

# How Human Capital Drives Independent Commissioners to Supervise Profitability in the Banking Sector



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**ABSTRACT:** The post condition of covid 19, shows weaknesses in profitability of the banking sector in Indonesia. Referring thereto, this study aim to search how to improve profitability in the banking sector through the supervisory role of independent commissioner. Population of this research is 46 banking institutions listed in the BEI from 2016 until 2021. The number of research samples was 276 data; which data was taken from 46 Banks listed in BEI multiplied by the six-year research period. Model testing uses the Structural Equation Model method using the WARP PLS 7.0 application. The Structural Equation Modeling (SEM) method using the WARP PLS 7.0 application involves several steps to analyze complex relationships between variable. Results of this study shows that 1) The board of independent commissioners greatly determines the company's success in achieving goals and improving the company's financial performance so that the company's ROA increased.2) The higher or lower the VHC value will significantly affect ROA. 3)VHC can strengthen the relationship between INDC and ROA.

**KEYWORDS:** Independent Commissioners, Value Added Human Capital (VHC), Return on Asset (ROA), Banking Sector

## I. INTRODUCTION

The banking sector acts as an intermediary between fund owners and borrowers (those who need funds). Thus, Banking contributes to the stability of the financial system by providing liquidity, managing risks, and acting as a lender. Banks also hold reserves and comply with regulatory requirements to ensure their solvency and stability. Regarding this, Banks need to maintain their profitability ratio. The implementation of Governance, Risk, and Compliance, is an important mechanism to support the financial performance of the banking sector. Governance, Risk, and Compliance (GRC) is a framework that encompasses an organization's approach to managing the interrelated areas of governance, risk management, and compliance with regulations and standards. GRC frameworks aim to integrate these three components cohesively to help organizations achieve their objectives while effectively managing risks and ensuring compliance with applicable laws and regulations.

During Covid, in 2019, at the beginning of the COVID-19 pandemic, the banking Return on assets (ROA) value fell to 1,212 (8%) from 2018, and in 2020, the development of banking Return on assets (ROA) fell again to 0,082 (-1%). This might indicate financial weaknesses in the banking sector.

Referring to the phenomena mentioned above, this research would like to study how human capital can moderate the impact of independent commissioners on profitability.

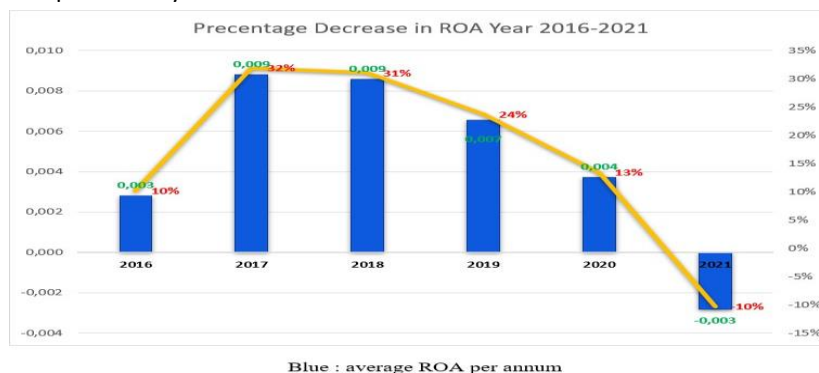


Figure 1: ROA banking sector 2016-2021

Source: processed data

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To anticipate any operational risk, the banking sector should implement a sound financial performance and internal control system. In regard to this, listed companies are required to have independent commissioners in the board structure with a proportion of 30% of the total members of the board of Commissioners (POJK 33/2014). The Independent Commissioners have an important role in strengthening the supervisory body in controlling operational activities to achieve corporate goals. The main goal of a corporation is typically to generate profit and maximize shareholder value. The research of Sucilestari (2021) shows that independent commissioners have a significant role in increasing the profitability of a company. On the other hand, research by Pratami, Syaifora, Basriani, and Yuliza (2021), mentioned that independent commissioners do not have a moderating effect on the relationship between CEO power and company performance Which is proxied by ROE (profitability ratio).

To manage the manpower skills, human capital development has an important role in upscaling the knowledge, skills, abilities, expertise, and experience of individuals in a company, which can drive the achievement of the company's goals (Bayraktaroglu et al., 2019, in Djaddang, Endang, Jali -2023). Research by Endang, Jaddang, and Ari (2023), mentioned that the board of independent commissioners greatly determines the company's success in achieving goals and improving the company's financial performance. On the other hand, value-added human capital may weaken the independent Commissioner's role in profitability and is not a significant effect. In principle, appropriate human capital activities can motivate the independent commissioner's role to achieve profitability.

