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The Effect of Good Corporate Governance on The Firm Performance of Conventional and Sharia Companies (2018-2021)

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Research article

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Abstract: Good Corporate Governance is a system that regulates the relationship between the role of the board of commissioners, the role of the board of directors, shareholders, and other stakeholders. Every company is expected to implement Good Corporate Governance, but some companies experience problems related to company performance and even experience losses, especially during the COVID-19 pandemic. This study aims to analyze the effect of good corporate governance including variables of the board of directors, institutional ownership, audit committee, and audit quality on company performance as measured by Return on Equity (ROE) and compare the results between conventional companies (LQ45 index) and sharia (JII index). This type of research is quantitative research with a research population, namely conventional and sharia companies listed on the Indonesia Stock Exchange for the period 2018 to 2021 with sampling using purposive sampling techniques. The data used is documentary data in the form of financial statements and annual reports. The analysis method used is panel data regression analysis and hypothesis testing, statistical test F (together) and statistical test t (partial) using Eviews 10 software. The results showed that the board of directors had a significant effect on the performance of Islamic companies but not conventional companies. In contrast, managerial ownership and audit committees have a significant influence on the performance of conventional companies but no effect on Islamic companies. Meanwhile, audit quality does not have a significant influence on both conventional and sharia companies.

Keywords: Good corporate governance; firm performance; sharia finance.

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1. Introduction

At the end of 2019, the world was shocked by a new outbreak called COVID-19 (Corona Virus Disease 2019) which is known to attack human respiratory organs. The outbreak originated in the city of Wuhan, China, and the local government officially reported its existence to the World Health Organization (WHO) in December 2019 (www.who.int). WHO also officially designated the COVID-19 virus outbreak as a global pandemic due to its rapid spread to almost all countries in the world, until March 2023 there were more than 700 million cases and around 6 million deaths.

The COVID-19 pandemic has implications that have a negative impact on Indonesia's social and economic life. With the enactment of the PSBB, most industries and offices are prohibited from operating for a long period of time causing economic losses (Hadiwardoyo, 2020). Data from the Central Statistics Agency (BPS) shows that Indonesia's economic growth in 2020 has shrunk by 2.07 percent. The unstable movement of the Indonesian economy caused deflation or a drastic decline in the Indonesian economy in 2020.

Companies that have good governance are certainly expected to maintain company performance when disasters such as the COVID-19 pandemic occur. Good corporate governance is considered capable of providing more profits to investors. The results of a survey by global management consultancy McKinsey show that many global investors dare to pay a premium price of up to 40% for shares of issuers that have good corporate governance. Because the stock performance of issuers with good corporate governance will be much higher than shares of issuers with the implementation of poor corporate governance (Sanny, 2018).

The development of Good Corporate Governance (GCG) of domestic issuers is considered to have not run optimally. Some time ago, the Lippo Group including LPKR (PT Lippo Karawaci Tbk) and LPCK (PT Lippo Cikarang Tbk) were accused of not implementing GCG properly, because they secretly transferred ownership of Meikarta (Kontan, November 2018). This big case is proof that the company does not apply the principle of GCG, namely transparency, which requires companies to be open in providing material and relevant information about the company concerned.

In addition to the COVID-19 pandemic, there are several factors causing the world economic crisis. One of them is accounting fraud such as the one that occurred in the Enron scandal and the collapse of Arthur Andersen in 2001 which gave rise to the standard United States federal law, the Sarbanes Oxley Act. However, a few years later as we know there was a global financial crisis in 2008-2009. Several empirical studies have been conducted with the crisis as a subject, and several studies have addressed Islamic finance as an alternative financial strategy. Jawadi et al. (2014) investigated the performance of Islamic stock prices and found that it had a less significant impact from the global financial crisis of 2008-2009 compared to conventional markets. According to Ho et al., (2014), Islamic stock indices have surpassed conventional investments since the subprime crisis began and during unstable periods. Islamic finance is a financial system based on the principles of sharia or Islamic law. The basic principles of Islam in finance prohibit all business activities related to alcohol, gambling, prostitution, tobacco, weapons, and consumer products containing pigs or pigs (Al-Khazali et al., 2014). Islamic law also prohibits conventional financial services because they contain interest (usury) in every transaction. Conversely, there are Islamic banks with profit sharing and loss sharing systems with investors (profit sharing). Furthermore, Islamic finance prohibits businesses with excessive speculation and risk and regulates investment restrictions for assets that conform to Islamic law.

Based on the phenomenon and differences in research results from several researchers that have been described earlier, this study tries to identify the impact of Good Corporate Governance on company performance in Indonesia as measured by Return on Equity (ROE). In addition, this study also tried to compare the results between conventional and sharia companies to see how much impact the COVID-19 pandemic had on both.

2. Literature Review

2.1 Company Performance

According to Basri (2005: 16) company performance is something produced by a company in a certain period by referring to established standards. Activity measurement of company performance is designed to assess how the performance of activities and the final results are achieved. Moerdiyanto (2010) revealed that the company's performance is the result of a series of business processes which at the sacrifice of various kinds of resources, namely human resources and also company finance. If the company's performance increases, it can be seen from the incessant activities of the company in order to generate the maximum profit. The profit or profit generated will certainly differ depending on the size of the moving company.

