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Good Corporate Governance, Leverage and Corporate Financial Performance in the Jakarta Islamic Index

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ABSTRACT

Purpose – This study aims to estimate the effect of Good Corporate Governance and Leverage on the Financial Performance of companies listed on the Jakarta Islamic Index in 2016 to 2020.
Methodology/approach – This study is a confirmatory research with a quantitative approach. The secondary data in this study obtained from the Jakarta Islamic Index (JII), with a total sample of 14 companies registered in the analysis period and have complete data related to the variables studied. Panel data regression analysis was used in this study by selecting the Random Effect Model as the estimation method.
Findings – It was found that institutional ownership, which is one of the measurement proxies for Good Corporate Governance, has a positive effect on variations in the company's financial performance achievements. This study has proven that institutional ownership has an important role in minimizing agency conflicts that occur between managers and shareholders. If institutional ownership is implemented properly and in line with the company's vision, the financial performance will be excellent and in the long-term financial sustainability will be created.
Novelty/value – This study proves that institutional ownership is a driving factor in increasing corporate financial performance proxied by Return on Equity (ROE).

INTRODUCTION

The emergence of new businesses has made competition in the business world even tighter, thus requiring companies to be more capable of increasing firm value in strengthening competitiveness. Companies are also required to be able to manage existing production factors effectively and efficiently. In the short term the company must try to get the maximum profit with the available resources. In the long term, companies must create business sustainability while still trying to achieve maximum profit, and this goal can only be achieved with good financial performance.

Theoretically, financial performance is an analysis carried out to estimate the extent to which a company has managed finances using the rules of financial implementation properly and correctly (Capon et al., 1990). The company's financial performance describes the achievement of the company's work plan so that the achievements carried out by management can be controlled, evaluated and can also be improved for the next period. Financial performance is an indicator that can be used to analyze the financial condition of a company and can also be used as a medium in measuring a company's health rating. Good financial performance will assist management in achieving company goals such as achieving maximum profit. The higher the company's performance, the higher the firm's value from an investor's perspective, which will then have implications for the more attractive the company's shares on the stock exchange.

Financial performance is an indicator that can be used to analyze the financial condition of a company. The financial performance of companies on the Jakarta Islamic Index (JII) is very interesting to analyze because JII is a stock index formed based on Islamic principles. Shares offered on the Indonesia Stock Exchange (IDX) and then merged with JII have a special category, because the shares chosen are sharia stock exchanges which are included in the List of Sharia Securities issued by BAPEPAM and Financial Institutions. The establishment of the Jakarta Islamic Index aims to increase investor confidence to invest in sharia-based stocks and provide benefits for investors in implementing Islamic sharia to invest on the stock exchange. The Jakarta Islamic Index is expected to support the transparency and accountability process of sharia-based stocks in Indonesia. The Jakarta Islamic Index will become a reference for investors who wish to invest their funds in a sharia way without fear of being mixed up with usury (Riba), doubt (Gharar) and speculation (Maysir). The Jakarta Islamic Index is a benchmark in choosing a halal stock portfolio (Istikomah et al., 2022 Angesti, N.M. and Setyadharma, A., 2022). There are 30 stock items that can be selected from stocks that are in accordance with Islamic principles so that the Jakarta Islamic Index is indeed available as an investment facility in stocks on a sharia basis.

Table 1 shows the company's financial performance as measured by ROE (Return On Equity) in 2016 – 2020 on the Jakarta Islamic Index. It can be seen that ROE fluctuated in the period 2016 to 2020.

Table 1. Percentage of Financial Performance of Companies Listed on the Jakarta Islamic Index in 2016-2020

Items	Company Code	2016	2017	2018	2019	2020
1	ADRO (Adaro Energy Tbk)	9.0	13.1	11.1	10.9	4.0
2	AKRA (Akr Corporindo Tbk)	13.0	14.4	16.1	7.0	9.1
3	ANTM (Aneka Tambang Tbk)	-0.1	0.7	8.9	1.1	6.0
4	ASII (Astra International Tbk)	13.1	14.8	15.7	14.3	9.5
5	ICBP (Indofood CBP Sukses Makmur Tbk)	19.6	17.4	5.6	9.3	14.7
6	INCO (Vale Indonesia Tbk)	0.1	-0.8	3.2	3.0	4.1

Source: www.idx.co.id, 2021

Based on table 1, it could be conclude that there are companies with fairly good financial performance and experienced quite significant increases throughout 2016-2020, covering Indofood CBP Sukses Makmur Tbk, Akr Corporindo Tbk, and Astra International Tbk. There are three companies with poor financial performance such as Aneka Tambang Tbk, Vale Indonesia Tbk, and Adaro Energy Tbk. Then there were three companies that experienced a significant increase during 2016-2020, such as Indofood CBP Sukses Makmur Tbk, Akr Corporindo Tbk, and also Astra International Tbk.

