Good Corporate Governance on Stock Prices of Companies Listed in the KOMPAS 100 Index 2014-2018

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ABSTRACT

This research aimed to analyze the effect of good corporate governance on stock prices. It was conducted on companies listed on the Indonesia Stock Exchange which were included in the KOMPAS100 Index in 2014-2018 by using a purposive sampling technique. Data analysis used was a panel data regression method with a fixed-effect model - least square dummy variable. The results of the study show that the number of board of the commissioner meetings, return on assets, earnings per share, and price to book value had significant effects on stock prices in a positive direction; the number of directors, education/training for corporate secretaries, and price to earnings ratio had positive but insignificant effects; the number of independent commissioners and the number of board of the director meetings had negative but insignificant effects on share prices. The novelty in this study was the addition of the variable of company secretary as an indicator of corporate governance, which was not found in previous studies. Besides, this study added a dummy interaction to see the effect of the level of corporate compliance on corporate governance.

SARI PATI

Penelitian ini bertujuan untuk menganalisis pengaruh good corporate governance terhadap harga saham. Penelitian ini dilakukan terhadap perusahaan tercatat di Bursa Efek Indonesia yang masuk dalam Indeks KOMPAS100 pada 2014-2018 dengan teknik pengambilan sampel yaitu purposive sampling. Analisis data menggunakan metode regresi data panel dengan model fixed effect model - least square dummy variabel. Hasil penelitian menunjukkan jumlah rapat dewan komisaris, return on assets, earning per share dan price to book value memiliki pengaruh yang signifikan terhadap harga saham ke arah positif; jumlah direksi, pendidikan/pelatihan sekretaris perusahaan dan price to earning ratio memiliki pengaruh positif namun tidak signifikan; jumlah komisaris independen dan jumlah rapat direksi memiliki pengaruh negatif terhadap harga saham namun tidak signifikan. Hal yang baru dalam penelitian ini adalah penambahan variabel sekretaris perushaan sebagai indikator corporate governance, dimana hal tersebut tidak ditemukan dalam penelitian sebelumnya. Selain itu, penelitian ini menambahkan interaksi dummy untuk melihat pengaruh tingkat kepatuhan perusahaan atas corporate governance.

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INTRODUCTION

This study aimed to analyze the effect of good corporate governance on stock prices. Good Corporate Governance practices have an essential role in directing and managing the company (Utama and Musa 2011). One of the primary causes of the crises that occurred in 1997-1998 and 2008 was a lack of understanding and weak corporate governance regulations and practices in a country, including Indonesia (Erkens et al. 2012; Farooq and Chetioui 2012; Iskander and Chamlou 2000; Kurniati 2019). Iskander and Chamlou (2000) stated that weak corporate governance requires to be addressed to restore both international and domestic investor confidence.

The experience of the crisis encountered by Indonesia prompted reforms to the supervisory framework for the sector of financial services with the development of the Financial Services Authority (OJK). It is as mandated in Law (UU) Number 21 of 2011 concerning OJK. The supervisory framework of the new sector of financial services emphasizes the importance of having a fundamentally and sustainably sound financial system in Indonesia. The improvement of governance practices can increase a company's competitiveness and becomes one way to spur financial and operational performance and improve investor confidence, as well as providing access to incoming capital (Kurniati 2019; OJK 2014).

To strengthen governance practices in Indonesia, OJK has issued roadmaps, guidelines, and regulations that regulate governance, including: Directors and Board of the Commissioners (POJK 33/2014), Audit Committee (POJK 55/2015), Nomination and Remuneration Committee (POJK 34/2015), Corporate Secretary (POJK 35/2014), Internal Audit Unit (POJK 56/2015), Website (POJK 8/2015), and Annual Report (POJK 29/2016 and SEOJK 30/2016). OJK also massively disseminates governance related to Public Listed Companies to encourage companies in Indonesia to enter the Top Fifty ASEAN Corporate Governance Scorecard (ACGS).

