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Islamic Corporate Governance and Financial Performance in Companies Listed in JII

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Abstract

Corporate governance is very important for companies to have in order to improve financial performance. Where good corporate governance is good governance in running a company. This study aims to test whether Value Added Intellectual Coefficient (VAICTM) and good corporate governance with indicators of the size of the board of commissioners, independence of the board of commissioners, managerial ownership, affect financial performance using indicators ROA, ROE, EPS. The results showed that VAICTM had a positive and significant effect on ROA, ROE, and EPS. The size of the board of commissioners, managerial ownership has a positive and significant effect on ROA and ROE, while the independence of the board of commissioners has no effect on ROA and ROE. Managerial ownership has a positive and significant effect on EPS, while the size of the board of commissioners and the independence of the board of commissioners have no effect on EPS. Simultaneously or together with VAICTM, the size of the board of commissioners, the independence of the board of commissioners and managerial ownership shows the value of sig. of 0.000 (0.000 <0.05) from each model, this shows that H0 is rejected, meaning that at least one independent variable has an effect on the dependent variable. In other words, VAICTM, the size of the board of commissioners, the independence of the board of commissioners and managerial ownership have a simultaneous effect on ROA, ROE and EPS.

Keywords: *Corporate, Governance, Financial, Performance, JII*

INTRODUCTION

Good corporate governance (GCG) was implemented in Indonesia in 1997 due to the monetary crisis. The implementation of GCG is expected to be able to recover Indonesia from the impact of the crisis. The government has signed a Memorandum of Understanding (Letter of Intense) with the International Monetary Fund (IMF) as the government's efforts to implement Good Corporate Governance as well as economic restructuring and improvements in corporate governance. The National Committee on Corporate Governance Policy (KNKCG) or now better known as the National Committee on Governance Policy (KNKG) is a committee formed by the Coordinating Minister for the Economy in an effort to raise awareness of the importance of implementing GCG principles in 1999.

The purpose of implementing GCG is to create added value. for all interested parties on an ongoing basis in the long term through improving management performance in order to increase company value and encourage the creation of an efficient, transparent and consistent market in accordance with the laws and regulations. The purpose of implementing GCG is in line with the purpose of the establishment of the company to increase the value of the company through increasing the prosperity of the owners or shareholders. Good corporate governance is considered to be able to reduce the problems caused by agency conflicts. The implementation of GCG requires a systematic mechanism to monitor the policies taken. The corporate governance mechanism has a controlling ability that can align the differences in interests between principals and agents.

The Company's internal scope is the closest to the company and can be the initial stage of the start of corporate social responsibility. The company can carry out business activities in accordance with the principles

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of business ethics and the demands of the stakeholders. The concept of managing a company with procedures, systems and mechanisms that support the creation of good business practices is known as Good Corporate Governance (GCG). GCG also includes a form of protection for the interests of shareholders (Jallo, Mus, Mursalim, & Suryanti, 2017). Organizational growth and success are also determined by social responsibility and business ethics, because by being socially responsible the corporation will benefit, namely by improving the company's reputation, increasing customer loyalty and getting a stronger community (Adda, Azigwe, & Awuni, 2016). An indicator of organizational success can be seen from the increase in Profitability and Company Value which is an Investor's perception of the success of a company.

Assessment of company performance using financial measures is more often used because there is a potential standard for comparison, both in the form of past financial statements and with other similar companies' financial statements. The company's financial performance can be measured by profitability ratios (Puspitasari & Ernawati, 2010). Basically, the enforcement of good corporate governance is used to minimize conflicts between shareholders and company management (known as "agency theory"). In addition, good corporate governance is also used to create a business world that competes in a healthy manner and provides optimal contributions to stakeholders. Corporate governance also helps to create a conducive environment for efficient and sustainable growth in the corporate sector.

