VOLUME 5, NO. 1, JUNE 2022
REVIEW OF ISLAMIC ECONOMICS AND FINANCE
Journal homepage: https://ejournal.upi.edu/index.php/rief/index

Corporate Governance Mechanism: Its Role Against the Criteria for Sharia Stocks and Share Prices

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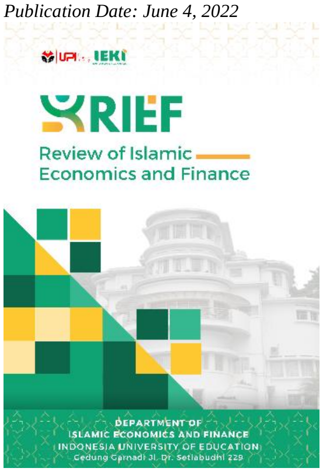
Article Info

Paper Type:
Research Paper

Submitted/Received: December 10, 2022
Revised: January 10, 2022
Accepted: March 31, 2022
First Available online: April 2, 2022
Publication Date: June 4, 2022



Cite this document:

Syarief, M. E., Hermawan, D., & Pratiwi, L (2022). Corporate Governance Mechanism: Its Role Against the Criteria for Sharia Stocks and Share Prices. *Review Economics and Finance, 5(1)*, pp. 39-54.

Abstract

Purpose *- This study examines the effect of corporate governance mechanisms represented by the number of board of commissioners and board of directors on the fulfillment of sharia stock criteria and stock prices.*

Methodology *- The data collected from 195 Islamic issuers listed on the Indonesian Sharia Stock Index with the observation period of the 2012-2016 on the annual report. The analytical tool used is a robust path analysis using WARP PLS.*

Findings *- The results of the study state that there is a direct influence of the corporate governance mechanism on the fulfillment of sharia stock criteria, there is an indirect influence from the board of commissioners through the board of directors on sharia stock criteria, but there is no indirect influence on stock prices. The average value of TUBTA and NPI is well below the maximum limit set by OJK, and there is no sharia compliance officer in the company under study. The existence of compliant sharia officers may be a solution for differences in the influence that occurs between the commissioner's board and the board of directors on the fulfillment of Islamic finance criteria.*

Keywords*: Board of commissioners; board of directors; sharia stock financial criteria; stock prices.*

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1. INTRODUCTION

Corporate governance is a benchmark to ensure that companies as capital market and banking players are managed based on the principles of fairness, transparency, accountability, responsibility, and independence to gain investor confidence (Otoritas Jasa Keuangan, 2014) According to the Indonesian General Guidelines for GCG, there are three pillars interconnected in implementing good corporate governance, namely the state, business and society (Komite Nasional Kebijakan Governance, 2011). The state functions to create laws and regulations that support a healthy, efficient and transparent business climate, implement rules and regulations and law enforcement consistently, the business world as market participants is expected to perform good corporate governance as a basic guideline for business implementation, and the community as users of products and services of the business world as well as parties affected by the existence of the company, showing social care and control objectively and responsibly (Komite Nasional Kebijakan Governance, 2006).

It can be said that the implementation of good corporate governance is not only the obligation of the business world as a business actor, but also the responsibility of the community to provide criticism and input related to the practice of implementing good corporate governance to the business world and even the obligation of the state to ensure that the law existing is carried out well, and in the context of sharia business, scholars have a crucial role as consultants and referral places from the government.

In this context, the authors examine the mechanisms of corporate governance in companies declared sharia according to criteria set by the Financial Services Authority (OJK) previously known as Bapepam-LK, which is companies that do not conduct business activities that are contrary to sharia principles and meet the requirements of financial ratios consisting of two criteria, (1) the ratio of total usury based debt to total assets of not more than 45%, and (2) nonhalal income contribution compared to a maximum total income of 10% (Bapepam dan LK, 2012).

The purpose of this research is to see how the influence of the corporate governance mechanism stated as a sharia company, to the company's ability to maintain the company's business, in this case, fulfill the financial ratios set by the OJK and to find out how investors react to this condition. The assumption built by the authors is that the mechanism of corporate governance understands well the consequences faced after the appointment of the company as a sharia company. The focus of the authors in this study is on the board of commissioners, as representatives of shareholders and board of directors, as the holder of the company's operational responsibility, for its role in meeting sharia criteria as well as investor responses proxied by share price. In addition, this paper was also written to fill gaps about corporate governance practices in Islamic companies which according to the authors, until now, was still not touched by many other researchers, when compared to Islamic financial institutions.