According to Zarkasyi (2008: 48), company performance is something produced by an organization in a certain period by referring to established standards. Company performance should be measurable results and describe the empirical conditions of a company of various agreed sizes.

Performance measurement has an important meaning for decision making, both for internal and external parties of the company. Performance measurement can be divided into two, namely:

1) Managerial performance measurement
   This managerial performance measurement aims to:
   a) Manage the company's operations effectively and efficiently by motivating employees to the maximum.
   b) Assist in decision making related to employees.
   c) Identify employee training and development needs.
   d) Provide feedback for employees on how their boss assesses their performance.
2) Financial performance measurement
   Financial performance measurement has an important meaning for decision making both for internal and external parties of the company. Financial statements are a tool that is used as a reference for assessment to forecast the financial condition, operations and results of the company's operations. Hanafi and Halim (2007: 75) explain the measure of financial performance includes the following ratios:
   a) The Liquidity Ratio measures a company's ability to meet its short-term obligations.
   b) The Activity Ratio measures the effectiveness of asset use by looking at the asset's activity level.
   c) The solvency ratio measures the extent to which a company's ability to meet its long-term obligations.
   d) The Profitability Ratio measures how much a company is able to make a profit.
   e) Market Ratios measure the development of a company's value relative to market value.

This research uses the Profitability Ratio measured by Return on Equity (ROE). Return on equity is a ratio to measure net profit after tax with own capital (cashmere, 2015: 204). Return On Equity is the company's ability to generate profits with its own capital (Sutrisno 2012: 223). This ratio can be used to predict how much portion of profits will be obtained (dividends) for each share owned by shareholders.

According to Brigham and Houston (2017: 133) states that the most important ratio is return on equity. This ratio measures the rate of return on shareholder investment. The higher this ratio, the better, which means that the position of the owner of the company is getting stronger.

The formula for calculating ROE is as follows:

$$\boldsymbol{Return\ on\ Equity}\ (\mathbf{ROE}) = \frac{\boldsymbol{Earning\ After\ Tax}\ (\mathbf{EAT})}{\boldsymbol{Equity}}\ \mathbf{x\ 100\%}$$

(Brigham and Houston, 2017:133)

2.2 Agency Theory

Mallin (2016: 16) states that theories related to the development of corporate governance are agency theory and stakeholder theory. Fahmi (2014: 65) explained that agency theory is a condition that occurs in a company where the management as the executor is further referred to as an agent and the owner of capital (owner) as the pricipal of building a cooperation contract called the "nexus of contract" This cooperation contract contains agreements that explain that the company's management must work optimally to provide maximum satisfaction such as high profits to the owner.

2.3 Stakeholder Theory

Stakeholder theory says that a company is not an entity that only operates for its own interests, but must provide benefits for stakeholders (shareholders, creditors, consumers, suppliers, government, society, analysts and other parties). Thus, the existence of a company is strongly influenced by the support provided by stakeholders to the company (Ghozali and Chariri, 2007). Mallin (2016: 20) explained that shareholders and stakeholders can support different corporate governance structures and monitoring mechanisms. With an emphasis on shareholder value, a board consisting of executive and non-executive directors is elected by shareholders.

2.4 Good Corporate Governance

The term corporate governance was first introduced by the Cadbury Committee in 1992. The following is the definition of corporate governance according to the Cadbury Committee:

"A set of rules that define the relationship between shareholders, managers, creditors, the government, employees and internal and external stakeholders in respect to their rights and responsibilities".

Forum For Corporate Governance In Indonesia (FCGI) in Effendi (2016: 3) explains:

"Corporate governance is a set of regulations that regulate the relationship between shareholders, management (managers) of the company, creditors, government, employees, and other internal and external stakeholders related to their rights and obligations or in other words a system that controls the company".

Good Corporate Governance is a system that regulates the relationship between the role of the board of commissioners, the role of the board of directors, shareholders, and other stakeholders (Agoes, 2006: 101). Blair (1996) in Fahmi (2014: 63) gives a broader and complete definition of corporate governance, namely a comprehensive unity starting from legal, cultural, and institutional arrangements so that public companies can work, regulate who controls, how control is implemented and, how risks and revenues derived from their activities are allocated. According to Law Number 40 of 2007 concerning Limited Liability Companies, the number of members of the Board of Commissioners consists of more than one member who is the assembly and the actions taken by each member of the Board of Commissioners must be based on the decision of the Board of Commissioners.

