Human Capital Disclosure in Indonesian Banking During Covid-19 Pandemic

Wita Ramadhanti [1*]

[1*] Accounting Department, Faculty of Economics and Business, Jenderal Soedirman University, Email: wita.ramadhanti@unsoed.ac.id, Indonesia
*corresponding author

ABSTRACT

This research is testing the effect of Corporates' Size, Employee Expenses, and Board of Commissionaires Gender Diversities on Human Capital Disclosure. This is quantitative and archival research conduct on Conventional Banking that is listed on the Indonesian Stock Exchange. The data are taken from annual and financial reports for the year 2020, a year when Indonesia experiencing large-scale social restrictions to control the spread of the Covid-19 pandemic. The model is passed classical assumptions tests consist of normality, linearity, multicollinearity, and heteroscedasticity. The samples were then analyzed using Ordinary Least Square (OLS) Regression. The OLS regression results give evidence of the higher firms' assets, the higher human capital Disclosure provided by companies. This is consistent with the Stakeholders Theory.

Keywords: Human Capital, Size, Employee, Gender

1. Introduction

Employee is one of the most important assets for Companies namely human capital. Some research classified human capital, social capital, relational capital as part of intellectual capital (Haji dan Ghazali, 2012; Barus dan Siregar, 2014; dan Tejedo-Romero *et al*., 2017; Cabrita, 2017). Further, Human Capital Index developed separately from other intellectual capital (Alvarez, 2015; Tejedo-Romero & Araujo, 2020). Although workers are important part of institution, during crises the workers reduction is considered the fastest way for companies in order to avoid bankruptcy.

In the year 2020, Indonesia as well as the world faces Covid-19 pandemic crises. This disease that started in 2019 in Wuhan in China later spreading all over the world in 2020. Many countries have to do social restrictions as well as lock down policies. This policy helps to control the plague but then lead to economics crisis. The economics crises resulted in masses lay-off for workers employees.

This research is using Indonesian Banking sector as samples. Banking sector is important sector for economics, but during Covid-19 crises it also having more challenges than the other

industries. There are several problems faces by banking sectors due to Covid-19 crises. First, banking sector experiencing the impact of economics crises as the other sectors as the demand for services slower.

Second, the economics crises soon lead to debt crises (Perry, 2021). The social restrictions and lockdown make the economic slower, due to this conditions company will reduce their number of employees and it will make so many people lose their jobs. These people having banks debts for necessities such as home and car loans. If they become unemployed, they cannot pay their debts. The more people failed to pay their debt, the more debt crises facing by the banks. The banks then having financial distress.

Third, Indonesian Government asking banks to giving lower credit interest for its customers using POJK No. 11 of 2020. This is part Indonesian Government policy in dealing with pandemic as well as financial crises due to Covid-19 (Roziqin *et al.*, 2021). Hence, lower loan interest means bank lower income.

This research will examine the effects of firm size, employee expenditures, and Board Diversity on Human Capital Disclosure. This research originality is by combined the studies from Petera & Wagner (2017) with Raimo *et al*. (2020) during Covid-19 Pandemic in Indonesian Banking.

2. Literature Review

This research will develop hypothesis development from Stakeholders Theory perspectives. Stakeholders Theory is one of the most important foundation for Human Capital Disclosure. The disclosure practices will reduce the information asymmetry between the companies and its stakeholders as well as improve their relationships (Cabrita *et al.*, 2017). Stakeholder theory view organisations as part of a system that have influence and being influenced by stakeholders' groups that they should managed to ensure organizations could access the resources it needed to succeed (Farneti *et al*., 2019). Stakeholders are consisting of stockholders, government, bank or other lending institutions, workers and its union, customers, suppliers, as well as society where a business operated.

Previous research by Petera & Wagner (2017), Raimo *et al*. (2020), also Tejedo-Romero & Araujo (2020) stated that the higher companies' size, the higher tendency for firms to disclose more on human capital. According to these researches, the first hypothesis is:

H1: Companies' Size have positive effect on Human Capital Disclosure

Research by Jindal & Kumar (2012), Kaur et al. (2016), also Petera & Wagner (2017) documented that the higher employee expenditures the higher companies' disclosure on Human Capital. Because the higher employee expenditures means that companies invest more to their human resources. Thus, the second hypothesis is:

H2: Employee Expenditures have positive effect on Human Capital Disclosure

Tejedo-Romero *et al*. (2017) study found that women on boards of commissionaires has positive impact on Intellectual Disclosure, which Human Capital Disclosure are the dominant indicators.