The Islamic capital market is part of the Indonesian capital market industry. In general, Islamic capital market activities are in line with the capital market in general. However, there are some special characteristics of the Islamic capital market, namely the product and transaction mechanism must not conflict with sharia principles in the capital market. The Islamic capital market is a capital market activity that does not conflict with sharia principles in the capital market. The role of the Islamic capital market is as a source of income for companies to develop their business through the issuance of sharia securities and as a means of investing in sharia securities for investors. Sharia Securities List (DES) is a collection of securities that do not conflict with sharia principles in the capital market as stipulated by Bapepam-LK. Sharia shares are securities in the form of shares that do not conflict with sharia principles in the capital market. All sharia shares contained in the Indonesian Islamic capital market, whether listed on the IDX or not, are included in the DES issued by the Financial Services Authority (OJK) periodically every May and November. Jakarta Islamic Index (JII) is a sharia stock index which was first launched on the Indonesian capital market on July 3, 2000. JII is a type of stock price index listed on the Indonesian stock exchange. JII uses 30 shares selected from shares that are included in the Sharia or DES criteria issued by Bapepam-LK taking into account market capitalization and liquidity. There was a decrease in the value of return on equity in 2016 when compared to the previous year. In 2017 several companies in the Jakarta Islamic Index were included in the category of good corporate governance.

Several studies have discussed about corporate governance. Reistiawati & Meina (2020), stated in their research results that ROE as a proxy for Company Financial Performance is not influenced by ISR as a proxy for ICSR, 2). PBV as a proxy for firm value is not affected by ISR as a proxy for ICSR, 3). ROE as a proxy The company's financial performance is significantly influenced by GCG, 4). PBV as a proxy for Company Value is significantly influenced by GCG, 5). PBV as a proxy for firm value is significantly affected by ROE as a proxy for corporate financial performance, 6). ROE as a proxy for the Company's Financial Performance did not succeed in mediating the influence of ISR as a proxy for ICSR, on PBV as a proxy for corporate value, 7). The indirect influence relationship between GCG as measured by the GCG index on PBV as a proxy for firm value was successfully mediated by ROE as a proxy for financial performance.

I Wakartika & Fs Akbar (2018) showed in their research that the size of the board of commissioners, board of directors, and audit committee has no effect on return on equity while the independent board variable affects return on equity. The same thing was conveyed by Lightning. LN, & Nila. FN (2014) which states that institutional ownership, the size of the board of directors, and the proportion of independent commissioners have a significant effect on firm value proxied by *closing price*; the audit committee has no significant effect on the value of the company with the *closing price*; Institutional ownership and the size of the board of directors have no significant effect on firm value, which is indicated by Tobin's Q. The proportion of independent commissioners and audit committees has a significant effect on firm value as proxied by Tobin's Q.

On the other hand, Satrio. AJ, & Muhammad. M, (2020) said that showing independent commissioners (KomIn) had a significant negative effect on firm value (Tobin's Q), managerial ownership (KepMan) had an

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insignificant negative effect on Tobin's Q, and institutional ownership (KepIn) had a significant positive effect on Tobin's Q Performance finance (ROA) positively moderated (strengthens) the significant effect of independent commissioners on Tobin's Q, negatively moderated (attenuated) the significant effect of managerial ownership on Tobin's Q, and also negatively moderated (weakened) the significant effect of institutional ownership on Tobin's

Q. previous relevant issues and research, the authors are interested in discussing Islamic Corporate Governance and Financial Performance in Companies Listed in the Jakarta Islamic Index (JII) in 2017-2021. Whether with different samples and research periods will get different conclusions or vice versa.

METHODOLOGY

The method used in this research is descriptive research method, while the approach used is a quantitative approach. Quantitative research methods are called positivistic methods because they are based on the philosophy of positivism. This method is a scientific method, objective, measurable, rational, and systematic (Sugiyono, 2015).

RESEARCH RESULTS AND DISCUSSION

Literature Review of Islamic Corporate Governance

Corporate governance as a system that directs and controls the company. The Indonesian Institute for Corporate Governance (IICG) defines GCG as a process and structure applied in running a company, with the main objective of increasing shareholder value in the long term while taking into account the interests of other bettors. In addition to fulfilling the interests of shareholders, GCG is intended to ensure sustainability (Hamdai, 2016).

