

Gati, Vidia; Nasih, Mohammad; Agustia, Dian; Harymawan, Iman

Article

Islamic index, independent commissioner and firm performance

Cogent Business & Management

Provided in Cooperation with:

Taylor & Francis Group

Suggested Citation: Gati, Vidia; Nasih, Mohammad; Agustia, Dian; Harymawan, Iman (2020) : Islamic index, independent commissioner and firm performance, Cogent Business & Management, ISSN 2331-1975, Taylor & Francis, Abingdon, Vol. 7, Iss. 1, pp. 1-12, <https://doi.org/10.1080/23311975.2020.1824440>

This Version is available at:

<https://hdl.handle.net/10419/244962>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.



<https://creativecommons.org/licenses/by/4.0/>

Islamic index, independent commissioner and firm performance

Vidia Gati, Mohammad Nasih, Dian Agustia & Iman Harymawan |

To cite this article: Vidia Gati, Mohammad Nasih, Dian Agustia & Iman Harymawan | (2020) Islamic index, independent commissioner and firm performance, Cogent Business & Management, 7:1, 1824440, DOI: [10.1080/23311975.2020.1824440](https://doi.org/10.1080/23311975.2020.1824440)

To link to this article: <https://doi.org/10.1080/23311975.2020.1824440>



© 2020 The Author(s). This open access article is distributed under a Creative Commons Attribution (CC-BY) 4.0 license.



Published online: 23 Sep 2020.



Submit your article to this journal [↗](#)



Article views: 573



View related articles [↗](#)



View Crossmark data [↗](#)



Citing articles: 1 View citing articles [↗](#)



Received: 09 July 2020
Accepted: 02 September 2020

*Corresponding author: Iman Harymawan, Department of Accounting of Economic and Business, Universitas Airlangga, Surabaya, Indonesia.
E-mail: harymawan.iman@feb.unair.ac.id

Reviewing editor:
Collins G. Ntim, Accounting,
University of Southampton,
Southampton, United Kingdom

Additional information is available at
the end of the article

ACCOUNTING, CORPORATE GOVERNANCE & BUSINESS ETHICS | RESEARCH ARTICLE

Islamic index, independent commissioner and firm performance

Vidia Gati¹, Mohammad Nasih¹, Dian Agustia¹ and Iman Harymawan^{1*}

Abstract: The prime objective of this study is to examine the effect of Sharia firms and their performance in Indonesia. Sharia is the set of personal and societal behaviour derived from Islam. A firm is included in a sharia firm if it complies with Islamic values. The sample used in this study are firms that are consistently listed on the Sharia-compliant Stock Index (ISSI) in the 2012–2018 period. The result shows that Sharia firms have better performance compared to non-Sharia firms. Additionally, Sharia firms with a smaller size of independent commissioners are associated with higher performance. These positive results indicate that Sharia positioning can improve performance and this is empirical evidence that the ethical firm has a significant influence on the performance.

Subjects: Accounting; Corporate Governance; Business Ethics

Keywords: independent commissioner; performance; sharia firm

1. Introduction

Previous research discusses how Islamic firms' characteristics become a factor that influences decision-making and associated outcomes (Ashraf, 2016; Polato et al., 2016). Indonesia is one of the countries with the largest Muslim population. During 2014–2018, the top ranking for global Islamic finance is held by Malaysia, United Arab Emirates (UAE), and Bahrain. Indonesia is in the 8th position (Reuters, 2018). This condition raises the question of whether the Islamic financial

ABOUT THE AUTHORS

Vidia Gati is a doctoral student in Accounting Department of Universitas Airlangga.

Mohammad Nasih is the Professor of Accounting Department of Universitas Airlangga. He obtained his doctoral degree Universitas Airlangga and magister degree from Institut Teknologi Bandung in Indonesia. Research interest: financial accounting

Dian Agustia is Professor of Accounting Department of Universitas Airlangga. He obtained his doctoral degree Universitas Airlangga and magister degree from Universitas Airlangga in Indonesia. Research interest: sustainability accounting and management accounting

Iman Harymawan is an Assistant Professor in Accounting Department of Universitas Airlangga. He obtained his Ph.D. from The City University of Hongkong and MBA from National Cheng Kung University. Research interest: political and military connections in business.

PUBLIC INTEREST STATEMENT

This article analyzes the influence of Sharia firms and their impact on performance in Indonesia. The literature on Sharia firms in Indonesia is still very limited. This study is important because Indonesia is a country with the largest Muslim majority in the world, so measuring the performance of Sharia firm is much-needed information. This study found that Sharia firm performed better than non-Sharia firms. These results provide a reference for regulators, management and investors as a consideration in making decisions related to ethical firm performance.

industry in Indonesia is underperformance. This condition raises an interesting topic to be tested in this study. According to the State of the Islamic Report 2018/2019, Indonesia has a Muslim population of 87 per cent of its total population or 13 per cent of the world's Muslim population. Indonesia has the potential to become a Sharia economic actor that will influence the world (Brodjonegoro & Syariah, 2019, p. 26).

