The Mechanism of Corporate Governance, Financial Performance and Corporate Values in Sharia Companies in Indonesia

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Keywords: Corporate governance mechanism, financial performance, corporate value, sharia company.

Abstract: Building corporate value is a right step to attract investors in sharia companies. Good corporate value can be obtained with good corporate governance. Good governance also improves the company's financial performance. This study aims to determine the effect of corporate governance mechanism, which consist of institutional ownership, managerial ownership, independent boards, and board size, on financial performance and corporate value. The research population were companies listed on the JII (Jakarta Islamic Index) for the period of 2010-2017. The research used purposive sampling which resulted on obtaining 23 companies. The method of data analysis was SEM-PLS. The results of the direct influence test show that commissioners, directors, independent commissioners, and institutional ownership influence financial performance, while audit committees and managerial ownership do not. The test results also show that independent commissioners and financial performance have an effect on corporate value, while the size of the board, institutional and managerial ownership do not. The test results of indirect influence indicate that financial performance is capable of mediating the size of commissioners, directors, independent commissioners, and institutional ownership with the corporate value, but unable to mediate the audit committees and managerial ownership.

1 INTRODUCTION

Sharia companies in Indonesia have begun to develop since several decades ago. The development of sharia companies can be seen from the emergence of Islamic financial institutions such as Islamic banks, sharia insurance, Islamic mutual funds, baitul mal wat tamwil, and sharia property developers. The rapid development of sharia companies is due to the conscious realization of the community that sharia companies are better than conventional companies and certainly in accordance with their beliefs as Muslims.

The reputation of sharia companies is the initial asset to compete with their conventional competitors. The competition is not only to attract people to shop but also to invest. The development of sharia companies certainly requires a source of funds to support their capital. For this reason, there is a need to conduct studies on building good corporate values to attract investors to invest in sharia companies.

To obtain good corporate value, sharia companies need to implement a corporate governance system to achieve a good and relevant system. It underlies the emergence of agency theory, which states that good companies must be run under the same goals between principals and agents. If both have the same purpose, then the agent will implement and support whatever ordered by the principal. Good corporate governance practice isproven to be able to build an optimistic market reputation in the capital market (Tong and Junarsin, 2013).

Increasing the value of sharia companies is a matter that needs to be considered because high corporate value will be followed by high level of prosperity of principals (Ehrhardt and Brigham, 2016). The measure of corporate value is reflected through the value of shares of the company (Fama and French, 1998). By paying attention to this, it is expected that later the sharia corporate governance system can improve the company's reputation and attract investors to invest in sharia companies.

Some researchers raise questions about the positive relationship between corporate governance and corporate value due to the high costs of implementing effective corporate governance mechanisms in companies that can offset the benefits (Mai et al., 2017). Responding to this, the authors are interested in observing the extent to which the Sharia corporate governance mechanisms influence the building of corporate value.

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Law theory and corporate governance state that board independence, management ownership, and shareholder ownership are important elements of the overall corporate governance system (Jentsch, 2019). The theories put forward predict that there is a relation between the mechanism of corporate governance and the value of the company. Corporate governance is a mechanism that aims to convince investors to carry out the company management which is in accordance with their interests (Handriani and Robiyanto, 2019).

The relationship between the mechanism of corporate governance and value building in sharia companies is an interesting phenomenon to observe. This is because, in sharia perspective, the mandate given from investment activities between principals and agents must not be mistreated.

The practice of corporate governance can increase corporate value (Johl et al., 2016). The application of effective governance practices is expected to increase corporate value and reduce vulnerable conflicts of interest between principals and agents, prevent information asymmetry and improve managerial efficiency (Utama and Musa, 2011).

Seeing from the perspective of sharia, conflict that occurs in the practice of corporate governance is a form of breach of trust given to the agent. Hadiths say that trust breaking is a forbidden action is said to be one of the characteristics of hypocrites, as narrated by Abu Hurairah ”There are three signs of the hypocrites; lie when he speaks, deny when he promises, and betray when he is trusted”.

Several studies have been conducted to examine the effect of institutional ownership, the composition of independent commissioners, and the size of commissioners board toward companies in Indonesia. However, the results are inconclusive and depend on the specific conditions of each company. The interesting thing about this current research is that the researchers tried to see the effect of those variables toward Sharia companies in Indonesia. Therefore, the purpose of this study is to determine the effect of the corporate governance mechanisms on the value of Sharia companies in Indonesia.

2 LITERATURE REVIEW AND DEVELOPMENT OF HYPOTHESES

2.1 Corporate Governance and Practice in Indonesian Companies

The Indonesian Institute for Corporate Governance defines corporate governance as a process, structure, and mechanism applied in running a company, the main goal is to increase shareholder value in the long term while also paying attention to the interests of other stakeholders . Whereas Tong and Junarsin (2013) define corporate governance as a concept that is based on agency theory and is expected to function as a tool to convince investors that they will receive refund of what they have invested (Tong and Junarsin, 2013).

Corporate governance was born from the momentum of the collapse of several companies in the world, such as Enron and WorldCom, and also the financial crisis in Asia that occurred in 1998. This has previously been discussed in the theories of Jensen and Meckling (1976) which describe the impact and importance of implementating corporate governance (Jensen and Meckling, 1979). Even long before, Islam has advocated implementing corporate governance system as stated in QS. Al-Baqarah: 282-283.