The good or bad of a company's financial performance is strongly influenced by several factors such as company size, company growth, taxes, tangible assets, risk, liquidity, good corporate governance, leverage, and other factors (Asraf & Desda, 2020; Obaid & Jassim, 2022; Yusrizal &

Suharti, 2020). Many studies have elaborated on this, especially for cases on stock exchanges, all of which almost came out with the conclusion that all of these determinants need to be controlled so that in the short term financial performance can support profitability targets and in the long term financial performance will affect sustainability. Good Corporate Governance (GCG) is a concept that emphasizes the importance of the rights of shareholders to obtain accurate and timely information, and also shows the company's obligation to disclose all company financial performance information in a timely, accurate and transparent manner. GCG can minimize the occurrence of agency theory, such as conflicts that sometimes occur due to differences in interests between shareholders and managers (Achim et al., 2016) GCG is needed because this is a condition that must exist in a company or an organization. The higher the conflict in management activities, the higher the need for corporate governance practices so that corporate management can be ensured properly.

Several studies reveal the relationship between the dimensions of GCG on the company's financial performance (Al-Ahdal et al., 2020; Hermuningsih et al., 2020; Kyere & Ausloos, 2021; Singh & Pillai, 2022). In the case of Indonesia, there are several relevant studies which analyze similar issues in various cases and various periods. Crisnandani et al., (2021) has revealed the direct influence of Good Corporate Governance on financial performance for the banking sector listed in Indonesia Stock Exchange. There was a simultaneous connection between the Board of Commissioners, the Board of Directors, the Audit Committee on the company's financial performance (Honi et al., 2020; Widyari et al., 2022). Other research also shows the diversity of findings where the board of commissioners, institutional ownership and the independent board of commissioners have a positive effect on financial performance (ROA), while the directors have no effect on financial performance (Hendratni et al., 2018). In the case of Islamic banks, it was found that the board of directors has no effect on financial performance (Intia & Azizah, 2021), and also the same with the finding of (Pratiwi et al., 2017) found that the board of directors has a positive effect on financial performance. Regarding the relationship between institutional ownership and firm performance, it is found that institutional investors have a positive influence on the market value (Drobetz et al., 2021) and there was the relationship between institutional shareholders and Return on equity (Daryaei & Fattahi, 2020). For the case of companies in Indonesia, it was also found that institutional ownership has an effect on the company's financial performance (Wardhani & Suwarno, 2021). Tracing for some parallel studies with this issue, it can be seen that there is a clear inconsistency between the various findings which certainly requires more empirical studies on this matter. In general, companies in Indonesia are vulnerable to economic fluctuations due to weak implementation of good corporate governance, for example in the phenomenal case, namely the Bank Century case in 2008 which was considered a total failure in GCG. This bank has experienced successive declines in the capital adequacy ratio, which have led to a decline in the level of confidence of investors, customers, depositors and the general public in the governance of this bank.

Furthermore, Leverage is also considered as one other thing that also influences the company's financial performance. Leverage is used to measure the extent to which a company is financed by debt. The Leverage Ratio describes the company's capital structure and explains the company's strength in carrying out its operations to generate profits by using funds from outside parties. The higher the level of debt means the higher the possibility of failure of the company to be unable to pay its debts so that it is at risk of experiencing a condition of worsening financial performance. Previous studies about the relationship between Leverage and the company's financial performance show the dominance of findings showing a negative relationship between these two variables (Firmansyah & Idayati, 2021; Samo & Murad, 2019; Widyari et al., 2022) or even no significant relationship at all between these two

(Tambun & Maylani, 2020). It was identified that leverage could increase firm's profitability or even result in losses for the company if debt management was not carried out properly. Financial leverage has a negative impact on financial performance, and this effect is sometimes stronger for companies with a higher risk of financial distress

