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The Role of the Risk Committee in Mitigating Risk-Taking Behavior Arising from Agency Conflicts in Indonesian Banking

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Abstract

This study examines the effect of agency conflict on risk-taking behavior in the Indonesian banking industry and evaluates the role of the Risk Committee as an internal governance mechanism. Three structural attributes of the Risk Committee—independence, expertise, and meeting frequency—are assessed as moderating variables that may strengthen internal oversight over managerial decision-making. Using panel data from conventional banks in Indonesia for the 2017–2023 period, the results show that agency conflict positively and significantly increases risk-taking behavior, indicating potential managerial opportunism arising from misaligned principal–agent interests. Among the moderating variables, Risk Committee expertise proves the most effective in weakening the influence of agency conflict, while meeting frequency also demonstrates a significant moderating effect. Conversely, committee independence does not exhibit a statistically significant moderating role. Overall, the findings underscore the importance of substantive governance quality—particularly professional competence and supervisory intensity—in mitigating the adverse effects of agency conflicts. These insights offer relevant implications for regulators and stakeholders.

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1. Introduction

The banking and financial services industry plays a vital role in maintaining the stability of the national financial system. However, in carrying out its function as a financial intermediary, these institutions face significant inherent risks. One of the greatest challenges is excessive risk-taking, namely the tendency of management to make overly aggressive business decisions that are not aligned with prudential principles. This condition becomes increasingly concerning when driven by agency conflicts, which refer to the misalignment of interests between management and owners that leads to long-term detrimental decision-making (Gryglewicz et al., 2020).

Agency conflict occurs when managers, as agents, pursue short-term incentives such as profit-based bonuses, reputation, or expansive growth, which may contradict the interests of owners or other long-term stakeholders. In the banking industry, poorly controlled agency structures allow managers to pursue performance targets by increasing credit or investment risks (Wang, 2023). Therefore, strong internal monitoring mechanisms are needed to control this tendency, one of which is the existence of a Risk Committee. The composition of the Risk Committee, including its independence and financial expertise, is critical in reducing excessive risk-taking behaviour (Almulhim et al., 2024). Studies by Yusuf et al. (2023) and Ding & Wei (2023) show that independent members with financial knowledge are more effective in monitoring and limiting excessive risk-taking.

The Risk Committee, as stipulated in POJK No.18/POJK.03/2016, is part of the governance infrastructure that banks in Indonesia are required to establish. This committee is responsible for providing strategic input to the board of directors and board of commissioners related to the bank's risk exposures and ensuring that business decisions adequately consider associated risks. Research by Almulhim et al. (2024) found that the existence and independence of the Risk Committee can reduce managerial aggressiveness in risk-taking within the financial sector. However, the effectiveness of Risk Committees in Indonesia still requires further examination. Several banking cases reveal weaknesses in risk oversight. In 2020, Bank Bukopin experienced a significant liquidity crisis due to high credit expansion into unproductive sectors, with Non-Performing Loan (NPL) levels exceeding 20%. The 2020 OJK report noted that the bank's risk management function was ineffective in providing early warnings of potential defaults. Indications of weak Risk Committee control also emerged from internal investigation findings, which stated that the committee's recommendations were disregarded in the approval process of large loans. In addition to Bank Bukopin, Bank Muamalat Indonesia faced financial pressures during 2017–2020 due to a highly concentrated financing portfolio that was not accompanied by adequate risk mitigation. A 2019 Fitch rating report indicated that internal oversight structures, including the Risk Committee, lacked the capacity to evaluate systemic risk exposures. Research by Subekti et al. (2024) also highlights weak risk oversight functions in Indonesian insurance institutions, leading to asymmetry of risk information between directors and other stakeholders.

These cases underscore that the presence of a Risk Committee alone is insufficient to ensure effective risk governance. Rather, the effectiveness of the committee depends on its ability to provide independent oversight, exercise professional judgment, and withstand managerial pressure in strategic decision-making. Nguyen and Dang (2022) argue that Risk Committee effectiveness is contingent upon its governance capacity, particularly in organizations characterized by complex ownership structures and heightened agency conflicts. Similarly, Darmawan et al. (2021) observe that many Indonesian banks establish Risk Committees primarily to comply with regulatory requirements rather than to strengthen substantive risk oversight. These observations suggest that the existence of a Risk Committee does not necessarily guarantee effective mitigation of managerial risk-taking, thereby raising important questions regarding the governance conditions under which Risk Committees function effectively.

Despite the growing body of literature on corporate governance and bank risk-taking, several important issues remain unresolved. First, previous studies have primarily examined the direct effect of governance mechanisms on risk-taking behaviour, while providing limited explanation of how agency conflicts interact with internal governance mechanisms to influence managerial decisions. Second, the existing literature generally treats the Risk Committee as a single governance mechanism without distinguishing whether its structural characteristics—such as independence, financial expertise, and meeting frequency—differ in their effectiveness in mitigating agency-driven risk-taking. Third, most empirical evidence has been generated from developed economies with institutional environments that differ substantially from those of emerging markets. Consequently, relatively little is known about whether the effectiveness of Risk Committees differs in countries such as Indonesia, where concentrated ownership structures and a two-tier governance system may alter the dynamics of agency conflict and internal oversight. These unresolved issues provide the primary motivation for the present study.

