pratikto & Afiq, 2021).

The first component of RGEC is the risk profile, which in this study is represented by credit risk measured using Non-Performing Loans (NPL) and liquidity risk measured using the Loan to Deposit Ratio (LDR) (Bagiana et al., 2025). A high NPL ratio indicates deteriorating asset quality and increasing credit risk (Salempang & Saerang, 2022). Higher credit risk can reduce profitability and limit a bank's ability to distribute dividends (Bagiana et al., 2025). Meanwhile, LDR reflects a bank's ability to manage liquidity and allocate funds efficiently (Artha & Antari, 2023). Adequate liquidity enables banks to meet obligations while maintaining their capacity to distribute dividends to shareholders (Yunisari, 2021).

The second component is Good Corporate Governance (GCG), which in this study is proxied by the proportion of Independent Commissioners (DKI) (Anam & Hendra, 2020). Effective corporate governance enhances transparency and accountability within the organization (Sudarmanto et al., 2021). Strong governance mechanisms also improve managerial oversight and support decision-making processes that align with shareholders' interests (Handayani & Yuvisa Ibrani, 2023). The presence of independent commissioners is expected to reduce agency conflicts and strengthen corporate governance practices (Anam & Hendra, 2020).

The third component is earnings, which are measured using Return on Assets (ROA) (Kasmir, 2019). ROA indicates a bank's ability to generate profits from its assets efficiently (Kasmir, 2019). Higher profitability provides greater flexibility for banks to distribute dividends without disrupting operational and investment activities (Yunisari, 2021). Strong earnings performance also supports the sustainability of dividend payments to shareholders (Muksal & Gultom, 2024).

The fourth component is capital, which is measured using the Capital Adequacy Ratio (CAR) (Ikatan Bankir Indonesia, 2016). CAR reflects a bank's ability to provide sufficient capital to absorb potential losses arising from business activities (Ikatan Bankir Indonesia, 2016). A higher CAR indicates stronger financial resilience and better solvency conditions (Purnomo & Yuniarta, 2024). Strong capitalization also provides banks with greater flexibility in determining dividend distribution policies (Artha & Antari, 2023).

Although numerous studies have examined the determinants of dividend policy in the banking sector, the findings remain inconsistent. Research conducted by Yunisari (2021) found that ROA has a positive effect on dividend policy. Similar findings were reported by Vitasari (2021). A positive relationship between ROA and dividend policy was also identified by Munawaroh et al. (2025). However, Syaiful (2021) found that ROA does not significantly affect dividend policy.

In terms of liquidity, Febriyanti & Melzatia (2024) found that LDR positively influences dividend policy. Similar results were reported by Munawaroh et al. (2025). In contrast, Yunisari (2021) found a significant negative effect of LDR on dividend policy. Vitasari (2021) also reported a negative relationship between LDR and dividend policy.

Inconsistencies are also evident in studies examining capital adequacy. Salempang & Saerang (2022) found that CAR positively affects dividend policy. Similar findings were reported by Jessica & Arfianti (2025). Conversely, Purnomo and Yuniarta (2024) found that CAR has a significant negative effect on dividend policy. Meanwhile, Febriyanti & Melzatia (2024) concluded that CAR does not significantly affect dividend policy.

Differences in findings are also observed in studies on corporate governance. Anam & Hendra (2020) found that corporate governance positively influences dividend policy. Boshnak (2023) also reported a positive effect of governance mechanisms on dividend payouts. On the other hand, Handayani & Yuvisa Ibrani (2023) found a negative relationship between corporate governance and dividend policy. Furthermore, Salempang & Saerang (2022) reported that GCG has no significant effect on dividend policy. These inconsistent findings indicate the existence of a research gap that warrants further investigation. Similar inconsistencies regarding the determinants of dividend policy have also been reported in studies examining company characteristics and corporate financial policies in various sectors (Wahyuningsih & Koesoemasari, 2023).

Based on these phenomena, this study aims to analyze the effect of bank soundness measured using the RGEC method on dividend policy in banking companies listed on the Indonesia Stock Exchange. Bank soundness is proxied by Non-Performing Loans (NPL), Loan to Deposit Ratio (LDR), Independent Commissioners (DKI), Return on Assets (ROA), and Capital Adequacy Ratio (CAR). Dividend policy is measured using the Dividend Payout Ratio (DPR). This study is expected to provide empirical evidence that enriches the literature on dividend policy in the banking sector and serves as a reference for investors, bank management, and regulators in understanding the factors influencing dividend distribution decisions.

METHODS

This study employed a quantitative approach with an explanatory research design to examine the effect of bank soundness on dividend policy in banking companies listed on the Indonesia Stock Exchange (IDX). A quantitative approach was selected because the study aimed to test causal relationships between independent and dependent variables through statistical analysis based on numerical data (Sugiyono, 2025). The study utilized secondary data obtained from annual financial reports and corporate governance reports published by banking companies during the 2020–2024 period.

