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THE INFLUENCE OF ISLAMIC CORPORATE GOVERNANCE AND PROFIT MANAGEMENT ON COMPANY VALUE IN SHARIA COMMERCIAL BANKS FOR THE 2018-2021 PERIOD

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A B S T R A C T

Company value is investors' perception of the company which is often linked to share prices. The growth of Islamic banking is increasing, the implementation of Islamic Corporate Governance (ICG) has become an obligation. ICG implementation aims to overcome the emergence of various risks and problems. Apart from these goals, ICG is also the main focus for making banking superior and highly competitive. The results in this study indicate that Islamic corporate governance has a positive effect on firm value, and earnings management has a positive effect on firm value. The conclusion in this study is H1 which states that Islamic corporate governance has a negative and significant effect on accepted firm value and H2 states that earnings management has a positive and significant effect on accepted firm value and H3 which states simultaneously that both variables, namely Islamic corporate governance and earnings management can have an effect to accepted firm value.

1. Introduction

The importance of implementing GCG is an effort to protect the interests of stakeholders, increase compliance with applicable laws and regulations as well as ethical values that generally apply to the sharia banking industry. On this basis, the idea of Islamic Corporate Governance (ICG) was introduced, which seeks to elaborate Islamic corporate governance by prioritizing and synchronizing the pillars of conventional corporate governance and sharia. Running a bank, in this case sharia banking, needs to be supported by good and sufficient human resources, so that the company's goals run as expected. With the increasing growth of sharia banking, the implementation of Islamic Corporate Governance (ICG) has become an obligation. Implementation of ICG aims to overcome the emergence of various kinds of risks and problems. Apart from these goals, ICG is also the main foundation for making banking superior and has high competitiveness. Explained by the National Committee for Governance Policy (KNKG) in the Islamic Corporate Governance guidelines for banking in Indonesia, the implementation of ICG has a very important role for the ICG banking industry.

Implemented by sharia commercial banks with the aim of creating and maintaining a good name and trust in the community, this is a mandatory requirement for creating a healthy banking work environment. Activities carried out by banks will be directly related to their customers, therefore there is the potential for agency problems to arise. As a solution to this problem, it is necessary to implement Islamic Corporate Governance (ICG) as a protector of stakeholder interests and increase banking compliance with the main sharia principles. However, ICG does not have a comprehensive supervisory role over activities in sharia banking. The success of sharia banking is driven by innovations that continue to be created by sharia banking itself. However, the public's view of sharia banking is not always good and quite a few Indonesians still view the governance of sharia banking as the same as conventional banking in general, assuming that the establishment of sharia banking is only for generating profits, without looking at social values. Benefits, justice and the most important thing is the value of faith. Discussing Corporate Governance in accordance with Islamic ethics, there are several principles that have a direct relationship, especially in banking practices, such as the prohibition of usury, the occurrence of maysir and the existence of gharar. The above aspects have not been given special attention by conventional Corporate Governance in general. Some important things that must be done are to carry out banking activities that uphold the values of justice, politeness, work diligently with the intention of seeking knowledge, and have competence in their field. Good governance according to Islam is based on Islamic Corporate Governance indicators. Corporate governance is one way for companies to show that the company's internal conditions meet corporate governance standards. Corporate governance or often known as corporate governance is a set of relationships between company management, directors, commissioners, shareholders and other stakeholders. Corporate Governance from an Islamic perspective or often referred to as 3 Islamic Corporate Governance is general corporate governance that is based on Islamic values in order to prove that the company can be trusted in managing existing financial resources, and can strive for optimal management as much as possible through implementation of Islamic corporate governance. Previous research that supports this research is research conducted by Hana Fadhilah (2019) in her research that Islamic Corporate Governance, which is proxied by audit committee meetings and sharia supervisory board meetings, has an effect on Financial Shenanigans, while independent commissioners: the audit committee. The sharia supervisory board and commissioners' meetings have no effect on company value. Diky Satna et al in their research results show that Corporate Governance influences company value. Riza Nur Rosita and Sri Lestari Kumiawati stated that ICG partially had a significant positive effect on company value. Based on the description presented by the author above, the author is interested in conducting deeper research regarding "the influence of islamic corporate governance and profit management on company value in sharia commercial banks for the 2018-2021 period".