Explicitly the separation between company ownership and company control is important to consider. When the company control is not carried out by the owner but left to other parties (to manage company resources), it will potentially create problems between the owner (principal) and the manager (agent), which is often referred to as agency problem (Means, 2017). Agency theory explains the relationship between shareholders (principals) who instruct other people (agents) to do a service in the name of the principals and authorize them to make the best decision for the principals (Jensen and Meckling, 1979). More specifically, the concept of corporate governance is a set of rules that form relationships between shareholders, managers, creditors, governments, employees, and other interested parties both internally and externally with regard to their rights and responsibilities (Djanegara, 2008).

Some studies state that there is a positive relationship between corporate governance practices and corporate value (Black et al., 2006). Despite the fact that good corporate governance will increase corporate value, Iskander and Chamlou (2000) argue that the success of corporate governance practices, which leads to increase in corporate value, can be influenced

by external and internal factors (Iskander and Chamlou, 2000).

The internal factors are related to board governance issues, such as board size, board composition, board leadership, board compensation, company size, financial condition, leverage, product uniqueness, and ownership structure (Adams and Mehran, 2008)(Barnhart and Rosenstein, 1998)(Gillan and Starks, 2003)(Hermalin and Weisbach, 2001). Meanwhile the external factors refer to corporate governance mechanisms in the form of legal systems, government policies and the role of the community in building good corporate governance (Love and Klapper, 2002).

Based on agency theory, the purpose of corporate governance is to minimize conflicts of interest, not only between agents and principals but also between all internal and external stakeholders, so as to create and increase shareholder wealth (Farrar, 2008). Therefore the effective application of corporate governance will result in efficient use of company resources, thus support the company's growth (OECD, 2004).

In Indonesia the implementation of the corporate governance system is very important to prevent the occurrence of economic crisis as in 1998. For this reason the government in collaboration with the National Committee of Governance Policy creates guidelines for businesses in implementing corporate governance (Governance, 2006).

In 2011 the National Committee of Governance Policy issued guidelines for sharia corporate governance. This guideline was made because of the development of sharia companies in Indonesia. This guideline explains how the corporate governance system for sharia companies should be in operational and spiritual perspective.

From spiritual point of view, sharia companies are required to commit to devotion by emphasizing the moral aspects as shown by the Prophet Muhammad. Whereas from the operational point of view, sharia companies are required to function as four pillars; the country, the scholars, the sharia business people and the communities that work together synergistically and continuously to realize the role of humans the mandate of the caliphate and leadership in managing all resources on earth .

Capulong, Edwards, Webb and Zhuang (2000) find that Indonesia has less developed capital market and weak legal and regulatory framework (Zhuang et al., 2001). This condition will also impact the internal mechanisms of corporate governance. Therefore, in emerging markets such as Indonesia, where the external governance is less effective and legal protection is weak, the internal governance mechanisms, such as governance boards, are important for reducing conflicts of interest among stakeholders (Young et al., 2008).

The concept of corporate governance according to the Forum for Corporate Governance in Indonesia is a system that directs and controls a company. Therefore FCGI considers that there are five basic principles of GCG implementation; Transparency, Accountability, Responsibility, Independence, and Fairness, which are actually adopted from Islamic values. Sharia principles contained in GCG are expected to be able to maintain the management of sharia economic and financial institutions professionally and maintain economic, business and social interactions to run in accordance with applicable game rules and best practices (Dejavu, 2011).

2.2 Corporate Governance and Corporate Value

The implementation of corporate governance is a matter that must be applied in every company. The system and structure of corporate governance greatly help to increase shareholders values and accommodate various stakeholders such as creditors, suppliers, business associations, consumers, workers, the government and the wider community (Handriani and Robiyanto, 2019). This concept is very well accepted by the public. Even the performance of the company's shares is now determined by the extent of its seriousness in implementing corporate governance (Utama and Utama, 2005). In sharia companies, corporate governance emphasizes the aspects of Islamic law about leadership, trust and attitude in managing the company. There are several studies that support this theory which state that there is a relationship between the structure of corporate governance, mechanisms and corporate values (Singh et al., 2018). However, there are different research results which show that there is no significant relationship between the structure of corporate governance, mechanisms, and financial performance (Balasubramanian et al., 2008). This is interesting to study further, especially in Sharia companies in Indonesia.

2.3 Board Size and Corporate Value

The company's board as a top management is very influential in building the corporate value. The practice of the board has an important role in mobilizing a company, because of its function as manager and director of management. In this role, the company board must monitor the separation between ownership

and control of the company (Jensen and Meckling, 1979). In emerging markets, the board becomes an important tool that complements inefficient external corporate governance mechanisms to reduce conflicts of interest among all parties involved in the company (Young et al., 2008). There are three main characteristics for a proportional board related to composition, size and structure of leadership (Van den Berghe and Levrau, 2004).

Board size can influence the dynamics of board functions within a company. For example, if a company has a large number of councils, it will potentially increase the board performance in terms of knowledge and skills. However, the large size of the board also has the potential to face group dynamics problems which in turn can make the board less effective (Van den Berghe and Levrau, 2004).