This paper aims to analyze the influence of good corporate governance which is proxied by the board of directors, institutional ownership, and audit committees, and also Leverage which is proxied by the Debt To Asset Ratio (DAR) on the financial performance of companies listed on the Jakarta Islamic Index (JII) in the period 2016 to 2020. Return On Equity (ROE) was chosen as the most appropriate proxy in describing a company's financial performance because ROE is more fundamental and refers to the ability of a company's capital structure. In line with government regulations regarding the implementation of good corporate governance practices, corporate governance is a process and structure used by state companies to increase business success and corporate accountability in order to realize shareholder value in the long term while taking into account the interests of other stakeholders. Companies listed on JII must prioritize GCG and Islamic ethical values in transactions, because companies listed on JII are specifically for types of shares that meet sharia criteria. This study is expected to contribute to policies in improving corporate governance and debt so as to increase the competitiveness of companies in the Jakarta Islamic Index.

LITERATURE REVIEW

Tracing the basic theoretical concept of the relationship between Good Corporate Governance and Leverage on corporate financial performance requires a clear concept of the dimensions used to describe Good Corporate Governance and the interrelationships between variables in the model.

Agency Theory. This theory was first introduced by Jensen & Meckling, (2019) in an article entitled "The Theory of Firm: Managerial Behavior, Agency Cost and Ownership Structure", which has explained that there is a working relationship between shareholders as principals and company managers as managers in the form of cooperation. , which is called the nexus of contracts in which the contracts are explicit and implicit, and there is delegation of some decision-making authority to agents (Morris, 1987; Zogning, 2017). According to Eisenhardt (1989), there are three assumptions underlying this agency theory. First, the assumption about human nature, which emphasizes that humans are selfish, have limitations, and do not like risk. Second, assumptions about organization, which emphasize the existence of conflicts between members of the organization, efficiency as a productivity criterion, and the existence of asymmetric information between principals and agents. Third, the assumption about information which emphasizes that information is seen as a commodity that can be traded.

Financial Performance. The company's financial performance is a description of the financial condition of a company which is analyzed with financial analysis tools, so that it can be known about the merits of a company's financial condition that reflects work performance in a certain period. Financial performance is defined as the achievements of the company in a certain period which reflects the health rating of the company. Financial performance can be used to see whether investors will maintain their investment in the company or will look for other alternatives, also to measure the achievements of the company, to assess the contribution of a part in achieving the company's overall goals, and also as a basis for determining the company's strategy for the future. For companies, the company's financial performance can be used to measure the company's achievements in carrying out an activity, assess the contribution of a part in achieving the company's overall goals, and as a basis for determining the company's strategy for the future (Ousama et al., 2020). For investors or future investors, the financial performance of a company can be used as a reference whether investors will maintain their investment in the company or looking for another alternative.

Good Corporate Governance. The concept of corporate governance refers to a mechanism used to ensure that the company's capital owners obtain returns from activities carried out by managers, or in other words how the company's capital owners exercise control over managers. Some accounting and financial experts simply define corporate governance as a set of agreements or institutional rules that effectively regulate decision making (Evans et al., 2002; Ho, 2005). Practically, corporate governance in companies can be proxied by several measurements, covering the board of directors, audit committee and institutional ownership. *First*, the Board of Directors, which is the head of the company elected by the shareholders who represent their interests in managing the company. The board of directors is the part of the company that has collegial duties and responsibilities in managing the company. The more boards of directors in the company are expected to be able to provide a form of oversight of the company's performance so that it gets better, and with good company performance, it will certainly produce high profitability so that later it will be able to increase the company's stock price and company value. The board of directors is responsible for implementing strategies and policies that have been approved by the board of commissioners, and is also responsible for maintaining an organizational structure, and ensuring that the delegation of authority is carried out effectively (Honi et al., 2020). The board of directors has five management functions which include management, risk management, internal control, communication, and social responsibility. In Bank Indonesia Regulation number 11/33/PBI/2009, the board of directors is part of a company that is authorized and fully responsible for managing the company for the benefit of the company in accordance with the company's strategic goals and objectives, oversees business management, and also reports to shareholders on company service. *Second*, Audit Committee. The audit committee refers to a group of people selected by another larger group to do specific work in the company. Committees are very useful in dealing with issues that require integration and coordination so that important issues are resolved immediately. The function of the audit committee is to carry out the company's internal oversight of the implementation of audits, risk management, financial reporting processes, and the implementation of corporate governance in the company, so that the audit committee is identified as a determining factor in improving the company's financial performance. *Third*, Institutional Ownership, which refers to share ownership by the government, financial institutions, legal entity institutions, foreign institutions, trust funds, and other institutions. Institutional ownership plays an important role in minimizing agency conflicts that occur between managers and shareholders. Institutional ownership is responsible as the party that monitors the company, especially the manager as the person in charge of the company. Institutional ownership can encourage increased oversight that is more optimal in monitoring management. The greater the institutional ownership, the more efficient the use of company assets. Institutional ownership can encourage increased oversight that is more optimal in monitoring management.

