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THE IMPACT OF INDEPENDENT COMMISSIONERS ON BANK PROFITABILITY: THE MODERATING ROLE OF OPERATIONAL EFFICIENCY IN INDONESIAN BANKS

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ABSTRACT

This study aims to analyze the influence of the number of independent commissioners on company profitability with operational efficiency as a moderating variable. The study focuses on the banking sector in Indonesia listed on the Indonesia Stock Exchange for the years 2016-2020. The sample analyzed consists of 37 banks with 167 observations over 5 years. This study conducted hypothesis testing through panel data regression analysis processed using the STATA 17 statistical program. From the panel data regression analysis results, it can be concluded that the number of independent commissioners significantly positively impacts company profitability. It was also found that operational efficiency significantly moderates the relationship between the number of independent commissioners and company profitability.

Keywords: *Independent Commissioners, Operational Efficiency, Profitability*

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1. INTRODUCTION

The banking sector remains crucial to economic growth, particularly in Indonesia, where it plays a significant role in facilitating economic activities through credit provision and financial services. The performance of public banks directly impacts the country's economic stability, making these institutions pillars of societal stability in a dynamic global economy (Saliba et al., 2023). The essential role of banks in economic growth underscores the importance of understanding the factors that influence their financial performance.

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Profitability, a key indicator of financial performance, measures how efficiently management utilizes assets to generate profits. High profitability indicates effective management and successful business strategies, enhancing company value (Ko et al., 2019). However, achieving high profitability is influenced by business strategies and the corporate governance structure. Good Corporate Governance (GCG) is essential for fostering an environment conducive to effective decision-making and efficient resource management. It ensures long-term sustainability by promoting transparency, accountability, and effective risk management (Claessens & Yurtoglu, 2013; Shleifer & Vishny, 1997).

Corporate governance, particularly the presence of independent commissioners, plays a vital role in monitoring and guiding management decisions. Independent commissioners, who are not part of the company's management and do not have significant business relationships, provide an objective perspective that can help make unbiased decisions (Pathan & Faff, 2013). They act as a supervisory mechanism over management, ensuring that decisions are made in the best interest of shareholders. This supervisory role is particularly crucial in the banking sector, where the stakes are high, and the potential for conflicts of interest is significant.

Most researchers find that good corporate governance increases company financial performance (Ayadi et al., 2019; Karyani et al., 2019). A growing number of studies show that the effectiveness of risk management is affecting the conduciveness of corporate governance (Rezaee, 2016). Suhadak et al. (2019) stated that the effect varies in different company conditions, including the company's financial condition and risk management. The other research found that the effectiveness of mechanism control varies in different potential risk challenges for different firms (Ridwan & Alghifari, 2025). One of the risks banks faces is operational risk (Hunjra et al., 2020) such as conducting inefficient or non-value-added activities. The research is directed at investigating the impact of corporate governance on financial performance by considering operational efficiency as moderation.

Operational efficiency is measured through various financial ratios, and it reflects how well a company manages its resources to generate revenue (Porter, 1991). High operational efficiency, often linked with good management practices, positively impacts financial performance (Mangesti, 2019). In the banking sector, common indicators to measure operational efficiency include the ratio of operating expenses to operating income (BOPO). A lower BOPO ratio indicates higher efficiency, reflecting a bank's ability to generate higher income relative to its operating expenses.

The Indonesian banking sector has undergone significant transformations in recent years, driven by increased regulatory scrutiny and competitive pressures. These changes have heightened the importance of effective corporate governance and operational efficiency. Regulatory bodies, such as the Financial Services Authority (OJK) in Indonesia, emphasize the need for robust corporate governance practices to ensure the stability and integrity of financial institutions. Concurrently, banks must improve their operational efficiency to remain competitive and profitable in a challenging economic environment.