Addressing these theoretical, empirical, and contextual gaps, this study investigates whether agency conflict increases risk-taking behavior in Indonesian banks and, more importantly, whether different structural characteristics of the Risk Committee moderate this relationship. Rather than treating the Risk Committee as a single governance mechanism, this study distinguishes between committee independence, financial expertise, and meeting frequency to identify the governance attributes that are substantively effective in constraining managerial opportunism. By doing so, the study advances a more nuanced understanding of how internal governance mechanisms operate under conditions of concentrated ownership and institutional complexity that characterize emerging banking markets.

Given the increasing complexity of the banking industry and its vulnerability to unhealthy risk-taking practices driven by agency conflicts, the effectiveness of Risk Committees as one of the pillars of internal oversight has not yet been empirically measured, particularly in their role in mitigating risk-taking behavior that could harm long-term financial stability. Therefore, an empirical study is needed to examine how Risk Committees can function effectively in mitigating risk-taking behavior arising from agency conflicts in Indonesian banks. Based on the foregoing discussion, this study addresses the following research question: How do the structural characteristics of the Risk Committee mitigate risk-taking behaviour arising from agency conflicts in Indonesian commercial banks?

This study aims to empirically examine the effect of agency conflict on risk-taking behaviour in the Indonesian banking sector and to investigate whether the structural characteristics of the Risk Committee—namely independence, financial expertise, and meeting frequency—moderate this relationship. Specifically, the study seeks to identify which governance attributes are most effective in strengthening internal oversight and constraining managerial risk-taking arising from agency conflicts. This study contributes to the literature in three important ways. First, it extends the Agency Theory literature by explaining how the effectiveness of internal governance mechanisms depends not only on their formal existence but also on their structural characteristics. Second, it contributes to the corporate governance literature by providing comparative evidence on the relative effectiveness of Risk Committee independence, financial expertise, and meeting frequency in mitigating agency conflict. Third, by focusing on Indonesian commercial banks operating under a concentrated ownership structure and a two-tier governance system, this study provides empirical evidence from an emerging market that complements existing findings derived predominantly from developed economies. The findings are also expected to provide practical insights for regulators, bank boards, and other stakeholders in strengthening risk governance practices.

2. Literature Review

2.1 Agency Conflict

Agency conflict constitutes one of the fundamental issues in corporate governance, arising from the separation of ownership and managerial control. According to Agency Theory, the delegation of decision-making authority from principals to agents creates information asymmetry, enabling managers to pursue actions that maximize their private interests rather than shareholders' long-term objectives (Jensen & Meckling, 1976). This divergence of interests becomes particularly relevant in the banking industry, where managerial decisions regarding lending, investment, and capital allocation involve

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substantial uncertainty and have direct implications for institutional stability. Consequently, agency conflict extends beyond contractual inefficiencies and becomes a governance issue that may fundamentally influence managerial risk preferences.

In banking institutions, agency conflict is frequently manifested through managerial incentives to undertake higher-risk activities in pursuit of short-term financial performance, personal compensation, or reputational benefits. Such incentives may encourage managers to adopt aggressive lending strategies, relax credit standards, or increase exposure to speculative investments, thereby shifting a considerable proportion of potential losses to shareholders, depositors, and other stakeholders. These behavioural tendencies are further reinforced when monitoring mechanisms fail to effectively align managerial decisions with the long-term interests of the institution.

Ownership concentration represents an important institutional characteristic shaping the nature of agency conflict. Although concentrated ownership may strengthen monitoring by reducing traditional principal–agent problems, it may simultaneously create conflicts between controlling and minority shareholders, particularly when dominant owners exert pressure on management to pursue aggressive business strategies that maximise private benefits. Previous empirical studies consistently demonstrate that ownership concentration significantly influences managerial risk-taking behaviour through its effect on managerial discretion and governance effectiveness (Abid et al., 2021; Ehsan & Javid, 2018; Gani & Mashamba, 2022; Jabbouri et al., 2023). Accordingly, ownership concentration provides an appropriate proxy for capturing agency conflict in banking institutions characterised by concentrated ownership structures, such as those commonly observed in Indonesia.

2.2 Risk-Taking Behavior

Risk-taking behavior in the banking sector is influenced by several factors, including agency conflicts arising from conflicting interests among stakeholders. Risk-taking behavior reflects the extent to which a bank engages in decisions with potential financial risks. Excessive risk-taking refers to financial decisions that significantly exceed prudent risk levels. Weak corporate governance mechanisms can lead to excessive risk-taking due to conflicts between shareholders who prioritize financial stability and managers who seek to maximize short-term profits (Iqbal et al., 2015; Otero et al., 2020; Truong et al., 2026). Previous studies indicate that increasing competition in the banking sector can result in more aggressive risk-taking behaviour (Cai et al., 2024; Shin, 2012). This occurs as banks attempt to maintain or expand their market share, which may lead them to engage in riskier lending practices (Canta et al., 2023; Niinimäki, 2004; Pruteanu-Podpiera et al., 2015; Wang et al., 2024). Higher risk-taking can increase financial fragility if it is not accompanied by adequate capital regulation (Dias, 2021; Perotti et al., 2011). Regulatory frameworks and macroprudential policies can influence risk-taking behavior, as evidenced by findings that higher capital adequacy ratios can curb risk-taking and prevent default (Abou-El-Sood, 2017).