The research design was developed based on the Risk Profile, Good Corporate Governance, Earnings, and Capital (RGEC) framework used in assessing bank soundness (Ikatan Bankir Indonesia, 2016). The dependent variable was dividend policy, proxied by the Dividend Payout Ratio (DPR). The independent variables consisted of credit risk proxied by Non-Performing Loans (NPL), liquidity risk proxied by the Loan-to-Deposit Ratio (LDR), Good Corporate Governance (GCG) proxied by the proportion of Independent Commissioners (DKI), earnings proxied by Return on Assets (ROA), and capital proxied by the Capital Adequacy Ratio (CAR). DPR was employed to measure the proportion of net income distributed to shareholders as dividends (Sartono, 2016). NPL was used to represent the level of problematic loans managed by banks (Kasmir, 2019). LDR was used to measure a bank's ability to meet liquidity obligations through third-party funds (Kasmir, 2019). DKI reflected the effectiveness of independent supervisory functions within corporate governance practices (Sudarmanto et al., 2021). ROA represented the bank's ability to

generate profits from its assets (Kasmir, 2019). CAR measured the adequacy of capital available to absorb potential risks and losses (Kasmir, 2019).

The research population comprised all banking companies listed on the Indonesia Stock Exchange during the 2020–2024 period, totaling 47 companies. The sample was selected using purposive sampling because not all listed banks met the research requirements (Ghozali, 2021). The first criterion required companies to publish audited annual financial statements consistently throughout the observation period. The second criterion required companies to distribute cash dividends continuously from 2020 to 2024. Based on these criteria, 11 banking companies were selected as the research sample. These consisted of Bank Pembangunan Daerah Jawa Timur Tbk., Bank Central Asia Tbk., Bank Negara Indonesia (Persero) Tbk., Bank Rakyat Indonesia (Persero) Tbk., Bank Danamon Indonesia Tbk., Bank Pembangunan Daerah Jawa Barat Tbk., Bank Mandiri (Persero) Tbk., Bank CIMB Niaga Tbk., Bank Maybank Indonesia Tbk., Bank Mega Tbk., and Bank Woori Saudara Indonesia 1906 Tbk. With a five-year observation period, the study analyzed 55 panel data observations.

Data collection was conducted through documentation and literature review techniques. Documentation involved collecting annual financial reports and Good Corporate Governance reports from the sampled companies (Sugiyono, 2025). All data were obtained from the official IDX website and the official websites of the respective banking companies. The literature review involved examining books, scientific journals, and academic publications related to dividend policy, bank soundness, risk management, and corporate governance (Sugiyono, 2025). Since the study relied entirely on officially published secondary data, instrument validity and reliability testing commonly applied in questionnaire-based studies was not required (Ghozali, 2021).

The research was conducted in 2026 using historical banking data covering the 2020–2024 period. The stages of data collection, processing, and statistical analysis were carried out during the research process. The study employed panel data combining time-series and cross-sectional observations (Widarjono, 2018). Panel data analysis provides greater efficiency because it captures both inter-company and inter-period variations simultaneously (Ghozali, 2021).

Data analysis was performed using EViews 12 software. The first stage involved descriptive statistical analysis to summarize the characteristics of the data through minimum values, maximum values, means, and standard deviations (Ghozali, 2021). The second stage

involved panel data regression analysis to examine the effects of NPL, LDR, DKI, ROA, and CAR on DPR (Basuki & Prawoto, 2017). Three panel regression estimation models were considered, namely the Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM) (Basuki & Prawoto, 2017).

Model selection was conducted using the Chow Test, Hausman Test, and Lagrange Multiplier Test (Basuki & Prawoto, 2017). The Chow Test was employed to determine whether CEM or FEM was more appropriate. The Hausman Test was used to identify whether FEM or REM provided the best estimation. The Lagrange Multiplier Test was applied to compare CEM and REM.

After determining the most appropriate model, classical assumption tests were conducted. These included normality, multicollinearity, heteroscedasticity, and autocorrelation tests. Normality was assessed using the Jarque–Bera Test to evaluate whether the regression residuals followed a normal distribution (Ghozali, 2021). Multicollinearity was examined using the correlation matrix among independent variables (Gujarati, 2021). Heteroscedasticity was tested using the Glejser method to determine whether residual variances were constant (Ghozali, 2021). Autocorrelation was assessed through the Durbin–Watson statistic to detect serial correlation among residuals across observation periods (Gujarati, 2021).

Hypothesis testing consisted of the coefficient of determination (R^2), F-test, and t-test. The coefficient of determination was used to assess the explanatory power of the independent variables in explaining variations in dividend policy (Suliyanto, 2011). The F-test was employed to evaluate the overall model fit (Suliyanto, 2011). The t-test was used to assess the partial effect of each independent variable on dividend policy at a significance level of 5%.