2. Literature Review

Corporate governance is a system used to direct and control a company. It includes a set of rules, practices, and processes used to ensure that the company is managed well and

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responsibly to all stakeholders, including shareholders, management, employees, customers, and the wider community.

Principles of Corporate Governance

1. Transparency: The company must provide timely, accurate, and clear information on all important matters relating to the company.
2. Accountability: Management must be accountable to the board of directors, and the board of directors must be accountable to shareholders and other stakeholders.
3. Fairness: All shareholders, including minority and foreign shareholders, must be treated fairly.
4. Responsibility: The company must be aware of its responsibilities to the society and environment in which it operates"
5. Independence: The board of directors must have a sufficient level of independence to carry out effective oversight of management" (Demise, 2006)

Corporate Governance Structure

The corporate governance structure consists of several main components:

1. Board of Directors: The board of directors is responsible for overseeing and providing strategic direction to the company's management.
2. Executive Management: Executive management is responsible for the company's day-to-day operations and the implementation of strategies approved by the board of directors.
3. Shareholders: Shareholders have the right to elect members of the board of directors and influence important company decisions through general meetings of shareholders (Shleifer & Vishny, 1997)
4. Audit Committee: The audit committee is tasked with overseeing the company's financial reporting process and ensuring effective internal control.
5. Governance Committee The governance committee is tasked with overseeing the implementation of good corporate governance principles (Demise, 2006)

Corporate Governance Theories

Some theories that are often discussed in the context of corporate governance include:

1. Agency Theory: Agency theory highlights the conflict of interest between management (agent) and shareholders (principal). The board of directors and audit committee serve to mitigate these conflicts by overseeing management (Jensen & Meckling, 1976)
2. Stewardship Theory: Stewardship theory assumes that management acts as a custodian of the firm's assets and acts in the best interests of shareholders (Davis et al., 1997)
3. Stakeholder Theory: Stakeholder theory emphasizes that firms should consider the interests of all stakeholders, not just shareholders, in their decision-making (Freeman, 2015)
4. Resource Dependence Theory: Resource dependency theory focuses on how the board of directors helps the firm acquire critical resources and manage dependencies with the external environment (Reitz et al., 1979)

Corporate Governance Regulations and Standards

Different countries have regulations and standards governing corporate governance. Some of the well-known ones are:

1. Sarbanes-Oxley Act (US): The Sarbanes-Oxley Act of 2002 aimed to improve accountability and transparency in the financial reporting of public companies in the United States (Jensen & Meckling, 1976)
2. OECD Code of Corporate Governance: The OECD provides international guidelines for good corporate governance practices (Demise, 2006)

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3. OJK Regulations (Indonesia): The Financial Services Authority (OJK) in Indonesia has various regulations to ensure that companies in Indonesia follow good corporate governance practices

Islamic Corporate Governance refers to the application of sharia principles in corporate governance. These principles not only cover economic and financial aspects but also emphasize high moral and ethical values. The following are indicators of Islamic corporate governance:

1. Shariah Compliance
1) Compliance with Shariah Law:
   a. The company must comply with Shariah law in all its aspects, including the products and services offered, as well as in its day-to-day operations.
   b. Islamic corporate governance includes compliance with Shariah principles, which govern both financial and non-financial aspects (Iqbal & Mirakhor, 2004)
2) Shariah Supervisory Board:
   a. The company must have a Shariah Supervisory Board that is tasked with overseeing and ensuring compliance with Shariah law.
   b. The role of the Shariah Supervisory Board is very important in ensuring that the company's operations and products are in accordance with Shariah law (Choudhury & Hoque, 2006)
2. Transparency and Accountability
1) Clear and Transparent Reporting:
   a. The company must provide clear and transparent financial and non-financial reports to all stakeholders.
   b. Transparency is one of the main principles in Islamic corporate governance to ensure accountability to stakeholders. (Abu-Tapanjeh, 2009)
2) Accountability to Stakeholders:
   a. The company's management must be accountable to shareholders and other stakeholders in accordance with sharia principles.
   b. Accountability in Islamic corporate governance includes responsibility to Allah and to stakeholders. (Sadek et al., 2018)
3. Justice and Equity
1) Justice in Profit Sharing:
   a. The company must ensure a fair distribution of profits between shareholders and other stakeholders.
   b. The principle of justice in Islamic corporate governance emphasizes the fair and equitable distribution of wealth. (Hasan, 2009)
2) Equal Treatment for All Stakeholders:
   a. All stakeholders must be treated fairly and equally without discrimination.
   b. Equality in the treatment of all stakeholders is a fundamental principle in Islamic corporate governance. (Mannan, 1983)
4. Social and Environmental Responsibility
   a. Social Responsibility:
      Companies must carry out their social responsibilities by contributing to the welfare of society. Islamically managed companies have a social responsibility to contribute to the welfare of society and the environment" (Dusuki, 2008)
   b. Environmental Management:
      Companies must minimize negative impacts on the environment and ensure sustainable business practices. "Environmental responsibility is an integral part of sustainable Islamic corporate governance" (Hassan & Syafri Harahap, 2010)
5. Ethical Principles
1) Integrity and Honesty:

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a. Companies must adhere to the principles of integrity and honesty in all aspects of their business.
b. Ethics in Islamic business emphasize integrity and honesty as the main pillars of corporate governance (Beekun, 2019)

2) Moral Responsibility:
   a. Companies must act with high moral responsibility, avoiding harmful or unethical practices.
   b. Islamic ethical principles in corporate governance include high moral responsibility in every business decision (Rice, 1999)

3. Research Method

Quantitative research methods can be interpreted as research methods that are based on the philosophy of positivism, used to research certain populations or samples, sampling techniques are generally carried out randomly, data collection uses research instruments, data analysis is quantitative/statistical with the aim of testing hypotheses. has been established. This research is descriptive analytical research, namely research to describe more carefully the characteristics of an effort to determine the frequency of occurrence of something or the relationship between something else and provide systematic and accurate information regarding the characteristics of a particular population or object. The method used in this research is a quantitative method, with the aim of testing theory and finding out more about the causal relationship of each variable with clear, detailed and specific data so that this research runs systematically and objectively. The data source in this research uses secondary data sources. Secondary data sources are sources that do not directly provide data to data collectors. The data collection method used in this research is by reviewing the documentation of daily reports and annual reports of Sharia Commercial Banks for 2018-2021. Apart from that, this research also uses the library study method, namely data collection by taking data and sources of information from reading in the form of literature, books and journals that are appropriate to the research.

4. Result

1. The Influence of Islamic Corporate Governance on Company Value

   Based on the results of partial testing of the influence of Islamic Corporate Governance on company value using SPSS, a t-count of -2.806 was obtained with a p value of 0.009. Because the p value is 0.004 < 0.005. This shows that the Islamic Corporate Governance variable has a negative and significant effect on the company value variable. 5 And the hypothesis proposed is that Islamic Corporate Governance has a negative effect on company value, so it can be concluded that H1 is accepted. The results of this research are because those who hold positions in corporate governance, not all of the benefits obtained are felt by both managers, the board of directors and parties who have positions in corporate governance. So they don't feel like they own the company and are more concerned with their goals as their position. In accordance with stakeholder theory which indicates that a company is not an entity that only operates for its own interests, but must provide benefits to all its stakeholders (shareholders, creditors, consumers, suppliers, government, society, analysts and other parties). So companies must be able to convey information about their business activities well as a form of their accountability. The results of this research are in line with Erawati, et al.'s research that Islamic Corporate Governance has a negative and significant effect on company value.

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2. The Influence of Earning Management on Company Value

Based on the results of research conducted using the SPSS program, earnings management also affects company value. By using SPSS to carry out a partial test of the effect of earnings management on company value, a tcount of 4.757 was obtained with a p value of 0.000. Because the p value is 0.000 < 0.005, this shows that earnings management has a positive and statistically significant effect on the firm value variable, it can be concluded that H2 is accepted. This shows that the earnings management actions carried out by the company by utilizing management policies can benefit the company to a safe position in the stock market so that new investors are interested in the company but will not have an impact on the value of the company, due to the asymmetry of information received between managers. with shareholders, will provide an opening for managers to prioritize their personal interests. So, investors only have information created by company management. Managers will be motivated to maximize profits as if the company looks capable of making shareholders prosperous. The results obtained from this research are in line with signal theory, where earnings information as a result of earnings management actions is a negative signal which will be reacted by the market as bad new, so that the company's share price in the market will decrease, the decline in share prices will increase value. The company is declining and will have an impact on the decline in the prosperity of shareholders. Opportunistic earnings management practices are considered to be able to reduce the level of public trust in the company. The results of this research are consistent with previous research shown by Siti Nurul and Daryanto Wibowo that earnings management has a significant effect on company value.