This paper prepared as follows: part 1 contains a literature review on corporate governance and previous research. Section 2 hold the development of a hypothesis. Section 3 about the methods and samples used in this study, section 4 includes analysis and discussion of research results.

2. LITERATURE REVIEW

2.1. Corporate Governance

The definition of corporate governance varies greatly, depending on the institutions, countries and legal traditions that apply. Some definitions include the description of the Forum for Corporate Governance in Indonesia (FCGI) which states that corporate governance is a set of rules governing the relationship between shareholders, management (managers) of the company, creditors, government, employees and internal stakeholders and other external matters relating to their rights and obligations, or in other words a system that regulates and controls the company (FCGI, -). The goal of corporate governance is to create added value for all stakeholders (FCGI, -).

Another definition states that corporate governance is related to the maximization of the public interest of a network of factors that interact with operations, organizations and the interrelationships of company goals and objectives (Choudhury and Alam, 2013). Iqbal and Mirakhor (2011) state that the agency's fundamental problems indicate the possibility of defining corporate governance as the completion of an efficient monitoring structure in solving issues of lousy choice and moral hazard.

The definition of The Organization for Economic Co-operation and Development (OECD, 2015) states that corporate governance involves a series of relationships between company management, the board of directors, shareholders and other stakeholders. Corporate governance also provides a structure, where company objectives established, and the means to achieve the monitoring objectives and performance are determined. It can be concluded that corporate governance is a structure designed to be able to meet the interests of all parties through internal coordination of the company based on predetermined objectives.

The corporate governance model in Indonesia refers to a model with a system of two bodies, namely the board of commissioners and the board of directors with clear functions and responsibilities by their respective roles (National Committee on Governance Policy, 2006: 12). The board of commissioners is collectively responsible and responsible for supervising and advising the Directors and ensuring that good corporate governance is carried out. The board of commissioners may not participate in operational decisions. The Board of Directors has a collegial duty and responsibility in managing the company which consists of management functions, risk management, internal control, communication and social responsibility (Komite Nasional Kebijakan Governance, 2006:18-19).

The basic principles of sharia business governance in Indonesia refer to two fundamental principles, namely spiritual and operational principles. The spiritual tenet is based on Surat alBaqarah verse 168 which commands every human being to eat the halal and good things contained on this earth, as well as the Qur'an Surat Al-A'raf verse 96 which states that blessings will be given to the inhabitants of the country of faith and fear and do not deny Allah's verses. The spiritual principle consists of halal and Tayib. God's command in the context of business is to carry out the lawful and forbid the false. This principle is done by avoiding business activities which are prohibited by religion, namely riba or usury, maysir, gharar, zulm, tabdzir, risywah, and maksiyat. Riba means additional, in this case, is an additional imposed on the loan, namely by setting a certain amount of fixed benefits. Maysir is simply gambling, gharar means speculation, zhulm can be said to be a wrong thing, which is harmful to others, while thabdzir means excessive or wasteful use of a property. Risywah means bribing, and maksiyat means actions that are forbidden by Allah (Komite Nasional Kebijakan Governance, 2011).

The operational principle consists of the nature and behavior of the Prophet Muhammad SAW, namely shiddiq, fathanah, amanah, and tabligh, as well as the laws of Indonesian corporate governance which consist of transparency, accountability, responsibility, independence and fairness and equality (Komite Nasional Kebijakan Governance, 2011). Shiddiq means true, so in doing sharia business always uphold honesty and avoid all forms of fraud, embezzlement, and lying behavior. Fathanah means smart, to identify and determine things and or activities that are halal, Tayib, ikhsan, and tawazun. Amanah, means trustworthy realized in the form of accountability and accountability for business activities. Tabligh means conveying in the form of good and clean business practices.