Corporate boards in sharia companies have different structure compared to those in conventional companies. Sharia companies require the function of the Sharia Supervisory Board. The Sharia Supervisory Board functions to review the sharia aspects of the company products. In addition, it also supervises and provides advice related to preventive actions, improvements, and proposals for temporary termination of activities if there is indication sharia rule breaking.

However, it is very unfortunate that based on observation, all Sharia companies in Indonesia which are included in the Jakarta Islamic Index category have not had Shariah Supervisory Board yet. Therefore, this variable cannot be included in the research even though the function of this board is important to differentiate the sharia companies and the conventional one. It is also interesting to find out how influential the Shariah Supervisory Board is towards the corporate value of sharia companies.

Jaafar and El-Shawa (2009) state that the board size affects corporate value (Jaafar and El-Shawa, 2009). However, other studies state the opposite, that there is no influence of board size on corporate value (Nuryanah and Islam, 2011). This difference in theory can occur because the implementation of corporate governance varies across countries as it is influenced by the economic system, law, ownership structure, as well as social and cultural condition.

In this study, the board size is measured based on the number of directors, commissioners, and audit committees. Therefore, the hypotheses proposed are:
Hypothesis 1a: The size of the commissioner influences financial performance
Hypothesis 1b: The size of the commissioner influences the value of the company
Hypothesis 1c: The size of the commissioner influences the value of the company mediated by financial performance
Hypothesis 2a: The size of directors influences financial performance
Hypothesis 2b: The size of directors influences the value of the company
Hypothesis 2c: The size of directors influences the value of a company mediated by financial performance
Hypothesis 3a: The size of the audit committee influences financial performance
Hypothesis 3b: The size of the audit committee influences the value of the company
Hypothesis 3c: The size of the audit committee influences the value of the company mediated by financial performance

2.4 Independent Board and Corporate Value

The composition of the board in a company is important to consider. Many theories suggest the ideal composition of the size of the board in a company. Apart from those theories, there needs to be an independent council in the corporate governance mechanism that contributes to increasing the value of the company (Nuryanah and Islam, 2011).

The National Committee of Governance Policy (KNKG) hints in the General Guidelines for Sharia Business Goood Governance (GGBS) that sharia business companies must have an independent commissioner who functions on the behalf of minority shareholders, who becomes the chairperson of the committees, who is formed by the commissioners by supervising and providing advice to directors. Leadership and the size of independent commissioners is a significant predictor of corporate value (Nuryanah and Islam, 2011). This supports Berle and Means theory (1932) which states that the independent commissioner increases the effectiveness of supervision and the role of board strategic plan that lead to better company performance (Means, 2017).

This study takes the size of the independent board of commissioners as the variable under study. Therefore, the hypotheses proposed are:
Hypothesis 4a: The size of independent commissioners influences financial performance
Hypothesis 4b: The size of independent commissioners influences the value of the company
Hypothesis 4c: The size of independent commissioners influences the value of the company mediated by financial performance

2.5 Institutional Ownership and Corporate Value

This research is based on agency theory. The concept of agency problems by Jensen and Meckling (1976) states that agency problems will occur if the proportion of institutional ownership of company shares is less than 100%, which makes managers become selfish and the implementation is not based on maximizing corporate value in making investment decisions (Jensen and Meckling, 1979).

At a very high level of ownership, there is a tendency for institutional investors to enforce certain policies that are not optimal, regardless of minority shareholders interests through their voting rights (Handriani and Robiyanto, 2019). This is the reason why institutional ownership must exist in each company, to help encourage more optimal supervision which will have an impact on ensuring the prosperity of the shareholders.

Institutional ownership in management has a role to minimize agency conflicts that often occur between principals and agents (Demsetz and Lehn, 1985). Shleifer and Vishny (1997) argue that the level of institutional ownership in proportion will substantially affect the company's market value (Shleifer and Vishny, 1997). This is in line with the research conducted by Handriani and Robiyanto (2019) which states that there is a positive influence between institutional ownership and corporate value (Handriani and Robiyanto, 2019). The basis of this argument is the greater institutional ownership, the more effective control mechanisms toward management performance which result in reducing risk of agency conflict.

Institutional ownership is one of the proxy variables of the corporate governance structure that acts as a control mechanism in mobilizing the company so that it has an impact on maximizing the company's performance on profitability and corporate value. The ability to produce good profitability will affect the value of the company (Modigliani and Miller, 1959). Therefore, the level of institutional ownership of a company can be a determinant to achieve good corporate governance.

Consistency in implementing the corporate governance system is part of the control mechanism to maintain the value of the company. Then hypotheses 1a, 1b, and 1c are formulated as follows:

Hypothesis 5a: Institutional ownership influences financial performance

Hypothesis 5b: Institutional ownership influences the value of the company

Hypothesis 5c: Institutional ownership influences the value of a company mediated by financial performance

2.6 Managerial Ownership and Corporate Value

In emerging markets the impact of managerial ownership cannot be ignored. It is due to the fact that the problem of alignment of interests is always a major problem between agents and principals (Ahmed et al., 2019). In the hypothesis of interest alignment, the problem of aligning interests between agents and principals decreases by increasing managerial ownership (Chen and Chuang, 2009).