Searches on some previous studies show that there is a relationship between the performance of good corporate governance and the company's financial performance, some of which prove a positive relationship, while other studies conclude that there is no relationship between these variables. Corporate governance such as accountability boards, audit committees have an insignificant impact on firms' performance measured by Return On Assets (Al-Ahdal et al., 2020). Crisnandani et al., (2021) has also revealed the direct influence of Good Corporate Governance on financial performance for the banking sector registered in the Indonesia Stock Exchange. however, the study of (Singh & Pillai, 2022) found that ownership concentration is not significantly related to the financial performance of SMEs.

Several other studies on the Indonesian case found some relevant findings. Board of Commissioners, Board of Directors, Audit Committee and Risk Monitoring Committee simultaneously have no significant effect on Financial Performance (Honi et al., 2020). Whereas in other studies it is seen that the Board of Directors and Company Size have no significant relationship with Company Performance, but the Audit Committee, Audit Quality have a positive effect on Company Performance (Widyari et al., 2022). Other research shows different findings, where the board of commissioners, institutional ownership and the board of independent commissioners have a positive effect on financial performance (ROA), while the directors have no effect on financial performance (Hendratni et al., 2018). In the case of Islamic banks, it was found that the board of directors had no effect on financial performance, but the board of independent commissioners had a positive effect on financial performance. The existence of a sharia supervisory board is not proven to have an effect on financial performance (Intia & Azizah, 2021). Other studies of (Pratiwi et al., 2017) have stated that the board of directors has a positive effect on financial performance, and (Wardhani & Suwarno, 2021) concluded that institutional ownership has an effect on the company's financial performance. Searches of these relevant studies have shown clear inconsistencies among the various findings, which of course requires more empirical cases on this matter.

Leverage. Leverage refers to the ratio used to measure the extent to which a company is financed by debt. Financial Leverage is the use of sources of funds that have a fixed cost, with the hope of providing additional profits that are greater than the fixed costs, so that shareholder profits increase (Van Horne & Wachowicz, 2001). Leverage may increase company profits but can also result in losses for the company, according to the expected profit percentage. Companies that have large debts tend to be inconsistent with debt agreements when compared to companies that have smaller debts.

Several studies have shown that there is a link between leverage and the company's financial performance, with the assumption that if the company that finances the company's operations can manage debt well so that it can increase the company's profitability. There is a negative relationship between financial leverage and firm's profitability (Samo & Murad, 2019). In the case of companies other than the Jakarta Islamic Index, a negative relationship was found between these variables (Widyari et al., 2022) or even no significant relationship between leverage and the company's financial performance (Tambun & Maylani, 2020) . Another study conducted by Firmansyah & Idayati, (2021) also found that leverage has no effect on financial performance. The search for this previous study also provided inconsistent findings due to various reasons. Leverage arises because the company uses fixed assets which causes the company to pay fixed costs and use debt with fixed interest costs. Leverage can increase company profits and can also result in losses for the company according to the expected profit percentage.

Based on the conceptual description and also tracing various previous studies, the following are the hypotheses that will be tested in this study:
H1: The board of directors has a significant effect on financial performance.
H2: Institutional ownership has a significant effect on financial performance.
H3: The audit committee has a significant effect on financial performance.
H4: Leverage has a significant effect on financial performance.

H5: Good corporate governance and leverage have a significant effect on financial performance.

METHOD

Research Design. This study is a quantitative research with the category of confirmatory research, which tries to prove the interrelationships between various factors that are interrelated between variables in the context of financial management and accounting and then build hypotheses based on several studies from previous studies. An associative quantitative approach is applied in this study to determine the relationship between two or more variables, look for the magnitude of influence, and the direction of a causal relationship (Puteri, 2018; Sekaran & Bougie, 2014). This research is a case study on 14 companies listed on the Jakarta Islamic Index in 2016-2020. Panel data regression is applied in the analysis model to examine the impact of good corporate governance and leverage on the company's financial performance. The concept of good corporate governance is proxied by several indicators such as the board of directors, institutional ownership, and audit committees, while financial performance is proxied by ROE (Return to Equity). Financial studies with long data series and sourced from the company's financial statement documentation are very appropriate to be analyzed using a panel data analysis approach (Puteri, 2020a; Puteri et al., 2022).