The ACGS assessment is one of the initiatives of the ASEAN Capital Market Forum (ACMF) Working Group D which was participated by 6 (six) ASEAN member countries, including Indonesia, Malaysia, the Philippines, Thailand, Singapore, and Vietnam. The primary objective of the assessment is to increase the standards and practices of governance of public listed companies (PLCs) in ASEAN, so that the value of listed companies will improve as seen by international investors. This assessment activity was last performed in 2017 and will be held later in 2021. According to the results of the assessment, Indonesia was in 4th position out of 6 other ACGS participating countries. This was the best position achieved by Indonesia, after being in the 5th position for the previous 4 years (ACMF 2017). However, it indicates that governance practices in Indonesia remain very low compared to other ASEAN countries.

Bae & Goyal (2010) said that companies managed with good governance have an effect on the increase in stock prices. Fuenzalida et al. (2013) who assessed the effect of corporate governance on stock prices on the Lima Stock Exchange of Peru, stated that companies that inform the good corporate index will generate positive abnormal returns. Nguyen et al. (2020) who assessed 247 non-financial listed companies on the Ho Chi Minh Stock Exchange (HOSE) in the 2014-2018 period, found that corporate governance has a significant effect on stock prices. Rani et al. (2013) said that a country's corporate governance rank has an effect on stock prices as measured by abnormal returns. Brammer et al. (2009) stated otherwise, that corporate governance has a negative effect on stock returns.

Chen et al. (2004) stated that there is a positive relationship between corporate governance and stock returns as measured using expected returns, while Drobetz et al. (2005) found negative effects. Kouwenberg et al. (2014) offered an interesting finding that portfolios with bad corporate governance produce high returns as measured

by using realized returns compared to portfolios with good corporate governance. Other research conducted by Huang et al. (2011) stated that corporate governance has a positive effect on stock prices and can reduce the volatility of stock prices during a crisis. It becomes one of the considerations for investors in making investment decisions.

According to the results of the previous studies, it can be concluded that there is a fundamental gap regarding the effect of good corporate governance on stock prices. It produces a gap providing an opportunity to conduct more in-depth research on these variables. Besides, this research is also motivated by the low level of governance practices implemented by listed companies in Indonesia. Of the six countries participating in the ACGS assessment, from 2013 to 2015, Indonesia always ranked fifth out of six countries. Then, it was only in 2017 that Indonesia moved to fourth (ACMF 2017). The results of this assessment raise the suspicion that good corporate governance is not really implemented so that the results obtained were not optimal.

This research is a development of Kurniati (2019) who assessed the effect of good corporate governance on firm value with the mediating variables of stock return and financial performance. The differences lie in the variables, samples, methods of analysis, and the research period. The research period was in the 5 years of 2014 - 2018. Besides, another novelty in this study is the addition of the variable of corporate secretary as an indicator of corporate governance. Based on the above background, the author will examine "The Effect of Corporate Governance on Stock Prices (Case Study in Companies Listed on the KOMPAS100 Index in 2014-2018)".

LITERATURE REVIEW
Agency Problem
The aspect of corporate governance is based on agency theory by Jensen & Meckling (1976) which serves as a medium to balance the differences

in interests among management, shareholders, and other stakeholders (Kurniati 2019). Generally, agency theory describes the contract or relationship between owners or shareholders (principal) and management (agent). According to Scott (2015), agency theory is a theory development associated with the contract between the agent and principal. If each party violates the contract, there will be a conflict. Contract design in agency theory consists of two characteristics of cooperative and non-cooperative.

The goal of the owner to recruit management is so that management can manage and improve the value of the company in order to increase the welfare of the owner or shareholders. The owner has the confidence to management to make decisions and policies in performing company activities. However, management, who has more internal information about the company than the owner, often has different objectives from those of the company, thus generating a conflict of interest between the owner and management. A conflict of interest that occurs is commonly called an agency problem.

The theory regarding the agency problem first proposed by Jensen & Meckling (1976) in "Theory of firm: Managerial behavior, agency costs, and ownership structure". This theory is motivated by the separation between ownership and control in the company. The control of companies outside the control of the owner will raise the possibility of potential conflicts in the relationship between the owner (principal) and the manager (agent) or known as agency problems. In the agency relationship (the relationship between the principal and the agent), the agent is contracted to represent, protect, and promote the principal interests of other stakeholders (Ehikioya 2015). Shareholders delegate authority to management to manage the company to improve shareholder welfare. In reality, however, agents have a vested interest in prioritizing the increase of their own welfare. Setiawan (2015) concluded that the agency problem is based on a

clash of interests between the insider (the party authorized to control the company effectively) and the outsider (the party that does not have the authority to control the company effectively) of the company.