The World Bank (World Bank), defines Corporate Governance as a collection of laws, regulations and rules that must be met that can encourage the performance of company resources to work efficiently, generating sustainable long-term economic value for shareholders and the surrounding community as a whole. . The GCG Workshop of the Minister of State-Owned Enterprises Office in December 1999, formulated that good corporate governance is related to effective decision-making, originating from corporate culture, ethics, values, systems, business processes, policies and organizational structures that aim to encourage and support (Muhammad, 2014):

a.Company development
b. More efficient and effective management of resources and risks; and
c.Corporate accountability to shareholders and other stakeholders

According to the OECD (Organization For Economic Co-operation and Development), Good Corporate Governance is a set of relationships between company management, boards, shareholders, and other stakeholders (Melia, 2015). Thus, Corporate Governance can be interpreted as a system that exists within a company that functions to regulate, manage and supervise the company's control process to increase the value of shares, as well as a form of accountability and company attention to interested parties and to the surrounding community as a whole.

Many studies have focused on the effect of the implementation of ICG on the financial performance of Islamic banks, but there are still differences from the results of these studies. Farag et al., (2017); Yadiati et al., (2017) found that the implementation of ICG has a positive effect on the financial performance of Islamic banks. Meanwhile, research conducted by Ferdiyant et al (2014) found that the implementation of ICG has a negative effect on the financial performance of Islamic banks. In contrast to research which states that ICG affects the financial performance of Islamic banks, research by Ajili and Bouri (2018); Siswanti (2016); Novitasary and Permatasari (2014); Hassan Al-Tamimi (2012) actually found that ICG had no significant effect on the financial performance of Islamic banks. Until now there is no clear unified understanding of Islamic Corporate Governance; The ICG model is proposed by reconciling the objectives of Sharia law with the stakeholder model of corporate governance. This model is feasible because of the emphasis that Sharia law places on Islamic finance property and contractual rights (Bhatti and Bhatti, 2010). Choudury and Hoque in Hasan (2009) state that the concept of ICG is not much different from the conventional definition of GCG

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because it both refers to a system in which the company is directed and controlled with the aim of meeting the company's objectives by protecting all interests and rights of stakeholders. What distinguishes it is that in the Islamic paradigm CG refers to a special case of a broader decision-making theory that uses the premise of an Islamic socio-scientific epistemology based on God Almighty.

El Junusi (2012) argues that the difference between the implementation of Good Corporate Governance (GCG) in Islamic and conventional banking lies in shariah compliance (compliance with Islamic law). While the principles of transparency, honesty, prudence, and discipline are universal principles that are also contained in conventional GCG rules. So it can be concluded that Islamic Corporate Governance is an interconnected system that includes processes and structures used in a company to direct, manage , and controlling the business transparently by referring to Islamic principles which are not only to increase accountability and added value for shareholders and company stakeholders but also accountability to God Almighty.

Agency Theory (Agency)

Contracts between shareholders and management underlie the emergence of agency theory. According to agency theory (Jensen & Meckling, 1976), the relationship between the Capital Owner (Principal) and Manager (Agent) is defined as a contract in which the Principal authorizes the Agent to maximize the benefits of the Assets and make decisions that favor the interests of the Shareholders. This form of relationship can lead to a conflict of interest between the Principal and the Agent. Managers will usually take advantage of the information asymmetry that occurs due to this separation of powers, for their own benefit (Samsi, Mustafa, & Pontoh, 2014). Agency theory requires monitoring mechanisms, because it is difficult to believe that management (agents) will always act in the interests of shareholders (principals) (Weston & Copeland, 1995). This conflict can be reduced by a supervisory mechanism that can protect these interests through the implementation of GCG.

Overview of Research Objects

In order to develop the sharia capital market, PT. Indonesia Stock Exchange (IDX) together with PT. Danareksa Investment Management has launched a stock index based on Islamic law, namely the Jakarta Islamic Index (JII) on July 3, 2000. This index is intended to be used as a benchmark (benehmark) to measure investment performance in stocks on a sharia basis. This index consists of 30 stocks that are in accordance with Islamic Shari'ah and is a benchmark for the performance of a Shari'ah-based stock investment. Through this index, it is hoped that it will increase investor confidence in taking sharia-compliant investments.

In Indonesia, the principles of equity participation in sharia are not realized in the form of sharia or non-sharia, but in the form of the formation of a stock index that meets sharia principles. In this case, the Indonesia Stock Exchange (IDX) contains the Jakarta Islamic Index (JII) which is 30 stocks with known shari'ah criteria set by the National Syari'ah Council (DSN). JII index prepared by PT. Indonesia Stock Exchange together with PT. Danareksa Investment Management (DIM).