The principle of transparency means that the company can provide information that is easily accessible to all stakeholders. Accountability shows the responsibility of the management of the company for the performance of the company by taking into account the interests of shareholders and other stakeholders. Responsibility means that a company must comply with existing regulations and carry out duties to the community to maintain business continuity in the long run. Independence is the principle of not interfering with each of the company's organs. When all parts of the company work according to their expertise and do not get intervention from other company organs, the best results will obtain for the company. Fairness and equality mean that companies must always pay attention to the interests of shareholders and other stakeholders fairly and equally.

Corporate behaviour in Islam is not different from the activity of other community members. Because companies do not have their awareness, the expression of their managers becomes the behaviour of the company, and their actions are subject to the same moral and ethical commitment standards expected of a Muslim (Iqbal & Mirakhor, 2011). The Islamic economic system validates the view of stakeholder theory based on Islamic principles, namely the preservation of ownership rights and the sanctity of contracts (Iqbal & Mirakhor, 2011). Corporate governance in the Islamic view guided by social welfare criteria for the community. Therefore, Islamic corporate governance practices must emphasize the use of governance, not only for the business world but also in the overall activities (M. Larbsh, 2015).

2.2. Development of Hypothesis

De la Bruslerie (2012) stated that a low level of share ownership would result in controlling shareholders to use debt in developing the shares they have in capital, while Nadarajah et al. (2016) argues that the quality of corporate governance will affect the amount of debt held by companies. The better the quality of corporate governance, the lower the leverage that the company has. This result is in line with the findings of Arping & Sautner (2010) which states that companies in the Netherlands reduce the amount of leverage they have significantly along with corporate governance reforms.

Conversely, the firm with poor governance will bring companies to increase their leverage to control agency conflicts in the company (Jiraporn et al., 2012). Also, companies with weak levels of corporate governance tend to be slow in responding to improvements in the capital structure to get to the optimal point (Chang et al., 2014).

The author argues that the quality of corporate governance here also reflects the quality of the corporate governance mechanism, which in this case is represented by the board of commissioners and the board of directors, and the higher the number of board of commissioners, the easier the manager's control and the effectiveness of monitoring management activities are getting better (Coller and Gregory, 1999) (Kusumawati and Hermawan, 2013). Besides, the board of commissioners as a representation of shareholders can provide advice related to the company's business, following the opinions of Iqbal and Mirakhor (2011) which state that manager behavior will be the behavior of the company; therefore, managers must comply with the principles of corporate governance sharia. Thus, the proposed hypothesis is:

H1: The Board of Commissioners directly influences the board of directors.
H2: Corporate governance mechanisms have a direct effect on the level of corporate debt.
H2a: The Board of Commissioners have a direct effect on the level of corporate debt.
H2b: The Board of Directors have a direct effect on the level of corporate debt.

Non-Permissible Income (NPI) is an income contribution that is not following Islamic criteria. In the Attachment to the Decision of the Chairman of Bapepam and LK no. Kep-208 / Bl / 2012 dated April 24, 2012, stated that total interest income and other non-halal income compared to total operating income and other income, not more than 10%. Sharia issuers are expected to practice Islamic sharia as a whole, so the hope that emerges is the awareness of Islamic issuers to reduce their non-halal income. Based on this, the proposed hypothesis is:

H3: Corporate governance mechanisms directly influence the NPI
H3a: The Board of Commissioners directly influence the NPI
H3b: The Board of Directors directly influence the NPI

Aman and Nguyen (2008) use a governance index based on three groups of corporate governance namely board structure, ownership composition, and disclosure policy. This index is used to measure the quality of the company's internal controls and also as a basis for forming a portfolio. The share price is represented by stock returns using a logarithm of consecutive bimonthly stock price differences taken from the Nikkei stock price database. The results of the study stated that stock prices illustrate the low risk of companies with good governance and high risk from companies that are not well managed.

Malik (2012) studied the relationship between corporate governance and stock prices with a sample of companies incorporated in the KSE 30 index on the Karachi stock exchange with the 2009-2010 study period. Malik (2012) argues that corporate governance is a crucial factor for stock prices. The higher the score of corporate governance will lead to higher company valuations and higher stock prices due to the fact that a well-regulated company will have better performance and results, will increase the stock price and increase investor confidence in the company.

Mohamed & Elewa (2016) investigated the influence of corporate governance on stock prices and stock trading volumes. The hypothesis built is that companies with strong corporate governance have a significant impact on stock prices and trading volume. By using multiple regression, the results show that there is a substantial influence from strong corporate governance on stock prices, but not on trading volume, indicating that the quality of corporate governance can affect stock prices.