Eisenhardt (2018) proposed agency theory based on several assumptions, including self-interest, bounded rationality, and risk aversion. Agency problems in a company can occur because of information asymmetry between managers and shareholders, which is a condition that leads to unbalanced information acquisition between agents and principals. The manager as the party who manages the company has accurate information regarding the condition of the company, while the principal as the party who does not directly manage it has limited information regarding the condition of the company. Information asymmetry causes managers to behave opportunistically through actions that prioritize their interests and do not provide benefits to shareholders. Information asymmetry can cause a problem, such as adverse selection and moral hazard (Jensen & Meckling 1976). A study conducted by Farooq & Ahmed (2019) stated that companies with low agency problems will have better corporate governance mechanisms that will affect the increase of share price performance. Research by Buchdadi et al. (2019) mentioned the importance of the role of control in agency theory as measured by the Board of the Director meeting in increasing company performance. (Ehikioya, 2015) also found evidence that companies with poor governance and severe agency problems have low valuations in the capital market.

Corporate Governance

In 1992, Cadbury Committee published a report that defined governance as a principle directing and controlling a company to achieve a balance between the power and authority of the company in being accountable for all aspects that happen in the company to all stakeholders, particularly shareholders (Setiawan, 2015). Based on the definition stated by the Cadbury Committee, the definition of corporate governance has evolved over time. Zarkasyi (2008) defining governance as a system and a set of rules that govern the relationship between the board of the directors, the board of the commissioners, and shareholders to achieve company objectives.

Corporate Governance is affected by the parties involved in the corporate governance system including shareholders, creditors, and employees. Controlling shareholders have a significant effect on corporate behavior. Institutional investors as owners of company equity are required to voice their opinions to improve corporate governance. Individual investors are commonly unable to use their voting rights but remain focused on receiving equal treatment from controlling shareholders and management. Creditors have an essential role in the corporate governance system because they monitor the company's performance from the outside. Employees and other stakeholders play an essential role in company performance and long-term success (OECD 2016).

A good corporate governance system can resolve issues related to conflicts of interest that may occur between controlling and minority shareholders, company management and shareholders, shareholders, and other stakeholders. Furthermore, a good corporate governance system can protect the interests of stakeholders like customers, vendors/suppliers, employees, and society entirely.

The implementation of the Corporate Governance mechanism in the company must be performed in each aspect of the business and be based on several principles. KNKG (2006), stated that there are five principles of GCG, including: transparency, accountability, responsibility, independency, and fairness.

Based on OECD (2016), there are 6 principles of corporate governance, including:

a. Ensuring the basic governance framework is running effectively

b. Shareholders' rights and fair treatment for all shareholders

c. Institutional investors, stock exchanges, and other stock trading intermediaries

d. The role of stakeholders in corporate governance

e. Openness and transparency

f. Responsibilities of the board of the directors and the board of the commissioners

Signaling Theory

The information asymmetry between the company and its stakeholders encourages the company to provide information about the company's image and prospects to parties outside the company. One of the information is in the form of financial statements which are basically used by the company to provide a real financial image of the company and it can be a positive or negative signal to the user. A way to reduce information asymmetry is to provide a signal to parties outside the company.

According to Brigham and Houston (2001), a signal is an action taken by company management providing instructions for investors regarding how management views the company's prospects. Signal theory suggests the significance of the information issued by the company on investment decisions. Information is an essential element for investors and business people as it provides notes and descriptions of the past, present, and future for companies and the capital market. Complete, relevant, accurate, and timely information is required by capital market investors as a tool to analyze prior to making a decision to invest. According to Jogiyanto in Retnowati (2013), information published as an announcement will provide a signal for investors in making investment decisions. If the announcement consists of a positive value, it is expected that the market will react when the announcement is received by the market. As the information is announced and market participants have received the information, market participants first interpret and analyze the information as good or bad signals. If the announcement is a good signal for investors, there will be a change in the trading volume of shares.