2.3 Risk Committee

The Risk Committee in Indonesian banking plays a strategic role in strengthening governance and risk management oversight. This committee assists the Board of Commissioners in evaluating risk management policies and implementation, ensuring the adequacy of internal control systems, and assessing the bank's overall risk profile. The establishment of a Risk Committee is not merely a regulatory requirement under POJK No. 55/POJK.03/2016, but also reflects best practices in corporate governance aligned with the recommendations of the Basel Committee on Banking Supervision (BCBS), which emphasizes the importance of non-executive oversight in managing strategic and operational risks.

The formation of Risk Committees has been shown to reduce bank risk, improve loan quality, and enhance profitability—particularly in banks with diversified asset portfolios—demonstrating that sound risk management practices provide positive benefits for banking institutions (Jiang & Ji, 2024). The main responsibilities of the Risk Committee include mitigating banking risks such as credit risk, market risk, operational risk, and liquidity risk (Hu & Denizkurdu, 2020; Jiang & Ji, 2024; Wu et al., 2019; Young, 2008).

2.4 Hypothesis Development

Agency Theory posits that the separation of ownership and control gives rise to conflicts of interest because managers, acting as agents, may pursue objectives that differ from those of shareholders. This conflict becomes more pronounced in banking institutions, where managers possess substantial discretion over lending, investment, and capital allocation decisions while shareholders have limited ability to observe the quality of those decisions. Consequently, information asymmetry enables managers to undertake strategies that maximise private benefits, even when such strategies increase the institution's overall risk exposure.

This theoretical proposition is supported by recent empirical evidence. Abid et al. (2021) demonstrate that governance structures associated with agency conflicts significantly increase bank risk-taking. Similarly, Ehsan and Javid (2018) report that ownership concentration encourages more aggressive managerial risk-taking by strengthening the influence of controlling shareholders over strategic decisions. Consistent findings are also

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reported by Gani and Mashamba (2022) and Jabbouri et al. (2023), who conclude that ownership concentration is positively associated with higher credit risk and greater managerial discretion within banking institutions. Collectively, these studies suggest that agency conflict increases managerial incentives to undertake excessive risk-taking.

The relationship between agency conflict and managerial risk-taking is particularly relevant within banking institutions because banking activities inherently involve significant uncertainty and leverage. Under conditions of concentrated ownership, controlling shareholders may exert pressure on managers to pursue aggressive growth strategies or maximise short-term financial performance, thereby reinforcing managerial incentives to assume greater risks. Such governance conditions weaken prudent decision-making and encourage managerial behaviour that prioritises short-term returns over long-term financial stability. From the perspective of Agency Theory, therefore, agency conflict constitutes an important determinant of excessive managerial risk-taking.

Based on the foregoing theoretical arguments and supporting empirical evidence, the following hypothesis is proposed:

H1: Agency conflicts have a positive effect on risk-taking behavior in Indonesian banking.

Furthermore, Agency Theory argues that governance mechanisms are established to reduce information asymmetry and constrain managerial opportunism through effective monitoring and accountability. Within the banking industry, the Risk Committee represents a specialised governance mechanism responsible for overseeing the institution's risk management framework, evaluating the adequacy of risk management policies, and providing independent recommendations regarding strategic decisions involving significant risk exposure. Accordingly, the primary governance function of the Risk Committee is to strengthen internal oversight and reduce the likelihood that agency conflicts translate into excessive managerial risk-taking.

Recent empirical evidence generally supports this theoretical expectation. Almulhim et al. (2024) report that effective Risk Committees improve governance quality and reduce agency-related costs by strengthening organisational oversight. Likewise, Jiang and Ji (2024) demonstrate that Risk Committees possessing stronger governance characteristics contribute to lower levels of bank risk through more effective monitoring of managerial decisions. Yusuf et al. (2023) further find that financially competent and active Risk Committees significantly reduce excessive managerial risk-taking within banking institutions. Although previous studies generally support the governance role of Risk Committees, relatively little evidence has examined whether their structural characteristics effectively moderate the relationship between agency conflict and risk-taking behaviour, particularly in emerging banking systems characterised by concentrated ownership structures such as Indonesia. This unresolved issue provides the principal motivation for the present study.

Nevertheless, the effectiveness of the Risk Committee should not be interpreted solely in terms of its formal existence. Effective monitoring depends on the committee's ability to exercise objective judgement, evaluate increasingly complex financial risks, and maintain continuous oversight of managerial decision-making. Consequently, the structural characteristics of the Risk Committee—including committee independence, financial expertise, and meeting frequency—represent important governance attributes that determine the quality of its monitoring function. Independent committee members are expected to reduce managerial influence over oversight activities, members possessing financial expertise are better equipped to evaluate sophisticated banking risks, while more frequent committee meetings facilitate continuous monitoring and timely responses to emerging risk exposures. Collectively, these characteristics enhance the committee's capacity to constrain managerial discretion arising from agency conflicts.

Based on the foregoing theoretical arguments and supporting empirical evidence, the following hypothesis is proposed:

H2: The Risk Committee weakens the influence of agency conflicts on risk-taking behavior in Indonesian banking.

3. Research Methods

Sample and Data

The sample of this study consists of commercial banks registered with the Financial Services Authority (OJK) during the 2017–2023 period. The sample was selected based on the availability of annual reports and complete data required to measure agency conflict, risk-taking behaviour, Risk Committee characteristics, and control variables. Banks with incomplete data or missing information related to the variables examined in this study were excluded from the final sample. The financial and governance data were obtained from publicly available annual reports published by each bank.