The shares included in the sharia index are issuers whose business activities do not conflict with sharia, such as gambling and gaming businesses that are classified as gambling or classified as prohibited trades. Conventional financial institution businesses (ribawi) include conventional banking and insurance, businesses that produce, distribute and trade food and beverages that are classified as haram, businesses that produce, distribute or provide goods or services that damage morals and are harmful.

The stages or selection of the Jakarta Islamic Index (JII) for stocks included in the sharia index, include:

1. Selecting a collection of shares with the main type of business that does not conflict with sharia principles and has been recorded for more than 3 months (except in the top 10). in terms of capitalization)
2. Choose stocks based on the last year's annual financial statements or personnel that have a ratio of liabilities to assets of a maximum of 90%.
3. Choose 60 stocks from the stock list above based on the order of the largest average market capitalization over the past year.
4. Choose 30 stocks in order based on the average liquidity level of regular trading values for the last one year.

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The re-assessment will be carried out every 6 months with the determination of the index component in early January and July each year. Meanwhile, changes in the type of business or issuer will be monitored continuously based on public and media data.

During the research period from December 2011 to December 2016, there were 16 Islamic stocks that were consistently listed as the Jakarta Islamic Index (JII) index, while the 16 stocks were: AALI (Astra Argo Lestari Tbk.), ADRO (Adaro Energi Tbk.)), AKRA (AKR Corporindo Tbk), ASII (Astra International Tbk), ASRI (Alam Sutera Reality Tbk.), ICBP (Indofood CBP Sukses Makmur Tbk.), INDF (Indofood Sukses Makmur Tbk.), INTP (Indocement Tunggal Prakarsa Tbk. .), KLBF (Kalbe Farma Tbk.), LPKR (Lippo Karawaci Tbk.), LSIP (PP London Sumatra Indonesia Tbk.), PGAS (Perusahaan Gas Negara (Persero) Tbk.), SMGR (Semen Indonesia (Persero) Tbk.), TKLM (Telekomunikasi Indonesia Tbk.), UNTR (United Traktor Tbk.), UNVR (Unilever Indonesia Tbk.). The 16 stocks consist of various industrial sectors. Among the 16 companies, researchers took three companies that will be the object of research, namely companies that produce raw materials, including Astra Argo Lestari Tbk., Adaro Energy Tbk. and PP London Sumatra Indonesia Tbk.

Good Corporate Governance Calculation Results

Below are the results of the calculation of *good corporate governance* (board of commissioners size, independence of the board of commissioners, managerial ownership) Astra Argo Lestari Tbk. Company, Adaro Energy Tbk. Company, PP London Sumatra Indonesia Tbk. Company. 2017-2021 period.

Table 1. Development of *Corporate Governance* of Astra Argo Lestari Tbk. (AALI) Year of

		Good Corporate Governance	
Year	**Size of the board of commissioners**	**Independence of the board of commissioners (%)**	**Managerial ownership (%)**
2017	7	42.85	79.68
2018	7	42.85	79.68
2019	7	33.33	79.68
2021	5	40, 00	79.68
2021	5	40.00	79.68
Average	6.2	39.81	79.68

Source: company's annual report (processed data)

Table 2. Development of *Corporate Governance* of Adaro Energy Tbk. (ADRO)

		Good Corporate Governance	
Year	**Size of the board of commissioners**	**Independence of the board of commissioners (%)**	**Managerial ownership (%)**
2017	6	33.33	59.88
201	5	40.00	59.06
2019	5	40.00	59.03
2020	5	40.00	57.01
2021	5	40.00	57.24
Average	5.2	32.07	58.44

Source: company annual report (processed data)

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Table 3. Development of *Corporate Governance* of PP London Sumatra Indonesia Tbk. (LSIP)

Year	Size of the board of commissioners	*Good Corporate Governance* Independence of the board of commissioners (%)	Managerial ownership (%)
2017	9	44.44	59.48
2018	8	37.50	59.49
2019	8	37.50	59.51
2020	6	33.33	59.51
2021	6	33.33	59.51
Average	7.4	37.22	59.50

Source: company annual report (processed data)