### II. LITERATURE REVIEW AND HYPOTHETICAL DEVELOPMENT

#### A. Agency Theory

Agency theory is a significant concept in economics and organizational behavior that deals with the relationship between principals and agents. In many situations, individuals (principals) delegate decision-making authority to others (agents) to act on their behalf. However, there might be a misalignment of interests between the two parties. Shareholders want managers to maximize the value of the company, but managers may prioritize their interests or pursue strategies that don't align with shareholder wealth maximization. Governance mechanisms such as executive compensation, board oversight, and shareholder activism are designed to mitigate these agency problems.

#### B. Independent Commissioner

In the context of banking and financial institutions listed on stock exchanges, "independent commissioners" are often referred to as independent directors or independent board members. These individuals are crucial for ensuring good governance and transparency within publicly traded banks and financial companies. Their role and responsibilities include supervising the Board of Directors in the implementation of good governance, audit and risk management, regulatory compliance, and strategic decisions (Komite Nasional Kebijakan Governance, 2021). The rule of Independent Commissioners based on POJK No 33 the year 2014 states that: the Board of Commissioners consists of more than 2 (two) members of the Board of Commissioners, and the number of Independent Commissioners must be at least 30% (thirty percent) of the total number of members

#### C. Return on Assets (ROA)

Return on Assets (ROA) is a financial metric used to assess a company's efficiency in using its assets to generate profit. It is expressed as a percentage and indicates how well a company is converting its assets into net income. ROA is calculated based on Net Income divided by Average Total Cost. Higher ROA: Indicates that a company is more effective at generating profit from its assets. It suggests better asset utilization and efficiency. Mappadang et al., (2021), state that Return on Assets is a ratio that describes a bank's efficiency in generating profits or the results show that profitability is proven to be positive and significant on the timeliness of the report of financial.

#### D. Human Capital

Human capital refers to the economic value of a worker's skills, knowledge, experience, and abilities. It encompasses the attributes that contribute to productivity and performance in the workplace and can be considered an intangible asset of an organization or economy. The concept recognizes that employees' education, training, and experiences are valuable and can be leveraged to drive organizational and economic success. Key components of human capital, include skill and abilities, knowledge and education, experience, health and well-being, innovation and creativity. High levels of human capital often lead to greater productivity, as skilled and knowledgeable workers can perform tasks more efficiently and effectively.

#### E. Value added Human Capital

"Value-added human capital" refers to the contribution that employees make to an organization's performance and value through their skills, knowledge, experience, and innovations. It emphasizes how human capital directly influences a company's ability to generate additional value and drive growth. A key aspect of value-added human capital includes Enhanced Productivity, Innovation

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and Creativity, Superior Customer Service, Strategic Contributions, and Operational Excellence. Research by Jaddang, EE Merawati, and Hartina (2023), shows that the Internal Auditor can strengthen the relationship between Capital Employed (value-added human Capital) and Corporate Sustainability Performance

### F. *Influence of Independent Commissioners on ROA*

Independent commissioners, often known as independent directors or board members, can significantly impact a company's Return on Assets (ROA) by influencing various aspects of governance and strategic decision-making. Independent commissioners provide unbiased perspectives that can lead to more effective decision-making. Their objectivity helps ensure that decisions are made in the best interest of the company and its shareholders, potentially leading to more efficient use of assets. They often serve on key committees, such as the audit and risk committees, where they oversee financial reporting and risk management practices. Effective oversight in these areas can prevent costly errors and mismanagement, positively impacting ROA.

Independent commissioners bring diverse experiences and expertise that can guide the company's strategic direction. Effective strategies and business models can enhance asset utilization and operational efficiency, contributing to a better ROA. Research by Roswaty (2023), shows that there is a significant simultaneous effect of the Independent Board of Commissioners and Managerial Ownership variables on Return on Assets. Research by EE Merawati, Djaddang, Kristanto, and Natasha (2023), shows that The board of independent commissioners greatly determines the company's success in achieving goals and improving the company's financial performance so that the company's ROA has increased. The research hypothesis is:

H1 = Independent Commissioners have a significant effect on ROA.