Method

This study employs panel data regression to estimate the relationship between agency conflict, Risk Committee characteristics, and risk-taking behaviour. To ensure the appropriateness of the estimation model, panel model specification tests were conducted sequentially. The Chow test was first employed to compare the pooled ordinary least squares model with the Fixed Effects Model (FEM), followed by the Hausman specification test to determine whether the Fixed Effects Model or the Random Effects

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Model (REM) was more appropriate. Where applicable, the Breusch–Pagan Lagrange Multiplier (LM) test was also performed to assess whether the Random Effects specification provided a better fit than the pooled model. The final regression model was selected based on the results of these specification tests.

Prior to estimating the regression models, the data were transformed using the Box–Cox transformation to improve the distributional properties of the variables and minimise potential violations of the classical regression assumptions. Subsequently, residual normality and heteroskedasticity were evaluated using the Shapiro–Wilk and Breusch–Pagan tests, respectively. The diagnostic results indicate that the transformed data satisfy the normality assumption and exhibit no statistically significant evidence of heteroskedasticity. Accordingly, the final panel regression model was estimated using the transformed dataset, thereby enhancing the reliability of the estimated coefficients and subsequent statistical inference. To examine the effect of agency conflict on risk-taking behavior and to assess the effectiveness of the Risk Committee as a moderating variable in this causal relationship. Hypothesis testing is conducted using multiple linear regression with the following model specifications:

$Risk_{it} = \beta_0 + \beta_1 AC_{it} + \beta_2 Size_{it} + \beta_3 LDR_{it} + \beta_4 LEV_{it} + \beta_5 Diver_{it} + \epsilon_{it}$……….(1)
$Risk_{it} = \beta_0 + \beta_1 AC_{it} + \beta_2 IND_{it} + \beta_3 AC_{it} \times IND_{it} + \beta_4 Size_{it} + \beta_5 LDR_{it} + \beta_6 LEV_{it} + \beta_7 Diver_{it} + \epsilon_{it}$………(2)
$Risk_{it} = \beta_0 + \beta_1 AC_{it} + \beta_2 EXP_{it} + \beta_3 AC_{it} \times EXP_{it} + \beta_4 Size_{it} + \beta_5 LDR_{it} + \beta_6 LEV_{it} + \beta_7 Diver_{it} + \epsilon_{it}$………(3)
$Risk_{it} = \beta_0 + \beta_1 AC_{it} + \beta_2 FREQ_{it} + \beta_3 AC_{it} \times FREQ_{it} + \beta_4 Size_{it} + \beta_5 LDR_{it} + \beta_6 LEV_{it} + \beta_7 Diver_{it} + \epsilon_{it}$….(4)

In this study, Risk-taking behaviour is measured using the Z-score. The Z-score captures the distance between a bank's current financial position and insolvency by integrating profitability, capital adequacy, and earnings volatility into a single composite measure. Unlike individual risk indicators that focus on specific dimensions of bank risk, such as credit risk or capital risk, the Z-score provides a comprehensive assessment of a bank's overall risk profile and financial resilience (Bouvatier et al., 2023). Consequently, it is particularly suitable for examining how corporate governance mechanisms influence managerial risk-taking decisions.

The selection of the Z-score is also consistent with the objectives of this study, which focuses on the governance mechanisms underlying managerial risk-taking rather than on a single category of banking risk. Because managerial decisions associated with agency conflict may simultaneously affect profitability, capital buffers, and earnings stability, the Z-score offers a more comprehensive measure of the cumulative consequences of managerial risk-taking. A higher Z-score reflects greater financial stability and lower insolvency risk, a lower Z-score indicates a higher level of bank risk-taking. Previous

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studies have similarly employed the Z-score to evaluate the influence of corporate governance characteristics on bank risk-taking and financial stability (Brogi & Lagasio, 2018; Bouvatier et al., 2023). Accordingly, the Z-score provides an appropriate proxy for assessing the relationship between agency conflict, Risk Committee characteristics, and risk-taking behaviour in Indonesian commercial banks. Because The Z-score formula applied in this study is as follows:

$$Z = \frac{\mathrm{ROAit} + \mathrm{Solvency}\ (\mathrm{Equity}/\mathrm{TotalAsset})\mathrm{it}}{\sigma \mathrm{ROAi}}$$

Agency conflict is proxied by ownership concentration, measured as the proportion of shares held by the largest shareholder relative to total outstanding shares. The selection of ownership concentration is grounded in Agency Theory, which posits that the allocation of ownership rights influences both managerial incentives and the effectiveness of corporate monitoring. In banking institutions characterised by concentrated ownership structures, controlling shareholders possess substantial influence over strategic decision-making and may shape managerial incentives in ways that are not always aligned with the interests of minority shareholders. Consequently, ownership concentration reflects not only the distribution of control rights but also the governance environment through which agency conflicts may arise and influence managerial behaviour.

The use of ownership concentration is particularly appropriate in the Indonesian banking sector, where ownership is predominantly concentrated among founding families, business groups, government institutions, and foreign strategic investors. Such ownership structures provide controlling shareholders with considerable influence over lending policies, investment decisions, and other strategic activities that directly affect banks' risk-taking behaviour. Previous studies consistently demonstrate that ownership concentration influences governance effectiveness, managerial discretion, and corporate risk-taking within banking institutions (Ehsan & Javid, 2018; Liu et al., 2020; Jabbouri et al., 2023). Accordingly, ownership concentration provides an appropriate institutional proxy for capturing agency conflict in the context of Indonesian commercial banks.