The Organization for Economic Cooperation and Development (OECD) in Effendi (2016: 15) mentions five principles of corporate governance, namely:

1) Protection of the rights of shareholders
2) The equitable treatment of shareholders
3) The role of stakeholders
4) Disclosure and transparency
5) Accountability of the board of commissioners / directors (the responsibilities of the board)

Good Corporate Governance indicators according to the National Committee on Governance Policy include:

1) Proportion of Independent Board of Commissioners
Independent Commissioners are appointed based on the resolution of the General Meeting of Shareholders (GMS) of a company. According to Bank Indonesia Circular Letter Number 15/15/DPNP, members of the Independent Board of Commissioners consist of approximately 50% of the total Board of Commissioners.
The National Committee on Governance Policy (2006) states that an independent commissioner is a member of the board of commissioners who is not affiliated with management, other members of the board of commissioners and controlling shareholders and is free from business or other relationships that may affect his ability to act solely in the interests of the company.
The board of directors is the chairman of the company who is elected by the shareholders to represent their interests in managing the company. Zarkasyi (2008: 100) explained that directors as company organs are tasked and responsible collegially in managing the company. Each member of the board of directors can carry out duties and make decisions in accordance with the distribution of duties and authorities. Furthermore, Zarkasyi explained that the board of directors must compile accountability for company management in the form of an annual report containing, among others, financial statements, company activity reports, and GCG implementation reports. Putri (2016) in the results of her research stated that the board of directors affects financial performance as measured using Cash Flow Return on Assets (CFROA), but Widyastuti (2017) stated the opposite, namely the board of directors does not have a significant effect on CFROA.

H1: The board of directors affects the company's performance.

2) Ownership Structure
According to Sugiarto (2017), the ownership structure is a share ownership structure, which is a comparison of the number of shares owned by insiders with the number of shares owned by investors. The ownership structure represents the proportion of institutional ownership and managerial ownership in a company's shareholding. A company is represented by directors appointed by shareholders.
Managerial ownership is a situation where the manager owns the company's shares or in other words the manager is also a shareholder (Tjeleni in Santoso, 2018). Managerial Ownership is a shareholder from the management who actively participates in company decision making (directors and commissioners) (Darwis, 2009).
The formula for calculating the managerial ownership of a company is:

$$\boldsymbol{Managerial\ Ownership} = \frac{\boldsymbol{Total\ Managerial\ Stocks}}{\boldsymbol{Total\ Outstanding\ Stocks}}\ \mathbf{x\ 100\%}$$

Nurastikha (2018) through her research states that managerial ownership has a significant influence on ROE.

H2: Managerial ownership affects company performance.

3) Audit Committee
The audit committee is a group that is independent or has no interest in management and is appointed specifically and has views, among others, in the field of accounting and other matters related to the company's internal supervision system (Zarkasyi, 2008: 17). Tjager et al., (2003) in Makhrus (2012) explained that the audit committee is one of the committees

formed by the board of commissioners and is responsible to the board of commissioners with the main duties and responsibilities to ensure the principles of good corporate governance, especially transparency and disclosure, are applied consistently and adequately by executives. Based on the Decree of the Chairman of BAPEPAM Number Kep-29 / PM / 2004, the audit committee is a committee established by the Board of Commissioners to assist in carrying out its duties and functions. Financial Services Authority Regulation Number 55/POJK.04/2015 Article 4 states that the audit committee consists of at least 3 (three) members from Independent Commissioners and Parties from outside the Issuer or Public Company. Article 10 of the Financial Services Authority Regulation Number 55/POJK.04/2015 states that the audit committee has duties and responsibilities at least including:

a) reviewing financial information that will be issued by the Issuer or Public Company to the public and/or authorities, including financial statements, projections, and other reports related to the financial information of the Issuer or Public Company,
b) reviewing compliance with laws and regulations related to the activities of the Issuer or Public Company,
c) provide independent opinion in the event of differences of opinion between management and accountants for the services they provide,
d) provide recommendations to the Board of Commissioners regarding the appointment of Accountants based on independence, scope of assignment, and remuneration,
e) reviewing the implementation of audits by internal auditors and supervising the implementation of follow-up actions by the Board of Directors on the findings of internal auditors,
f) reviewing risk management implementation activities carried out by the Board of Directors, if the Issuer or Public Company does not have a risk monitoring function under the Board of Commissioners,
g) review complaints related to the accounting process and financial reporting of Issuers or Public Companies.
h) review and provide advice to the Board of Commissioners related to potential conflicts of interest of Issuers or Public Companies,
i) maintain the confidentiality of documents, data and information of the Issuer or Public Company.

Widyastuti (2017); Princess (2016); and Marjono &; Ningsih (2016) in the results of their research stated that the audit committee has an influence on company performance.

H3: The audit committee affects the company's performance.

4) Audit Quality

Watkins et al. (2004) define audit quality as the likelihood that the auditor will find and report material misstatements in the client's financial statements. Quality audit is a systematic and independent examination to determine the activity, quality and results in accordance with planned regulations. So, it can be said that audit quality is a characteristic or description of audit practices and results based on auditing standards and quality control standards which are measures of the implementation of the duties and responsibilities of an auditor's profession.

A large audit services company tends to conduct audits with better audit quality compared to small audit service companies. This is because there is a lot of wealth at stake in large audit services companies. Companies will also suffer greater losses through reputational damage if the audit quality does not meet accepted quality standards (Haat, et al. 2008 in Lestari, 2013). Therefore, if a company is audited by one of the Big Four audit firms and the audit quality meets accepted quality standards, then the company's performance is expected to be better and financial reporting will be more transparent. Here are the Big Four audit firms:

a) Ernst and Young
b) Deloitte Touche Tohmatsu
c) Klynveld Peat Marwick Goerdeler (KPMG) International
d) Price Water House Coopers (PWC)

Lestari (2013) in the results of his research stated that audit quality affects company performance. Thus, the following hypothesis can be formulated:

H4: Audit quality affects company performance.