3. The Influence of Islamic Corporate Governance and Earning Management on Company Value

The results of research carried out by researchers using the F test of the multiple linear regression model show that the significance value is smaller than a, namely 0.00 < 0.05, which means that Ho is rejected that inflation 6 has an effect on the Jakarta Islamic Stock Price Index for 2011-2018. Based on the comparison of FCount and FTable, in the research the FCount is greater than FTable, namely 25.525 > 3.32, meaning that Ho is rejected and it can be concluded that Islamic corporate governance and earnings management simultaneously influence company value. The R square value in table 4.8 is 0.630 or 63%, which means that company value is influenced by Islamic corporate governance and earnings management by 63% while the remaining 37% is influenced by other variables not included in the research model. The results of this research are consistent with previous research shown by Sri Rahmayanti and Dewi Sharina Simartama. His research explains that Islamic corporate governance and earnings management significantly influence company value

5. Discussion

The study's findings on the influence of Islamic Corporate Governance (ICG) on company value present an intriguing perspective that challenges common assumptions. The research reveals a negative and statistically significant relationship between ICG and company value, as evidenced by the t-count of -2.806 and a p-value of 0.009, which falls below the 0.05 significance threshold. This result supports the research hypothesis (H1) that proposed a negative effect of ICG on company value.

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The researchers offer an explanation for this unexpected negative relationship, suggesting that it stems from a misalignment of interests between those in governance positions and the company itself. They posit that managers, board members, and other individuals in governance roles may not feel a strong sense of ownership in the company, leading them to prioritize their personal objectives over the company's value. This interpretation aligns with stakeholder theory, which argues that companies should operate for the benefit of all stakeholders, not just shareholders, and should maintain transparency and accountability in their business activities.

These findings are consistent with previous research conducted by Erawati et al., which also discovered a negative and significant effect of ICG on company value. This consistency across studies lends credibility to the results and suggests that this phenomenon may not be isolated.

The implications of these findings are significant and raise important questions about the effectiveness of current ICG practices in enhancing company value. It suggests that the mere implementation of ICG structures may not be sufficient to increase company value and could potentially have adverse effects. This prompts a need for further investigation into the specific aspects of ICG that might be contributing to this negative effect and how ICG can be improved to better align with company value creation.

For companies and regulators, these results underscore the need to reassess ICG practices and their implementation to ensure they genuinely contribute to company value and serve the interests of all stakeholders. It highlights the complexity of corporate governance and emphasizes the importance of careful, context-specific implementation to achieve desired outcomes.

However, it's crucial to consider that this study focused on a specific context and time frame. The generalizability of these findings to other markets or time periods should be approached with caution. Future research could explore whether there are cultural or contextual factors specific to Islamic corporate governance that might explain these results.

In conclusion, this study presents a counterintuitive finding that challenges the assumption that ICG enhances company value. It underscores the complexity of corporate governance issues and the need for nuanced, thoughtful approaches to governance practices that truly serve the interests of companies and their diverse stakeholders.

The second research variable findings on the relationship between earnings management and company value present an intriguing and complex picture. Using SPSS for statistical analysis, the study reveals a positive and statistically significant effect of earnings management on firm value, as evidenced by a t-count of 4.757 and a p-value of 0.000, which is well below the 0.005 significance threshold. This result supports the acceptance of the second hypothesis (H2) proposed in the study.

The positive relationship between earnings management and firm value initially appears counterintuitive. The researchers suggest that earnings management practices, when executed through strategic management policies, can position a company favorably in the stock market, potentially attracting new investors. However, this apparent benefit comes with a significant caveat: it may not translate into genuine, long-term value for the company.

This paradox is attributed to the information asymmetry that exists between managers and shareholders. Managers, privy to inside information, can manipulate financial reports to present an overly optimistic picture of the company's performance.

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This creates a scenario where investors are reliant on potentially skewed information provided by company management. The motivation for managers to engage in such practices stems from the desire to maximize apparent profits, creating an illusion of shareholder prosperity.

Interestingly, the study's findings align with signal theory, but in a way that highlights the negative consequences of earnings management. According to this interpretation, the market eventually perceives earnings information resulting from management manipulation as a negative signal. This perception can lead to a decrease in the company's stock price, subsequently diminishing the company's value and, by extension, shareholder wealth.