RESULTS

The banking companies included in this study represent a strategic component of the Indonesian financial sector, particularly in their role as financial intermediaries that channel funds from surplus units to deficit units. In carrying out their operations, banks are required to maintain soundness and financial stability to preserve public and investor confidence. One of the approaches commonly used to assess bank soundness is the Risk Profile, Good

Corporate Governance, Earnings, and Capital (RGEC) framework, which reflects a bank's ability to manage risks, generate profits, implement good governance practices, and maintain adequate capital. The level of bank soundness is expected to influence various corporate financial decisions, including dividend policy. Dividend policy reflects management decisions regarding the distribution of earnings to shareholders, either in the form of cash dividends or retained earnings for future operational and expansion purposes. For investors, dividend payments often serve as an important signal of a company's financial performance and future prospects. Therefore, the consistency of dividend distribution becomes an important aspect examined in this study.

This study employed a sample of 11 banking companies listed on the Indonesia Stock Exchange (IDX) during the 2020–2024 period. The sample was selected using a purposive sampling technique, with criteria requiring companies to consistently publish audited annual financial statements and distribute cash dividends throughout the observation period. With five years of observation, the study generated 55 observations that were used to analyze the effect of Risk Profile, Good Corporate Governance, Earnings, and Capital (RGEC) on dividend policy as measured by the Dividend Payout Ratio (DPR).

To provide an overview of the characteristics of the research variables, descriptive statistical analysis was conducted using EViews 12. Descriptive statistics are used to summarize and present data systematically so that the general characteristics and distribution patterns of the variables can be identified without making broader statistical inferences (Sugiyono, 2025). The results of the descriptive statistical analysis are presented in Table 1.

Table 1. Descriptive Statistical Analysis Results

	Y	X1	X2	X3	X4	X5
Mean	48,9184	2,33818	88,4258	57,3011	1,88418	23,6676
Median	46,8800	2,16000	86,6700	60,0000	1,69000	23,8800
Maximum	93,4000	4,48000	160,950	77,7800	3,78400	31,0900
Minimum	10,4600	0,93000	49,9900	33,3300	0,29000	17,3100
Std. Dev.	20,5517	0,92840	22,0600	10,9724	0,86311	2,96704

Table 1. Descriptive Statistical Analysis Results shows that the average Dividend Payout Ratio (DPR) of banking companies during the 2020–2024 period was 48.92%, indicating that, on average, banks distributed nearly half of their earnings as dividends to shareholders. The relatively high standard deviation of 20.5517 suggests considerable variation in dividend distribution practices among the sampled companies. The highest DPR

reached 93.40%, while the lowest was 10.46%, reflecting substantial differences in dividend policies across banking institutions.

The Risk Profile dimension, represented by the Non-Performing Loan (NPL) ratio, recorded an average value of 2.34%. This finding indicates that the average level of non-performing loans remained relatively low during the study period. The standard deviation of 0.92840, which is lower than the mean value, suggests that NPL data were relatively homogeneous among the sampled banks. NPL values ranged from 0.93% to 4.48%, indicating that the banks generally maintained credit quality within an acceptable level.

Furthermore, liquidity risk measured by the Loan-to-Deposit Ratio (LDR) had an average value of 88.43%. This result indicates that banks distributed loans amounting to approximately 88.43% of the third-party funds collected. The relatively high standard deviation of 22.06 reflects variations in liquidity management practices among banking institutions. The minimum and maximum values of 49.99% and 160.95%, respectively, further demonstrate differences in lending aggressiveness across the sample.

In terms of governance, the Good Corporate Governance (GCG) variable showed an average value of 57.30%, indicating that independent commissioners constituted more than half of the board composition in most banks. The standard deviation of 10.9724 suggests that the proportion of independent commissioners was relatively stable among the observed companies. The observed values ranged from 33.33% to 77.78%.

The Earnings component, proxied by Return on Assets (ROA), recorded an average value of 1.88%. This finding reflects the ability of banks to generate profits from their assets during the observation period. The standard deviation of 0.86311, which is lower than the mean, indicates relatively homogeneous profitability performance among the sampled banks. ROA values ranged from 0.29% to 3.78%.

Finally, the Capital dimension, measured using the Capital Adequacy Ratio (CAR), had an average value of 23.67%. This result indicates that the sampled banks generally maintained capital levels above the regulatory minimum requirement. The standard deviation of 2.96704 suggests relatively low variation in capital adequacy across firms. CAR values ranged from 17.31% to 31.09%, reflecting a generally stable capital structure within the banking sector.

To obtain the most appropriate panel data regression model that aligns with the characteristics of the research data, estimation was conducted using three approaches, namely

the Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM), as proposed by (Basuki & Prawoto, 2017). These three models are employed as a basis for determining the most suitable approach capable of explaining the relationship between bank soundness, proxied by the RGEC components, and dividend policy in banking companies listed on the Indonesia Stock Exchange during the 2020–2024 period.