We also argue that the role of the board of directors is not only to oversee the board of directors but also to oversee the overall operation of the company, reflected in the ability of the board of commissioners to provide advice regarding the company's operations. Thus we are of the opinion that any information given by the board of commissioners to the board of directors will provide changes to the company's operations, especially those related to usury-based total debt and non-halal income, and will ultimately affect investor confidence represented by stock prices. The next hypothesis we propose is as follows:

H5: The board of directors has a significant indirect influence on total debt based on usury and non-halal income through the board of directors.

H6: The board of commissioners has a significant indirect effect on stock prices through the board of directors and usury-based total debt and non-halal income.

3. METHODOLOGY

The population taken in this study were all Islamic companies listed in the second 2016 decree included in the Indonesian Sharia Stock Index (ISSI) with a total of 307 firms. The sampling technique used was purposive sampling technique. The sample in this study are ISSI enterprises whose shares are determined as sharia securities in 2016 stage 2 with the criteria of (1) the sample must be registered continuously in ISSI in the period 2012-2016, (2) publish annual reports during that period, and (3) has stock price data during the period of ISSI stipulation in 2012 up to 2016. Based on the above criteria, the number of samples is 174 Syariah issuers with 970 observations consisting of 8 economic sectors, excluding banks. Data sources for this study are annual reports issued by related companies found on www.idx.co.id and or contained on the company's website. As seen in Figure 1, the trade, services and investment sector contributed the largest number of samples while the agriculture sector was the smallest sample contributor. Insert Figure 1 here.

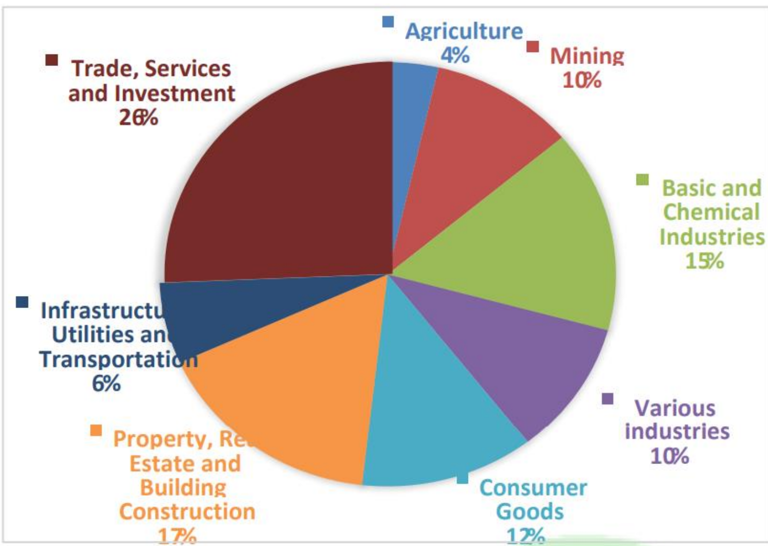

Figure 1. The Distribution of Industrial Sector on the Dataset

To test the hypothesis in this study, we used panel data path analysis using Warp PLS software tools using a 95% confidence level. In this software, panel data path analysis known as robust path analysis. The reason for using robust path analysis is that this tool can calculate the entire model simultaneously at one time, and can calculate the probability value (P-value) based on the nonparametric neutral distribution procedure (Kock, 2017). It is essential because the variables contained in the model do not meet the assumption of normality tests (Kock & Gaskins, 2014). The reason for using Warp PLS is because this software has advantages compared to other PLS programs, including the calculation of the adequacy of the model or what is often known as the Goodness of Fit (GoF) in Warp PLS known as Model fit and quality indices (Kock, 2017).