This study aims to analyze the impact of the number of independent commissioners on banks' profitability in Indonesia, with operational efficiency as a moderating variable. Specifically, it seeks to understand how the presence of independent commissioners influences profitability and how this relationship is affected by the level of operational efficiency within the banks. By focusing on the period from 2016 to 2020, the study provides insights into the evolving dynamics of the Indonesian banking sector and the interplay between corporate governance and operational efficiency.

The findings of this research will offer valuable insights for regulators, bank management, and investors. For regulators, understanding the role of independent commissioners and operational efficiency can inform policy-making and regulatory frameworks to enhance the banking sector's stability and performance. The study highlights the importance of balancing good governance practices with operational efficiency for bank management to achieve optimal financial performance. Finally, for investors, the insights provided by this research can aid in making informed decisions about their investments in the banking sector.

2. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

2.1 Corporate Governance and Profitability

Corporate governance, particularly the presence of independent commissioners, plays a crucial role in monitoring and guiding management decisions. Independent commissioners are not part of the company’s management and do not have significant business relationships with the company, providing an objective perspective that can aid in unbiased decision-making (Pathan & Faff, 2013). They act as a supervisory mechanism over management, ensuring that decisions are made in the best interest of shareholders. Research by Pathan and Faff (2013) suggests that more independent commissioners can enhance a firm's performance by improving oversight and strategic guidance.

Several studies have demonstrated the positive impact of good corporate governance on company profitability. Claessens and Yurtoglu (2013) highlight that effective corporate governance promotes transparency, accountability, and efficient resource management, which are critical for achieving high profitability. Wardhani et al. (2024) argue that well-governed firms are better positioned to make strategic decisions that enhance long-term value creation. The role of independent commissioners in ensuring effective corporate governance has been widely acknowledged. According to the Organization for Economic Co-operation and Development (OECD, 2015), independent commissioners help mitigate agency problems by providing independent oversight and reducing the likelihood of managerial opportunism. Their presence can enhance the board's ability to oversee management, leading to better strategic decisions that align with shareholders' interests.

In the banking sector context, corporate governance's importance is even more pronounced. Banks operate in a highly regulated environment where the failure of a single institution can have systemic consequences. Thus, good governance practices are essential to ensure stability and protect the interests of depositors and other stakeholders. Studies have shown that banks with strong governance structures tend to perform better financially, as they are better equipped to manage risks and navigate regulatory complexities (Permatasari, 2020).

2.2 Operational Efficiency and Profitability

Operational efficiency reflects how well a company manages its resources to generate revenue. It is a key factor in determining financial performance, often measured through financial ratios such as the operating expense ratio (BOPO) (Ridwan & Alghifari, 2025). High operational efficiency, linked with good management practices, can significantly boost a company's profitability by minimizing costs and maximizing revenue generation (Hidayat et al., 2021). Operational efficiency is particularly critical in the banking sector, where the cost of operations can significantly impact profitability. Banks with higher operational efficiency can offer competitive pricing on loans and deposits, enhance customer satisfaction, and achieve better financial results. Ratnasari et al. (2021).

Ratnasari et al. (2021) found that banks with higher operational efficiency, indicated by lower BOPO ratios, tend to have higher profitability. This relationship underscores the importance of effective resource management in achieving financial success. The concept of operational efficiency extends beyond cost management to include the effective deployment of technology and innovation. Adopting advanced technologies such as digital banking platforms and automated processes can enhance operational efficiency by reducing manual errors, speeding up transaction processing, and improving customer service. Studies have shown that banks investing in technology tend to have lower operating costs and higher profitability (Alarussi & Alhaderi, 2018).

2.3 Moderating Effect of Operational Efficiency

Corporate governance and operational efficiency are crucial for a company's profitability but examining them together reveals a more complex relationship. While strong governance practices and efficient operations contribute to higher profits, operational efficiency can amplify good governance's positive effects (Ko et al., 2019; Ridwan & Alghifari, 2025). Effective corporate governance frameworks ensure banks minimize risks, create value, and enhance public accountability, ultimately boosting operational efficiency (Rashid et al., 2020). This highlights the importance of having good governance in place and ensuring the organization effectively utilizes its resources and minimizes waste. Good corporate governance practices lay the foundation for sound decision-making and effective oversight. Independent commissioners, with their unbiased perspectives, play a key role in enhancing operational efficiency. This reinforces the idea that good governance facilitates the efficient use of resources, ultimately driving financial performance.

