

Impact of Governance, Profitability and Size Firm on Firm Value in The Jakarta Islamic Index

Muhammad Rifqi Aldira* and Muhammad Bayu Aji Sumantri

Department of Management, Widyatama University, Indonesia

*Corresponding author. Email: rifqi.aldira@widyatama.ac.id

ABSTRACT

This research investigates how institutional ownership, the presence of independent board of commissioners, profitability and company size influence on firm value (case study on Jakarta Islamic index companies listed on the Indonesian stock exchange for the 2019-2023 period). This research employs a descriptive method within a quantitative framework. The data analysis technique used in this research is panel data regression analysis using Eviews 13 software. The sampling technique used purposive sampling with samples of as many as 105 JII index companies during the observation period from 2019-2023. The result of the analysis indicate that institutional ownership does not influence firm value and the independent board of commissioner also shows no significant impact. The results of data analysis indicate that institutional ownership does not influence firm value, and the independent board of commissioners also shows no significant impact. However, profitability and company size both have a positive effect on the firm value of companies listed in the Jakarta Islamic Index (JII) on the Indonesia Stock Exchange during the 2019–2023 period.

Keywords: *Institutional Ownership, Independent Board of Commissioners, Profitability, Company Size, and Company Value.*

1. INTRODUCTION

The capital market plays a crucial role in a country's economy as it serves as a leading indicator of economic growth (Indriyani & Utomo, 2021). It serves as a marketplace for trading various long-term financial instruments, including stocks, bonds, and derivatives. In Indonesia, the capital market is represented by the Indonesia Stock Exchange (IDX), which features a range of stock indices that serve as benchmarks for evaluating market performance. One of the indices that attracts investors' attention is the Jakarta Islamic Index (JII), which includes 30 sharia-compliant stocks with strong financial performance and high transaction liquidity.

During the 2019–2023 period, the Indonesian capital market experienced significant fluctuations. Data shows that the average stock price of the JII index declined in 2020–2021 and 2023. In contrast, the Jakarta Composite Index (IHSG) experienced an upward trend during the 2021–2023 period. The decline in stock prices within the JII index may suggest market pressure on the companies listed under this index.

Fluctuations in JII index stock prices have implications for a company's value, which is a key indicator of its financial health. Company value is often measured using Tobin's Q, a ratio that compares the company's market value to the value of its assets (Arini, 2022). Unfortunately, data shows that the company's value (Tobin's Q) on the JII index experienced a downward trend in 2020–2021 and 2023.

Institutional ownership plays a crucial role in overseeing corporate management and reducing agency conflicts (Jensen & Meckling, 1976). By promoting better corporate governance, institutional investors are expected to enhance firm value and potentially counterbalance the declining Tobin's Q. However, findings on their effect on firm value remain inconsistent. Pratama (2024) found no effect of institutional ownership on firm value, while Kusuma Kusuma (2021) argued otherwise. Data shows rising institutional ownership in JII (2022–2023), yet firm value declined, highlighting a gap between theory and phenomenon.

Another variable that plays a role in corporate oversight is board independence. According to Fama (1983), an independent board of commissioners ensures effective company management and safeguards shareholders' interests. Research by Putranto (2022) also shows that an independent board of commissioners has an effect on company value, because it increases transparency and accountability in company management. Based on the data, there was an increase in the independent board of commissioners in 2021 and 2023, but strangely the company value continued to decline.

Profitability is also one of the key performance indicators often linked to company value (Kasmir, 2019). Maryoso (2023) also found that higher profitability leads to higher company value, while Putranto (Putranto et al., 2022) found no such effect, highlighting a research gap. This contrast raises questions about the true impact of profitability on firm value.

Besides the previously mentioned variables, company size is also believed to influence firm value. Silalahi (2024) stated that larger firms benefit from easier funding access and stronger investor interest, potentially boosting value. However, Darmayanti (2023) found a negative impact. Data from 2020 to 2023 shows rising company size but declining firm value, suggesting a disconnect between theory and reality.