The moderating variable—Risk Committee characteristics—is measured using three proxies. The first is independence, defined as the ratio of independent members to total Risk Committee members. (Jiraporn et al., 2015; Ongsakul & Jiraporn, 2019; Yusuf et al., 2023) find that committees with higher independence significantly reduce managerial aggressiveness in risk-taking. The second proxy is expertise, measured as the proportion of committee members with financial or risk-related backgrounds. Jiang & Ji (2024) demonstrate that such expertise enhances the board's and committee's ability to mitigate risks through more accurate and data-driven decisions (C. Chen et al., 2022; Malik et al., 2021). The third proxy is meeting frequency, which captures the intensity and

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commitment of the committee's oversight function. (Jiang & Ji, 2024; Nguyen, 2021) show that committees meeting more frequently have stronger influence in constraining imprudent risk-taking decisions.

Several control variables are included to account for external factors that may influence the relationship between agency conflict, Risk Committee characteristics, and risk-taking behavior. The first is bank size (Size), as larger banks generally possess greater diversification and risk tolerance due to the perception of being “too big to fail” (Schnatterly et al., 2019). The second is the loan-to-deposit ratio (LDR), which reflects intermediation efficiency and lending aggressiveness; higher LDR values indicate stronger incentives for banks to assume greater risks to increase interest income (Altunbas et al., 2017). The third is leverage, measured as total liabilities to total assets, since highly leveraged banks often take riskier decisions to pursue higher returns and meet short-term obligations (Ayunku & Uzochukwu, 2020). The last control variable is income diversification, measured as non-interest income to total income, because banks relying on non-interest revenue tend to expand into riskier activities in pursuit of alternative profitability (Chen et al., 2017). Controlling these variables ensures that the analysis isolates the effects of agency conflict and Risk Committee characteristics from inherent financial tendencies influencing risk-taking behavior.

4. Results

Results

This study aims to examine the effect of agency conflict on risk-taking behavior in the Indonesian banking industry, while considering the moderating role of three characteristics of the Risk Committee—Independence, Expertise, and Meeting Frequency. From the 364 observations collected, data cleaning was performed by removing observations with zero values due to their potential to distort accuracy and validity. After this process, 59 observations were excluded, resulting in a final dataset of 305 valid observations for statistical analysis. The following table presents the descriptive statistics, providing an overview of the data used in this study:

Table. 1 Descriptive Statistics

Variable	Minimum	Mean	Maximum	Std. Deviasi
Zscore	0.040	1.364	52.038	6.346
Agency_Conflict	0.188	0.436	0.690	0.122
Independence	0.333	0.651	1.000	0.168
Expertise	0.250	0.692	1.000	0.185

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Number of Meeting	1.000	4.293	12.000	2.314
Size	27.754	30.736	33.759	1.142
Loan-to-Deposit Ratio (LDR)	0.372	0.841	1.298	0.170
Leverage	0.813	0.897	0.954	0.032
Income Diversification	-0.102	0.313	0.844	0.204

Source: Research data, processed (2025)

The descriptive statistics indicate substantial variation in the Z-score across the sampled banks, reflecting differences in financial stability throughout the observation period. As the Z-score measures the distance between a bank's financial position and potential insolvency, higher values indicate greater financial resilience and lower levels of risk-taking, whereas lower values reflect greater exposure to risk. The observed dispersion suggests that the sample comprises banks with heterogeneous risk profiles, thereby providing sufficient variability for examining how governance mechanisms influence differences in bank risk-taking behaviour. Such variation is particularly important because the effectiveness of governance mechanisms can only be meaningfully evaluated when banks exhibit diverse levels of financial stability and risk exposure.

The governance-related variables likewise exhibit considerable variation across the sampled banks, indicating meaningful differences in ownership structures and Risk Committee characteristics. The observed dispersion in ownership concentration, committee independence, financial expertise, and meeting frequency suggests that Indonesian commercial banks implement corporate governance mechanisms with varying degrees of intensity and composition. This heterogeneity is particularly relevant for the present study because it provides an empirical basis for evaluating whether differences in governance arrangements are associated with differences in bank risk-taking behaviour. In the absence of such variation, the explanatory power of governance variables in panel regression analysis would be substantially limited.

The control variables also demonstrate substantial variability, indicating that the sampled banks differ in terms of operational scale, funding structure, leverage, and income composition. Such differences reflect the diverse financial and business characteristics of Indonesian commercial banks and justify the inclusion of these variables in the empirical model. Controlling for these bank-specific characteristics reduces the potential influence of confounding factors and enables a more reliable estimation of the relationships between agency conflict, Risk Committee characteristics, and bank risk-taking behaviour.

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Overall, the descriptive statistics demonstrate that all variables exhibit adequate variation across the sample, indicating that the dataset is suitable for panel data analysis. The observed cross-sectional and temporal heterogeneity strengthens the empirical design by ensuring sufficient variability in both governance characteristics and bank-specific financial conditions. Consequently, the dataset provides a robust basis for evaluating the proposed relationships between agency conflict, Risk Committee characteristics, and bank risk-taking behaviour within Indonesian commercial banks.