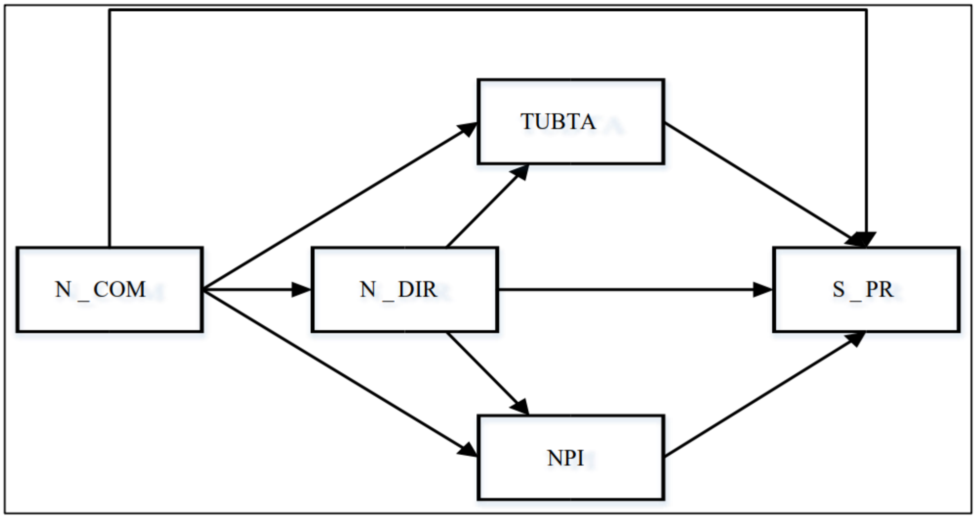

Figure 2. Research mode

The variables used are N_COM, N_DIR, TUBTA, NPI, and S_PR. N_COM and N_DIR represent the mechanism of corporate governance, TUBTA and NPI represent the criteria for sharia stock, and S_PR is the share price representing investor confidence. As shown in Figure 2, the board of commissioners (N_COM) and the board of directors (N_DIR) are expected to have a direct influence on TUBTA, NPI, and S_PR. Also, the existence of the board of commissioners is likely to provide appropriate advice to the board of directors, which indirectly will also affect operational policies related to total debt based on usury and non-halal income.

It is also expected to affect investor confidence represented by stock prices. In this study, we will focus on the interaction of the board of commissioners as a representation of shareholders with other variables. All figures used in this study are standard numbers, except for descriptive statistics, and processed using Warp PLS software

Table 1. Description of The Variables Used in This Research

Variable	Description
N_COM	Number of members of the board of commissioners
N_DIR	Number of members of the board of directors
TUBTA	Ratio of total usury-based debt to total assets the usury based total debt consists of total short-term and long-term bank debt.

Table 1 above, illustrates about description of the variables used in this research.

4. RESULTS AND DISCUSSION

4.1. Overview Id Variables Used in This Study

In the initial stage, we will explain the characteristics of the variables used in this study, both in whole and in the industrial sector.

Table 2. Descriptive statistic for All Observation

Variables	Mean	Std. Deviation	Minimum	Maximum
N_COM	4.31	2.21	1.00	22.00
N_DIR	4.95	2.13	1.00	16.00
TUBTA	0.13	0.12	0.00	0.45
NPI	0.01	0.01	-0.01	0.10
S_PR	2881.72	10341.95	50.00	189000.00

N_COM: Number of members of the board of commissioners; N_DIR: Number of members of the board of directors; TUBTA: Ratio of total usury-based debt to total assets; NPI: Ratio of Non-permissible Income to total revenue; S_PR: Stock price.

As seen in table 2 above, the average number of commissioners is at 4.31, while for the board of directors is 4.95. The average value for non-permissible income (NPI) is 0.01 points and the total usury-based debt has an average value of 0.13, while the average share price is 2881.72. The TUBTA variable turns out to have a maximum value of 0.45, which is the criterion for sharia issuers related to total debt based on usury, while for non-halal income has a maximum value of 10% which is also the upper limit of sharia issuers criteria.