The effective use of positive signals by issuers and underwriters can minimize the level of uncertainty experienced by investors so that they can distinguish the quality of good and bad companies. A company with a good profit expectation level will try to demonstrate better quality of the company by underpricing and providing information about the number of shares held by the company. The underpriced bid price is considered by external investors as a reliable signal about the quality of the company since not all companies can bear the cost of the underpricing. Companies that perform underpricing as a signal to present the quality of the company will only sell a small portion of their shares at the time of the IPO. It is done to avoid too high underpricing costs (Retnowati 2013).

Hypothesis Formulation

Referring to agency theory by Jensen & Meckling (1976), agency problems arise because of differences in the interests of shareholders (principal) and management (agent). The existence of an Independent Commissioner can be a control over the management of the company performed by management, so that the company's objectives of maximizing shareholder welfare can be achieved. Previous research has shown that there is a positive effect between the number of independent commissioners and stock prices (Rahmawati and Handayani 2017; Syafaatul 2014). Independent Commissioners as supervisors and advisors have an essential role to play in ensuring control of management so that company management is performed in accordance with statutory provisions. The POJK 33/2014 stipulates that the number of Independent Commissioners in a company is at least 30% of the total members of the Board of the Commissioners. If the number of the Board of the Commissioners consists of 2 people, then 1 of them is an Independent Commissioner.

In performing its functions, the Board of the Commissioners including the Independent Commissioner is required to hold a meeting at least once in two months. Meetings can be held if attended

by a majority of all members of the Board of the Commissioners. The Board of the Commissioner meetings is a forum for evaluating the performance of the Directors and can provide advice to the Board of the Directors so that the management and performance of the company will be better to attract investors. The better the supervisory function, the more attracted investors will be to invest their investment funds. Therefore, it will increase the influence of the company's stock prices. Based on this description, hypotheses were formulated:

H_1 : The number of Independent Commissioners has a positive effect on Stock Prices

H_2 : The number of Board of the Commissioner Meetings has a positive effect on Stock Prices

Previous studies had stated that there is a positive and significant relationship between the number of Directors and the share prices (Nguyen, Vu and Doan 2020; Syahargaul 2014). Directors have an essential role in managing a company. The separation of duties and functions between the Board of the Commissioners and the Board of the Directors can provide power and strength for the Board of the Directors to manage every resource belongs to the company. The Board of the Directors has the duty to determine the direction of the policies and strategies of the company, both in the short and long term. A big number of Directors will be very effective in monitoring financial reports and company management. In Indonesia, the provisions for the number of Directors are regulated in POJK 33/2014. This provision stated that the composition of the Board of the Directors in a company shall consist of at least two people.

Besides, in carrying out their duties and responsibilities, the Board of the Directors is required to hold a Board of the Director meeting at least once a month. This provision is regulated in POJK 33/2014. The Board of the Director meeting aims to monitor and evaluate the running of the business processes of the company and are expected to create policies and strategic decisions that can improve company performance. Based

on this description, hypotheses were formulated:

H_3 : The number of the Directors has a positive effect on Stock Prices

H_4 : Number of Board of the Director Meetings has a positive effect on Stock Prices

IFC (2016) stated that Corporate Secretaries have a role as professional governance. Based on the corporate governance code, the primary function of the corporate secretaries is to ensure that communication between the company and stakeholders can run well and provide information for stakeholders. In supporting this role, Corporate Secretaries are required to always follow and ensure the latest provisions regarding corporate governance, including any changes to national and international regulations. Education/training attended by the Corporate Secretaries have an effect on increasing the knowledge, understanding, competence, and skills of the Corporate Secretaries. Based on POJK 35/2014, OJK requires the Corporate Secretaries to participate in education or training aimed at improving the knowledge and understanding of the Corporate Secretaries regarding developments in the Capital Market, corporate governance, or other competencies, so that they can support the implementation of their duties. Related to these matters, a hypothesis was formulated:

H_5 : Education or Training of Corporate Secretaries has a positive effect on Stock Prices

Previous studies stated that ROA has a significant effect on stock prices (Zulkarnaen 2017; Kennedy 2003; Ulupui 2007; Muhammad and Scrimgeour 2014). The greater the ROA value, the greater the profit the company receives. It shows that management can use the company's total assets properly so that it is attractive to investors who then increase the company's stock price. Based on this description, a hypothesis was formulated:

H_6 : Return on Asset has a positive effect on stock prices

Previous research stated that there is a positive and significant relationship between EPS and Stock