The Global Islamic Economy Report also revealed that Indonesia was among the top 10 countries with the most significant number of consumers in several sectors of the halal industry. Indonesia has developed the Islamic economy by establishing a Sharia bank and forming an Islamic capital market to provide an alternative for investors who want to invest with Islamic principles. The first Islamic index, the Jakarta Islamic Index (JII), was established in 2000. Indonesia has three Islamic indexes, namely Jakarta Islamic Index 30 (JII30), Sharia-compliant Stock Indonesia (ISSI), and Jakarta Islamic Index 70 (JII70). However, there is still less evidence that shows how is the performance of Islamic firms in Indonesia.

Based on these reasons, this study aims to provide evidence of the performance of Islamic firms. The sample used in this study consists of firms listed on the Indonesia Stock Exchange (IDX) since 2012–2018. Indonesia has an Islamic capital market that is part of the IDX. Firms that listed in the Islamic capital market are firms that meet the criteria of Islamic principles. The performance of Sharia firms is measured through the Sharia-compliant Stock Indonesia (ISSI). The year 2012 was chosen because that year was when ISSI was established. Furthermore, firms included in the ISSI will be compared to firms that are not included in the ISSI.

Previous research found that Sharia firms have better performance and more profitable than non-Sharia firms in Europe, America, the Bay area, and developing countries (Alam & Rajjaque, 2016; Al-Awadhi & Dempsey, 2017; Jawadi et al., 2014; Kok et al., 2009). There are no significant differences in terms of risk and profit between Islamic and non-Islamic firms, except in Italy and Australia (Abbes, 2012). Still, subsequent research shows that Sharia firms produce a lower risk than non-Sharia firms, especially in crisis (Ashraf & Khawaja, 2016).

Some of the study results are interesting to be explored further, especially for the objects with the large Muslim population. From the demand side, Sharia firms should be the choice of the majority of investors in Indonesia. Still, Indonesia has a non-dominant rating among other Muslim countries.

The results showed that firms included in the Islamic index have a positive and significant relationship with their performance. These results indicate that Sharia firms have better performance than those non-Sharia firms. Additionally, firms included in the ISSI with a smaller size of independent commissioners have better performance.

The remainder of this paper is structured as follows. Section 2 develops the research hypotheses. Section 3 describes the research design. Section 4 specifies the empirical result. Section 5 summarizes the paper and presents concluding remarks.

2. Literature review

2.1. Islamic capital market

The Islamic Capital Market (ICM) is part of the Indonesia Stock Exchange (IDX) with activities and operations that are not in conflict with Islamic principles. As part of the Indonesian Islamic financial industry, ICM is regulated by the Financial Services Authority (OJK). The institution that governs the application of Sharia principles is the National Sharia Council of the Indonesian Ulema Council in the form of a fatwa (statement of Indonesian Ulema Council). Furthermore, this fatwa was used as the basis for OJK regulations which are binding and to have legal certainty. List of abbreviations and acronym can be seen in [Appendix B](#).

OJK, as an institution tasked with regulating and supervising financial services especially those in the capital market, announces the list of firms included in the Sharia category. OJK will qualitatively oversee the firm's activities to see if the firm's operations do not violate the principles of Sharia and quantitatively examine the terms of the financial ratio limits set.

2.2. Relationship of supervision and performance

Several previous studies have shown empirical evidence that firms that get tighter supervision will show better quality. The supervision referred to here is the existence of screening that makes it determined as a sharia firm. Naturally, this screening will make the Sharia firms different from firms that do not pass the screening. This is corroborated by evidence that Sharia status can attract the investors' attention when the firm conducts an initial public offering (IPO) (Tajuddin et al., 2018, 2019). There is even an improved performance level when a firm is accredited as being Sharia (Hazudin et al., 2017). Even though there are differences in determining the Sharia criteria in various countries, this difference does not affect the performance (Ashraf, 2016). Sharia firms have better-earning quality (Ismail et al., 2015), better performance in the long run (Pepis & de Jong, 2019) and the majority, they have a healthy financial condition (Pok, 2012).

2.3. Hypotheses development

A firm can become a Sharia firm if it does not engage in activities such as gambling, Sharia-prohibited trading, ribawi (interest base) practices and businesses containing gharar (gambling) practices, selling illicit goods and bribery. Firms must pass quantitative requirements in terms of their financial ratios, namely as the total interest-based debt compared to total assets must be no more than 45% of the total interest income. Non-halal income compared to the total income should be no more than 10%.

The principles of Sharia teach us to do our best work. Good work will lead to good governance and produce excellent performance. This is consistent with Trahan's (2008) research which shows that good governance will consistently deliver outstanding performance (Trahan, 2008). Due to the investors' desire to look for alternatives due to speculative practices, irregularities and ethical issues, Sharia firms are considered to provide alternatives for investors. The religiosity factor is a factor that influences and moderates performance (Adi & Adawiyah, 2018). Other research shows ethical rules and habits can improve company performance (Widyani et al., 2020). The existence of the economic crisis a few years ago has made Western countries take an interest in Islamic economics because Sharia firms proved to be better than non-sharia firms during the crisis (Ashraf & Khawaja, 2016; Jawadi et al., 2014). A study conducted in the United Kingdom shows that Sharia firms have better performance in times of credit tightening (Alam & Rajjaque, 2016). However, broader studies in Europe and America and several other countries show that Sharia firms have better performance (Jawadi et al., 2014). Likewise, in developing countries, Sharia firms show better performance than non-Sharia firms (Gad & Andrikopoulos, 2019). Research conducted in Middle East countries found that Sharia firms have a lower liquidity risk (Al-Awadhi & Dempsey, 2017). In terms of return, Sharia firms are more profitable (Alam et al., 2016).