Furthermore, to test the hypotheses, this study employs a panel regression model designed to examine the effect of agency conflict on banking financial stability, while considering the moderating role of Risk Committee characteristics and several relevant control variables related to bank structure and operations. The dependent variable used is the Z-score, which has been logarithmically transformed to meet the linearity assumption and to reduce the influence of extreme distributions. Agency conflict is represented by ownership concentration, while moderation is tested through three structural dimensions of the Risk Committee: independence, expertise, and meeting frequency. Control variables included in the model consist of bank size, loan-to-deposit ratio (LDR), leverage, and income diversification, all of which may influence a bank's risk-taking tendencies.

Table 2 reports the results of the panel regression analysis investigating the relationship between agency conflict and risk-taking behaviour, as well as the moderating effects of Risk Committee characteristics in Indonesian commercial banks. The empirical models include interaction terms to examine whether the structural characteristics of the Risk Committee influence the relationship between agency conflict and risk-taking behaviour.

Table 2. Test Results

Variable	Coefficient	Std. Error	t-Statistic	p-Value
Intercept	0.9998	0.3574	2.797	0.0060
agency_conflict	0.5422	0.2308	2.349	0.0204
Independence	-0.0193	0.1508	-0.128	0.8980
Expertise	-0.0714	0.1432	-0.499	0.6188
Number of Meetings	-0.0146	0.0131	1.111	0.2687
agency_conflict*independence	-0.5707	0.3489	1.636	0.1062
agency_conflict*expertise	-0.7732	0.3457	2.237	0.0273
agency_conflict*number of meeting	-0.0483	0.0255	1.894	0.0406
size	-0.0247	0.0117	-2.117	0.0365

Loan-to-Deposit Ratio (LDR)	0.1898	0.0950	1.997	0.0486
Leverage	0.6165	0.5028	1.226	0.2244
Income_Diversification	0.1278	0.0758	1.686	0.0966
Model Statistics				**Value**
Number of observations				305
Adjusted R^2				0.12
F-statistic				5.02
Prob				< 0.001

Source: Research data, processed (2025)

Discussion

The empirical findings are interpreted in accordance with the hypotheses proposed in this study to explain the governance mechanisms underlying bank risk-taking behaviour. The discussion first examines the direct effect of agency conflict on risk-taking behaviour and subsequently evaluates the moderating roles of Risk Committee independence, expertise, and meeting frequency. Table 3 presents the regression result for the direct relationship between agency conflict and risk-taking behaviour, which serves as the empirical foundation for the subsequent theoretical interpretation and comparison with previous studies.

Table 3. Agency Conflict Result

Variable	Coeffisient	Std. Error	t-Statistic	p-Value
agency_conflict	0.5422	0.2308	2.349	0.0204

The empirical evidence indicates that agency conflict constitutes an important determinant of bank risk-taking behaviour. Consistent with Agency Theory, ownership concentration may alter managerial incentives by increasing the influence of controlling shareholders over strategic decision-making. Under such conditions, managers may be encouraged to pursue more aggressive lending, investment, or financing strategies that enhance short-term performance while increasing the bank's overall risk exposure. This finding suggests that agency conflict in banking institutions does not merely reflect misalignment between owners and managers, but also represents a broader governance problem in which dominant shareholders may shape managerial risk preferences.

This result is consistent with previous studies demonstrating that ownership concentration influences managerial discretion and corporate risk-taking through its effect on governance effectiveness (Ehsan & Javid, 2018; Liu et al., 2020; Jabbouri et al., 2023). However, the present study extends the existing literature by showing that this relationship remains evident in Indonesian commercial banks, where concentrated ownership structures and a two-tier governance system create distinctive governance dynamics. These findings imply that strengthening bank governance requires not only attention to ownership structures but also the development of internal oversight mechanisms capable of constraining managerial opportunism and promoting prudent risk management.

To provide a clearer overview of the moderation analysis, Table 4 summarizes the interaction effects between agency conflict and each Risk Committee characteristic. The table reports the interaction coefficients and their corresponding significance levels, thereby facilitating a comparative evaluation of the moderating roles of Risk Committee independence, expertise, and meeting frequency. This summary provides the basis for interpreting the relative effectiveness of each governance attribute in mitigating the influence of agency conflict on risk-taking behaviour.

Table 4. Moderating Result

Moderating Variable	Interaction Coefficient	p-Value	Significance ($\alpha < 0{,}05$)
Independence	–0.5707	0.1062	Insignificant
Expertise	–0.7732	0.0273	Significant
Number of Meetings	–0.0483	0.0406	Significant

Source: Research data, processed (2025)

Independence

Contrary to the theoretical expectation derived from Agency Theory, Risk Committee independence does not significantly moderate the relationship between agency conflict and risk-taking behaviour. Agency Theory suggests that independent oversight reduces information asymmetry and constrains managerial opportunism by enhancing the objectivity of governance processes. However, the present findings indicate that the formal appointment of independent committee members is not, by itself, sufficient to influence managerial risk preferences. This evidence suggests that structural independence alone does not necessarily translate into substantive oversight when independent members possess limited authority, restricted access to strategic information, or insufficient influence over major business decisions.

These findings reinforce the argument that governance effectiveness depends not only on the formal composition of oversight bodies but also on their capacity to exercise meaningful influence over managerial decision-making. Desender (2010) and Pryshchepa (2021) similarly report that independent directors or committee members do not necessarily reduce excessive corporate risk when their oversight role is constrained by

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organisational arrangements or institutional characteristics. Conversely, Nguyen et al. (2021), Pathan and Faff (2013), and Sarpong and Maclean (2020) demonstrate that stronger board independence enhances accountability and limits excessive risk-taking through more effective oversight. Rather than representing contradictory evidence, these differences suggest that the governance value of committee independence is contingent upon the degree of authority, access to information, and influence exercised by independent members.