### G. *Effect of Value Added Human Capital towards ROA*

The effect of value-added human capital on Return on Assets (ROA) is a significant topic in business management and finance. Value-Added Human Capital: This refers to the contribution of employees' skills, knowledge, and abilities to the overall productivity and performance of the organization. It includes factors like employee training, experience, innovation, and effective management. Research by Rengganis, Widarwati, Nurmalasari, and Sophiawadi (2023), mentioned that intellectual capital has a significant effect on financial performance. Managerial skills and employee competencies are an important aspects of Intellectual Capital, which is developed through the human capital program. The research hypothesis is:

H2= Value Added Human Capital has a significant effect on ROA –

### H. *Effect of VAHC in Moderating of Independent Commissioners on ROA*

The effect of Value-Added Human Capital (VAHC) in moderating the relationship between Independent Commissioners and Return on Assets (ROA) explores how the quality and contributions of human capital influence the effectiveness of independent commissioners in enhancing organizational performance, specifically in terms of ROA. Research by EE Merawati (2023), Djaddang, Kristanto, and Natasha (2023), states that In principle, appropriate human capital activities can motivate independent commissioners to achieve profitability.

Research by Rengganis, Widarwati, Nurmalasari, and Sophiawadi (2023), states that Companies that can manage intellectual capital and implement good corporate governance will achieve a competitive advantage in improving the company's financial performance.

H3: Value Added Human Capital can moderate the influence of Independent Commissioners on profitability (Return on Assets).

## III. METHOD

### A. *Research Method*

The research is an extension of a study conducted by (Kristanto & Merawati, 2022), using a quantitative method, where the independent commissioner is the variable independent, profitability is the dependent variable, and value-added human capital is the moderating variable. This research used secondary data taken from the Indonesia Stock

Exchange. The population of this research is 46 banking institutions listed in the BEI. The operational variable is described, as follows:

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Table 1: Operational Variable

No	Variable	Measurement	Reference	Scale
1	Dependent variable : Profitability	ROA= Profit After Tax/Total Asset x 100%	Rosiana & Mahardika (2021)	Ratio
2	Independent variable : Independent Commissioner	Number of Independent Commissioners/Number of members of the Board of Commissioners	Ayem, Rohana (2019)	Ratio
3	Moderating Variable : Value Added Human capital	VAHU = VA/HC Where: VA: Output-Input, where output is total income and input is selling expenses and total operating expenses other than employee expenses HC: Human Capital (total salary and wages, benefits, bonuses, training, business travel expenses)	Astri Rosiana (2020)	Ratio

Source: Data process by E Merawati, Jaddang (2023)

### B. Participant Characteristics and Sampling Criteria

This research uses purposive sampling technics by setting specific considerations or criteria. The number of research samples was 276 data, which data was taken from 46 Banks listed in BEI multiplied by the six-year research period. The purposive sampling technique criteria are as follows:

Table 2: Sampling Criteria

Table 2: Sampling Research Criteria

No	Sampling Research Criteria	Number
1.	The banking industry is listed on the Indonesia Stock Exchange	47 Company
2.	The banking industry does not issue complete annual financial reports for 2016-2021	01 Company
Total Companies used in the study		46 Company
The sample in the research is 46 companies x 6 years of research		276 Company

Source: Data processed by the author (2023)

### C. Research Data

Data were obtained from financial reports, annual reports, research journals, books, and internet sites related to this research. This research uses secondary data or data not obtained directly from the source. Data was obtained from the company's financial reports and annual reports on the official website of the Indonesia Stock Exchange ([www.idx.co.id](http://www.idx.co.id)) and the respective official websites.

### D. Research Design

Referring to research by EE Merawati (2023), Djaddang, Kristanto, and Natasha (2023), the design in this study is as follows:

D.1 Inner Model Testing T (Musyaffi et al., 2022)

- 1) The endogenous variables: R Square value is the coefficient of determination in an endogenous construct. The R-squared value also explains the variation from exogenous to endogenous variables.
- 2) Prediction Relevance (Q Square) : Q Square is performed to determine the ability of a prediction through a blindfolding procedure. The Q Square value < 0 means that the exogenous latent construct is suitable as an explanatory variable capable of

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predicting existing constructs.