Concerning the level of community religiosity and firm performance, it turns out that areas that have a high level of religion affect the high performance of Islamic banks (Trinugroho et al., 2017). From these empirical results, a hypothesis can be formulated:

H1: Sharia firms are more likely to have better financial performance than non-sharia firms

Independent commissioners (IC) are one of the indicators of the implementation of good governance practices. Its existence is associated with firm performance. Following OJK regulations, independent commissioners are members of the board of commissioners who come from outside the company. Independent commissioners can act as mediators in conflicts between managers, as

well as oversee management policies (Evana, 2020; Mardjono & Chen, 2020). As a party that has no interest, the number of independent commissioners can reduce agency conflicts and guarantee strong supervision to shareholders (Abidin et al., 2009; Hajawiyah et al., 2020). Independent commissioners are seen as essential to protect minority shareholders from fraudulent or criminal practices in the capital market. The presence of an independent commissioner in Indonesia is facultative, meaning that a limited liability firm can have an independent commissioner and not as a complement (Lumentut, 2019). Some of the previous research shows that an independent commissioner affects stock performance (Nawawi et al., 2020). Abidin et al. 2009 proved that the higher the percentage of independent boards will improve performance because the independent boards have diverse backgrounds, characteristics, attributes and expertise that can improve the quality of decision making. However, other studies have shown that the existence of an IC does not affect performance when the performance of the board is less than optimal (Karim & Purwanto, 2020; Prabowo & Simpson, 2011; Setiawan et al., 2019) or if it even has a diverse impact (Harymawan et al., 2020). the hypothesis is:

H2: The higher proportion of independent commissioners strengthen the positive associations between sharia firms and firm performance

3. Data and method

3.1. Sample and data sources

The sample of this study consists of firms listed on the Indonesia Stock Exchange (IDX) using a combination of financial data sourced from OSIRIS and Sharia identification from IDX between 2012 and 2018. Of all of the firms included in IDX, the financial industry was excluded (SIC 6). From the criteria determined, 2,391 items of observation data were obtained. In this study, the data was taken from 2012 onwards because the ISSI was established in that year. All of the variables were winsorized by 1 per cent to eliminate any outliers.

3.2. Variable measurements

Sharia firms whose performance is measured refer to those included in the Islamic index. The Financial Services Authority (OJK) periodically announces firms that enter or exit the Islamic index list. Sharia firms included in the ISSI are the primary variable measured using the dummy variable. Variable measurement can be seen in [Appendix A](#).

3.2.1. Sharia firm (ISSI)

A firm is said to be a Sharia firm if it is successively included in ISSI and marked with 1, whereas if it is not included in the Islamic index, it will be worth 0.

3.2.2. Firm financial performance

Firm financial performance is the dependent variable measured using the Return on Assets (ROA) ratio (Florio & Leoni, 2017; Huang & Hilary, 2018) calculated from profit before tax divided by the total assets.

The variables used in this study include the number of independent directors, the number of independent commissioners and the number of directors, commissioners and audit commissioners. This is in addition to the use of the BIG 4, leverage, firm size and firm age (Al Farooque et al., 2019; Harymawan et al., 2019; Rahman et al., 2019; Warrad & Khaddam, 2020).

3.3. Empirical model

We tested the hypothesis using OLS regression by considering the fixed effect of year and the type of industry. The research model is as follows. For the first model, the ISSI coefficient is expected to be positive.

$$FPI_{i,t} = \beta_0 + \beta_1 ISSI_{i,t} + \beta_2 DIR_{i,t} + \beta_3 COM_{i,t} + \beta_4 AUDCOM_{i,t} + \beta_5 INDCOM_{i,t} + \beta_6 INDDIR_{i,t} + \beta_7 BIG4_{i,t} + \beta_8 LEVERAGE_{i,t} + \beta_9 SIZE_{i,t} + \beta_{10} AGE_{i,t} + YEAR_{i,t} + INDUSTRY_{i,t} + \epsilon_{i,t} \quad (1)$$

To test the second hypothesis, model (2) shows that as expected, ISSI * INDCOM is negative.

$$FPI_{i,t} = \beta_0 + \beta_1 ISSI_{i,t} + \beta_2 ISSI_{i,t} * INDCOM_{i,t} + \beta_3 DIR_{i,t} + \beta_4 COM_{i,t} + \beta_5 AUDCOM_{i,t} + \beta_6 INDCOM_{i,t} + \beta_7 INDDIR_{i,t} + \beta_8 BIG4_{i,t} + \beta_9 LEVERAGE_{i,t} + \beta_{10} SIZE_{i,t} + \beta_{11} AGE_{i,t} + YEAR_{i,t} + INDUSTRY_{i,t} + \epsilon_{i,t} \quad (2)$$

4. Empirical results and discussions

Table 1 shows the distribution of the samples according to the industry group. Of the total 2391 firms, 865 are firms included in the ISSI. In total, 36.18% of firms were included in ISSI and most of the firms were from the manufacturing industry sector (SIC 2).