Table 2. Common Effect Model (CEM) Estimation Results

Variable	Coefficient	t Statistic	Prob.
C	102,2994	3,209264	0,0023
X1	-1,528238	-0,389488	0,6986
X2	-0,298191	-1,876989	0,0665
X3	0,075835	0,248470	0,8048
X4	4,149670	0,962498	0,3405
X5	-1,504338	-1,295138	0,2013

Table 2 shows that none of the independent variables have a statistically significant effect on the Dividend Payout Ratio (DPR) at the 5% significance level. However, the direction of the coefficients indicates that Non-Performing Loan (NPL), Loan to Deposit Ratio (LDR), and Capital Adequacy Ratio (CAR) exhibit negative relationships with DPR, while Good Corporate Governance (GCG) and Return on Assets (ROA) show positive relationships.

Subsequently, estimation was conducted using the Fixed Effect Model (FEM), which accounts for cross-firm heterogeneity by incorporating dummy variables or the Least Square Dummy Variable (LSDV) approach.

Table 3. Fixed Effect Model (FEM) Estimation Results

Variable	Coefficient	t Statistic	Prob.
C	21,90489	0,455598	0,6512
X1	-2,070450	-0,444157	0,6594
X2	0,573184	2,039180	0,0482
X3	0,010790	0,037835	0,9700
X4	-4,561149	-1,039879	0,3048
X5	-0,458599	-0,366092	0,7163

Table 3 shows that only the Loan to Deposit Ratio (LDR) has a statistically significant effect on DPR, with a probability value of 0.0482. The remaining variables have probability values above 0.05, indicating that they do not significantly explain variations in dividend policy.

To complement the estimation process, the study also employed the Random Effect Model (REM), which assumes that differences across firms are random components of the error term.

Table 4. Random Effect Model (REM) Estimation Results

Variable	Coefficient	t Statistic	Prob.
C	80,09884	2,134935	0,0378
X1	-3,035535	-0,744196	0,4603
X2	-0,028542	-0,146043	0,8845
X3	-0,006036	-0,022707	0,9820
X4	-0,990159	-0,243985	0,8083
X5	-0,817464	-0,733667	0,4666

Table 4 shows that all independent variables have probability values greater than 0.05, indicating that none of them significantly affect DPR in this model. After obtaining the estimation results from the three models, the next step is to determine the most appropriate panel data regression model using the Chow test and the Hausman test.

Table 5. Chow Test Results

Effect Test	Statistic	Prob.
Cross section F	4,831952	0.0002
Cross section Chi square	44,330683	0.0000

The Chow test results indicate that the probability value of the Cross-section Chi-square statistic is 0.0000, which is below the 5% significance level. This implies that the Fixed Effect Model (FEM) is more appropriate than the Common Effect Model (CEM). This finding suggests the presence of significant cross-sectional heterogeneity among banking firms that must be accounted for in the model.

This result is further reinforced by the Hausman test, which determines the choice between FEM and REM.

Table 6. Hausman Test Results

Test Summary	Chi Sq Statistic	Prob.
Cross section random	11,455084	0.0431

The Hausman test shows a probability value of 0.0431, which is lower than 0.05. Therefore, the Fixed Effect Model (FEM) is considered the most appropriate model. This

indicates a correlation between individual firm effects and the explanatory variables, meaning that the assumptions underlying the Random Effect Model are violated.

Prior to hypothesis testing, classical assumption tests were conducted. The first test was multicollinearity testing, which ensures that there is no high correlation among independent variables (Gujarati, 2021).

Table 7. Multicollinearity Test Results

Variable	X1	X2	X3	X4	X5
X1	1,00000	-0,34466	-0,06002	-0,44110	-0,01192
X2	-0,34466	1,00000	0,16671	-0,29619	-0,13883
X3	-0,06002	0,16671	1.00000	0,09430	0,54147
X4	-0,44110	-0,29619	0,09430	1,00000	0,30805
X5	-0,01192	-0,13883	0,54143	0,30805	1,00000

Table 7 shows that all correlation values among independent variables are below 0.80, indicating that the model is free from multicollinearity problems. The next test is the heteroscedasticity test using the Glejser method to determine whether the error variance is constant across observations (Ghozali, 2021).

Table 8. Heteroscedasticity Test Results

Variable	Coefficient	t Statistic	Prob.
C	14,90383	1,073900	0,2881
X1	0,053773	0,031478	0,9750
X2	0,030165	0,436120	0,6647
X3	0,108247	0,814620	0,4192
X4	-1,641187	-0,874336	0,3862
X5	-0,493070	-0,975017	0,3343

Table 8 indicates that all independent variables have probability values greater than 0.05; therefore, the model does not suffer from heteroscedasticity.

Finally, the autocorrelation test was conducted using the Durbin-Watson statistic, as recommended by Gujarati (2021).

Table 9. Autocorrelation Test Results

Description	Value
Durbin Watson Stat	1,500539

Table 9 shows that the Durbin-Watson value of 1.500539 is relatively close to 2, indicating that the regression model does not exhibit serious autocorrelation issues and is suitable for further analysis.