2.5 Islamic Finance

The Islamic finance industry has experienced tremendous growth and innovation over the past decade. In 2014, the industry reached around USD 2.1 trillion showing double-digit growth rates across all sectors of the Islamic industry (http://www.inceif.org/industry-growth/). Greater growth potential and profitability make Islamic stock market indices increasingly popular (Hassan &; Girard, 2010). Islamic stock market indices are built on Islamic principles. This index also regulates every fund management to be in accordance with the basic principles of Islamic finance. Sharia Advisory Board (SAB) or Sharia Advisory Board is the highest authority that provides guidelines and regulations under which investments in businesses that adhere to Islam should be based on Islamic transaction principles called *Muamalat* (Ho et al., 2014).

Islamic finance is a discussion among researchers whether it can be an alternative to the global financial system or not. After the global financial crisis of 2008-2009, there have been several studies on Islamic finance to determine its impact and performance. Jawadi et al. (2014) found that the Islamic market had a less significant impact than the 2008-2009 global financial crisis compared to the conventional market. Islamic indices have surpassed conventional investments since the subprime crisis began and in volatile periods (Ho et al., 2014; Al-Khazali et al., 2014). In addition, Islamic stock prices had a positive influence on domestic macroeconomic factors (industrial activity, money supply, disruption of the real effective exchange rate) and reacted negatively to foreign interest rates during the prolonged period of decline after the global crisis of 2008-2009 (Mustafa et al., 2015).

In Indonesia, the Financial Services Authority (OJK) regulates the Islamic capital market which is part of the Islamic financial industry. Meanwhile, the application of sharia principles in the Indonesian Capital Market is regulated by the National Sharia Board of the Ulema Council (DSN-MUI). This council publishes Islamic rules, called fatwas, that regulate investment activities in Indonesia's sharia capital market (http://www.idx.co.id). OJK plays a role in converting sharia principles in the Indonesian capital market into OJK regulations to be more binding and have legal certainty.

All sharia shares listed on the Indonesian sharia capital market must be included in the Sharia Securities List (DES) issued by OJK every May and November. This is done to ensure all companies comply with Islamic principles. There are several main criteria for selecting Islamic shares (www.idx.co.id; Ho et al., 2014):

1) The Company does not engage in activities that are not in accordance with Islam:
    a) Production of pork and alcohol for human consumption.

    b) *Ribawi* financial services (conventional interest-based financial contracts)
    c) Advertisements or media that contain pornographic elements.
    d) Buying and selling risks that contain elements of uncertainty or speculation (*gharar*) and/or gambling (*maisir*), including conventional insurance.
2) The company meets the standards of financial ratios:
    a) Total interest-based liabilities compared to total assets should not exceed 45%.
    b) Total interest income and other non-Islamic income compared to total income and other income should not exceed 10%.

3. Research Methods

3.1. Methods

This research is causal descriptive research namely to prove the cause-and-effect relationship of several variables (Umar, 2013: 7). The variables in this study are Board of Directors, Managerial Ownership, Institutional Ownership, Audit Committee, Audit Quality, and Return on Equity (ROE). The type of research is quantitative research with analysis units of conventional companies and sharia companies listed on the Indonesia Stock Exchange. The time horizon of research is panel data i.e. research conducted on several subjects in some periods of time.

3.2. Population and Sample

This study took the population of conventional and sharia companies listed on the Indonesia Stock Exchange (IDX) for the 2018-2021 period. From this population, samples were taken using purposive sampling techniques, namely sampling techniques with certain considerations (Sugiyono, 2017: 122). The sample criteria in this study include:

1) Conventional companies listed on IDX LQ45 Index in 2018-2021.
2) Sharia companies listed on the IDX Jakarta Islamic Index in 2018-2021.
3) Conventional and sharia companies that are not listed/delisted during the 2018-2021 period.

3.3. Data Collection Techniques

This research uses documentation data collection methods obtained through the official IDX website (https://www.idx.co.id) and the websites of each company.

3.4. Data Types and Sources

The type of data in this study is documentary data, which is in the form of a company's annual report. The source of data in this study is secondary data obtained through the official IDX website (http://www.idx.co.id) and the website of each company.

3.5. Variable Operationalization

Based on the framework described in the research model, the variables in this study consist of independent variables and dependent variables as follows:

1) Independent Variables
    Independent variables, namely corporate governance, include:
    a) Board of directors (X_1)
        The variables of the board of directors in this study refer to the research of Putri

(2016), namely by calculating the number of board of directors (*top managers*) in the company.

b) Managerial Ownership (X_2)
Managerial Ownership is a shareholder from the management who actively participates in company decision making (directors and commissioners) (Darwis, 2009)

$$\textit{Managerial Ownership} = \frac{\textit{Total Mangerial Stocks}}{\textit{Total Outstanding Stocks}} \text{ x } 100\%$$

c) Audit Committee (X_3)
Audit committee variables refer to Marjono & Ningsih (2014) research; Princess (2016); and Widyastuti (2017), by calculating the number of audit committee members in the company.

d) Audit Quality (X_4)
Based on Lestari's research (2013), the audit quality variable is a *dummy* variable, if the company audited by the Big Four is given the number one (1), if the company audited by other than *the* Big Four is given zero (0).