The insignificant moderating effect observed in Indonesian commercial banks may reflect the governance characteristics of a banking system dominated by concentrated ownership and a two-tier board structure. Although banking regulations require the inclusion of independent members on the Risk Committee, strategic decisions relating to lending, investment, and risk management remain substantially influenced by controlling shareholders and executive management. Under these circumstances, independent members may have limited capacity to challenge strategic decisions or to alter managerial incentives. Accordingly, the findings suggest that the effectiveness of committee independence should be evaluated in terms of its substantive authority and practical influence rather than its formal structural composition. This finding extends the corporate governance literature by demonstrating that the effectiveness of independent oversight is determined less by its formal existence than by its ability to exercise substantive influence over managerial decision-making. Consequently, strengthening governance quality in banking institutions requires greater attention to the operational capacity of oversight mechanisms rather than relying solely on compliance with structural governance requirements.

Expertise

The empirical evidence demonstrates that Risk Committee expertise significantly weakens the positive relationship between agency conflict and risk-taking behaviour, indicating that professional competence strengthens the committee's ability to constrain managerial discretion arising from agency conflicts. Consistent with Agency Theory, governance mechanisms are expected to reduce information asymmetry by improving the quality of managerial oversight. Within banking institutions, committee members possessing expertise in finance, accounting, or risk management are better equipped to evaluate complex financial information, identify emerging sources of risk, and critically assess managerial judgements. Consequently, specialised expertise enhances the committee's ability to promote prudent decision-making and to prevent agency conflicts from translating into excessive risk-taking.

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These findings reinforce the proposition that governance quality depends not only on the formal composition of oversight bodies but also on the competencies possessed by their members. Financial expertise provides committee members with the analytical capability required to interpret increasingly complex banking transactions, assess the adequacy of risk management practices, and identify weaknesses in managerial decision-making before they develop into material risk exposures. Previous studies similarly report that financially knowledgeable Risk Committees strengthen internal governance, improve risk oversight, and discourage excessive corporate risk-taking (Almulhim et al., 2024; Jiang & Ji, 2024; Yusuf et al., 2023). Collectively, this body of evidence suggests that professional competence constitutes a fundamental determinant of effective risk governance.

Among the three Risk Committee characteristics examined in this study, financial expertise exhibits the strongest moderating effect on the relationship between agency conflict and risk-taking behaviour. This finding suggests that technical competence contributes more substantially to effective governance than formal structural attributes, such as committee independence, or procedural attributes, such as meeting frequency. While independence establishes the institutional foundation for objective oversight and regular meetings facilitate continuous monitoring, neither mechanism is likely to achieve its intended purpose without the analytical capability required to evaluate complex banking risks. Accordingly, professional expertise represents the principal governance mechanism through which the Risk Committee constrains agency-driven risk-taking.

Number of Risk Committee Meetings

Collectively, the empirical evidence demonstrates that the effectiveness of the Risk Committee in mitigating agency-driven risk-taking is contingent upon the interaction between its structural and functional governance attributes rather than any single characteristic operating independently. Although committee independence provides the institutional foundation for objective oversight, the findings indicate that structural independence alone does not necessarily translate into effective governance outcomes. This observation suggests that formal independence may have limited practical value when independent members lack sufficient authority, professional competence, or organisational influence to challenge managerial decisions. Such evidence is consistent with the arguments advanced by Desender (2010) and Pryshchepa (2021), who contend that formal independence does not automatically ensure effective oversight, particularly in governance systems characterised by concentrated ownership and dominant managerial influence. Conversely, the findings complement those of Nguyen et al. (2021), Pathan and Faff (2013), and Sarpong and Maclean (2020), which emphasise that the effectiveness of independent oversight ultimately depends upon the committee's ability to exercise substantive governance rather than merely satisfying structural governance requirements.

Among the governance attributes examined, financial expertise emerges as the most influential mechanism for constraining the adverse effects of agency conflict on bank risk-taking behaviour. This finding suggests that professional competence enhances the Risk Committee's capacity to evaluate complex financial information, identify emerging risk exposures, critically assess managerial judgements, and provide informed recommendations that promote prudent decision-making. Viewed through the lens of Agency Theory, specialised expertise reduces information asymmetry by improving the quality of monitoring and strengthening managerial accountability, thereby limiting managerial discretion arising from conflicting principal–agent interests. This interpretation is consistent with prior empirical evidence demonstrating that financially knowledgeable Risk Committees strengthen governance quality, enhance internal risk oversight, and discourage excessive corporate risk-taking (Almulhim et al., 2024; Jiang & Ji, 2024; Yusuf et al., 2023). More importantly, the present findings extend this literature by demonstrating that, within Indonesian commercial banks operating under concentrated ownership structures, technical competence represents a more effective governance mechanism than formal structural characteristics in mitigating agency-driven risk-taking.