Data. Secondary data in this study comes from the Jakarta Islamic Index. The population of this study are all companies listed on the Jakarta Islamic Index for the 2016-2020 period. Sampling was carried out using the purposive sampling method with the criteria, namely: companies registered on the Jakarta Islamic Index, companies registered on the Jakarta Islamic Index for the 2016-2020 period consecutively, and registered companies having complete data regarding the variables studied. Based on these criteria, a total of 14 companies were selected, so that the sample in this study was 70 companies. Data collection techniques were carried out through documentation from the financial reports and annual reports of companies listed on the Jakarta Islamic Index obtained from the Indonesia Stock Exchange and the official pages of companies whose shares are listed on the Jakarta Islamic Index.

Variabels and Measurement. The dependent variable of this study is the company's financial performance proxied by Return On Equity (ROE), while the independent variable is Good corporate governance (GCG). GCG is proxied by several measurements, namely the board of directors, institutional ownership, audit committee, so there are four independent variables in the model. ROE was chosen as the most appropriate proxy in describing a company's financial performance because ROE is more fundamental and refers to the ability of a company's capital structure. ROE can be defined as the ratio used to measure a company's ability to obtain net profit from its capital, which is formulated by Profit After Tax divided by its own capital. Although ROA can also represent the profitability of a company, ROE is better able to describe whether net income comes from own capital or not because it focuses more on measuring profits from equity. On the other hand, ROA only describes a company's ability to generate profits from assets which are a composition of liabilities and equity. If ROA is good, ROE really needs to be considered, because this means the return rate is also better. ROE is one of the financial performance variables that can reflect the financial sustainability of a company (Kumalasari & Pratikto, 2018; Vicente-Ramos et al., 2020). Theoretically, ROE can reflect the condition of financial sustainability which is defined as the ability to preserve financial resources in the long term and allocate them in the right time and form, to cover all costs and to ensure that resources are used effectively and efficiently (Puteri, 2020b). Furthermore, GCG is proxied by several measurements, covering the board of directors, institutional ownership, audit committees, so that there are four independent variables in the model with several theoretical and empirical considerations that are in line for this measurement (Mukhtaruddin et al., 2019; Otieno et al., 2015).

Data Analysis Technique. This study estimates the effect of good corporate governance (GCG) and leverage on the financial performance of companies listed on the Jakarta Islamic Index for 2016-2020. The functional equations to be tested in this study are as follows:

$$Y_{it} = \beta_0 + \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 X_{3it} + \beta_4 X_{4it} + \varepsilon_{it}$$

Note: Y is Financial Performance, β_0 is Constant, β_i = Coefficient estimation, X_1 is Board of Directors, X_2 is Institutional Ownership, X_3 is Audit Committee, X_4 is Leverage, ε is Error Coefficient, i is companies listed on the Jakarta Islamic Index, and t is time period.

To estimate the model of this research, panel data regression is implemented in three models, covering common effect model, fixed effect model, and random effect model, with the E-Views statistical software program. The best model selection process was carried out based on the Chow test, Hausman test, and Lagrange Multiplier (LM) test.

RESULT AND DISCUSSION

To analyze the influence of Good corporate governance (GCG) and Leverage on the financial performance of companies listed on the Jakarta Islamic Index, the following sections of this paper present the results of estimating panel data regression from the model:

Descriptive Analysis. The results of the descriptive analysis about the characteristics for each variable in this study are shown in table 2

Table 2. Descriptive Statistics

Variables	Sample	mean	Maximum	Minimum	Standard Deviation
Financial Performance	70	0.21	1.20	-0.77	0.33
Board of Directors	70	7.46	13.30	1.62	1.95
Institutional Ownership	70	0.63	0.98	0.27	0.12
Audit Committee	70	3.84	6.93	0.75	1.03
Leverage	70	0.43	0.91	-0.04	0.16

Based on the results of the descriptive statistical analysis in table 2, it is illustrated that of the 70 samples observed, the average of financial performance proxied by the average of ROE is 1.20, the average achievement for measuring the performance of the board of directors is 7.46, institutional ownership is 0.63 , audit committee of 3.84 and Leverage of 0.43. The mean of the achievements of the Board of Directors, Institutional Ownership, Audit Committee and Leverage is quite well distributed because it is larger than the respective standard deviations.