Managerial ownership is regarded as one of the important instruments in the implementation of corporate governance. This is due to its effectiveness which can help resolve conflicts between agents and principals (Brickley et al., 1988). According to Noradiva and Parastou (2016), managerial ownership motivates managers to monitor company performance positively in order to increase their return on ownership in the company (Noradiva et al., 2016). Previous studies have clearly demonstrated that higher level of managerial ownership contributes to higher level of corporate performance and corporate value (Sun et al., 2016).

By considering the importance of managerial ownership in a company, the hypothess proposed are as follows:

Hypothesis 6a: Managerial ownership influences financial performance

Hypothesis 6b: Managerial ownership influences the value of the company

Hypothesis 6c: Managerial ownership influences the value of a company mediated by financial performance

2.7 Financial Performance and Corporate Value

Financial performance is a description of financial conditions that can be a benchmark for the success of a company. It can be said to have correlation with corporate value because there is a reciprocal relationship that the change in financial performance will affect the value of the company. Bhat et al (2018) explaine that there is a positive influence between financial performance and corporate value (Bhat et al., 2018). In addition, another theory also says that financial performance can mediate corporate governance on corporate value (Jentsch, 2019).

This study focuses on measuring financial performance with the proxy Return on Assets (ROA) as a

mediating variable and corporate value with Tobins' Q as the dependent variable. Therefore, the hypothesis proposed is:
Hypothesis 7a: Financial performance influences the value of the company.

3 METHOD

The population in this study were all companies included in the category of the Jakarta Islamic Index on the Indonesia Stock Exchange, period of 2010-2017. The research used purposive sampling method with company criteria are: (1) companies listed as sharia shares in JII (Jakarta Islamic Index) from 2010 to 2017; (2) having an annual report during the observed period; (3) recorded for 4 years at JII during the observation period; and (4) having data and information that can be accessed relating to the value of all variables studied. This study used path analysis with a combined regression model approach. The data used in this study were quantitative using panel data which is a combination of time series (lots of time) and Cross Sectional (many companies).

4 VARIABLE DEFINITIONS AND OPERATIONS

This study used internal corporate governance mechanisms proxied by institutional ownership, managerial ownership, and independent boards, as well as board size that is proxied by the size of commissioner, board of directors and the audit committee. Meanwhile, the dependent variable is corporate value, proxied in Tobins' Q, and financial performance variable with the proxy Return on Assets (ROA) as an intervening variable. The independent variable in this study describes the corporate governance policy in the structure of good corporate governance, which consists of; first, institutional ownership proxied by using the percentage indicator of the number of shares held by the institution; second, managerial ownership proxied by using the percentage indicator of the number of shares held by company managers; third, the composition of the independent commissioners proxied by using indicators of the number of independent commissioners in the company, and fourth, the size of the board proxied by using indicators of the number of commissioners board members, directors board members and audit committee of a company.

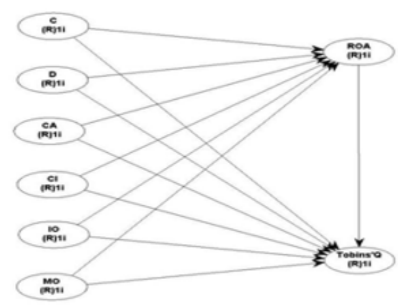

Figure 1: Relationship between variables in the PLS model

Further explanation of the measurement of various research variables and indicators used in this study is presented in Figure 2.

Variabel	Size
Institutional Ownership (IO)	The percentage of the number of shares held by the institution from the total number of shares
Managerial Ownership (MO)	The percentage of the number of shares held by the manager of the total number of shares
Independent Commissioner (CI)	Number of independent commissioners / number of board of commissioners
Directors (D)	Number of board of directors
Commissioner (C)	Number of board of commissioners
Audit Committee (CA)	Number of audit committees
Financial Performance (ROA)	Return On Assets (ROA) = net income / total assets
Corporate value (Tobins'Q)	(Market Value + debt) / total assets

Figure 2: Research variable. Source: WarpPLS 6.0 results (data processed in 2019)

5 STATISTICS RESULTS AND SUMMARY

5.1 Fit Model

Based on the results of testing using WarpPLS 6.0 (based on WarpPLS User Manual: Version 6.0 (Kock, 2017)), it is possible to obtain a fit model calculation to evaluate whether the model fit is appropriate or supported by the following data :

Description	Value	Terms	Sig	Conclusion
Average path coefficient (APC)	0,175	< 0,05	0,004	Significant
Average R-squared (ARS)	0,618	< 0,05	<0,001	Significant
Average adjusted R-squared (AARS)	0,604	< 0,05	<0,001	Significant
Average block VIF (AVIF)	1,463	< 5	-	Accepted
Average full collinearity VIF (AFVIF)	1,782	< 5	-	Accepted
Tenenhaus GoF (GoF)	0,786	> 0,1	-	High
Sympson's paradoks ratio (SPR)	0,923	> 0,7	-	Accepted
R-squared contribution ratio (RSCR)	0,999	> 0,9	-	Accepted
Statistical suppression ratio (SSR)	0,923	> 0,7	-	Accepted
Nonliniear bivariate causality direction ratio (NLBCDR)	0,808	> 0,7	-	Accepted
				Not multicollinearity

Figure 3: Model Fit Analysis. Source: WarpPLS 6.0 results (data processed in 2019)

The output results show that APC, ARS and AARS are significant so that they meet the criteria of goodness of fit model (p value meets the requirements <0.05). AVIF and AFVIF values have also met the accepted conditions of less than 5 which indicates the absence of multicollinearity in the model.