Nadeem *et al.* (2017) and Raimo *et al.* (2020) stated that the more board of commissionaires' diversity, indicated by higher number of women in the Boards, the higher human capital disclosure. The more gender diverse boards tend to be more socially responsible and this will reduce information asymmetry for the companies' stakeholders (Tejedo-Romero & Araujo, 2020). Based on previous studies, the third hypothesis is as follows:

H3: Board of Commissionaires Diversity have positive effect on Human Capital Disclosure

3. Research Methodology

This is a quantitave non-reactive research. Archival data consists of Companies' Financial Reports are taken from Indonesian Stock Exchange. Population is banking industry in Indonesian. The purposive sampling employed are as follows:

- Conventional Banks Listed in Indonesian Stock Exchange during 2020.
- Published complete Financial and Annual Reports during 2020.

There are 4 research variables, 1 dependent variable and 3 independent variables. Independent Variable is Human Capital Disclosure taken by content analysis from companies' Annual Report. Quantitative content analysis is the process of data reduction through coding of the text into fewer categories of key identified themes (Petera & Wagner, 2017). The 24 items of Human Capital Disclosure are adopted from Tejedo-Romero & Araujo (2020) as follows:

- Employee profile;
- Equality and diversity issues;
- Health and safety;
- Labour relations and union activity;
- Involvement of workers in the community;
- Employee recognition;
- Important employees;
- Employee commitment;
- Employee motivation;
- Employee behaviour;
- Economic data;
- Formal education;
- Professional qualification;
- Education and training policy;
- Education and training expenses and hours;
- Competence development policy;
- Career opportunities;
- Job rotation opportunities;
- Recruitment policies;
- Know-how;
- Employee quality and experience;
- Performance and results of top management;

- Innovative ideas of employees;
- System of suggestions and employee consultation.

The formula for Human Capital Disclosure (HCD) is as follow:

$$HCD = \frac{Total\ Item\ Disclosure}{24} \qquad (1)$$

The 3 independent variables are Size, Employee Expenditure, and Boards of Commissionaires Gender Diversity. The Ordinary Least Square Regression Models formula is:

$$HCD = \alpha + \beta_1 Size + \beta_1 EE + \beta_1 BD + \varepsilon \qquad (2)$$

where:

$\alpha, \beta, \varepsilon$ = regression coefficients;

HCD = Human Capital Disclosure;

Size = Natural Logarithms of Total Asset (Petera & Wagner, 2017);

EE = Employee Expenditures/Operating Expenses (Petera & Wagner, 2017);

BD = Boards of Commissionaires Gender Diversity measures by numbers of Female Commissionaires/Total numbers of Commissionaires (Raimo *et al*, 2020).

4. Results

There are 38 Banks that listed in Indonesian Stock Exchange during 2020 that becoming samples in this study. The completes descriptive statistics for research variables are as follows in Table 1.

Table 1. Descriptive Statistics

Variables	Min.	Max.	Mean	Std. Deviation
HCD	0.79	1.00	0.9203	0.07618
SIZE	29.33	34.89	32.3434	1.81126
EE	0.76	11.38	2.3879	2.07797
DB	0.00	1.00	0.3242	0.23227
n = 38				

Sources: Data Processed

Based on Content analysis, the level of Human Capital disclosure in Indonesian Banking are between 79% up to 100% with average 92.03%. This is relatively high. Despite the Covid-19 pandemic and economic restrictions, banks still pay attention to their employment conditions.

This research then conducts classical assumptions test for the models. The tests consist tests of Normality, Linearity, Heteroscedasticity, and Multicollinearity Test. The model passed all of

these 4 tests. The results are can be seen in Table 2.