Based on the description above, the gap between theory and real-world findings on institutional ownership, board independence, profitability, and company size calls for deeper investigation. This study aims to examine their impact on firm value among JII index companies listed on the IDX from 2019 to 2023.

2. RESEARCH METHOD

This research centers on companies included in the Jakarta Islamic Index (JII) on the Indonesia Stock Exchange from 2019 to 2023. The sample was selected based on three criterias: (1) firms listed in the JII index during the observation period, (2) firms that exited the index within the same timeframe, and (3) firms that conducted stock splits or acquisitions and did not issue rights offerings. The dataset is panel data, combining time series and cross-sectional dimensions. The data analysis was carried out using EViews 13, and classical assumption tests—including normality, multicollinearity, and heteroscedasticity—were performed to ensure the reliability of the model. Furthermore, the Chow and Hausman tests were applied to identify the most suitable panel data model. The panel regression model used in this study can be written as follows:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon \quad (1)$$

where Y represents firm value, X1 is the percentage of institutional ownership, X2 denotes the proportion of independent board of commissioners, X3 indicates profitability, and X4 refers to company size. α is the constant term, $\beta_1 \beta_2 \beta_3 \beta_4$ are the regression coefficients, and ε represents the error term.

3. RESULTS AND DISCUSSION

This study used a sample of 105 data with descriptive statistics as follows (Table 1):

Table 1. Descriptive Statistics

Variable	Mean	Maximum	Minimum	Std. Dev.
Company value	1.40397	6.51798	0.14377	1.23954
Institutional ownership	0.58428	0.80533	0.19987	0.11026
Independent board of commissioners	0.38829	0.66667	0.16667	0.09846
Profitability	0.08787	0.45427	-0.09839	0.07214
Company Size	31.61632	33.73062	29.34951	1.06110

The company value has an average value (mean) of 1.40397 and a standard deviation value of 1.23954. Comparison of the average (mean) company value is greater than the standard deviation, this indicates that the company value data is well distributed. Institutional ownership has an average (mean) value of 0.58428 and a standard deviation value of 0.11026. The average comparison (mean) of institutional ownership is greater than the standard deviation, this indicates that the institutional ownership data is well distributed. The independent board of commissioners has an average (mean) value of 0.38829 and a standard deviation value of 0.09846. The average comparison (mean) of the independent board of commissioners is greater than the standard deviation, this indicates that the data on the independent board of commissioners is well distributed. Profitability has an average (mean) value of 0.08787 and a standard deviation value of 0.07214. Comparison of average (mean) profitability is greater than the standard deviation, this indicates that the profitability data is well distributed.

The hypothesis testing results (Table 2):

Table 2. Hypothesis Testing Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Company value	41.257481	10.154517	4.062968	0.0001
Institutional ownership	-0.134130	1.774940	-0.075568	0.9399
Independent board of commissioners	-1.475599	1.126030	-1.310443	0.1930
Profitability	4.771568	1.638160	2.912761	0.0044
Company Size	-1.240650	0.325724	-3.808898	0.0002

Institutional ownership partially has no effect on firm value. The results of the partial significance test that have been carried out show that the institutional ownership variable has no effect on firm value. This finding is in line with research conducted by Ariani (2024) and Sari (2021) which state that agency theory explains that the more institutional share ownership, the stronger the supervision of the company and can reduce agency costs. However, the results of this study cannot prove this theory because institutional investors have not been able to carry out their supervisory function on manager performance properly. This causes supervision and control from institutional investors not to be felt by managers, so that it does not affect stock prices and firm value.

Although the independent board of commissioners is expected to influence firm value, the partial significance test results indicate that this variable does not have a significant effect on firm value. This finding is in line with research conducted by Robert (2023) which states that the proportion of independent commissioners does not have a major influence on firm value. This shows that the inclusion of independent commissioners to monitor operations and management policies does not increase the overall value of the company. The inclusion of independent commissioners on the board of commissioners does not necessarily guarantee an increase in firm value. One possible reason for this is the company's compliance with regulations set by the Financial Services Authority (OJK). The regulation emphasizes that companies are required to have a composition of independent commissioners representing approximately 30% of the total members of the board of commissioners. The effectiveness of independent commissioners in carrying out their supervisory duties is limited by the largely symbolic nature of their position.