5.2 The Evaluation of Measurement Model (Outer Model)

The summary of combined loading and cross-loading output in the WarPLS 6.0 program used for the indicators of each variable under study is presented in Figure 4 below.

Variabel	Indi-cator	Loadings	P-Value	Description	VIF	Sig. Test
Commis-sioner (X1)	$X_{1.2}$	0,174	< 0,001	Valid	0,000	Sig.
	$X_{1.3}$	-0,028	< 0,001	Valid	0,000	Sig.
	$X_{1.4}$	-0,145	< 0,001	Valid	0,000	Sig.
	$X_{1.5}$	0,000	< 0,001	Valid	0,000	Sig.
	$X_{1.6}$	-0,136	< 0,001	Valid	0,000	Sig.
	$X_1.Y_1$	-0,082	< 0,001	Valid	0,000	Sig.
	$X_1.Y_2$	-0,181	< 0,001	Valid	0,000	Sig.
Directors (X2)	$X_{2.3}$	-0,030	< 0,001	Valid	0,000	Sig.
	$X_{2.4}$	0,363	< 0,001	Valid	0,000	Sig.
	$X_{2.5}$	-0,059	< 0,001	Valid	0,000	Sig.
	$X_{2.6}$	0,002	< 0,001	Valid	0,000	Sig.
	$X_2.Y_1$	0,191	< 0,001	Valid	0,000	Sig.
	$X_2.Y_2$	0,232	< 0,001	Valid	0,000	Sig.
Audit Committee (X3)	$X_{3.4}$	-0,153	< 0,001	Valid	0,000	Sig.
	$X_{3.5}$	-0,023	< 0,001	Valid	0,000	Sig.
	$X_{3.6}$	-0,139	< 0,001	Valid	0,000	Sig.
	$X_3.Y_1$	0,051	< 0,001	Valid	0,000	Sig.
	$X_3.Y_2$	-0,109	< 0,001	Valid	0,000	Sig.
Independent Commis-sioner (X4)	$X_{4.5}$	-0,024	< 0,001	Valid	0,000	Sig.
	$X_{4.6}$	-0,058	< 0,001	Valid	0,000	Sig.
	$X_4.Y_1$	0,412	< 0,001	Valid	0,000	Sig.
	$X_4.Y_2$	0,619	< 0,001	Valid	0,000	Sig.
Institutional Ownership (X5)	$X_{5.6}$	-0,163	< 0,001	Valid	0,000	Sig.
	$X_5.Y_1$	0,306	< 0,001	Valid	0,000	Sig.
	$X_5.Y_2$	0,224	< 0,001	Valid	0,000	Sig.
Mana-\gerial	$X_6.Y_1$	-0,164	< 0,001	Valid	0,000	Sig.
	$X_6.Y_2$	-0,100	< 0,001	Valid	0,000	Sig.
Owner-ship (X6)						
Financial Perfor-mance (Y1)	$Y_1.Y_2$	0,779	< 0,001	Valid	0,000	Sig.

Figure 4: Output Combined Loadings and Cross-Loadings & Indicator Weight. Source: WarpPLS 6.0 results (data processed in 2019)

Based on Figure 4, it can be described that the indicator results of weight variableof institutional ownership, managerial ownership, board size, commissioner size, audit committee size, independent commissioner size, financial performance and corporate value are significant. This means that these indicators are significant to measure the variables used in the study. Then, the VIF value is less than 2.5. It is concluded that there is no multicollinearity.

5.3 The Evaluation of Structural Model (Inner Model)

The evaluation of structural model relates to evaluating the relationship between latent variables by assessing the coefficient determination, instrument reliability, discriminant validity, full colliniearity test, and predictive validity. Figure 5 presents the various results needed to evaluate the structural model (inner model).

	D	C	CA	CI	IO	MO	ROA	Tobin'Q
R-Squared							0,4	0,8
Adj. R-Squared							0,4	0,8
Com. Reliab.	1	1	1	1	1	1	1	1
Cron. Alpha	1	1	1	1	1	1	1	1
Avg. Var. Extrac.	1	1	1	1	1	1	1	1
Full Collin. VIF	1,2	1,2	1,1	1,9	1,2	1,1	2,9	3,7
Q-Squared							0,4	0,8

Figure 5: Structural Model Testing Results (Inner Model). Source: WarpPLS 6.0 results (data processed in 2019)

construct variance / criterion can be explained by the construct hypothesized to influence it (exogenous / predictor). R value (squared) 0.75; 0.50; and 0.25 for each endogenous latent variable in the structural model can be interpreted as substantial, moderate, and weak. R (squared) construct of financial performance with proxy ROA of 0.399 shows that the variance of financial performance can be explained by 39.9% by the variance in the size of the board of commissioners, directors, audit committees, independent commissioners, institutional ownership and managerial ownership. This shows the strong ability of the board of commissioners, directors, audit committees, independent commissioners, institutional ownership and managerial ownership in explaining the variance of financial performance. R (squared) construct of corporate value with Tobins'Q proxy of 0.837 shows that the variance of corporate value can be explained by 83.7% by the variance of board of commissioners, directors, audit committees, independent commissioners, institutional ownership, managerial ownership and financial performance.