2) Dependent Variables

a) Return on Equity (ROE) (Y)
The most important ratio is return on equity, which is net income for shareholders divided by total shareholders' equity (Brigham & Houston, 2017:133).

$$\textit{Return on Equity}\ (\mathbf{ROE}) = \frac{\textit{Earning After Tax}\ (\mathbf{EAT})}{\textit{Equity}} \text{ x } 100\%$$

Furthermore, a summary of the operationalization of variables in this study is presented in the form of a table as the following page:

Table 1. Operationalization of Variables

Variable	Variable Concept	Measurement	Scale
Board of Directors (X1)	Is the head of the company elected by the shareholders to represent their interests in managing the company.	Number of boards of directors in the company	Interval
Managerial Ownership (X_2)	Managerial Ownership is a shareholder from the management who actively participates in company decision making (directors and commissioners) (Darwis, 2009)	$\frac{\textit{Total Managerial Stock}}{\textit{Total Outstanding Stock}} \text{ x } 100\%$	Interval
Audit Committee (X3)	Committees established by the Board of Commissioners to assist in carrying out their duties and functions. (Decree of the Chairman of BAPEPAM Number Kep-	Number of audit committee members in the company	Interval

Variable	Variable Concept	Measurement	Scale
	29/PM/2004)		
Audit Quality (X4)	Quality audit is a systematic and independent examination to determine the activity, quality, and results in accordance with planned regulations. (Watkins et al., 2004)	Zero (0) if audited by other than the Big Four, number one (1) if audited by the Big Four	Nominal
Return on Equity (ROE) (Y)	*Return on Equity* (ROE) measures the rate of return on shareholder investment. The higher this ratio, the better, which means that the position of the owner of the company is getting stronger. (Brigham and Houston (2017:133)	$\frac{\textbf{Earning After Tax}}{\boldsymbol{Equity}}\ \boldsymbol{x}\ \mathbf{100\%}$	Interval

3.6. Data Analysis Methods

This study used multiple regression analysis to test the correctness of the hypothesis and determine the influence between the independent variable and the dependent variable. Multiple regression analysis testing in this study used four independent variables and one dependent variable. The regression equation of this study can be formulated as follows:

$$\boldsymbol{Y_1 = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon}$$

Information:

Y = *Return on Equity* (ROE)
β0 = Constant, that is, the value of Y if the value of all variables is zero
β1 = Regression coefficient of board of directors' variable
β_2 = Regression coefficient of managerial ownership variables
β_3 = Regression coefficient of audit quality variables
β4 = Regression coefficient of audit committee variables
X1 = Board of directors
X2 = Managerial ownership
X3 = Audit quality
X4 = Audit committee
ε = *error*/other variables

Hypothesis testing was carried out statistical test F (together) and statistical test t (partially) using Eviews 10 software.

4. Results and Discussion

4.1. Research Results

The following are presented descriptive statistics of each variable studied which include average, maximum, minimum values. The test results are presented in the following table:

Table 2. Descriptive Analysis of Research Variables
(LQ45 index)

Date: 12/07/23 Time: 14:00
Sample: 2018 2021

	ROE	DIREK	KEPMAN	KOMAUD	AUD
Mean	17.73010	7.940000	0.578293	4.030000	0.880000
Maximum	144.6000	14.00000	12.69738	10.00000	1.000000
Minimum	-16.50000	4.000000	0.000000	1.000000	0.000000
Std. Dev.	24.94795	2.428035	2.458912	1.533827	0.326599
Observations	100	100	100	100	100

Source: Data processing results with EViews 10

The average ROE for conventional companies listed on the Indonesia Stock Exchange (IDX) LQ45 for the 2018-2021 period was 17.73% with the highest value reaching 144.60% owned by Unilever Indonesia Tbk (UNVR) in 2018 and the lowest at -16.5% owned by XL Axiata Tbk. (EXCL) in 2018. Furthermore, the average number of boards of directors in conventional companies listed on the IDX LQ45 for the 2018-2021 period is 8 people with a maximum of 14 people owned by Bank Rakyat Indonesia (Persero) Tbk (BBRI) in 2018-2019 and at least 4 people owned by Vale Indonesia Tbk (VALE) in 2018. The average managerial ownership is 0.578%, with the highest value reaching 12.69% owned by Adaro Energy Tbk (ADRO) in 2021 and the lowest at 0%, one of which is owned by Bank Mandiri (Persero) Tbk. (BMRI) in 2018-2021. The average audit committee is 4 people with a maximum of 10 people owned by Bank Rakyat Indonesia (Persero) Tbk in 2020 and at least 1 person owned by Vale Indonesia Tbk (VALE) in 2019. The average audit quality is 0.88, which shows that 88% of the company's data was audited by the Big Four, one of which is Astra International Tbk (ASII) in 2018-2021, while the rest were audited in addition to the Big Four, one of which is Media Nusantara Citra Tbk (MNCN) in 2018-2021.