Based on the results of the Chow and Hausman tests, this study selects the Fixed Effect Model (FEM) as the main model to examine the effect of NPL, LDR, GCG, ROA, and CAR on the Dividend Payout Ratio (DPR).

Table 10. Fixed Effect Model Regression Results

Variable	Coefficient	t Statistic	Prob.
C	21,90489	0,455598	0,6512
X1	-2,070450	-0,444157	0,6594
X2	0,573184	2,039180	0,0482
X3	0,010790	0,037835	0,9700
X4	-4,561149	-1,039879	0,3048
X5	-0,458599	-0,366092	0,7163

Table 10 shows that the Loan to Deposit Ratio (LDR) is the only variable that significantly affects DPR. The positive coefficient of 0.573184 indicates that an increase in liquidity, as reflected by LDR, tends to be associated with an increase in the Dividend Payout Ratio. In contrast, NPL, GCG, ROA, and CAR do not show statistically significant effects on dividend policy during the study period.

Table 11. Coefficient of Determination (R^2) Results

R squared	Adjusted R squared	S.E. of Regression	Sum Squared Resid
0,624676	0,480320	14,81550	8560,466

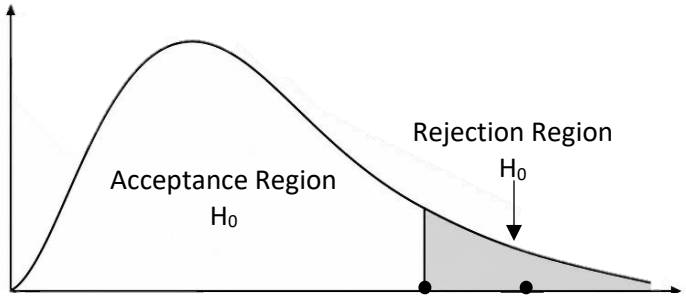
Table 11 shows that the R^2 value of 0.624676 (62.47%) indicates that NPL, LDR, GCG, ROA, and CAR collectively explain 62.47% of the variation in DPR, while the remaining 37.53% is explained by other factors outside the model. This suggests that the model has a moderate to strong explanatory power in explaining dividend policy in banking firms over the study period.

The F-test is used to examine whether the regression model is appropriate for explaining the relationships among variables in the study (Suliyanto, 2011). This test compares the F-statistic with the F-table value at a 5% significance level.

Table 12. F-Test (Goodness of Fit Results)

F_{tabel}	$F_{statistic}$	Prob(F statistic)	Conclusion
2,40	4,327344	0,000115	Model is valid

Table 12 shows that the F-statistic is 4.327344 with a probability value of 0.000115. Since Fcount is greater than Ftable (4.327344 > 2.40) and the probability value is below 0.05, the null hypothesis is rejected and the alternative hypothesis is accepted.



F_{tabel} =2,40 F_{hitung} = 4,327344

Figure 1. F-Distribution Curve

Figure 1 shows that the F-statistic falls within the rejection region of H_0, indicating that the model is statistically significant and fits the data well. Therefore, the model is considered to have a good fit and is appropriate for analyzing the effect of NPL, LDR, GCG, ROA, and CAR on the Dividend Payout Ratio (DPR).

The t-test is used to examine the partial effect of each independent variable on the dependent variable (Suliyanto, 2011). In this study, the variables tested are NPL, LDR, GCG, ROA, and CAR on DPR.

Table 13. t-Test (Partial Effect Results)

Variable	Coefficient	t_{tabel}	t_{hitung}	Prob.
X1 (NPL)	-2,070450	1,67655	-0,444157	0,6594
X2 (LDR)	0,573184	1,67655	2,039180	0,0482
X3 (GCG)	0,010790	1,67655	0,037835	0,9700
X4 (ROA)	-4,561149	1,67655	-1,039879	0,3048
X5 (CAR)	-0,458599	1,67655	-0,366092	0,7163

Table 13 shows that the t-test results are evaluated based on the degree of freedom (df = 49), with a significance level of 0.05, resulting in a t-table value of 1.67655. The decision-making criteria indicate that variables with t-statistic values exceeding the t-table value and probability values below 0.05 are considered statistically significant. Based on these

criteria, only Loan to Deposit Ratio (LDR) is found to have a significant effect on Dividend Payout Ratio (DPR), while NPL, GCG, ROA, and CAR do not exhibit statistically significant effects.

Based on Table 13, the results of the first hypothesis indicate that the calculated t-value is lower than the critical t-table value (-0.444157 < -1.67655) with a probability value of 0.6594, which is greater than 0.05. Therefore, H_0 is accepted and H_a is rejected. This result indicates that Non-Performing Loan (NPL), as a proxy for credit risk, does not have a statistically significant effect on the Dividend Payout Ratio (DPR) of banking firms listed on the Indonesia Stock Exchange.