Model Selection of Panel Data Regression. To determine which model to choose as the best model in testing the interrelationships between variables in the model, several tests were carried out. The results of testing the model with the Chow test, LM test, and Hausman test are presented in table 3. Chow test results show a probability > F = 0.000, which means Common Effect Model (CEM) is rejected and Fixed Effect Model (FEM) model is selected. The Breusch-Pagan Lagrange Multiplier (LM) test was also carried out and gave a BG-Cross Section value of 102.9738 (Probability > F = 0.000), which also means rejection of CEM and the decision to use FEM. Then the Hausman test was carried out to test between FEM and REM, which then appeared with a Cross Section Statistics value of 7.168683 (Prob. > F = 0.1272). Based on the estimation of this model, the best model to be used to estimate the hypothesis is Random Effect Model(REM), as shown in table 3.

Table 3. Model Selection of Panel Data Regression

Model Estimation	Chi-square.Statistic	Probabilitas
Chow Test	237.270161	0.0000
LM (*Lagrange Multiplier)* Test	102.9738	0.0000
Hausman Test	7.168683	0.1272

Panel Data Regression Results. The results of testing the causal relationship between the variables of the Board of Directors, Institutional Ownership, Audit Committee and Leverage on the financial performance of companies listed on the Jakarta Islamic Index can be shown in table 4. The results of this test are the results of panel data regression with three models of estimation methods, namely CEM (Common Effect Model), FEM (Fixed Effect Model), and also REM (Random Effect Model).

Table 4. Panel Data Regression With *Random Effect Model* (REM)

Model	Var.	Coefficient	Std. Error	t-statistic	Prob.
Random Effect Model (REM)	Cons	-0.81671	0.32522	-2.51125	0.015
Prob. > chi^2 = 0.022349	X_1	0.00505	0.00548	0.92159	0.360
R-Squared =0.158773	X_2	1.46268	0.48781	2.99845	0.004
Adjusted R-squared = 0.107005	X_3	-0.00359	0.01098	-0.00351	0.997
F-statistic = 5.067	X_4	0.17394	0.12708	1.36878	0.176
Prob(F-statistic) = 0.023					
Dependent Variabel: Y					
Method: Panel EGLS (Cross-section random effects)					
Sample: 2016 - 2020					
Periods included: 5					
Cross-sections included: 14					
Total panel (balanced) observations: 70					

Note : X_1 is Board of Directors, X_2 is Institutional Ownership, X_3 is Audit Committee, X_4 is *Leverage, and Y is* Financial Performance

Simultaneously the panel data regression results show the F-test is 5.067 (Sig. 0.023). The results of this F-test ensure that all independent variables included in the model have a simultaneous influence on the dependent variable, so that the regression model used is good and can be used to predict further models. It can be concluded that the variables of the board of directors, institutional ownership, audit committee, and leverage simultaneously affect the financial performance of companies listed on the Jakarta Islamic Index. Furthermore, the test results also show the value of the t-test which then becomes the basis for making decisions about whether partially the independent variables in the model, namely the board of directors, institutional ownership, audit committee, and leverage affect the company's financial performance. It is observed that the estimation coefficient for the board of directors (X2) is 1.46268 (p-value = 0.004), so it can be concluded that Institutional Ownership has a significant positive influence on the company's financial performance. Other variables do not significantly affect the company's financial performance, because the test results do not meet statistically. Furthermore, it is observed that the R-squared is not large enough, only 0158773. This means that only 15.877% of the variation in financial performance can be explained by GCG and leverage. This R-Squared value is a reflection of the ability of the independent variable to explain the dependent variable (Ghozali, 2013; Sekaran & Bougie, 2014). The greater the coefficient of determination means the greater the independent variables affect the dependent variable. This shows that the company's financial performance can only be explained by the variables of the board of directors, institutional ownership, audit committee, and leverage of 15.88%.