Table 3. Descriptive Analysis of Research Variables
(JII Index)

Date: 12/07/23 Time: 14:10
Sample: 2018 2021

	ROE	DIREK	KEPMAN	KOMAUD	AUD
Mean	20.91464	6.839286	6.127582	3.660714	0.928571
Maximum	144.6000	11.00000	73.61894	9.000000	1.000000
Minimum	-16.50000	4.000000	0.000000	1.000000	0.000000
Std. Dev.	32.22295	1.923792	18.83534	1.365507	0.259870
Observations	56	56	56	56	56

Source: Data processing results with EViews 10

The average ROE value of sharia companies listed on the Indonesia Stock Exchange (IDX) Jakarta Islamic Index for the 2018-2021 period was 20.91% with the highest value reaching 144.60% owned by Unilever Indonesia Tbk (UNVR) in 2018 and the lowest at -16.5% owned by XL Axiata Tbk. (EXCL) in 2018. Furthermore, the average number of boards of directors in sharia companies listed on the Indonesia Stock Exchange (IDX) Jakarta Islamic Index for the 2018-2021 period is 7 people with a maximum of 11 people owned by Unilever Indonesia Tbk (UNVR) in 2019 and at least 4 people, one of which is owned by Barito Pacific

Tbk (BRPT) in 2018-2019, 2021. The average managerial ownership is 6.127% with the highest value reaching 73.61% owned by Barito Pacific Tbk (BRPT) in 2018 and the lowest at 0%, one of which is owned by Indofood CBP Sukses Makmur Tbk (ICBP) in 2018-2021. The average audit committee is 3 people with a maximum of 9 people owned by Telekomunikasi Indonesia (Persero) Tbk (TLKM) in 2020 and at least 1 person owned by Vale Indonesia Tbk (VALE) in 2019. The average audit quality is 0.928, which shows that 92.8% of the company's data was audited by the Big Four, one of which is Astra International Tbk (ASII) in 2018-2021, while the rest were audited in addition to the Big Four, one of which is Wijaya Karya (Persero) Tbk (WIKA) in 2018-2021.

4.1.1 Model Selection

Chow Test

Chow test is used to determine whether the research data is fit using a fixed effect model or with a common effect model. The hypotheses proposed are as follows:

Ho : Cvvommon Effect Model (CEM)
Ha : Fixed Effect Model (FEM)

If the probability of cross-section F being produced is smaller than 0.05 (Prob. < 0.05) then the test decision is to reject Ho and accept Ha which means the research data will be estimated using a fixed effect model (FEM). The test results are summarized in the following table:

Table 4. Chow Test to Determine CEM or FEM

Type	Cross-Section F	Prob.	Decision
LQ45 Index	-	-	Near Singular Matrix
JII Index	-	-	Near Singular Matrix

Source: Data processing results with EViews 10

Because the variables of the board of directors, audit committee and audit quality in each company do not have a variety of data, it is considered to have a perfect correlation so that it is not possible to test the fixed effect model (*near singular matrix*), the selection of the model is continued with the Lagrange multiplier test to determine the common effect model or random effect model.

Lagrange Multiplier Test

The lagrange multiplier test is performed to determine the choice of model between the common effect model and the random effect model. The hypotheses tested in the Hausman test are as follows:

Ho : Common Effect Model (CEM)
Ha : Random Effect Model (REM)

If the probability < 0.05(a) then the test decision is to reject Ho and accept Ha. The test results are summarized in the following table:

Table 5. Lagrange Multiplier Test to Determine CEM or REM

Type	$\chi 2$	Prob.	Conclusion
LQ45 Index	44,5438	0,0000	Random Effect Model (REM)

JII Index	17,5892	0,000	Random Effect Model (REM)

Source: Data processing results with EViews 10

From the results presented in the table above, it was decided that both fit data were estimated using a random effect model because the probability values obtained were 0.000 < 0.05.

4.1.2 *Classical Assumption Testing*

Normality Test

Testing the normality assumption aims to test whether the residual (*ei*) in the regression model has a normal distribution or not. A good regression model should normally have distributed residuals. The statistical method used is a Jarque Bera test with test criteria if the value of prob. The resulting Jb greater than 0.05 can be concluded that the residuals in the regression model have been normally distributed. A summary of the test results is presented in the following table:

Table 6. Normality Assumption Test Results

Type	J-B	Prob.	Evaluation
LQ45 Index	1,2053	0,5473	Usual
JII Index	0,4022	0,8177	Usual

Source: Data processing results with EViews 10

The test results show that both models have a normally distributed residue indicated by the resulting prob value greater than 0.05 so that the normality assumption has been met.