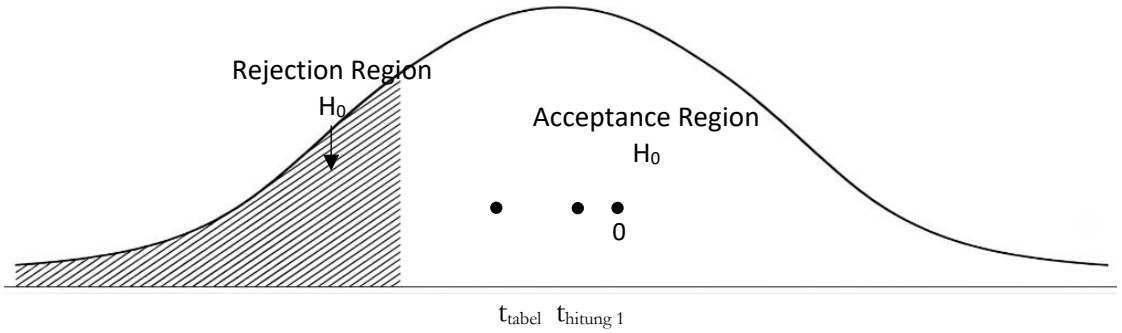


Figure 2. t-Distribution Curve for Hypothesis 1

Figure 2 shows that the t-statistic for NPL lies within the acceptance region of H_0, indicating that the coefficient is not statistically significant at the 5% level. Accordingly, the first hypothesis proposing that NPL has a significant negative effect on DPR is rejected based on the empirical findings.

Furthermore, the second hypothesis examines the effect of liquidity risk, proxied by the Loan to Deposit Ratio (LDR), on the Dividend Payout Ratio (DPR). The test results indicate that the t-value is greater than the t-table value (2.039180 > 1.67655) with a probability value of 0.0482, which is less than 0.05. Therefore, H_0 is rejected and H_a is accepted. The results of the hypothesis testing can be observed in the following figure.

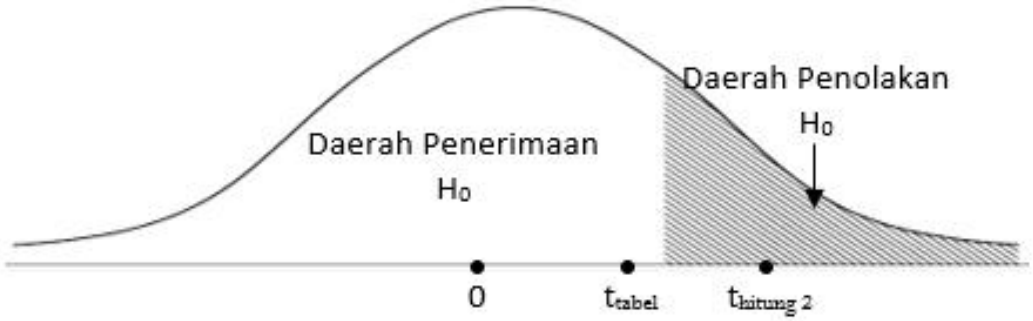


Figure 3. t-Distribution Curve for Hypothesis 2

Figure 3 shows that the t-statistic for LDR lies in the rejection region of H_0, indicating a statistically significant positive effect on DPR. Accordingly, the second hypothesis stating that LDR has a significant positive effect on dividend policy in banking firms listed on the Indonesia Stock Exchange is accepted.

Furthermore, the third hypothesis examines the effect of Good Corporate Governance (GCG) on the Dividend Payout Ratio (DPR). The results show that the t-value is lower than the t-table value (-0.037835 < 1.67655) with a probability value of 0.9700, which is greater than 0.05. Therefore, H_0 is accepted and H_a is rejected. The results of the hypothesis testing are presented in the following figure.

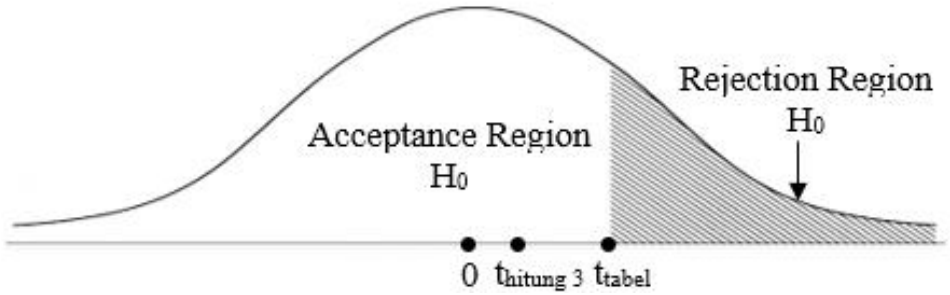


Figure 4. t-Distribution Curve for Hypothesis 3

Figure 4 shows that the t-statistic for GCG falls within the acceptance region of H_0, indicating that Good Corporate Governance does not have a statistically significant effect on DPR. Accordingly, the third hypothesis stating that GCG has a positive and significant effect on dividend policy in banking firms listed on the Indonesia Stock Exchange is rejected.