Based on the table above, it can be seen the development of corporate governance of Astra Argo Lestarai Tbk., Adaro Energy Tbk., PP London Sumatra Indonesia Tbk. period 2012-2016. It is clear from the table that the company that has the highest average size of the board of commissioners is owned by PP London Sumatra Indonesia Tbk. of 7.4, then the company Astra Argo Lestari Tbk. of 6.2, followed by Adaro Energy Tbk. of 5.2. The highest average of the independence of the board of commissioners is owned by the company Astra Argo Lestari Tbk. amounted to 39.81, the company PP London Sumatra Indonesia Tbk. amounted to 37.22, and the lowest average was owned by Adaro Energy at 32.07. Then seen the highest average of managerial ownership owned by the company Astra Argo Lestari Tbk. of 79.68, followed by PP London Sumatra Indonesia with 59.5, followed by Adaro Energy with 58.44.

Companies with good corporate governance will produce good results as well. Along with Agency theory which states that it is important for company owners to hand over the management of the company to professional staff, commonly called agents, who are more understanding in running their daily business. With the aim that the owner of the company obtains the maximum possible profit at the most efficient cost possible by managing the company by professional personnel.

The results of the calculation of financial performance: Return on Assets (ROA), Return on Equity (ROE), Earning Per Share (EPS)

The following are the results of the calculation of financial performance proxied on Return on Assets (ROA), Return on Equity (ROE), Earning Per Share (EPS) Company Astra Argo Lestari Tbk., Company Adaro Energy Tbk., Company PP London Sumatra Indonesia Tbk. 2012-2016 period.

a. Calculation of Return on Assets (ROA)

Table 4. Progress of ROA for the period 2012-2016

Year of	*Return on Assets (ROA)* (%)		
	AALI	**ADRO**	**LSIP**
2017	20.29	6.20	15.60
2018	12.72	3.40	9.90
2019	14.12	2.90	11.00
2020	3.23	2.50	7.10
2021	8.73	5.20	6.50
Average	11.82	4.04	10.02

Source: company's annual report (processed data)

From the table above, it can be seen the development of ROA value company Astra Argo Lestari Tbk., company Adaro Energy Tbk., company PP London Sumatra Indonesia Tbk. period 2012-2016. ROA is a ratio used by the company to measure the company's ability to earn profits from the management of assets owned by the company. From the table, it can be seen that the highest average ROA value is owned by Astra Argo Lestari Tbk. amounted to 11.82, the company PP London Sumatra Indonesia Tbk. of 10.02 and then the lowest average

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value is owned by the company Adaro Energy Tbk. of 4.04. The company will have a high ROA value along with effective asset management.

b. Calculation of Return on Equity (ROE)

Table 5. ROE Development Period 2012-2016

Year	***Return on Equity* (ROE) (%)**		
	AALI	**ADRO**	**LSIP**
2017	26.91	14.10	18.40
2018	18.53	7.40	11.90
2019	22.14	5.60	13.30
2020	5.95	4.50	8.70
2021	12.02	9.00	7.90
Average	17.11	8.12	12.04

Source: company's annual report (processed data)

Based on the table above, it can be seen the growth of ROE value company Astra Agro Lestari Tbk., company Adaro Energy Tbk., and company PP London Sumatra Indonesia Tbk. period 2012-2016. ROE is a ratio that is widely used by companies to measure the company's ability to generate profits from the use of its equity. The table above shows the highest average value of ROE owned by Astra Argo Lestari Tbk. of 17.11. Then PP London Sumatra Indonesia Tbk. has an average ROE of 12.04. Then the lowest average value of the three companies above is owned by the company Adaro Energy Tbk. amounted to 8.12. The growth of the ROE value is influenced by how the company's equity management is managed, if the equity management is good then the ROE value will be high and vice versa, if the equity management is not good then the ROE value will be low.

c. Calculation of Earnings Per Share (EPS)

Table 6. EPS Development Period 2012-2016

Year	***Earning Per Share* (EPS) (Rp)**		
	AALI	**ADRO**	**LSIP**
2017	1,530.57	12.05	164
2018	1,143.93	7.22	113
2019	1,589.91	5.57	134
2020	393.15	4.77	91
2021	1,135.85	10.46	87
Average	1.158.62	8.01	117.8

Source: company's annual report (processed data)

The table above shows the development of EPS value at Astra Argo Lestari Tbk., Adaro Energy Tbk., and PP London Sumatra Indonesia Tbk. EPS is a ratio that shows the company's ability to earn profits from the outstanding shares. from the table it is clear that the highest average value of EPS is owned by Astra Argo Lestari Tbk. of 1,158.62, then PP London Sumatra Indonesia Tbk. of 117.8, and the lowest average value of EPS is owned by Adaro Energi Tbk. of 8.01. With a high EPS value, it will be very easy to attract investors to invest their funds in the company. Because investors will assume that if the funds are invested in the company, it will provide a sense of comfort and not worry about experiencing losses, but on the contrary, investors will get a large profit from the investment.