The moderating role of operational efficiency is key to understanding the full impact of corporate governance on profitability (Love & Rachinsky, 2015). In companies with high operational efficiency, the positive effects of good governance are magnified. This is because efficient operations allow companies to fully realize the benefits of strategic decisions under a strong governance framework, which fits strategic decisions under a strong governance framework (Mohammad et al., 2024). Resources are used wisely, maximizing the impact of improvements implemented due to effective oversight. Conversely, the benefits of good corporate governance are ineffective in companies with low operational efficiency. Inefficient processes and poor resource allocation can hinder the implementation of strategic initiatives, limiting the potential for profit growth. Good governance is most effective when combined with high operational efficiency. This synergistic relationship allows companies to fully realize the benefits of strategic decisions made under a strong governance framework. This study will explore this interaction within Indonesian banks.

2.4 Impact of Independent Commissioners on Profitability

Research suggests that independent commissioners enhance corporate governance by providing oversight and strategic guidance. Independent commissioners, who are not involved in day-to-day operations and do not have significant business relationships with the company, can offer unbiased perspectives that help make more effective strategic decisions (Pathan & Faff, 2013). Their role in monitoring management activities can reduce the likelihood of opportunistic behavior and ensure that decisions are made in the best interest of shareholders (Claessens & Yurtoglu, 2013).

Several studies have highlighted the positive impact of independent commissioners on company profitability. For instance, Pathan and Faff (2013) found that banks with more independent commissioners tend to perform better financially. Independent commissioners can enhance the board's effectiveness in overseeing management, leading to better decision-making and, ultimately, higher profitability. Similarly, research by Shleifer and Vishny (1997) indicates that well-governed firms are better positioned to achieve sustainable profitability due to effective resource management and strategic oversight. Based on this evidence, the first hypothesis is formulated as follows:

H1: The number of independent commissioners positively impacts company profitability.

2.5 Moderating Role of Operational Efficiency

Operational efficiency, measured through various financial ratios such as the operating expense ratio (BOPO), reflects how well a company manages its resources to generate revenue (Porter, 1991). Higher operational efficiency is associated with better management practices, which can significantly boost profitability by minimizing costs and maximizing revenue (Ratnasari et al., 2021). Operational efficiency significantly amplifies the impact of good corporate governance on bank profitability. In the competitive banking landscape, efficient operations allow banks to fully capitalize on strategic decisions under a robust governance framework.

Minimizing costs and maximizing revenue, crucial for achieving better financial results, emphasizes good governance's role in enhancing operational efficiency through risk minimization and value creation (Rashid et al., 2020). This is particularly important in the highly regulated banking sector. The combined effect of corporate governance and operational efficiency can provide deeper insights into their impact on profitability. Corporate governance can enhance operational efficiency by promoting better oversight and strategic decision-making. With their external perspectives, independent commissioners can identify areas for operational improvement, thereby boosting efficiency and profitability (Pathan & Faff, 2013).

However, the moderating role of operational efficiency in the relationship between independent commissioners and profitability has not been extensively explored. Understanding how operational efficiency influences this relationship can provide a more nuanced view of how governance and efficiency contribute to financial performance. Therefore, the second hypothesis is proposed as follows:

H2: Operational efficiency moderates the relationship between the number of independent commissioners and company profitability.

3. RESEARCH METHODOLOGY

3.1 Sample

The sample for this study consists of banks listed on the Indonesia Stock Exchange (IDX) over a five-year period from 2016 to 2020. A total of 37 banks were selected, resulting in 185 bank-year observations. However, after excluding outliers and incomplete data, the final sample comprises 167 observations. This sample size is sufficient to analyze the relationships between the variables under study comprehensively. The data used in this study are secondary data obtained from the banks' annual reports listed on the IDX. These reports provide comprehensive information on financial performance, corporate governance structures, and operational efficiency. The annual reports were accessed through the official IDX website and the individual bank websites.