### D.2 Full Model Testing Complete

Model testing uses the Structural Equation Model method using the WARP PLS 7.0 application. The Structural Equation Modeling (SEM) method using the WARP PLS 7.0 application involves several steps to analyze complex relationships between variables. WARP PLS (Partial Least Squares) is a software tool designed for SEM, focusing on path modeling with latent variables

$$ROA = \beta_1 INDC + \beta_2 VHC + \beta_3 INDC * VHC + \epsilon t$$

Where:

ROA = Return on Assets ;

Komi = Komisararis Independen,

VAHC = Value Added Human Capital,

KIns = Institutional Ownership

## IV. RESULT AND DISCUSSION

### A. *Statistic Descriptive*

**Table 3: Statistic Descriptive**

	N	MIN	MA X	ME DIA N	MO DES
IND C (X1)	276	-3.2 07	1.81 1	-0.1 00	-0.4 19
VH C (X2)	276	-5.9 45	0.95 6	0.20 2	-5.9 45
VH C (MX 2)	276	-3.5 67	2.64 9	0,10 7	-3.5 67
RO A (Y)	276	-3.5 39	1.48 0	0.22 7	-3.5 49

**Source:** source data by the arthur (2023)

Descriptive statistics about research variables illustrate that:

1. The N value for each variable is 276, indicating that each variable has 276 valid data.
2. Independent Commissioners (INDC) are independent variables with a minimum value of -3.207, a maximum of 1,811, and a median of 0.100. Independent Commissioners and other members of the board of commissioners carry out the oversight function of the operational activities carried out by the Board of Directors. With a more significant number of independent commissioners, the company's internal control level will be better.
3. Value Added Human Capital (VHC) in this study is an independent variable with a minimum value of - 5,945, a maximum of 0.956, and a median of 0.202. Negative Value Added Human Capital (VAHC) indicates that the company's Interest Income and Interest Expenses are less than the sum of salaries and benefits, general and administrative expenses.
4. Value Added Human Capital (VHC) in this study is independent variable with a minimum value of -3.567, a maximum of 2.649 and a median of 0,107. Negative VHC , indicates that the company's Interest Income and Interest Expenses are less than the sum of salaries and benefits, general and administrative expenses.
5. ROA is the dependent variable with a minimum value of -3.549, a maximum of 1480 and an average of 0.227. The excellent the ROA value, the better the company's performance because the rate of Return on investment is getting bigger. This value reflects the company's Return on all assets (or funding) provided to the company.

### B. *Hypothesis Test*

Hypothesis testing aims to test the truth of the hypothesis that has been proposed. The influence of each variable will be seen in the coefficient values and P values in the Full Model test.

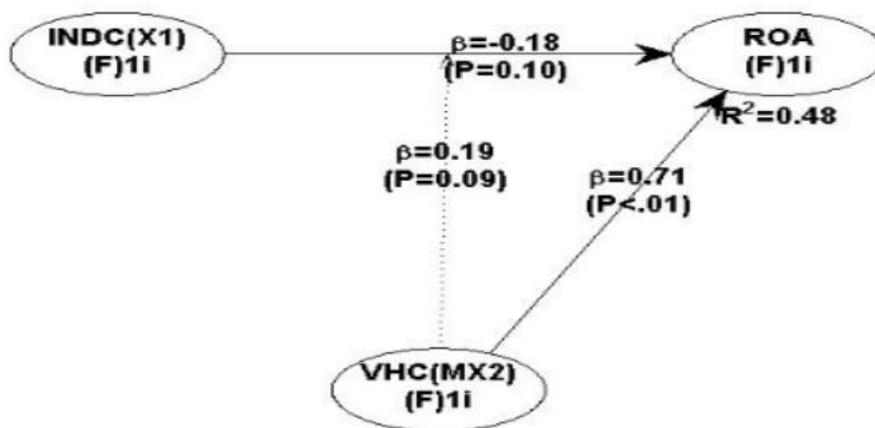


Figure 1: Full Model Test

Figure 1 shows the causal relationship between Independent Commissioners (INDC) and VHC as the independent variable and Return on Asset (ROA) as the dependent variable, with Value Added Human Capital (VHC) as moderator variables. From the results of the full model output in Figure 1, the equation for this study is:

$$ROA = -0,18 \text{ INDC} + 0,71 \text{ VHC} + 0,19 \text{ INDC} * \text{VHC} + \epsilon t$$

Where:

ROA = Return on Asset

INDC= Independent Commissioner

VHC = Value Added Human Capital

From the equation mentioned above, it can be concluded that :