Profitability has a significant partial impact on firm value. The results of the partial significance test indicate that the profitability variable positively influences firm value. This finding is in line with research conducted by Maryoso (2023) and Fuhrotun (2022) which states that profitability projected using ROA has a positive and significant effect on firm value. Firms with high profitability tend to boost investor confidence, enabling them to secure adequate funding. This, in turn, enhances the company's performance and leads to an increase in its overall value.

This finding is in line with research conducted by Prasetyo (2023) suggests that company size, as measured by total assets, can be excessively large. Firms that are considered too large may be perceived as a negative signal by investors. Overly large companies are often perceived negatively by investors. This perception arises from the tendency of such firms to allocate a greater portion of their profits to retained earnings rather than distributing them as dividends. Prioritizing retained earnings over shareholder dividends can influence stock prices and ultimately impact the firm's value. This indicates that an increase in company size may be associated with a decline in firm value.

4. CONCLUSION

This research aims to examine and evaluate the influence of institutional ownership, independent board of commissioners, profitability, and company size on firm value in companies listed on the Jakarta Islamic Index (JII) of the Indonesia Stock Exchange (IDX) during the 2019–2023 period. The research population consists of 30 JII-listed companies, from which 21 firms were selected as the final research sample based on specific criteria. Through empirical testing, this study contributes to a better understanding of how internal company factors shape firm value within the context of Sharia-compliant stocks in Indonesia's capital market. Based on the results of the tests and analysis that have been carried out, it can be concluded that institutional ownership and the independent board of commissioners do not have a significant effect on firm value among companies listed on the Jakarta Islamic Index (JII) during the 2019–2023 period. Profitability demonstrates a positive and significant impact on firm value, whereas company size shows a negative and significant influence.

This study has some limitations that may affect the results. First, it examines only four variables: institutional ownership, independent board of commissioners, profitability, and company size, leaving out other potential factors influencing firm value. The sample focuses solely on companies listed under the Jakarta Islamic Index (JII) on the

Indonesia Stock Exchange from 2019 to 2023. Future studies should expand the research period to include a larger sample and explore other indices like LQ45, IDX30, Kompas100, or SRIkehati for a broader comparison of company values across different IDX indices. Additionally, the adjusted R-squared value of 88.21% in this study suggests that the current variables explain only a portion of the factors affecting firm value. Future research could benefit from incorporating additional variables such as capital structure, managerial ownership, and activity ratios to provide a more comprehensive understanding of firm value.