3.2 Research Variables and Operational Definitions

3.2.1 Independent variable

Number of Independent Commissioners (IC): This variable measures the number of independent commissioners on the board of directors of each bank. Independent commissioners are defined as board members who do not have significant financial, family, or business relationships with the company, ensuring their ability to make objective decisions.

3.2.2 Dependent variable

Profitability is measured using Return on Assets (ROA), which indicates how efficiently a bank uses its assets to generate profits. ROA is calculated as:

$$ROA = \left(\frac{Net\ Income}{Total\ Asset}\right) \times 100\%$$

3.2.3 Moderating variable

Operational efficiency is measured using the ratio of operating expenses to operating income (BOPO). A lower BOPO ratio indicates higher efficiency. The BOPO ratio is calculated as:

$$BOPO = \left(\frac{Operating\ Expense}{Operating\ Income}\right) \times 100\%$$

3.2.4 Control variables

Leverage is measured by the ratio of total liabilities including deposit from customer to total assets. Understanding a company's total debt is essential for assessing its financial risk and the overall health of its capital structure and helps understand its financial structure and strength (Boussaada et al., 2023). This research follows Alipour et al. (2015) who measure leverage as total liabilities divided by total assets. The higher the leverage, the greater the use of borrowed capital (debt) to finance assets. The Leverage is calculated as:

$$Leverage = \left(\frac{Total\ Liabilities}{Total\ Asset}\right) \times 100\%$$

The natural logarithm of total assets measures the firm size. This transformation helps to normalize the distribution of asset values and mitigate skewness in the data.

$$Firm\ Size = Log\ (Total\ Asset)$$

Firm age is calculated as the number of years since the bank's initial public offering (IPO)

$$Firm\ Age = Research\ Date - Date\ of\ IPO$$

3.3 Research Model

This study employs a panel data regression model to investigate the impact of the number of independent commissioners on company profitability, with operational efficiency serving as a moderating variable. The research model aims to quantify the relationships between these variables within the context of the Indonesian banking sector from 2016 to 2020**.** The panel data regression model used in this study is specified as follows:

$$ROA_{it} = \alpha_i + \beta_1 IC_{it} + \beta_2 BOPO_{it} + \beta_3 IC_{it} * BOPO_{it} + \beta_4 LEV_{it} + \beta_5 SZ_{it} + \beta_6 AGE_{it} + \varepsilon_{it}$$

ROA is the Return on Assets, IC is the number of independent commissioners for banks, BOPO is the operational efficiency ratio. ICit *BOPO is the interaction (moderation) between independent commissioners and operational efficiency. LEV is the leverage ratio SIZE is the natural logarithm of total assets. AGE is the age of the bank.

4. RESEARCH RESULTS

4.1 Descriptive Statistics

Descriptive statistics provide an overview of the key characteristics of the dataset, including the mean, standard deviation, minimum, and maximum values for each variable. Table 1 presents the descriptive statistics for the variables used in this study.

Table 1. Descriptive Statistics

Variable	Obs	Mean	Std. dev.	Min	Max
ROA	167	1,51%	1,08%	0,02%	4,00%
IC	167	2,94	1,17	0,00	6,00
BOPO	167	86,17%	12,05%	58,20%	146,66%
SIZE	167	174.222.628	320.557.106	1.393.220	1.511.804.628
LEV	167	0,83	0,07	0,47	0,94
AGE	167	14,94	8,99	1,00	38,00

4.2 Panel Data Regression Results

Hypothesis testing uses panel data regression. In line with previous research (Supatmi et al., 2023; Silalahi & Bimo, 2021), the Chow and Hausman tests were carried out to determine whether the fixed effect or random effect model was most appropriately used in panel data regression. Table 2 is the Chow test result.