Discussion. The results of this study reveal several important things in the relationship between the dimensions of good corporate governance (GCG) and leverage on the financial performance of companies listed on the Jakarta Islamic Index. *First,* the board of directors has no significant effect on the company's financial performance. This finding is based on findings showing the t-statistic for X1 of 0.921591 (Coef. 0.00505, Prob. 0.360), so that H1 is rejected and it is concluded that the board of directors has no significant effect on the company's financial performance. The findings of this study are in line with several previous studies which revealed that there was no significant influence between the board of directors and the company's financial performance (Hendratni et al., 2018; Honi et al., 2020; Widyari et al., 2022). From the results of this study it can be concluded that the number of directors in a company will not directly affect whether or not the company's financial performance is good or bad.

Second, institutional ownership has a significant effect on the company's financial performance. It can be seen in table 3 that the t-statistic value for X2 is 2.99845 (Coeff. 1.46268, Prob. 0.004), so that H2 is accepted and it can be concluded that institutional ownership has a significant effect on the company's financial performance. This finding is in line with previous studies which revealed a positive influence of institutional ownership on company financial performance (Daryaei & Fattahi, 2020; Drobetz et al., 2021; Lestari & Yulianawati, 2016; Wardhani & Suwarno, 2021). This finding implies that what is discussed in the theoretical concept is indeed implemented in the cases analyzed in this study. In agency theory it is explained that institutional ownership has an important role in minimizing agency conflicts that occur between managers and shareholders. Institutional ownership is share ownership by governments, financial institutions, legal entities, foreign institutions, trust funds, and other institutions. If this institutional ownership goes well in minimizing existing conflicts, and has a vision that is in line with the company's, the company's financial performance will be good.

Third, the audit committee has no significant effect on the company's financial performance. Based on table 3, it can be seen that the t-statistic for X3 is -0.00359 (Coeff. 1.46268, Prob. 0.004), so that H3 is rejected and it can be concluded that the audit committee has no significant effect on the company's financial performance. This result is in line with previous studies which also concluded that there was no relationship between these two variables (Honi et al., 2020). The audit committee is a group of people selected to carry out supervision in increasing effectiveness to create quality financial disclosure and reporting, and also ensure compliance with applicable laws and regulations. From this study it was concluded that the number of audit committees will not directly affect whether or not the financial performance of companies listed on the Jakarta Islamic Index is good or bad. However, it is suspected that the company's financial performance will be more influenced by audit performance or audit results than the company's financial performance itself. It would be better for companies to pay more attention to the competence, skills and professionalism of each Audit Committee, so that they are able to properly audit every company's financial condition.

Fourth, Leverage has no significant effect on the company's financial performance. This finding is based on the t-statistic for X_4 of 1.36878 (Coeff. 0.17394, Prob. 0.176), which can be concluded that H_4 is rejected, so that leverage has no significant effect on the company's financial performance. Previous studies that support this finding also show that there is no relationship between these two variables (Firmansyah & Idayati, 2021; Tambun & Maylani, 2020). Actually, this finding is not in line with (Samo & Murad, 2019), which has concluded that there is a negative relationship between financial leverage and firm's profitability. Leverage is a ratio used to measure the extent to which a company is financed by debt. The greater the leverage, the greater the company's assets are financed by debt, and the greater the debt, the greater the probability that the company will fail to pay its debts, thereby risking bankruptcy. However, not all companies will experience a decline in performance even though the company's operations are funded through debt, as long as there is good management of the contribution of third party funds contained in capital.

CONCLUSION

The research findings reveal that good corporate governance proxied by institutional ownership has a significant effect on the financial performance of companies listed on the Jakarta Islamic Index, which can be seen from the results of the functional equation with an estimated coefficient of 1.46268 (Coeff. 1.46268, Prob. 0.004). This finding elaborates on the results of previous studies which concluded the importance of institutional ownership in influencing a company's financial performance. Institutional ownership has a major role in minimizing agency conflicts that occur between managers and shareholders. These findings have practical implications for policy makers, especially for companies listed on the Jakarta Islamic Index in order to increase institutional trust in corporate governance.

Institutional ownership affects company profitability, especially for those that have gone public and in the long term a profitable company certainly has a positive impact on firm value. This study has several limitations, especially in the limited sampling, which is due to limited availability of data on the financial reports of companies listed on the Jakarta Islamic Index. Taking cases during the Covid-19 period also led to deviations in findings, which were caused by the influence of macroeconomic conditions. For future research, it is highly recommended for researchers to be able to extend the observation period and add to the macroeconomic effects on the company's financial performance. It is suspected that the condition of global economic contraction can affect the company's financial performance and the company's financial sustainability.

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