Multicollinearity Test

Multicollinearity is a condition of a very strong relationship among some, or all the independent variables involved in the regression model. If multicollinearity occurs, then the regression coefficient becomes biased. In regression using panel data, this multicollinearity problem can be detected from the value of the centered variance inflation factor (VIF). If the value of this centered VIF is less than 10, it can be concluded that the model is free from multicollinearity. A summary of the test results is presented in the following table:

Table 7. Multicholinerity Assumption Test Results

Type	Multicollinearity (VIF < 10)	Evaluation
LQ45 Index	1,344 ; 1,193 ; 1,490 ; 1,117	Not
JII Index	1,060 ; 1,410 ; 1,463 ; 1,096	Not

Source: Data processing results with EViews 10

Based on the results presented in the table above, it can be concluded that both regression models have been free from the problem of multicollinearity, because all independent variables involved in the regression model have a VIF value smaller than 10, so the assumption to be free from multicollinearity has been fulfilled.

Heteroscedasticity Test

Heteroscedasticity testing aims to test the homogeneity of residual variance in regression models. One way to detect heteroscedasticity can be used the Breusch-Pagan-Godfrey test which is done by progressing the independent variable with the residual squared value (RESID^2). If the resulting prob. chi square ($\chi^{2)}$ value is greater than 0.05, it can be concluded that the model is free from the problem of heteroscedasticity. The results of ijing are summarized in the following table:

Table 8. Test Results of Heteroscedasticity Assumption

Type	Test	Obs*R-squared	Prob. Chi-Sq	Evaluation
LQ45 Index	B-P-G	3,715	0,445	None
JII Index	B-P-G	5,987	0,200	None

Source: Data processing results with EViews 10

Based on the decision-making criteria of the B-P-G test, it can be concluded that the residual variance in the regression model is homoscedasticity, or the regression model has been free from heteroscedasticity problems, due to the value of prob. The resulting chi Sq is much greater than 0.05.

Autocorrelation Test

Autocorrelation is defined as the correlation between observations measured based on time series in regression models or in other words the error (ei) of the current year's observations (t) influenced by the error of the previous year's observations (t-1). One way to detect this autocorrelation problem can be seen from the Durbin – Watson (dW) value. The test results are presented in the following table. A summary of the test results is presented in the following table:

Table 9. Autocorrelation Assumption Test Results

Type	*n*	*k*	*Dl*	Durbin-Watson	*Du*	Conclusion
LQ45 Index	100	4	-2	1,851	2	No Autocorrelation Occurs
JII Index	56	4	-2	1,789	2	No Autocorrelation Occurs

Source: Data processing results with EViews 10

The test results show that the two regression models to be formed do not have autocorrelation problems because the dW values obtained are between dL and dU ($- 2 < dW < 2$) so that the autocorrelation assumption requirements have been met.

4.1.3 Panel Data Regression Test Results

The results of panel data regression calculations using the help of the EViews 10 program can be seen in the following table:

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Table 10. Results of Panel Data Regression Testing Related to the Influence of the Board of Directors, Managerial Ownership, Audit Committee and Audit Quality on Return on Equity (ROE) on the LQ45 Index and Jakarta Islamic Index (2018-2021)

		Coef. Regression	t	*p-value*
LQ45 Index	Random Effect Model (REM)			

		Coef. Regression	t	*p-value*
	ROE = 0.910 + 0.065 DIREC + 0.072 KEPMAN + 0.181 KOMAUD + 0.509 AUD			
	Board of Directors	0,065	1,205	0,231
	Managerial Ownership	0,072	1,674	*0,097
	Audit Committee	0,181	2,364	**0,020
	Audit Quality	0,509	1,042	0,300
Obs	98			
R Square	0,118			
F-test	3,113			0,018
	Random Effect Model (REM) ROE = 0.910 + 0.065 DIREC + 0.072 KEPMAN + 0.181 KOMAUD + 0.509 AUD			
JII Index	Board of Directors	0,143	1,731	*0,089
	Managerial Ownership	0,054	0,960	0,341
	Audit Committee	0,186	1,378	0,174
	Audit Quality	1,048	1,224	0,226
Obs	55			
R Square	0,112			
F-test	1,582			0,193

) Significant at level (*a*) 1%
**) Significant at level (*a*) 5%
*) Significant at level (*a*) 10%
Source: Data processing results with EViews 10

Based on the results of the model selection using the Lagrange multiplier test, it was concluded that panel data on conventional companies listed on the Indonesia Stock Exchange (IDX) LQ45 for the 2018-2021 period *fit* was estimated using a random effect model (REM) or in other words differences in the company's characteristic conditions were considered to affect the high and low ROE value. Regression equation formed in the first model: ROE = 0.910 + 0.065 DIREK + 0.072 KEPMAN + 0.181 KOMAUD + 0.509 AUD with a prob. f test result of 0.018 < 0.05 (a) which shows that the Board of Directors, Managerial Ownership, Audit Committee and Audit Quality simultaneously have a significant influence on Return on Equity (ROE) in Conventional Companies listed on the Indonesia Stock Exchange (IDX) LQ45 with an influence contribution of 11.8% while as much as (1-R2) the remaining 88.2% is the amount of influence contribution provided by other factors that are not studied. Next look at it partially:

H1 : The Board of Directors has a significant influence on Return on Equity (ROE)

The p-value obtained for the board of directors is 0.231 > 0.10 (a) so that the test decision is **to reject H1** which means that the Board of Directors does not have a significant influence on Return on Equity (ROE), meaning that changes in the number of boards of directors will not necessarily have an impact on changes in the value of return on equity (ROE).