5.4 Hypotheses Testing Results

Complete hypotheses testing results of direct influence can be seen in Figure 6 below.

Independent Variables	Dependent Variable	Path Coef.	P-Value	Result
Commissioner Size (X_1)	Financial performance (Y_1)	-0,151	0,018	Significant
Commissioner Size (X_1)	Corporate value (Y_2)	-0,076	0,149	Not Significant
Size of Directors (X_2)	Financial performance (Y_1)	0,143	0,024	Significant
Size of Directors (X_2)	Corporate value (Y_2)	0,055	0,225	Not Significant
Audit Committee Size (X_3)	Financial performance (Y_1)	0,091	0,106	Not Significant
Audit Committee Size (X_3)	Corporate value (Y_2)	-0,035	0,315	Not Significant
Independent Commissioner Size (X_4)	Financial performance (Y_1)	0,335	< 0,001	Significant
Independent Commissioner Size (X_4)	Corporate value (Y_2)	0,165	0,011	Significant
Institutional Ownership (X_5)	Financial performance (Y_1)	0,320	< 0,001	Significant
Institutional Ownership (X_5)	Corporate value (Y_2)	0,108	0,068	Not Significant
Managerial ownership (X_6)	Financial performance (Y_1)	-0,098	0,089	Not Significant
Managerial ownership (X_6)	Corporate value (Y_2)	0,009	0,452	Not Significant
Financial performance (Y_1)	Corporate value (Y_2)	0,692	< 0,001	Significant

Figure 6: Summary of Results of Direct Influence Hypothesis Testing.Source: WarpPLS 6.0 results (data processed in 2019)

Furthermore, the results of the complete path analysis are also presented in the form of image as shown in the following Figure 7.

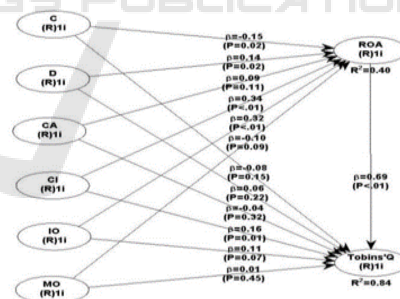

Figure 7: Results of PLS-Path Analysis

In accordance with Figure 5 and Figure 7, the results of hypotheses testing can be explained directly from the variables as follow:

1. Hypothesis 1a states that commissioner size influences financial performance. The test result shows path coefficients of -0.151 (p = 0.018). This means that H1a is accepted; the size of the commissioner (X1) has an effect on financial performance (Y1). The path coefficient value of -0.151 shows that the size of the commissioner (X1) has a significant negative effect on financial performance (Y1).

2. Hypothesis 1b states that the size of the commissioner influences the value of the company. The test result shows path coefficients of -0.076 (p = 0.149). This means that H1b is rejected; the size of the commissioner (X1) does not affect the value of the company (Y2).
3. Hypothesis 2a states that the size of directors influences financial performance. The test result shows path coefficients of 0.143 (p = 0.024). This means that H2a is accepted; the size of the board of directors (X2) has an effect on financial performance (Y1). The path coefficient value of 0.143 indicates that the size of the board of directors (X2) has a significant positive effect on financial performance (Y1).
4. Hypothesis 2b states that the size of directors influences the value of the company. The test result shows path coefficients of 0.055 (p = 0.225). This means that H2b is rejected; the size of the board of directors (X2) does not affect the corporate value (Y2).
5. Hypothesis 3a states that the size of the audit committee influences financial performance. The test result shows path coefficients of 0.091 (p = 0.106). This means that H3a is rejected; the size of the audit committee (X3) has no effect on financial performance (Y1).
6. Hypothesis 3b states that the size of the audit committee influences the value of the company. The test result shows path coefficients of -0.035 (p = 0.315). This means that H3b is rejected; the size of the audit committee (X3) does not affect the value of the company (Y2).
7. Hypothesis 4a states that the size of independent commissioners influences financial performance. The test result shows path coefficients of 0.335 (p = ¡0.001). This means that H4a is accepted; the size of an independent commissioner (X4) has an effect on financial performance (Y1). The path coefficient value of 0.335 indicates that the size of the independent commissioner (X4) has a significant positive effect on financial performance (Y1).
8. The 4b hypothesis states that the size of independent commissioners influences the value of the company. The test result shows path coefficients of 0.165 (p = 0.011). This means that H4b is accepted; independent commissioner size (X4) has an effect on corporate value (Y2). The path coefficient value of 0.165 indicates that the size of the independent commissioner (X4) has a significant positive effect on corporate value (Y2).
9. Hypothesis 5a states that institutional ownership affects financial performance. The test result shows path coefficients of 0.320 (p = ¡0.001). This means that H5a is accepted; institutional ownership (X5) has an effect on financial performance (Y1). The path coefficient value of 0.320 indicates that institutional ownership (X5) has a significant positive effect on financial performance (Y1).
10. Hypothesis 5b states that institutional ownership affects the value of the company. The test result shows path coefficients of 0.108 (p = 0.068). This means that H5b is rejected; institutional ownership (X5) has no effect on corporate value (Y2).
11. Hypothesis 6a states that managerial ownership influences financial performance. The test result shows path coefficients of -0.098 (p = 0.089). This means that H6a is rejected; managerial ownership (X6) does not affect financial performance (Y1).
12. Hypothesis 6b states that managerial ownership affects the value of the company. The test result shows path coefficients of 0.009 (p = 0.452). This means that H6b is rejected; managerial ownership (X6) does not affect corporate value (Y2).
13. Hypothesis 7a states that financial performance has an effect on corporate value. The test result shows path coefficients of 0.692 (p = ¡0.001). This means that H7a is accepted; financial performance (Y1) has an effect on corporate value (Y2). The path coefficient value of 0.692 indicates that financial performance (Y1) has a significant positive effect on corporate value (Y2).