Furthermore, the fourth hypothesis examines the effect of earnings, proxied by Return on Assets (ROA), on the Dividend Payout Ratio (DPR). The results show that the t-

value is lower than the t-table value (-1.039879 < 1.67655) with a probability value of 0.3048, which is greater than 0.05. Therefore, H_0 is accepted and H_a is rejected. The results of the hypothesis testing are presented in the following figure.

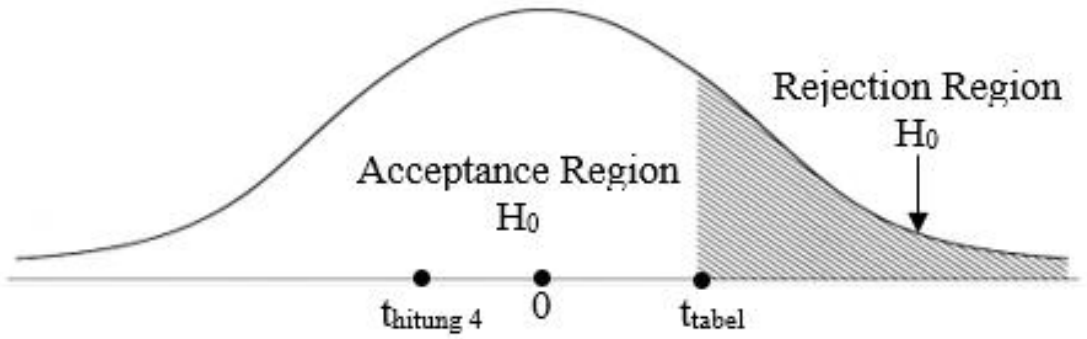


Figure 5. t-Distribution Curve for Hypothesis 4

Figure 5 shows that the t-statistic for ROA lies in the acceptance region of H_0, indicating that ROA does not have a statistically significant effect on DPR. Accordingly, the fourth hypothesis stating that ROA has a positive and significant effect on dividend policy in banking firms listed on the Indonesia Stock Exchange is rejected.

Finally, the fifth hypothesis examines the effect of capital, proxied by the Capital Adequacy Ratio (CAR), on the Dividend Payout Ratio (DPR). The results indicate that the t-value is lower than the t-table value (-0.366092 < 1.67655) with a probability value of 0.7163, which is greater than 0.05. Therefore, H_0 is accepted and H_a is rejected. The results of the hypothesis testing are presented in the following figure.

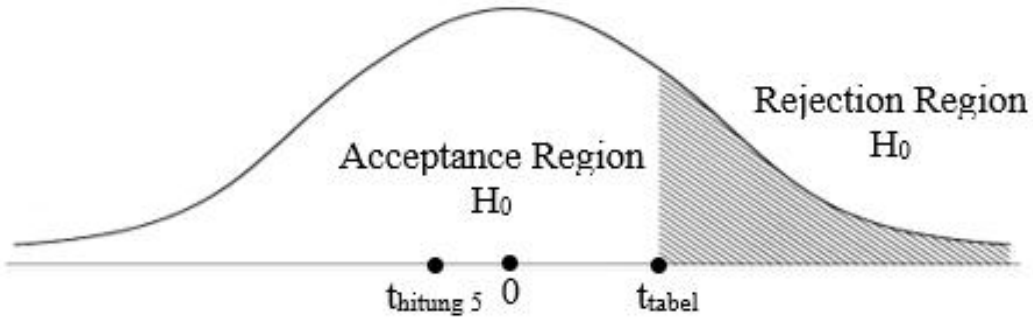


Figure 6. t-Distribution Curve for Hypothesis 5

Figure 6 shows that the t-statistic for CAR lies in the acceptance region of H_0, indicating that CAR does not have a statistically significant effect on DPR. Accordingly, the fifth hypothesis stating that CAR has a positive and significant effect on dividend policy in banking firms listed on the Indonesia Stock Exchange is rejected.

DISCUSSION

The findings of this study indicate that dividend policy, proxied by the Dividend Payout Ratio (DPR), in Indonesian banking firms is not entirely determined by fundamental banking indicators such as credit risk (NPL), liquidity risk (LDR), Good Corporate Governance (GCG), profitability (ROA), and capital adequacy (CAR). Based on the Fixed Effect Model (FEM) estimation results, only the Loan to Deposit Ratio (LDR) exhibits a positive and statistically significant effect on DPR, while the other variables do not show significant relationships. This suggests that dividend policy in the banking sector is primarily driven by the bank's intermediation efficiency rather than risk exposure or profitability indicators.

More specifically, LDR reflects the effectiveness of banks in channeling third-party funds into productive lending activities. A higher LDR indicates stronger credit distribution, which generates higher interest income and enhances the bank's capacity to distribute dividends to shareholders. This implies that investors tend to prioritize liquidity performance as a key indicator in assessing dividend prospects. In contrast, NPL, GCG, ROA, and CAR do not significantly influence dividend policy, indicating that credit risk, corporate governance, profitability, and capital adequacy are not primary determinants of dividend decisions during the observation period.