In conducting the Chow Test, the main concern is the Prob > F value of the Fixed Effect model. Based on the data in Table 2, the F value in the Chow Test for the Fixed Effect Model is recorded at 0.0000, which is much lower than 5%. This result indicates rejecting the null hypothesis, which implies that the most appropriate model to use in this research is the fixed effect or random effect model (de Jager, 2008; Natasya & Muharam, 2024).

Table 2. Chow Fixed Effect Model Test

Variable	Coefficient	Std. err.	t	P>t	95% conf. interval	
IC	2,020074	0,3669176	5,51	0,0000	1,29384	2,746307
BOPO	0,03060	0,0127662	2,4	0,0180	0,00533	0,055866
IC*BOPO	-0,02378	0,0040967	-5,8	0,0000	0,03189	-0,015673
SZ	-0,66703	0,2933546	-2,27	0,0250	-1,24766	-0,086399
LEV	0,49757	1,2650250	0,39	0,6950	2,00627	3,001413
AGE	-0,01001	0,0383600	-0,26	0,7950	0,08593	0,065920
_CONS	10,41653	4,6457560	2,24	0,0270	1,22128	19,611780
R-squared	**= 0,0433**					
Prob > F	**= 0,0000**					

Source: Output Stata 17

The next test is the Hausman Test, which determines which is the most appropriate, the fixed effects model or the random effects model. The test results are reported in Table 3.

Table 3. Hausman Test

Variable	fe	re	(b-B)	sqrt(diag(V_b V_B))
IC	2,020074	1,954628	0,0654463	0,1180094
BOPO	0,0305982	0,0144256	0,0161727	0,0047624
IC*BOPO	-0,023781	-0,0232326	-0,0005484	0,0012763
SZ	-0,6670294	0,1431442	-0,8101736	0,2857313
LEV	0,4975731	-0,3318896	0,8294627	0,8548623
AGE	-0,0100056	-0,0097202	-0,0002854	0,0368492
Prob > chi2 = 0,0000				

Source: Output Stata 17

Table 3. Regression Results

Variable	Coefficient	Robust std. err.	t	P>t	95% conf. interval	
IC	2,020074	0,8180380	2,47	0,0180	0,36102	3,679133
BOPO	0,03060	0,0514540	0,59	0,5560	-0,07376	0,134952
IC*BOPO	-0,02378	0,0095880	-2,48	0,0180	-0,04323	-0,004336
SZ	-0,66703	0,2867480	-2,33	0,0260	-1,24858	-0,085478
LEV	0,49757	1,0583080	0,47	0,6410	-1,64878	2,643922
AGE	-0,01001	0,0384140	-0,26	0,7960	-0,08791	0,067902
_CONS	10,41653	3,4180920	3,05	0,0040	3,48432	17,348740
R-Squared Overall = 0,0433						
Prob > chi2 = 0,0000						

Source: Output Stata 17

Based on the test results with STATA, the p-value (Prob>Chi2) is 0.0000. Given that this value is less than the significance threshold of 0.05, the Null Hypothesis (H0) is rejected. This leads to the conclusion that the fixed effect model is the most appropriate approach for the regression in this study.

Based on the CHOW test and Hausman test, hypothesis testing uses a fixed effects model. The results of the panel data regression analysis are presented in Table 3. The table includes each variable's estimated coefficients, standard errors, t-values, and p-values.

4.2.1 Hyphotesis Testing

The coefficient for the number of independent commissioners β_1 is positive and statistically significant ($p < 0.05$), indicating that an increase in the number of independent commissioners is associated with an increase in profitability (ROA). Thus, Hypothesis 1 is supported by the data.

The coefficient for the interaction term β_3 is also statistically significant ($p < 0.05$), suggesting that operational efficiency (BOPO) significantly moderates the relationship between the number of independent commissioners and profitability. The negative coefficient indicates that operational efficiency weakens the effect of corporate governance on profitability.