Table 2 is the descriptive statistics table. The ROA shows a average value of 5,114. The successive control variables have the following averages: leverage 48.2% and firm age 31.391 years.

Table 1. Sample Distribution Based on Industry

SIC	Non ISSI		ISSI		Total	
	N	%	N	%	N	%
1	300	69.93	129	30.07	429	100
2	319	60.42	209	39.58	528	100
3	196	49.75	198	50.25	394	100
4	260	74.50	89	25.50	349	100
5	140	61.40	88	38.60	228	100
6	115	53.99	98	46.01	213	100
7	169	84.92	30	15.08	199	100
8	23	48.94	24	51.06	47	100
9	4	100.00	0	0.00	4	100
Total	1526	63.82	865	36.18	2391	100

the table shows the distribution of firms that are both included and not included in the ISSI consistently (successively) from 2012 to 2018. The research sample consisted of 2391 firms listed on the Indonesia Stock Exchange from 2012–2018.

Table 2. Descriptive Statistics

	Mean	Median	Minimum	Maximum
ROA	5.114	4.510	−38.410	44.150
ISSI	0.362	0	0	1
DIR	4.762	4.000	1.000	16.000
COM	4.283	4.000	1.000	22.000
AUCOM	3.079	3.000	1.000	7.000
INDCOM	0.375	0.333	0.000	3.000
INDDIR	0.149	0.143	0.000	0.667
BIG4	0.367	0	0.000	1
LEV	0.482	0.472	0.022	2.986
TASSET	7.949e+09	2.489e+09	14,410,000.000	1.775e+11
AGE	31.391	29.000	1.000	117.000

The table depicts the descriptive statistics for all variables in this study. All firms on the Indonesian stock exchange (IDX) listed for the year 2012–2018 are the sample of the study.

This table shows the descriptive statistics of the study sample. The average ROA is 5.114 per cent. The number on the boards of directors in each firm is 4.762 while the number of boards is 4.283. The number of independent directors is 0.375 and the total number of independent directors is 0.149. On average, firms that choose to use one of the Big 4 auditors make up 36.7%. The average firm has a leverage of 0.482 while its total assets are 7,949,000. There is an average age of 31,391 years.

Table 3 shows the results of the Pearson correlation. The correlation of firms included in the Sharia index (ISSI) with ROA shows positive results, meaning that firms included in the ISSI will have good performance. This table shows the Pearson correlation for all of the study samples. The research sample consisted of 2391 firms included in the Indonesia Stock Index (IDX) from 2004 to 2018 with a significance level of * 10%, 5% for ** and *** for 1%.

Table 4 shows the results of the t-test for the firms included that were both ISSI and non-ISSI listed. In this table, the firms included in the ISSI have higher profits and more commissioners, directors and audit commissions. This is in addition to more use of the BIG4 auditors, lower leverage and larger and older firms.

Table 5 shows the regression results of the firms included in the ISSI and their relationship with performance. The main variables of concern are Sharia firms and performance in model one (1). This shows a coefficient of 2,427, significant at the 1% level. This means that the firms included in the ISSI have a better level of performance than those not included in the ISSI. This is consistent with the first hypothesis that firms included in the ISSI have better performance than the firms that are not included in ISSI. Following the principles in sharia and Islamic values that good work based on ethics and religiosity will lead to good performance. The sample selection of sharia firms that are consistent in the Islamic index (ISSI) shows a better difference in performance compared to inconsistent Islamic companies. This is related to Trahan's research (Trahan, 2008) which proves that consistent good governance will produce extraordinary performance. These results are consistent with the research conducted by Jawadi et al. (2014), Gad and Andrikopoulos (2019), and Alam et al. (2016). Firms that are included in the ISSI show excellent performance and this condition is following the latest report by the 2019 Global Islamic Finance Record. This shows that the ranking of Indonesia has ranked first among the Islamic financial markets at the end of 2019.

The next variable is the interaction between Sharia firms and the existence of an independent commissioner (ISSI_INDCOM). In the second model (2), the coefficient of ISSI_INDCOM is -0.783, which is not significant. This indicates that Islamic firms with an independent number of commissioners above the average do not have a relationship with performance. Even though it is not significant, it produces a negative sign. This means that more independent commissioners in an Islamic firm will reduce its performance. Sharia firms that have independent commissioners below the average show better performance which can be seen from the coefficient of 2.718, which is significant at the level of 1%. These results are the same as Karim and Purwanto (2020) research which proves that the composition of IC does not affect firm performance.