H2 : Managerial Ownership has a significant influence on Return on Equity (ROE)

The p-value obtained for managerial ownership is 0.097 < 0.10 (a) so that the test decision is **to accept H2** which means that Managerial Ownership has a significant influence on Return on Equity (ROE), meaning that an increase in the value of managerial ownership will have an impact on increasing the value of return on equity (ROE), conversely, a decrease in the value of managerial ownership can result in a decrease in the value of return on equity (ROE).

H3 : Audit Committee has a significant influence on Return on Equity (ROE)

The p-value obtained for the audit committee is 0.020 < 0.05 (a) so that the test decision is **to accept H3** which means that the Audit Committee has a significant influence on Return on Equity (ROE), meaning that an increase in the number of audit committees will have an impact on increasing the value of return on equity (ROE), conversely, a decrease in the number of audit committees can result in a decrease in the value of return on equity (ROE).

H4 : Audit Quality has a significant influence on Return on Equity (ROE)

The p-value obtained for the audit committee is 0.300 > 0.10 (a) so that the test decision is **to reject H4** which means that Audit Quality does not have a significant effect on Return on Equity (ROE), meaning that improving audit quality will not necessarily have an impact on changes in return on equity (ROE).

Furthermore, in the second model, it was concluded that panel data on Sharia Companies listed on the Indonesia Stock Exchange (IDX) Jakarta Islamic Index for the 2018-2021 period fit was estimated using a random effect model (REM) or in other words differences in company characteristic conditions were considered to affect the high and low ROE value. Regression equation formed in the first model: ROE = 0.910 + 0.065 DIREC + 0.072 KEPMAN + 0.181 KOMAUD + 0.509 AUD with a prob. f test result of 0.193 > 0.10 (a) which shows that the Board of Directors, Managerial Ownership, Audit Committee and Audit Quality simultaneously do not have a significant influence on Return on Equity (ROE) in Sharia Companies listed on the Indonesia Stock Exchange (IDX) Jakarta Islamic Index for the 2018-2021 period, however, the contribution of influence given was 11.2% while as much as (1-R2) the remaining 88.8% was the amount of influence contribution provided by other factors that were not studied. Next look at it partially:

H1 : The Board of Directors has a significant influence on Return on Equity (ROE)

The p-value obtained for the board of directors is 0.089 < 0.10 (a) so that the test decision is **to accept H1** which means that the Board of Directors has a significant influence on Return on Equity (ROE), meaning that changes in the number of directors will have an impact on increasing the value of return on equity (ROE), conversely, a decrease in the number of boards of directors can result in a decrease in the value of return on equity (ROE).

H2 : Managerial Ownership has a significant influence on Return on Equity (ROE)

The p-value obtained for managerial ownership is 0.341 > 0.10 (a) so that the test decision is **to reject H2** which means that Managerial Ownership does not have a significant effect on Return on Equity (ROE), meaning that an increase in the value of managerial ownership will not necessarily have an impact on changes in the value of return on equity (ROE).

H3 : Audit Committee has a significant influence on Return on Equity (ROE)

The p-value obtained for the audit committee is 0.174 > 0.10 (a) so that the test decision is **to reject H3** which means that the Audit Committee does not have a significant influence on Return on Equity (ROE), meaning that an increase in the number of audit committees will not necessarily have an impact on changes in the value of return on equity (ROE).

H4 : Audit Quality has a significant influence on Return on Equity (ROE)

The p-value obtained for the audit committee is 0.226 > 0.10 (a) so that the test decision is **to reject H4** which means that Audit Quality does not have a significant effect on Return on Equity (ROE), meaning that improving audit quality will not necessarily have an impact on changes in return on equity (ROE).

5. Conclusion

Based on the results of the analysis and discussion that has been carried out in the previous chapter, the researcher obtained the following conclusions:

a) The Board of Directors has a significant influence on Return on Equity (ROE) on the JII index, meaning that changes in the number of boards of directors will have an impact on increasing the value of return on equity (ROE), while a decrease in the number of boards of directors can result in a decrease in the value of return on equity (ROE), while on the LQ45 index the Board of Directors does not have a significant influence on Return on Equity (ROE).

b) Managerial Ownership has a significant influence on Return on Equity (ROE) in the LQ45 index, meaning that an increase in the value of managerial ownership will have an impact on increasing the value of return on equity (ROE), while a decrease in the value of managerial ownership can result in a decrease in the value of return on equity (ROE), while in the JII index Managerial Ownership does not have a significant effect on Return on Equity (ROE).

c) The Audit Committee has a significant influence on Return on Equity (ROE) on the LQ45 index, meaning that an increase in the number of audit committees will have an impact on increasing the value of return on equity (ROE), while a decrease in the number of audit committees can result in a decrease in the value of return on equity (ROE), while on the JII index the Audit Committee does not have a significant influence on Return on Equity (ROE).

d) Audit Quality does not have a significant effect on Return on Equity (ROE) on the LQ45 index or JII index, meaning that improving audit quality will not necessarily have an impact on changes in the value of return on equity (ROE).

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