The significant moderating effect of meeting frequency further indicates that continuous oversight constitutes an important complementary mechanism through which Risk Committees enhance governance effectiveness. Although the magnitude of this moderating effect is less pronounced than that of financial expertise, regular committee meetings facilitate more timely communication, systematic evaluation of emerging risks, and continuous monitoring of managerial decisions. Consistent with Agency Theory, increased monitoring intensity reduces information asymmetry by improving the exchange of risk-related information between the Risk Committee and executive management, thereby reinforcing managerial accountability. This interpretation accords with previous studies reporting that active committee engagement strengthens governance quality and improves organisational risk oversight (Al-Hadi et al., 2016; Jia et al., 2019; Tao & Hutchinson, 2013; Li et al., 2020; González et al., 2020). Nevertheless, the comparatively smaller moderating effect observed in this study indicates that monitoring intensity alone is insufficient to ensure effective governance. Rather, frequent meetings appear to reinforce the effectiveness of technically competent committee members by providing an institutional setting in which specialised expertise can be applied more effectively in evaluating managerial risk-taking decisions.

Taken together, these findings extend the application of Agency Theory within the banking governance literature by demonstrating that the effectiveness of internal governance mechanisms depends not only on their formal structural design but, more fundamentally, on their substantive capacity to exercise informed and continuous oversight over managerial decision-making. The findings suggest that functional governance attributes—particularly financial expertise and sustained monitoring through regular committee meetings—contribute more substantially to mitigating agency-driven risk-taking than structural independence alone. Consequently, this study advances the corporate governance literature by providing empirical evidence that the quality of governance should be evaluated not merely in terms of institutional compliance but also according to the professional capabilities through which governance mechanisms influence managerial behaviour. This contribution is particularly relevant within emerging banking markets characterised by concentrated ownership structures and two-tier governance systems, where formal governance arrangements may not always translate into effective oversight without sufficient technical competence and active supervisory engagement.

5. Conclusion and Suggestion

This study investigates the relationship between agency conflict and bank risk-taking behaviour and examines the moderating role of Risk Committee characteristics within Indonesian commercial banks. The empirical evidence demonstrates that agency conflict is positively associated with bank risk-taking behaviour, suggesting that ownership concentration may intensify managerial incentives to undertake decisions involving greater levels of risk. Among the governance attributes examined, financial expertise emerges as the most effective mechanism for mitigating the adverse consequences of agency conflict, while the frequency of Risk Committee meetings also contributes to reducing agency-driven risk-taking through continuous monitoring and oversight. In contrast, Risk Committee independence does not exhibit a statistically significant moderating effect, implying that formal structural independence alone is insufficient to constrain managerial risk-taking in the absence of substantive governance capabilities.

The findings contribute to the corporate governance literature by extending the application of Agency Theory within the banking sector. Rather than viewing governance effectiveness as a function of formal organisational structures alone, the results demonstrate that the capacity of governance mechanisms to influence managerial behaviour depends primarily upon their substantive capabilities. In particular, the evidence highlights the importance of professional competence and sustained oversight in reducing information asymmetry and strengthening managerial accountability. Consequently, the study provides empirical support for the proposition that functional governance attributes constitute more effective mechanisms for mitigating agency-driven risk-taking than structural governance characteristics alone, particularly within emerging banking markets characterised by concentrated ownership structures and two-tier governance systems.

The empirical evidence also offers several practical implications for banking governance. For regulators, particularly the Indonesian Financial Services Authority (OJK), the findings suggest that governance frameworks may be strengthened by complementing existing independence requirements with competency-based provisions that emphasise professional expertise in banking, accounting, finance, and risk management. For Boards of Commissioners, the results underscore the importance of appointing Risk Committee members on the basis of demonstrated technical competence while supporting continuous professional development to enhance the quality of strategic oversight. Furthermore, the findings suggest that the effectiveness of Risk Committee meetings depends not solely on their frequency but also on the quality of deliberations and the committee's ability to critically evaluate managerial decisions. Institutional investors may likewise benefit from incorporating Risk Committee expertise into governance assessments when evaluating banks' capacity to maintain prudent risk management and effective internal oversight.

Collectively, these findings demonstrate that effective governance within banking institutions requires greater emphasis on the substantive quality of oversight rather than exclusive reliance on formal governance structures. By demonstrating the complementary roles of professional expertise and continuous monitoring in mitigating agency-driven risk-taking, this study advances current understanding of Risk Committee effectiveness and provides empirical evidence that may inform the continuing development of corporate governance practices, regulatory frameworks, and risk management strategies within Indonesian commercial banks.

Several limitations should be acknowledged when interpreting the findings of this study. First, the empirical analysis is confined to Indonesian commercial banks, thereby limiting the generalisability of the findings to banking systems operating under different institutional, regulatory, and ownership environments. Second, agency conflict is represented solely by ownership concentration, whereas other dimensions of agency relationships may also influence managerial risk-taking behaviour. Third, the analysis focuses exclusively on three Risk Committee characteristics—independence, financial expertise, and meeting frequency—without considering other governance mechanisms that may interact with Risk Committee effectiveness, such as board leadership, executive compensation, organisational risk culture, or institutional ownership.

Future research may extend the present study by incorporating alternative measures of agency conflict and broader dimensions of corporate governance to provide a more comprehensive understanding of the determinants of bank risk-taking behaviour.

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Comparative investigations across jurisdictions characterised by different governance structures and regulatory environments would further enhance the external validity of the findings. In addition, future studies may examine how emerging governance challenges—including digital transformation, environmental, social, and governance (ESG) practices, artificial intelligence, and evolving regulatory requirements—influence the effectiveness of Risk Committees in promoting prudent risk management within increasingly complex banking environments.

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