However, this result is different from some of the studies that show that more independent commissioners will improve the level of performance because the amount of supervision will reduce violations. Insignificant results could be related to the position of IC in Indonesia, which is considered to be a compliment. Thus the performance of the Sharia firm is driven by its position when entering the Islamic Index, not because of the existence of IC.

Other results from Table 5 show that the higher the number on the board of directors and in the audit commissions, the more this will improve performance. The more commissioners there are, the more that the independent commissioners will reduce their level of performance. Firms that choose B4 auditors will have a better level of performance. Besides that, a more prominent and

Table 3. Pearson correlation matrix

	ROA	ISSI	DIR2	COM2	AUCOM2	INDCOM2	INDDIR2	BIG4	LEV	SIZE	AGE
ROA	1.000										
ISSI	0.231*** (0.000)	1.000									
DIR2	0.180*** (0.000)	0.202*** (0.000)	1.000								
COM2	0.145*** (0.000)	0.232*** (0.000)	0.525*** (0.000)	1.000							
AUCOM2	0.079*** (0.000)	0.033 (0.102)	0.172*** (0.000)	0.164*** (0.000)	1.000						
INDCOM2	-0.054*** (0.008)	-0.017 (0.399)	0.051** (0.013)	-0.018 (0.374)	-0.002 (0.905)	1.000					
INDDIR2	-0.116*** (0.000)	-0.141*** (0.000)	-0.301*** (0.000)	-0.204*** (0.000)	-0.036* (0.075)	0.161*** (0.000)	1.000				
BIG4	0.173*** (0.000)	0.174*** (0.000)	0.307*** (0.000)	0.320*** (0.000)	0.132*** (0.000)	0.022 (0.283)	-0.085*** (0.000)	1.000			
LEV	-0.317*** (0.000)	-0.206*** (0.000)	0.001 (0.962)	-0.036* (0.082)	0.012 (0.548)	0.013 (0.515)	-0.078*** (0.000)	-0.020 (0.324)	1.000		
SIZE	0.140*** (0.000)	0.144*** (0.000)	0.553*** (0.000)	0.528*** (0.000)	0.235*** (0.000)	0.090*** (0.000)	-0.127*** (0.000)	0.409*** (0.000)	0.022 (0.275)	1.000	
AGE	0.050*** (0.014)	0.072*** (0.000)	0.079*** (0.000)	0.110*** (0.000)	0.049** (0.017)	0.051** (0.013)	0.058*** (0.005)	0.087*** (0.000)	0.011 (0.583)	0.183*** (0.000)	1.000

p-values in parentheses * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$. this table shows the pearson correlation for all variable in the study

Table 4. Independent T-Test

	ISSI	Non ISSI		
	N = 865	N = 1526	Coefficient	t-value
ROA	8.465	3.215	5.250***	11.630
COM	1.495	1.298	0.197***	11.647
DIR	1.589	1.422	0.167***	10.068
AUCOM	1.121	1.110	0.010	1.636
BIG4	0.479	0.304	0.175***	8.636
LEV	0.406	0.525	-0.119***	-10.287
SIZE	21.926	21.437	0.489***	7.131
AGE	3.336	3.241	0.095***	3.530

This table shows the result of the t-test for all variables in the study

Table 5. Multiple Linear Regression Analysis

	(1)	(2)
Variable	ROA	ROA
ISSI_INDCOM	2.427***	-0.783
ISSI		(-0.25)
		2.718**
	(5.30)	(2.14)
DIR	2.662***	2.664***
	(3.95)	(3.95)
COM	-0.656	-0.666
	(-1.03)	(-1.05)
AUCOM	2.970**	2.965**
	(2.12)	(2.12)
INDCOM	-3.518**	-3.313**
	(-2.45)	(-2.00)
INDDIR	-0.756	-0.755
	(-0.46)	(-0.46)
BIG4	1.998***	2.001***
	(4.20)	(4.20)
LEV	-12.174***	-12.179***
	(-15.96)	(-15.96)
SIZE	0.383**	0.385**
	(2.18)	(2.19)
AGE	0.811**	0.810**
	(2.48)	(2.47)
_cons	-3.260	-3.386
	(-0.92)	(-0.94)
Industries dummies	Included	Included
Year dummies	Included	Included
Adjusted R2	0.203	0.203
N	2391	2391

Regression models relating to the firm performance. Sharia firm and control variable. All continuous variables are winsorized at the 1 per cent and 99 per cent levels. t statistics in parentheses, * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

prolonged firm has a better performance relationship. The higher the leverage, the more that it will reduce the firm's performance.

Independent directors have a negative and significant relationship, meaning that the more independent directors there are, the more this will reduce the firm's performance. This result is consistent with Chancharat and Chancharat (2019) study which explains that independent directors do not need to act as representatives of the shareholders when the CEO is dominant when carrying out their role. Another argument is because the firms studied are not as large as the firms in developed countries. There may be principles and levels of compliance that are not suitable to be applied to the object of research. In other studies, the addition of an independent director does not affect profitability (Morikawa, 2020).