REFERENCES

- Ariani, D., Muthmainnah, M., & Ponto, S. (2024). Pengaruh Pengungkapan Corporate Social Responsibility, Ukuran Perusahaan, Kepemilikan Institusional Dan Kepemilikan Manajerial Terhadap Nilai Perusahaan. *Jurnal Bisnis Mahasiswa*, 4(2), 125–140. <https://doi.org/10.60036/jbm.v4i2.art2>
- Arini, G. F. (2022). *PENGARUH PROFITABILITAS, LIKUIDITAS, DAN LEVERAGE TERHADAP NILAI PERUSAHAAN (Studi Empiris pada Perusahaan Manufaktur Sektor Industri Barang Konsumsi yang terdaftar di Bursa Efek Indonesia Periode 2016-2020)*. Widyatama.
- Darmayanti, K. I., & Dewi, L. G. K. (2023). Pengaruh Ukuran Perusahaan, Sensitivitas Industri, Dan Sertifikasi Iso 14001 Terhadap Nilai Perusahaan Pada Perusahaan Manufaktur Di Indonesia. *Jurnal Ilmiah Akuntansi Dan Humanika*, 13(3), 368–378. <https://doi.org/10.23887/jiah.v13i3.62903>
- Fama, E. F., & Jensen, M. C. (1983). Separation of Ownership and Control Separation of Ownership and Control. *Journal of Law and Economics*, 26(2), 301–325. <https://doi.org/https://doi.org/10.1086/467037>
- Fuhrotun, I. (2022). Pengaruh Profitabilitas, Leverage, Good Corporate Governance Terhadap Nilai Perusahaan. *Jurnal Ilmu Manajemen Ekonomi Dan Kewirausahaan*, 2(1), 98–108. <https://doi.org/10.55606/jimek.v2i1.198>
- Indriyani, I., & Utomo, E. N. (2021). Determinan Indek Harga Saham Gabungan Pada Perusahaan Terdaftar Di BEI Tahun 2013-2020. *Balance Vocation Accounting Journal*, 5(1), 49. <https://doi.org/10.31000/bvaj.v5i1.5152>
- Jensen, M., & Meckling, W. (1976). Theory of the firm: Managerial behavior, agency costs, and ownership structure. *The Economic Nature of the Firm: A Reader, Third Edition*, 283–303. <https://doi.org/10.1017/CBO9780511817410.023>
- Kasmir. (2019). *Analisis Laporan Keuangan*. Raja Grafindo Persada.
- Kusuma, I. J., & Nuswantara, D. A. (2021). The Effect of Good Corporate Governance on Firm Value. *Journal of Economics Business and Government Challenges*, 4(01), 1–8. <https://doi.org/10.33005/ebgc.v4i1.167>
- Maryoso, S., & Sari, D. I. (2023). Pengaruh CSR, Profitabilitas Dan Kebijakan Deviden Terhadap Nilai Perusahaan BUMN Terdaftar Di BEI. *Artikel Ilmiah Sistem Informasi Akuntansi*, 3(1), 13–22. <https://doi.org/10.31294/akasia.v3i1.1790>
- Prasetyo, D. W., & Hermawan, A. C. (2023). Profitabilitas, Ukuran Perusahaan, Dan Struktur Modal Terhadap Nilai Perusahaan. *Jesya (Jurnal Ekonomi & Ekonomi Syariah)*, 6(1), 743–751. <https://doi.org/10.36778/jesya.v6i1.1003>
- Pratama, M. R., & Fidiana. (2024). Pengaruh Good Corporate Governance Dan Struktur Modal Terhadap Nilai Perusahaan. *Jurnal Ilmu Dan Riset Akuntansi*.
- Putranto, P., Maulidhika, I., & Scorita, K. B. (2022). Dampak Good Corporate Governance Dan Profitabilitas Terhadap Nilai Perusahaan. *Jurnal Online Insan Akuntan*, 7(1), 61. <https://doi.org/10.51211/joia.v7i1.1734>
- Robert Vincent Kristanto, N., Amelia Setiawan, N., Samuel Wirawan, N., & Hamfri Djajadikerta, N. (2023). Pengaruh Ukuran Dewan Direksi, Proporsi Komisaris Independen, Dan Intellectual Capital Terhadap Nilai Perusahaan. *Journal of Social and Economics Research*, 5(2), 498–507. <https://doi.org/10.54783/jsr.v5i2.120>
- Sari, D. M., & Wulandari, P. P. (2021). Pengaruh Kepemilikan Institusional, Kepemilikan Manajerial, Dan Kebijakan Dividen Terhadap Nilai Perusahaan. *Jurnal Tera Ilmu Akuntansi*, 22(1), 1–18. [https://doi.org/10.21776/tema.22.1.1-1876/tema.22.1.1-18](https://doi.org/10.217Sari, D. M., & Wulandari, P. P. (2021). Pengaruh Kepemilikan Institusional, Kepemilikan Manajerial, Dan Kebijakan Dividen Terhadap Nilai Perusahaan. Jurnal Tera Ilmu Akuntansi, 22(1), 1–18. https://doi.org/10.21776/tema.22.1.1-1876/tema.22.1.1-18)

Silalahi, E. L., Nurbaiti, B., & Sari, P. N. (2024). PENGARUH GOOD CORPORATE GOVERNANCE DAN UKURAN PERUSAHAAN TERHADAP NILAI PERUSAHAAN (Studi Empiris pada Perusahaan Property and Real Estate Tahun 2016-2018). *Indonesian Journal of Economics and Strategic Management (IJESM)*.