Table 3. Descriptive Statistic by Industrial Sectors

Industrial Sectors	N	Actual Inflation (%, yoy)				N_DIR			
		Mean	Std. Dev	Min	Max	Mean	Std. Dev	Min	Max
Agriculture	35	4.54	1.85	3.00	9.00	5.54	1.74	2.00	9.00
Mining	100	5.05	2.06	1.00	10.00	5.00	1.33	2.00	8.00
Basic and Chemical Industries	150	4.26	1.75	2.00	9.00	4.99	2.34	2.00	11.00
Various industries	100	4.38	1.99	2.00	10.00	5.17	2.51	2.00	13.00
Consumer Goods	120	5.33	1.58	3.00	8.00	5.75	2.95	2.00	16.00
Property, Real Estate and Building Construction	160	4.66	3.53	2.00	22.00	5.35	1.85	2.00	10.00
Infrastructure, Utilities and Transportation	60	3.38	1.69	1.00	8.00	4.32	1.53	2.00	7.00
Trade, Services and Investment	250	3.50	1.47	1.00	9.00	4.28	1.72	1.00	9.00

N_COM: Number of members of the board of commissioners; N_DIR: Number of members of the board of directors;

Table 3 above, illustrates about descriptive statistic by industrial sectors.

Table 4. Descriptive Statistic by Industrial Sectors (Cont.)

Industtrial Sectors	N	Mean	TUBTA Std. Dev	Min	Max	Mean	NPI Std. Dev	Min	Max	Mean	S_P Std. Dev
Agriculture	35	0.13	0.14	0.00	0.39	0.01	0.01	0.00	0.02	4088	689
Mining	100	0.11	0.12	0.00	0.42	0.00	0.01	0.00	0.04	2490	576
Basic and Chemical Industries	150	0.14	0.14	0.00	0.45	0.01	0.01	0.00	0.06	2775	500
Various industries	100	0.13	0.13	0.00	0.40	0.00	0.01	0.00	0.08	1572	204
Consumer Goods	120	0.14	0.12	0.00	0.43	0.00	0.01	0.00	0.07	8842	267

Table 4 above, illustrates about descriptive statistic by industrial sectors.

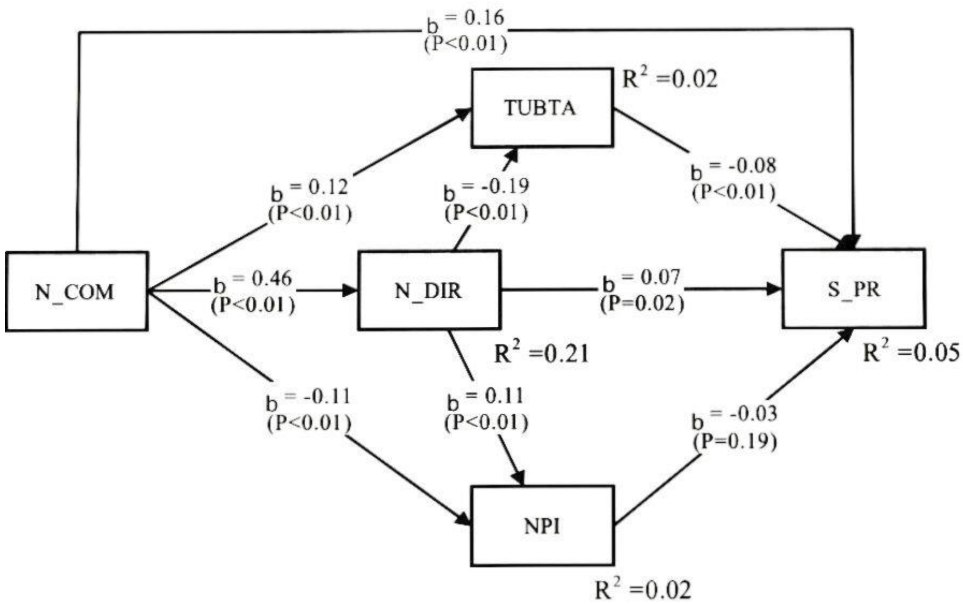

Figure 3. Path Coefficient

For the next stage, we will explain the direct and indirect effects. The results of path analysis using WARP PLS can be seen in Figure 3 above. It is recognized that N_COM has a significant influence on the variables N_DIR, TUBTA, NPI, and S_PR. The most significant N_COM influence is on the direct path to N_DIR, then on the direct path to S_PR, TUBTA and NPI. The N_DIR variable has a significant direct influence on TUBTA, NPI and S_PR. The TUBTA variable has a substantial immediate effect on S_PR, while the NPI does not have a significant direct influence on S_PR.