5. Conclusions

This study analyzes the relationship between Sharia firms and their performance, referring to the firms consistently listed on the ISSI in the 2012–2018 period. A firm is identified as a Sharia firm if it meets the conditions set by the OJK. This study used ROA as a performance measure. The results show that Sharia firms have better performance compared to non-Sharia firms. Likewise, Sharia firms that have fewer independent commissioners have a better level of performance. These positive results indicate that Sharia positioning makes the firm have an excellent level of performance. This study contributes to the literature on Islamic finance by providing evidence that Islamic firms have excellent performance. With this result, it should make the decision-makers not doubt the performance of Islamic firms. The existence of speculative practices, irregularities and ethical problems that befall several large companies, making sharia firm a mainstay for investors. Their position as a sharia company is a special attraction.

Funding

The authors received no direct funding for this research.

Author details

Vidia Gati¹
 E-mail: vidia.gati-2017@feb.unair.ac.id
 Mohammad Nasih¹
 E-mail: mohnasih@feb.unair.ac.id
 Dian Agustia¹
 E-mail: dian.agustia@feb.unair.ac.id
 Iman Harymawan¹
 E-mail: harymawan.iman@feb.unair.ac.id
 ORCID ID: <http://orcid.org/0000-0001-7621-6252>
¹ Department of Accountancy, Faculty of Economics and Business, Universitas Airlangga, Surabaya, Indonesia.

Citation information

Cite this article as: Islamic index, independent commissioner and firm performance, Vidia Gati, Mohammad Nasih, Dian Agustia & Iman Harymawan, *Cogent Business & Management* (2020), 7: 1824440.

References

- Abbes, M. B. (2012). Risk and return of Islamic and conventional indices. *International Journal of Euro-Mediterranean Studies*, 5(1), 1–23. <https://doi.org/10.1007/s40321-012-0001-9>
- Abidin, Z. Z., Kamal, N. M., & Jusoff, K. (2009). Board structure and corporate performance in Malaysia. *International Journal of Economics and Finance*, 1(1), 150–164. <https://doi.org/10.5539/ijef.v1n1p150>
- Adi, P. H., & Adawiyah, W. R. (2018). The impact of religiosity, environmental marketing orientation and practices on performance. *Journal of Islamic Marketing*, 9(1). <https://doi.org/10.1108/JIMA-09-2016-0067>
- Al Farooque, O., Buachoom, W., & Sun, L. (2019). Board, audit committee, ownership and financial performance—emerging trends from Thailand. *Pacific Accounting Review*, 32(1), 54–81. <https://doi.org/10.1108/PAAR-10-2018-0079>
- Alam, N., Arshad, S., & Rizvi, S. A. R. (2016). Do Islamic stock indices perform better than conventional counterparts? An empirical investigation of sectoral efficiency. *Review of Financial Economics*, 31(C), 108–114. <https://doi.org/10.1016/j.rfe.2016.06.003>
- Alam, N., & Rajjague, M. S. (2016). Shariah-compliant equities: Empirical evaluation of performance in the European market during credit crunch. *Journal of Financial Services Marketing*, 15(3), 122–140. <https://doi.org/10.1057/fsm.2010.19>
- Al-Awadhi, A. M., & Dempsey, M. (2017). Social norms and market outcomes: The effects of religious beliefs on stock markets. *Journal of International Financial Markets, Institutions and Money*, 50(C), 119–134. <https://doi.org/10.1016/j.intfin.2017.05.008>
- Ashraf, D. (2016). Does Shari'ah screening cause abnormal returns? Empirical evidence from Islamic equity indices. *Journal of Business Ethics*, 134(2), 209–228. <https://doi.org/10.1007/s10551-014-2422-2>
- Ashraf, D., & Khawaja, M. (2016). Does the Shariah screening process matter? Evidence from Shariah compliant portfolios. *Journal of Economic Behavior & Organization*, 132(S), 77–92. <https://doi.org/10.1016/j.jebo.2016.10.003>
- Brodjonegoro, B., & Syariah, P. E. (2019). *Media Keuangan Transparansi Informasi Kebijakan Fiskal*. Edisi Mei.
- Chancharat, S., & Chancharat, N. (2019). Board structure, ownership structure, and performance of thai listed firms. *Australasian Accounting, Business and Finance Journal*, 13(3), 53–70. <https://doi.org/10.14453/aabfj.v13i3.4>
- Evana, E. (2020). The effect of independent commissioners, supply chain management, and audit committee on accounting conservatism. *International Journal of Supply Chain Management*, 9(1), 1066. ISSN: 2050-7399 (Online), 2051-3771 (Print).