Statistic Test Results And Research Analysis

Financial performance in this study is proxied on three indicators, namely ROA, ROE, and EPS. So there are three modeling analyzes. This financial performance modeling analysis includes VAICTM from indicators of *intellectual capital* and board of commissioners size, independence of the board of commissioners,

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managerial ownership as indicators of *good corporate governance*. The results and data analysis of the tests that have been carried out.

The Influence of Corporate Governance on Financial Performance: ROA

Financial performance described by ROA obtains results which state that simultaneously the variable VAICTM, the size of the board of commissioners, the independence of the board of commissioners and managerial ownership have a significant effect on ROA. this can be seen from the acquisition of the value of sig. of 0.000 (0.000 <0.05) with an R square value of 0.957. This means that 95.7% of the ROA value can be explained by independent variables and the remaining 4.3% is explained by other variables. While partially VAICTM variables, size of the board of commissioners, and managerial ownership have a positive and significant effect on ROA. Meanwhile, the independence of the board of commissioners has no significant effect on ROA. The most dominant independent variable with a positive and significant effect is the size of the board of commissioners. This means, with the company increasing the size of the board of commissioners, it will greatly assist the company in increasing the ROA value.

Effect of Corporate Governance on Financial Performance: ROE

Financial performance as described by ROE obtains results which state that simultaneously the VAICTM variables, the size of the board of commissioners, the independence of the board of commissioners and managerial ownership have a significant effect on ROE. this can be seen from the acquisition of the value of sig. of 0.000 (0.000 <0.05) with an R square value of 0.940. this means that 94% of the ROE value can be explained

By independent variables and the remaining 6% is explained by other variables. While partially VAICTM variables, size of the board of commissioners, managerial ownership have a positive and significant effect on ROE. Meanwhile, the independence of the board of commissioners has no significant effect on ROE. The most positive and significant variable is VAICTM. This means that if the company wants optimal profits from the management of its capital, the company must be more optimal in improving the quality of its intellectual resources.

The Effect of Corporate Governance on Financial Performance: EPS

Financial performance as described by EPS obtains results which state that simultaneously the VAICTM variables, the size of the board of commissioners, the independence of the board of commissioners and managerial ownership have a significant effect on EPS. this can be seen from the acquisition of the value of sig. of 0.000 (0.000 <0.05) with an R square value of 0.942. this means that 94.2% of the EPS value can be explained

by independent variables and the remaining 5.8% is explained by other variables. partially VAICTM variable, and managerial ownership have a positive and significant effect on EPS. Meanwhile, the size of the board of commissioners and the independence of the board of commissioners have no effect on EPS. The most positive and significant variable is VAICTM. This means that the company is more optimal in improving the quality of its intellectual resources, it will be able to increase the company's income from the outstanding shares.

CONCLUSION

Based on the results of the research that has been done, it can be concluded that: VAICTM has a positive and significant effect on ROA, ROE, and EPS. The size of the board of commissioners, managerial ownership has a positive and significant effect on ROA and ROE, while the independence of the board of commissioners has no effect on ROA and ROE. Managerial ownership has a positive and significant effect on EPS, while the size of the board of commissioners and the independence of the board of commissioners have no effect on EPS.

Simultaneously or together with VAICTM, the size of the board of commissioners, the independence of the board of commissioners and managerial ownership shows the value of sig. of 0.000 (0.000 <0.05) from each model, this shows that H0 is rejected, meaning that at least one independent variable has an effect on the

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dependent variable. In other words, VAICTM, the size of the board of commissioners, the independence of the board of commissioners and managerial ownership have a simultaneous effect on ROA, ROE and EPS.

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