The insignificant effect of NPL suggests that credit risk does not necessarily play a decisive role in dividend decisions. Banking firms tend to maintain dividend stability to preserve investor confidence, even when credit quality fluctuates. This also indicates that internal mechanisms such as loan loss provisions and retained earnings enable banks to sustain dividend payments. Therefore, the findings contradict Agency Theory, which argues that higher risk leads managers to retain earnings rather than distribute dividends (Salempang & Saerang, 2022).

In contrast, the significant effect of LDR supports Signalling Theory, which suggests that firms with strong financial conditions signal positive performance through dividend payments. A higher LDR reflects effective liquidity management, thereby increasing investor confidence in the bank's financial stability. These findings are consistent with Munawaroh et al. (2025), Febriyanti & Melzatia (2024), and Iskandar et al. (2022), but inconsistent with (Yunisari, 2021), Vitasari (2021), and Jessica & Arfianti (2025).

Regarding GCG, the results indicate that corporate governance does not directly influence dividend policy, suggesting that dividend decisions are more strongly driven by internal financial considerations rather than monitoring mechanisms. This finding does not support Agency Theory, which posits that good governance reduces agency conflicts and aligns management decisions with shareholder interests. However, it is consistent with Salempang & Saerang (2022) and Anam & Hendra (2020), while contradicting Handayani & Yuvisa Ibrani (2023) and Boshnak (2023).

Similarly, ROA does not significantly affect dividend policy, implying that profitability alone is not a determining factor in dividend distribution. Although firms with higher profits are theoretically expected to distribute higher dividends, earnings are often retained for expansion and capital strengthening. This finding is inconsistent with Signalling Theory but aligns with Syaiful (2021), while contradicting several studies including Yunisari (2021), Vitasari (2021), Amalia & Wulandari (2023), Muksal & Gultom (2024), and Munawaroh et al. (2025).

Furthermore, CAR does not significantly influence dividend policy, indicating that capital adequacy is not directly considered in dividend decisions. Banks tend to retain capital to comply with regulatory requirements and maintain financial stability. This finding does not support the Bird-in-the-Hand Theory, which suggests that firms with stronger capital positions tend to distribute higher dividends. It is consistent with Amalia & Wulandari (2023), Febriyanti & Melzatia (2024), and Iskandar et al. (2022), but inconsistent with several other studies.

Overall, the results indicate that dividend policy in Indonesian banking firms is relatively stable and conservative, with liquidity being the only consistent determinant. This highlights the importance of intermediation performance in shaping dividend decisions. Theoretically, this study contributes to the understanding that classical financial theories do not always fully explain dividend behavior in the banking sector. Practically, it suggests that investors should focus more on liquidity indicators when evaluating dividend prospects, while bank management should prioritize maintaining intermediation efficiency to sustain investor confidence. However, the study is limited by an R-squared value of 0.624676 and a relatively short observation period of 2020–2024, which may not fully capture long-term dynamics in the banking industry.

CONCLUSION

This study aimed to examine the effect of credit risk, liquidity risk, Good Corporate Governance (GCG), earnings, and capital on dividend policy in banking firms listed on the Indonesia Stock Exchange during the 2020–2024 period. The empirical findings reveal that only liquidity risk, proxied by the Loan to Deposit Ratio (LDR), has a positive and statistically significant effect on dividend policy, while credit risk (NPL), GCG, profitability (ROA), and capital adequacy (CAR) do not show significant effects on the Dividend Payout Ratio (DPR). These results indicate that dividend policy in the banking sector is primarily driven by the effectiveness of financial intermediation and liquidity management rather than traditional financial indicators such as risk, profitability, or capital strength.

Conceptually, the findings suggest that dividend decisions in banking firms tend to be stable and are mainly influenced by the bank's ability to maintain a balance between fund collection and credit distribution. Accordingly, liquidity emerges as the only dominant determinant of dividend policy, indicating that the research objectives have been achieved by identifying the key factor influencing dividend payout decisions.

The theoretical contribution of this study lies in providing empirical evidence that classical financial theories such as Agency Theory, Signalling Theory, and the Bird-in-the-Hand Theory do not always consistently explain dividend policy behavior in the Indonesian banking industry. Theoretically, this study enriches the literature on dividend determinants by emphasizing the dominant role of liquidity over other financial variables. Practically, the findings suggest that bank management should prioritize liquidity management to maintain dividend stability, while investors may consider the Loan to Deposit Ratio (LDR) as a key indicator in investment decision-making within the banking sector.

Based on the limitations of this study, particularly the existence of unobserved variables outside the model and the relatively limited observation period, future research is recommended to incorporate macroeconomic variables, firm-specific policies, and other external determinants that may influence dividend policy. Additionally, future studies should extend the observation period to provide a more comprehensive understanding of long-term dividend policy dynamics in the banking sector.

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