The research underscores the potentially damaging effects of opportunistic earnings management practices. Such actions are seen as eroding public trust in the company, which can have long-lasting negative implications for its reputation and value. This loss of trust can be particularly detrimental in today's business environment, where corporate transparency and ethical practices are increasingly valued by investors and the public alike.

It's noteworthy that these findings are consistent with previous research conducted by Siti Nurul and Daryanto Wibowo, who also found a significant relationship between earnings management and company value. This consistency across studies lends credibility to the results and suggests a broader trend in corporate financial practices and their impacts.

In conclusion, while earnings management may provide short-term benefits in terms of market positioning and investor attraction, its long-term effects on company value appear to be negative. This research highlights the need for more transparent and ethical financial reporting practices, as well as improved corporate governance mechanisms to align management interests with those of shareholders and other stakeholders. It also serves as a cautionary note for investors, emphasizing the importance of looking beyond reported earnings to assess a company's true value and long-term prospects.

And for the last variable research findings on the combined influence of Islamic Corporate Governance (ICG) and Earnings Management on Company Value provide compelling insights into the complex dynamics of corporate financial practices and their impacts on firm valuation. The study employs a multiple linear regression model, utilizing the F test to examine the simultaneous effects of these variables.

The results are statistically significant, with the F test yielding a significance value of 0.00, which is notably smaller than the critical value of 0.05. This outcome leads to the rejection of the null hypothesis, indicating that the independent variables do indeed have a meaningful effect on the dependent variable. Furthermore, the comparison between the calculated F-value (25.525) and the tabulated F-value (3.32) reinforces this conclusion, as the former substantially exceeds the latter.

These statistical findings provide strong evidence that Islamic Corporate Governance and Earnings Management, when considered together, exert a significant influence on Company Value. This relationship is not merely coincidental but represents a robust and meaningful correlation between these corporate practices and the ultimate valuation of the firm.

The strength of this relationship is further underscored by the R-square value of 0.630, or 63%. This figure indicates that nearly two-thirds of the variation in Company Value can be explained by the combined effects of Islamic Corporate

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Governance and Earnings Management. Such a high explanatory power suggests that these factors play a crucial role in determining a company's market value and overall financial health.

However, it's important to note that while 63% is a substantial proportion, it also implies that 37% of the variation in Company Value is attributable to other factors not included in this research model. This underscores the complex nature of company valuation and suggests that while ICG and Earnings Management are significant determinants, they are not the sole factors influencing a company's worth. The consistency of these findings with previous research, particularly the work of Sri Rahmayanti and Dewi Sharina Simartama, lends additional credibility to the results. This alignment with prior studies suggests a broader trend in the relationship between corporate governance practices, financial management strategies, and company valuation, particularly in the context of Islamic finance.

These findings have important implications for corporate managers, investors, and regulators in the Islamic financial sector. They highlight the critical role that both governance structures and financial reporting practices play in shaping a company's perceived value. For managers, this underscores the importance of implementing robust corporate governance frameworks while also managing earnings responsibly. Investors should be aware of these factors when evaluating potential investments, considering both the quality of governance and the transparency of financial reporting. Regulators may need to focus on strengthening oversight in these areas to ensure the integrity and stability of Islamic financial markets.

In conclusion, this research provides valuable insights into the interplay between Islamic Corporate Governance, Earnings Management, and Company Value. It emphasizes the significant combined impact these factors have on a firm's valuation, while also acknowledging the complexity of corporate worth determination. These findings contribute to a deeper understanding of corporate finance dynamics in Islamic markets and offer a foundation for further research into the nuances of these relationships.

6. Conclusion

Based on the regressioncoefficient, Islamic corporate governance partially has a negative and significant influence on company value. Thus, the increasing increase in Islamic corporate governance is followed by a decline in company value. For this reason, H1 states that Islamic corporate governance has a negative and significant effect on company value Based on the regression coefficient, earnings management partially has a positive influence on company value. With increasing earnings management, it will be followed by an increase in company value. For this reason, H2 which states that earnings management has a positive and significant effect on company value in Islamic commercial banks in Indonesia for the 2018-2021 period is accepted. Simultaneously, the three variables, namely Islamic corporate governance and earnings management, can influence company value. For this reason, H3 which states that simultaneously the two variables, namely Islamic corporate governance and earnings management, can influence the company value of Islamic commercial banks in Indonesia for the 2018-2021 period is accepted.

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