Furthermore, there are results of testing indirect effects as a follow-up of testing the direct effect between the variables. The test is related to financial performance (Y1) as an intervening variable from the direct influence between variables, which are the influence of size of board of commissioner (X1), directors (X2), audit committee (X3), independent commissioner (X4), institutional ownership (X5), managerial ownership (X6) toward corporate value (Y2). In summary, the results of mediation testing are presented in Figure 8 as follows:

Independent Variables	Intervening variable	Dependent Variable	Ind. Eff	P-Value	Result
Commissioner Size (X_1)	Financial performance (Y_1)	Corporate value (Y_2)	-0,104	0,021	Mediated
Board of Directors Size (X_2)	Financial performance (Y_1)	Corporate value (Y_2)	0,099	0,027	Mediated
Audit Committee Size (X_3)	Financial performance (Y_1)	Corporate value (Y_2)	0,063	0,112	Not Mediated
Independent Commissioner Size (X_4)	Financial performance (Y_1)	Corporate value (Y_2)	0,232	<0,001	Mediated
Institutional Ownership (X_5)	Financial performance (Y_1)	Corporate value (Y_2)	0,221	<0,001	Mediated
Managerial ownership (X_6)	Financial performance (Y_1)	Corporate value (Y_2)	-0,068	0,095	Not Mediated

Figure 8: Summary of Hypothesis Testing Results Indirect Effects of Intervening Variables. Source: WarpPLS 6.0 results (data processed in 2019)

In accordance with Figure 8, the results of testing the hypotheses of direct influence between variables are as follows:

1. The 1c hypothesis states that the size of the commissioner influences the value of the company mediated by financial performance. The test result shows indirect effects of -0.104 (p = 0.021). This means that H1c is accepted; the size of the commissioner (X1) affects the value of the company (Y2) mediated by financial performance (Y1).
2. Hypothesis 2c states that the size of directors influences the value of the company mediated by financial performance. The test result shows indirect effects or an indirect effect of 0.099 (p = 0.027). This means that H2c is accepted; the size of the board of directors (X2) affects the value of the company (Y2) mediated by financial performance (Y1).
3. The 3c hypothesis states that the size of the audit committee affects the value of the company mediated by financial performance. The test result shows indirect effects or indirect effects of 0.063 (p = 0.112). This means that H3c is rejected; the size of the audit committee (X3) does not affect corporate value (Y2) mediated by financial performance (Y1).
4. The 4c hypothesis states that the size of independent commissioners influences the value of the company mediated by financial performance. The test result shows indirect effects of 0.232 (p = ¡0.001). This means that H4c is accepted; independent commissioner size (X4) influences corporate value (Y2) mediated by financial performance (Y1).
5. The 5c hypothesis states that institutional ownership affects the value of a company mediated by financial performance. The test result shows indirect effects of 0.221 (p = ¡0.001). This means that H5c is accepted; institutional ownership (X5) affects corporate value (Y2) mediated by financial performance (Y1).
6. The 6c hypothesis states that managerial ownership affects the value of a company mediated by financial performance. The test result shows indirect effects of -0.068 (p = 0.095). This means that H5c is rejected; managerial ownership (X6) does not affect corporate value (Y2) mediated by financial performance (Y1).

6 DISCUSSION

This study aims to determine the effect of commissioner size, board size, audit committee size, independent commissioner size, institutional ownership, and managerial ownership toward corporate value with financial performance as an intervening variable. Based on the results of the study it is known that the size of the board of commissioners, directors, and audit committee which include in the board size category do not affect financial performance optimally. The board size and commissioner size influence the financial performance while the size of the audit committee does not. However, this can be considered as enough because the commissioners and directors are the top management in the company who have major influence on the performance of the company. Therefore, these two functions need to work together so that the achievement of better corporate performance can be achieved. The function carried out by the directors and commissioners is the mandate given to both. It is not easy because these two functions act as supervisors and decision makers in the company. Keep in mind that each position given is a mandate from the principal and must be accounted later. In the perspective of sharia, every mandate given should be properly fulfilled as stated in the surah An-Nisa: 58. It is important to keep the mandate, because the one who is not keeping it can be categorized as a hypocrite as mentioned in the hadith of the Prophet Muhammad.