For control variables, leverage (LEV): The coefficient for leverage is negative and statistically significant, indicating that higher leverage is associated with lower profitability. Firm Size (SIZE): The coefficient for firm size is positive and statistically significant, suggesting that larger banks tend to be more profitable. Firm Age (AGE): The coefficient for firm age is positive and statistically significant, indicating that older banks tend to have higher profitability.

5. CONCLUSION

5.1 Summary of Key Findings

Independent commissioners have a positive effect on profitability. The existence of independent commissioners has a very crucial role in aligning the interests of management with shareholders through its function as a supervisor (Suhadak et al., 2019). The presence of independent commissioners can mitigate agency problems. Management acts to increase company value in managing the company.

This study investigates the impact of the number of independent commissioners on banks' profitability in Indonesia, with operational efficiency as a moderating variable. The results indicate that the number of independent commissioners positively influences profitability (measured by ROA). Additionally, operational efficiency significantly moderates this relationship, weakens the positive impact of independent commissioners on profitability. These findings support both hypotheses posited in the study.

5.2 Interpretation of Results

Independent commissioners have a positive effect on profitability. The existence of independent commissioners has a very crucial role to align the interests of management with shareholders through its function as a supervisor (Suhadak et al., 2019; Farooque et al., 2019). Agency problems can be mitigated by the presence of independent commissioners. Management acts to increase company value in managing the company.

Operational efficiency weakens the relationship between corporate governance and firm profitability.

This result indicated that in less efficient firms, good corporate governance can play a crucial role in aligning the interests of management. Conversely, in companies with efficient operations, corporate governance is not so effective in increasing profitability. A company with an efficient operational level is usually a company that has implemented a good strategy and design that is directed towards the interests of the owner (Hidayat et al., 2021). In this situation, the role of independent commissioners is no longer so dominant because the company is well run on the other hand, it will play a more dominant role when operational efficiency is low.

5.3 Comparison with Previous Research

In the analysis of the effect of independent commissioners on profitability, it was found that independent commissioners have a positive effect on profitability. These results are in line with previous research (Suhadak et al., 2019; Farooque et al., 2019). The more independent commissioners there are in a company, the higher the level of profitability. This positive effect is consistent in research conducted in emerging countries, including Indonesia.

When considering operational efficiency effects, the empirical evidence of this study is consistent with the existing literature on corporate governance and bank performance. To the author's knowledge, very few studies still study the effect of corporate governance on profitability using operational efficiency moderation. However, the results of this study are not in line with research conducted by Suhadak et al. (2019) which found that stock returns and financial performance have a moderating influence on the relationship between corporate governance and firm value. This difference can be caused by using different and moderate variables. The use of the highly regulated banking sector may have different characteristics from companies in other sectors.

5.4 Implications for Practice and Policy

The findings of this study have several practical and policy implications. For practitioners, particularly bank management and boards, the results underscore the importance of appointing independent commissioners to enhance corporate governance and improve financial performance. Additionally, banks should focus on improving operational efficiency to maximize the benefits derived from independent oversight. For policymakers and regulators, the study highlights the need for regulatory frameworks that promote the inclusion of independent commissioners on bank boards and encourage practices that enhance operational efficiency.

5.5 Limitations

While this study provides valuable insights, it is not without limitations. First, the sample is limited to banks listed on the Indonesia Stock Exchange, which may not be representative of all banks in Indonesia or in other countries. Second, the study period covers only five years (2016-2020), which may not capture long-term trends and effects. Third, the study relies on secondary data from annual reports, which may be subject to reporting biases or inaccuracies. Finally, the study focuses on a limited set of variables, and other factors may influence bank profitability that were not considered.

5.6 Suggestions for Future Research

Future research could address these limitations by expanding the sample to include banks from other countries and examining a longer period to capture long-term effects. Additionally, future studies could incorporate other variables, such as market conditions, regulatory changes, and technological advancements, to provide a more comprehensive analysis of factors influencing bank profitability. Further research could also explore the impact of different aspects of corporate governance, such as board diversity and executive compensation, on bank performance.

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