- For every increase in INDC by 1 unit, the ROA index will decrease by 0,18
- For every increase in VHC by 1 unit, ROA index will increase by 0,71
- For every increase in the interaction of INDC to ROA by 1 unit, the ROA Index will increase by 0,19

Table 4: Result of Hypothesis Test

PATH	COEFFICIENT	P VALUE	REMARK
INDC>>>>>>ROA	-0.18	0,10	SIGNIFICANT (ALFA 10%)
VHC>>>>>>ROA	0,71	<0,01	SIGNIFICANT (ALFA 5%)
INDC*VHC>>>>>>ROA	0,19	0,09	SIGNIFICANT (ALFA 10%)

Source: document processed by the arthur

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### C. Discussion

#### C1. The Effect of INDC on ROA

INDC's contribution is -0.18 to ROA (Return on Assets) with a P value of 0.10, indicating that if the proportion of independent commissioners increases by one unit, the ROA value will decrease by 0.18 units. The relationship is significant at  $\alpha = 10\%$ , so  $H_0$  is accepted. This research is in line with the research of EE Merawati (2023), Djaddang, Kristanto, and Natasha (2023), that The board of independent commissioners greatly determines the company's success in achieving goals and improving the company's financial performance so that the company's ROA has increased. To avoid any negative impact on ROA, the company should ensure that the independent commissioners have the capabilities needed to improve the performance of the company. In addition, there should be a continuously updating skill and knowledge program for the board members.

#### C2. The Effect of VHC on ROA

The contribution of VHC to ROA is 0.71, with a P value of  $<0.01$ , indicating that if VHC increases by one unit, the ROA value will also increase by 0.71 units, and the correlation is significant on  $\alpha = 5\%$ , so  $H_2$  is accepted. The higher or lower the VHC value will significantly affect ROA. This study is in line with the research of Djali, Jaddang, and EE Merawati (2023), which states that internal audit can strengthen the relationship between capital employed efficiency and corporate sustainability performance, which might lead to sustainability profit.

C3. The effect of VHC in moderating INDC on ROA The contribution of VHC (Value Added Human Capital) in moderating the impact of INDC on ROA is 0.19, which shows that VHC can strengthen the relationship between INDC and ROA. Meanwhile, a P value of 0,09 indicates a significant relatedness level at  $\alpha = 10\%$ , so  $H_3$  is accepted. In principle, the implementation of human capital can motivate the supervisory function of INDC towards achieving profitability. This study is not in line with the research of Endang, and Jaddang (2023) which VHC can weaken the relationship between INDC and ROA.

However, This study is in line with research by Rengganis, Widarwati, Nurmalasari, and Sophiawadi (2023), which states that Companies that can manage intellectual capital and implement good corporate governance will achieve a competitive advantage in improving the company's financial performance.

## V. CONCLUSION

### A. Independent Commissioner's Influence on ROA

The effect of independent commissioners on ROA is negative and significant, this means that an increase in independent commissioner's efforts could weaken the company's profitability performance. The board of independent commissioners duty is to supervise board of directors in achieving goals and improving the company's financial performance. This means that the competencies, professionalism, and experience of independent commissioners should be in line with the company's business. As chairman of the audit committee, the independent commissioner should be supported by adequate and professional members of audit committees. By this, if the competencies and experience of the independent commissioners and audit committee members are insufficient, there might be a significant decrease in profitability. Therefore the company's leadership structure should consist of integrated peoples with high capabilities to support business sustainability.

### B. The effect of VHC on ROA

The effect of VHC on ROA is positive and significant. VHC can significantly improve ROA. In principle, the development of human capital competencies can support the level of profitability achievement..

### C. Effect of VHC in moderating Komi on ROA

VHC can significantly moderate the effect of INDC on ROA. In principle, appropriate human capital activities can motivate INDC to achieve profitability (ROA). Companies that are able to manage intellectual capital and implement good corporate governance will achieve a competitive advantage in improving the company's financial performance.

## VI. SUGGESTIONS AND RECOMMENDATIONS ON RESEARCH RESULT

A. Suggested/recommended for future research to expand research samples other than the banking industry listed on the IDX, such as the non-bank financial industry, Shari'ah financial industry, and other financial services industries.

B. To achieve profit sustainability, banks should appoint professional independent commissioners and professional members of committees that have high competencies, professionalism, and sufficient experience in the required field of the company. In addition, it is important to continually improve the knowledge and expertise of independent commissioners and members of audit committees.

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