Table 5. Direct Effect

	Coefficient	p- value	Comment
N_COM□ N_DIR	0.462	<0.001	significant effect
N_COM□TUBTA	0.124	<0.001	significant effect
N_COM□NPI	-0.108	<0.001	significant effect
N_COM□S_PR	0.165	<0.001	significant effect
N_DIR□TUBTA	-0.094	0.002	significant effect
N_DIR□NPI	0.113	<0.001	significant effect
N_DIR□S_PR	0.066	0.02	significant effect
TUBTA□S_PR	-0.079	0.007	significant effect
NPI□SPR	-0.028	0.188	significant effect

Table 5 above, contains the value of the direct influence of the independent variable on the dependent variable and the P-value number for each path. It is seen that all direct influences have a P-value that is smaller than 5%, except for the direct influence of the NPI on S_PR. It states that the immediate effect is significant at 5%.

Table 6. Indirect Effect for Path with 2 Segment

	Coefficient	p- value	Comment
N_COM□N_DIR□TUBTA	-0.043	0.027	Significant effect
N_COM□N_DIR□NPI	0.052	0.01	Significant effect
N_COM□TUBTA□S_PR	-0.108	<0.001	Significant effect
N_COM□NPI□S_PR	0.165	<0.001	Significant effect
N_DIR□TUBTA□S_PR	-0.094	0.002	Significant effect
N_DIR□NPI□S_PR	0.113	<0.001	Significant effect

Paths with two segments are found on the N_COM line to TUBTA via N_DIR, N_COM to NPI through N_DIR, NCOM against S_PR through TUBTA and NPI. P-value in the table 6 is the probability value of the entire path leading to the dependent variable. It is seen that N_COM's indirect influence path towards TUBTA and the NPI has a P-value smaller than 5%, while the N_COM indirect influence path to S_PR through TUBTA and NPI has a P-value greater than 5%. This states that the N_COM indirect influence path towards TUBTA and the NPI is statistically significant, while for the indirect influence pathway that leads to S_PR is not statistically significant.

Table 7. Indirect Effect for Path with 3 Segment

	Coefficient	p- value	Comment
N_COM□N_DIR□TUBTA N_COM□N_DIR□NPI	0.002	0.47	Unsignificant effect

Pathways with three segments are found on the N_COM line via N_DIR and TUBTA and N_COM via N_DIR and NPI. The total effect of these two lines in table 7 is 0.002 and has a P-value of 0.47. It implies that this three-lane segment is not statistically significant.

4.1.1. Influence of the Board of Commissioners on the Board of Directors

In this section, we will begin to explain the test of the proposed hypothesis. The first hypothesis states that the board of directors has a direct influence on the board of directors. The results of the analysis state that this is proven, so it expressed that there is indeed a role of the board of directors towards the board of directors. The role referred to here is the supervisory and advisory role to ensure that good corporate governance is carried out by the board of directors. The result consistent with what was found by previous research by (Kusumawati and Hermawan 2013; Robin and Amran 2016). Thus, we state that hypothesis 1 is acceptable.

4.1.2. Effect of Corporate Governance Mechanisms on Total Corporate Debt and Non-Halal Income

The analysis proves that the board of directors (H2, H3)) has a positive and significant direct influence on total debt based on usury and has a direct negative and significant effect on non-halal income. It states that the board of commissioners still does not realize the importance of usury-based debt management, because the existence of the board of commissioners turned out to be able to increase the total debt based on usury, in this case in the form of short-term and long-term debt supported by conventional banks. Indirectly, this could make the company unlisted of sharia securities, that is if the total usury-based debt has exceeded the set threshold. On the other hand, the board of commissioners did not want a large amount of non-halal income, as shown in Figure 3. This condition would certainly benefit the company, in the sense that the board of commissioners understands the existence of the company as a sharia company that will try not to violate the prohibition in sharia business, that is to do transactions that are not halal.

The board of directors shows the opposite condition, which has a direct negative and significant influence on total debt based on usury and has a positive and significant direct influence on non-halal income. The board of directors can be said to be aware of the importance of managing usury-based total debt, so that the existence of the board of directors as the company's operational responsibility collectively will seek to reduce this level of usury-based debt, while on the other hand, the board of directors does not pay much attention to non-halal income development. It is understandable, given that on average the value of non-halal income is well below the maximum limit set. Based on this, we can say that there is a direct influence of the mechanism of corporate governance on sharia stock criteria and it concluded that hypotheses 2 and 3 are accepted.