Regarding the audit committee that does not have a direct influence on financial performance, it is in line with previous research conducted by Nuryanah and Islam (2011) which states that there is no significant effect of audit committee size toward company performance in developing countries such as Indonesia, where capital markets are still developing and corporate governance systems are still weak (Nuryanah and Islam, 2011), even though the function of audit committee can reduce the emergence of internal control problems (Krishnan, 2005). The audit committee is formed to assist the supervisory function of the directors board in order to increase financial disclosures (Nuryanah and Islam, 2011). In the corporate governance system in Indonesia the audit committee is a support committee of the commissioners board . Therefore, the results of the research test which states that there is no influence of the audit committee on the company's performance is still acceptable, because of its role in the corporate governance system as supporting the board of commissioners.

Other test result in this study indicates that board size proxied by commissioner size, director size, and audit committee size do not affect corporate value. The same result is also shown by Nuryanah and Islam (2011) which also states the insignificant results of board size toward corporate value (Nuryanah and Islam, 2011). These results can be interpreted that no matter how large the size of the board is, it cannot improve the company's reputation.

This study also examines the indirect influence between board size and corporate value mediated by financial performance. The results of this test show that the size of the board with the proxy size of commissioners and directors influences the value of the company mediated by financial performance. Meanwhile, the audit committee has no effect on the value of the company mediated by financial performance. These results are interpreted that companies with board size must focus on financial performance to obtain good corporate value in the eyes of investors.

This study also shows that the size of an independent board proxied by independent commissioners has a significant effect on financial performance and corporate value. This result supports the theory of Berle and Means (1932) who argue that an independent commissioner can improve the effectiveness of supervision and the role of board strategic plann that leads to better company performance (Means, 2017). The independent board in the corporate governance system is an important attribute that can improve company performance, because leadership and the size of independent commissioners are significant predictors of corporate value (Nuryanah and Islam, 2011). In line with these results, the other research result also says that there is an indirect influence between independent board of commissioners and corporate value mediated by financial performance.

This study also presents the result of the influence of institutional ownership and managerial ownership on financial performance and corporate value. The result claims that institutional ownership has a significant effect on financial performance but does not affect the value of the company. Meanwhile, managerial ownership does not affect financial performance and corporate value. Institutional ownership has an influence on financial performance because principals can monitor and discipline the company agents. Institutional principals who do not have a large business relationship are likely to provide better monitoring which can then increase the company's output and value (Huddart, 1993). This type of ownership will provide independent monitoring activities which then ensure management to carry out company operations in the principal's best benefits (Nuryanah and Islam, 2011). However, in testing the indirect effects, it is obtained that institutional ownership influences the value of the company mediated by financial performance. This explains that financial performance is an important proxy in the company to maximize corporate value.

Managerial ownership does not affect financial performance and corporate value. In addition, the results of the indirect influence test show that managerial ownership does not affect the value of the company through financial performance. It can be interpreted as one of the effects of the weak implementation of corporate governance in Indonesia, because there are still many companies in the JII category that do not implement managerial ownership in the company. There are a lot of literatures that show that some aspects of management ownership will increase the sense of ownership of the company which motivates the managers to run the company optimally. Therefore, this aspect, if applied optimally, can suppress the occurrence of corporate conflicts and information asymmetry, because the agent feels that they own the company and minimize the excess agency cost.

7 CONCLUSION

Increasing corporate value is an important thing that must be conducted to attract investors to invest their capital in the company. A good corporate value can be formed by implementing a corporate governance system. The corporate governance system in this study is represented by corporate governance mech-

anisms, namely the board of commissioners, board of directors, audit committees, independent commissioners, institutional ownership and managerial ownership. The results obtained from the direct effect test in the form of all mechanisms influence the financial performance, except for the audit committee and managerial ownership. In another test it was found that all mechanisms, except for independent commissioners, do not influence the value of the company. Whereas in the indirect effect test it is found that all governance mechanisms, except the audit committee and managerial ownership, have an effect on the value of the company with mediated financial performance.

8 LIMITATIONS AND IMPLICATIONS

This research is limited to the internal mechanism of corporate governance towards the value of the company by not involving external mechanisms that might obtain more varied and relevant results from existing research. In addition, the internal mechanism of sharia corporate governance in this study does not involve the Sharia Supervisory Board which is the hallmark of sharia companies. This is because all sharia companies that are the object of the research do not yet have a Sharia Supervisory Board.

The implication of this research is that the function of the audit committee in sharia companies still has little role in building financial performance and corporate value. Therefore it does not need too many audit committees,, but the sharia companies only need to maximize their performance. Besides, the managerial ownership should be a motivation for managers to improve financial performance so that it has an impact on increasing the value of Sharia companies. sharia companies need to add to the function of the Sharia Supervisory Board is the right step to strengthen a positive view of sharia companies.

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