- Florio, C., & Leoni, G. (2017). Enterprise risk management and firm performance: The Italian case. *The British Accounting Review*, 49(1), 56–74. <https://doi.org/10.1016/j.bar.2016.08.003>
- Gad, S., & Andrikopoulos, P. (2019). Diversification benefits of Shari'ah compliant equity ETFs in emerging markets. *Pacific-Basin Finance Journal*, 53(C), 133–144. <https://doi.org/10.1016/j.pacfin.2018.10.009>
- Hajawiyah, A., Wahyudin, A., & Pahala, I. (2020). The effect of good corporate governance mechanisms on accounting conservatism with leverage as a moderating variable. *Cogent Business & Management*, 7(1), 1779479. <https://doi.org/10.1080/23311975.2020.1779479>
- Harymawan, I., Nasih, M., Ratri, M. C., & Nowland, J. (2019). CEO busyness and firm performance: Evidence from Indonesia. *Heliyon*, 5(5), e01601. <https://doi.org/10.1016/j.heliyon.2019.e01601>
- Harymawan, I., Putra, F. K. F., Ekasari, W. F., & Suchayati, D. (2020). Are independent commissioners able to mitigate higher audit fees in politically connected firms? *International Journal of Innovation, Creativity and Change*, 11(8), pp. 24–43. https://www.ijicc.net/images/vol11iss8/11804_Harymawan_2020_E_R.pdf
- Hazudin, S., Jaafar, N., & Hamidon, A. N. A. (2017). Will getting Shariah-compliant stocks has a salient impact on consumer industry in Malaysia. *Advanced Science Letters*, 23(8), 7446–7450. <https://doi.org/10.1166/asl.2017.9495>
- Huang, S., & Hilary, G. (2018). Zombie board: Board tenure and firm performance. *Journal of Accounting Research*, 56(4), 1285–1329. <https://doi.org/10.1111/1475-679X.12209>
- Ismail, W. A. W., Kamarudin, K. A., & Sarman, S. R. (2015). The quality of earnings in Shariah-compliant firms: Evidence from Malaysia. *Journal of Islamic Accounting and Business Research*, 6(1), 19–61. <https://doi.org/10.1108/JIABR-03-2013-0005>
- Jawadi, F., Jawadi, N., & Louhichi, W. (2014). Conventional and Islamic stock price performance: An empirical investigation. *International Economics, CEPII Research Center*, (137), 73–87. <https://doi.org/10.1016/j.inteco.2013.11.002>
- Karim, A., & Purwanto, A. (2020). The relationship between good corporate governance and performance of most liquid stocks in Indonesia. *Research in World Economy*, 11(1), pp. 137–142. <https://doi.org/10.5430/rwe.v11n1p137>
- Kok, S., Giorgioni, G., & Laws, J. (2009). Performance of Shariah-compliant indices in London and NY stock markets and their potential for diversification. *International Journal of Monetary Economics and Finance*, 2(3–4), 398–408. <https://doi.org/10.1504/IJMEF.2009.029071>
- Lumentut, L. (2019). The role and function of independent commissioners at PT. Terbuka. *Journal of Advanced Research in Dynamical and Control Systems*, 11(8 Special Issue), 3111–3114. <https://www.scopus.com/inward/record.uri?eid=2-s2.0-85078587834&partnerID=40&md5=a94a871c67a511fcfe65e5f4b1bdab89>
- Mardjono, E. S., & Chen, Y. S. (2020). Earning management and the effect characteristics of audit committee, independent commissioners: Evidence from Indonesia. *International Journal Of Business And Society*, 21(4), 569–587. <http://www.ijbs.unimas.my/images/repository/pdf/Vol21-no2-paper5.pdf>
- Morikawa, M. (2020). Effects of outside directors on firms' investments and performance: Evidence from A quasi-natural experiment in Japan. *Journal of the Japanese and International Economies*, 56(C), 101074. <https://doi.org/10.1016/j.jjie.2020.101074>
- Nawawi, A. H. T., Agustia, D., Lusnadi, G. M., & Fauzi, H. (2020). Disclosure of sustainability report mediating good corporate governance mechanism on stock performance. *Journal of Security & Sustainability Issues*, 9(January), 151–170. [https://doi.org/10.9770/jssi.2020.9.J\(12\)](https://doi.org/10.9770/jssi.2020.9.J(12))
- Pepis, S., & de Jong, P. (2019). Effects of Shariah-compliant business practices on long-term financial performance. *Pacific-Basin Finance Journal*, 53(C), 254–267. <https://doi.org/10.1016/j.pacfin.2018.11.002>
- Pok, W. C. (2012). Analysis of Syariah quantitative screening norms among Malaysia Syariah-compliant stocks. *Investment Management and Financial Innovations*, 9(2), 69–80.
- Polato, M., Floreani, J., Paltrinieri, A., & Pichler, F. (2016). Religion, governance and performance: Evidence from Islamic and conventional stock exchanges. *Journal of Management & Governance*, 20(3), 591–623. <https://doi.org/10.1007/s10997-015-9312-6>
- Prabowo, M., & Simpson, J. (2011). Independent directors and firm performance in family controlled firms: Evidence from Indonesia. *Asian-Pacific Economic Literature*, 25(1), 121–132. <https://doi.org/10.1111/j.1467-8411.2011.01276.x>
- Rahman, M. M., Meah, M. R., & Chaudhory, N. U. (2019). The impact of audit characteristics on firm performance: An empirical study from an emerging economy. *The Journal of Asian Finance, Economics and Business* (JAFEB), 6(1), 59–69. <https://doi.org/10.13106/jafeb.2019.vol6.no1.59>
- Reuters, T. (2018). State of the global Islamic economy report (2018/2019).
- Setiawan, D., Taib, F. M., Phua, L. K., & Chee, H. K. (2019). IFRS and earnings management in Indonesia: The effect of independent commissioners. *International Journal of Business and Society*, 20(1), 37–59. <http://www.ijbs.unimas.my/images/repository/pdf/Vol20-no1-paper3.pdf>
- Tajuddin, A. H., Abdullah, N. A. H., & Mohd, K. N. T. (2018). Shariah-compliant status and IPO oversubscriptions. *Journal of Islamic Accounting and Business Research*, 9(4), 531–548. <https://doi.org/10.1108/JIABR-10-2017-0147>
- Tajuddin, A. H., Rashid, R. M., Khaw, K. L. H., & Yahya, N. C. (2019). Shariah-compliant status and investors' demand for IPOs: The effects of information asymmetry. *International Journal of Islamic and Middle Eastern Finance and Management*, 12(4), 489–508. <https://doi.org/10.1108/IMEFM-01-2019-0026>
- Trahan, E. A. (2008). Mutual fund governance and fund performance. *Corporate Ownership & Control*, 5(4), 384–392. <https://doi.org/10.22495/cocv5i4c3p5>
- Trinugroho, I., Risfandy, T., Ariefianto, M. D., Prabowo, M. A., Purnomo, H., & Purwaningsih, Y. (2017). Does religiosity matter for Islamic banks' performance? Evidence from Indonesia. *International Journal of Economics & Management*, 11(2), 419–435. [http://www.ijem.upm.edu.my/vol11_no2/\(8\)DOES%20RELIGIOSITY%20MATTER%20FOR%20ISLAMIC%20BANKS%92%20PERFORMANCE%20EVIDENCE%20FROM%20INDONESIA.pdf](http://www.ijem.upm.edu.my/vol11_no2/(8)DOES%20RELIGIOSITY%20MATTER%20FOR%20ISLAMIC%20BANKS%92%20PERFORMANCE%20EVIDENCE%20FROM%20INDONESIA.pdf)
- Warrad, L., & Khaddam, L. (2020). The effect of corporate governance characteristics on the performance of Jordanian banks. *Accounting*, 6(2), 117–126. <https://doi.org/10.5267/j.ac.2019.12.001>
- Widyani, A. A. D., Landra, N., Sudja, N., Ximenes, M., & Sarmawa, I. W. G. (2020). The role of ethical behavior and entrepreneurial leadership to improve organizational performance. *Cogent Business & Management*, 7(1), 1747827. <https://doi.org/10.1080/23311975.2020.1747827>