4.1.3. Effect of Corporate Governance Mechanisms on Stock Prices

The corporate governance mechanism (H4) directly has a significant influence on stock prices. As seen in Figure 3, where the board of commissioners and the board of directors have a substantial direct impact on stock prices, revealed that the role of corporate governance mechanisms receives positive appreciation from investors, following research from Aman and Nguyen (2008), Malik (2012), Mohamed and Elewa (2016) which state that strong corporate governance is an essential factor for stock prices. In other words, it can be concluded that hypothesis 4 cannot be rejected.

4.1.4. Indirect Influence of the Board of Commissioners Through 2 Segments

The board of commissioners seems to have a significant indirect effect on total debt and nonhalal income, as written in table 2, but does not have a significant indirect impact on stock prices. This condition reflects that the supervisory role of the board of commissioners can have a considerable influence on debt management and non-halal income, but has not been able to contribute to the increase in stock prices. On the one hand, this condition is under the supervisory function carried out by the board of commissioners in their duties to supervise and advise the board of directors. On the other hand, this condition can reflect the distrust of the investor in the ability of the board of directors, primarily as a representative of shareholders who want the sustainability of the company as a sharia issuer and especially in the role of the board of commissioners to develop the value of the company (Sukmono, 2015). Thus, it can be said that hypothesis 5 is partially proven.

4.1.5. Indirect Influence of the Board of Commissioners Through 3 Segments

The board of commissioners does not appear to have a real influence on stock prices through the board of directors and policies on non-legal debt and income. As we can see in table 7 where the P-value of the equation of the structure that occurs is higher than 5%, indicating the scope of work of the board of directors is solely inside the company and its existence is not reflected in the performance of the company, especially in the management of total debt based on usury and non-halal income. This condition may occur because the board of directors has a dominant role in determining the company's operations, while the duties and functions of the board of commissioners do not allow this board to intervene in the company's operations. One way or another, it can lead to principal-agent problems, especially in managing funds obtained from investors and how they are acquired (Robin and Amran, 2016). Hypothesis 6, in this case, cannot be accepted.

It concludes that the board of commissioners has a vital role to the board of directors and fulfillment of the financial criteria of sharia issuers and stock prices directly. Indirectly the board of commissioners has an influence on sharia financial criteria but not on stock prices. The role of the board of commissioners on the financial standards of sharia issuers is different from the part of the board of directors, where the board of commissioners indicates to reduce non-halal income and increase usury-based debt. The board of directors has a different indication, namely to reduce total debt based on usury but still want to maintain non-halal income. This may occur because there are no commissioners and directors who understand sharia principles that must be followed because until now there has not been found a sharia- compliant officer, as requested in the MUI fatwa (BAPEPAM and LK, 2010). Thus, it can be said that the existence of a compliant sharia officer can be a solution to this circumstance although it might add costs to corporate governance.

One thing that deserves attention is the average ratio of total debt based on usury to total assets and the ratio of non-halal income to total income is far below the maximum limit set. It could be a consideration for the Financial Services Authority to modify the current Islamic financial criteria.

This research is limited to the board of commisioners and board of directors variables in their role to meet sharia criteria and stock prices but has not touched the existence of independent commissioners and independent directors. This study uses analytical tools that do not require normality of data, so there may be differences in the results of analysis if completed with another analytical tool. For further research, we motivate researchers to examine the existence of commissioners and directors who understand sharia principles in the capital market, so that the business of a company can be more accountable by the corporate governance.

5. CONCLUSION

The purpose of this study was to determine the effect of the board of commissioners and board of directors on the fulfillment of sharia stock criteria and stock prices that represent the reaction of investors. The results of this study state that the board of commissioners and board of directors have a direct influence on the fulfilment of sharia stock criteria and stock prices, the board of commissioners has an indirect impact on the requirements of sharia finance through the board of directors, but does not have an indirect influence on stock prices. Also, there are differences in the influence of the board of commissioners and the board of directors on the existing sharia criteria. The possibility of this occurrence is because there are no board members who understand sharia principles in the capital market, so the existence of compliant sharia officers may be a solution to this problem. Researchers can then review the existence of board members who know sharia principles in the capital market.

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