Table 2. Classical Assumption Tests Results

Assumptions	Test	Results	Notes
Normality	1 Sample Kolmogorov-Smirnov Test * Normal if Sig. > 0.05	Kolmogorov-Smirnov Z = 0.536 Asym. Sig. (2-tailed) = 0.936*	Normal
Linearity	Lack of Fit Test * Linear if Sig. > 0.05	HCD*SIZE F Test = 0.478 Sig. = 0.880*	Linear
		HCD*EE F Test = 0.548 Sig. = 0.838*	Linear
		HCD*BD F Test = 0.497 Sig. = 0.805*	Linear
Multicollinearity	VIF Test *No multicollinearity if VIF < 10	SIZE→HCD VIF = 1.001*	No multicollinearity
		EE→HCD VIF = 1.002*	No multicollinearity
		BD→HCD VIF = 1.003*	No multicollinearity
Heteroscedasticity	Glejser Test *No heteroscedasticity if Sig. > 0.05	SIZE→Abs_Res Sig. = 0.165*	No heteroscedasticity
		EE→HCD Abs_Res Sig. = 0.236*	No heteroscedasticity
		BD→HCD Abs_Res Sig. = 0.584*	No heteroscedasticity

Sources: Data Processed

Ordinary Least Square regression then performed to test hypotheses. The results are in Table 3.

Table 4. Ordinary Least Square Regressions Results

	Unstandardized Coefficients	t	Sig.
Constant	-0.024	-0.146	0.885
Size	0.029	5.542	0.000*
EE	0.006	1.330	0.192
BD	0.021	0.534	0.597
F = 10.907			
Sig. = 0.000*			
R^2 = 0.445			
*Sig. < 0.05			
Dependent Variable is Human Capital Disclosure			

Sources: Data Processed

F test values is 10.907 with p value 0.000 (<0.05). It means that the Regression models is passed Goodness of Fit Test. R square is 0.445 can be translated that the model can explain and predict 44,5% of Human Capital Disclosure variations.

After passed Goodness of Fit Test, hypothesis testing can be continues using t test. The formula

of regression model can be determined like this:

$$HCD = -0.024 + 0.029 \, Size + 0.006 \, EE + 0.021 \, BD \tag{3}$$

Size has significant and positive effect on HCD have t-test value 5.542 with p-value 0.000 ($<$ 0.05). According to this results hypothesis 1 is accepted. This result is in line with studies by Petera & Wagner (2017), Raimo *et al*. (2020), also Tejedo-Romero & Araujo (2020).

Contrary to the previous finding, the other 2 hypotheses are rejected. EE do not affect HCD with t-test 1.330 and p-value 0.192 ($>$0.05). Due to this condition hypothesis 2 is rejected. BD do not affect HCD reflected by t-test 0.534 and p-value 0.597 ($>$0.05). Thus, hypothesis 3 is rejected.

5. Discussion

Although only 1 hypothesis is accepted, this result is still consistent with Stakeholders Theory. Banks in modern capitalist economics have important role in a country's financial conditions. Due to these conditions, banking sector have the largest stakeholder among all of industries. During pandemic crisis, Government as stakeholder using policy to restrict interest rate to control the Indonesian financial conditions. This restriction makes many banks under financial distress. These Indonesian Banks having corporate action using mergers and acquisition to stay in the business. The others will choose to reduces operation which usually closing several operations and massive employees lay over to avoid bankruptcy.

The workers and the unemployment ex-workers are also parts of companies' stakeholders. The bigger banks having the bigger impact on the society. It is considered importance for Indonesian banking to reports Human Capital Disclosure in their 2020 Annual Reports. These actions are to ensure stakeholders that they still valuing their employees during Covid-19 pandemic crisis.

6. Conclusion

There are three main conclusions of this research. First, the higher firm size will lead to the higher human capital disclosure. Second, Employee Expenditures do not have effect on corporates' Human Capital Disclosure. Third, the level of Firms' Human Capital Disclosures does not affect by Boards of Commissionaires Diversity.

The limitation of this research is only using the year of 2020 as Covid-19 pandemic year, since it was done in 2021. Several suggestions for further research are as follow. First, next study can expand Covid-19 pandemic year. Future research can also compare the Human Capital Disclosure conditions before and after Covid-19.

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