Appendix A. Variable Description

Variable	Definition	Source
Dependent variable		
ROA	Earning before tax divided by total assets	OSIRIS
Independen:		
ISSI	Dummy variable, 1 for a firm included in the ISSI index	IDX/OJK
Control:		
DIRECTOR	Number of directors	OSIRIS
COMMISSION	Number of commissions	OSIRIS
AUDCOM	Number of audit commissions	OSIRIS
INDCOM	Percentage of number of independent commission	OSIRIS
INDDIR	Percentage of number of independent director	OSIRIS
BIG4	Dummy variable, 1 for a firm appoints a Big 4 auditor, otherwise 0	OSIRIS
LEV	Total liabilities divided by total assets	OSIRIS
SIZE	Natural logaritma total assets	OSIRIS
AGE	Natural logaritma of firm age in year	OSIRIS
ISSI*INDCOM	Dummy variable, 1 if a firm included in the ISSI and has a number of independent commission above the average.	

Appendix B. List of Abbreviations and Acronyms

IC	Independent Commission
ICM	Islamic Capital Market
IDX	Indonesia Stock Exchange
ISSI	Sharia-Compliant Stock Indonesia
JII	Jakarta Islamic Index
OJK	Financial Services Authority
BAPENAS	National Development Planning Agency (abbreviated Bappenas) is ministry of the Republic of Indonesia that has the task to oversee government affairs in the field of national development



© 2020 The Author(s). This open access article is distributed under a Creative Commons Attribution (CC-BY) 4.0 license.



You are free to:

Share — copy and redistribute the material in any medium or format.

Adapt — remix, transform, and build upon the material for any purpose, even commercially.

The licensor cannot revoke these freedoms as long as you follow the license terms.

Under the following terms:

Attribution — You must give appropriate credit, provide a link to the license, and indicate if changes were made.

You may do so in any reasonable manner, but not in any way that suggests the licensor endorses you or your use.

No additional restrictions

You may not apply legal terms or technological measures that legally restrict others from doing anything the license permits.

***Cogent Business & Management* (ISSN:) is published by Cogent OA, part of Taylor & Francis Group.**

Publishing with Cogent OA ensures:

- Immediate, universal access to your article on publication
- High visibility and discoverability via the Cogent OA website as well as Taylor & Francis Online
- Download and citation statistics for your article
- Rapid online publication
- Input from, and dialog with, expert editors and editorial boards
- Retention of full copyright of your article
- Guaranteed legacy preservation of your article
- Discounts and waivers for authors in developing regions

Submit your manuscript to a Cogent OA journal at www.CogentOA.com