Prices (Farooq and Chetioui 2012; Muhammad and Scrimgeour 2014). EPS is one of the fundamental analyzes to measure the performance of a company. Each investor investing in a company will expect a profit from each share. The higher the EPS of the company, the more it will attract investors to invest in the company. Based on this description, a hypothesis was formulated:

H_7 : Earnings per Share has a positive effect on stock prices

A previous study stated that a variable of Price to Earnings Ratio (PER) had no significant effect on stock prices (Vivekananda 2019). Before buying shares, investors will first compare the PER of a company, the PER of similar companies, or the PER of the industry (Sudirman 2015). The PER ratio aims to see how the market appreciates the performance of a company (EPS). Market players or investors utilize PER as a tool for making investment decisions. Based on this description, a hypothesis was formulated:

H_8 : *Price to Earnings Ratio* has a positive influence on stock prices

A previous study stated that there is a significant relationship between Price to Book Value (PBV) and stock prices (Ahmad and Ishak 2016). According to Tryfino (2009), PBV is a comparison between the market value and the book value of a stock. This ratio is utilized to determine how many times the market value of a stock is valued from the book value. PBV is a ratio used to measure the level of stock prices whether overvalued or undervalued. Based on this description, a hypothesis was formulated:

H_9 : *Price to Book Value* has a positive effect on stock prices.

METHODS
Model Development
Pooled data modeling can be represented by these equations:

Model 1:
$$Ln\_HS_{it}=\alpha_i+X_{1it}\,\beta_1+PDKI_{it}\,\beta_1+JRDK_{it}\,\beta_2$$
$$+Ln\_JDD_{it}\beta_3+JRDD_{4it}\beta_4+PPSK_{it}\beta_5+ROA_{it}\,\beta_6$$
$$+EPS_{it}\beta_7+PER_{it}\beta_8+PBV_{it}\beta_9+\varepsilon_{it}$$

Model 2:
$$Ln\_HS_{it}=\alpha_i d_{1it} + ... + \alpha_N d_{Nit} +PDKI_{it}\beta_1+JRDK_{it}\beta_2$$
$$+Ln\_JDD_{it}\beta_3+JRDD_{4it}\beta_4+PPSK_{it}\beta_5+ROA_{it}\beta_6$$
$$+EPS_{it}\beta_7+PER_{it}\beta_8+PBV_{it}\beta_9+\varepsilon_{it}$$

Ln_HS_{it} : Company Stock Prices
α : Constant Coefficient
β : Regression Coefficient
$PDKI_{it}$: Number of Independent Commissioners
$JRDK_{it}$: Dummy variable, the score of 1 to meet the requirements of the number of the Board of the Commissioner meetings and 0 if not.
Ln_JDD_{it} : Number of Directors
$JRDD_{it}$: Dummy variable, the score of 1 to meet the requirements of the number of Board of the Director meetings and 0 if not
$PPSK_{it}$: Dummy variable, the score of 1 to meet the requirements for Education/Training for Corporate Secretaries and 0 if not.
ROA_{it} : *Return on Assets (ROA)*
Ln_EPS_{it} : *Earnings per Share (EPS)*
PER_{it} : *Price to Book Value (PBV)*
X_{9it} : *Price to Earnings Ratio (PER)*
d : *Dummy variable*
ε : *error*

RESULTS AND DISCUSSION
Descriptive Statistic
A descriptive statistical analysis was carried out to determine the characteristics of the research sample. The descriptive analysis consists of information regarding the minimum value, maximum value, mean, and standard deviation. The descriptive value of the research sample of the companies is presented in Table 1.

Table 1. Deskriptive Statistics

Variabel	Mean	Standar Deviasi	Minimum	Maximum
Ln_HS	7.79	1.350	4.060	11.34
PDKI	0.43	0.122	0.2	0.8
JRDK	0.73	0.445	0	1
Ln_JDD	1.89	0.309	1.099	2.565
JRDD	0.86	0.3505	0	1
PPSK	0.68	0.468	0	1
ROA	0.07	0.0852	-0.057	0.467
Ln_EPS	5.04	1.432	0.508	8.307
PER	20.23	103.996	-1230.407	1094.164
PBV	4.43	16.892	0.123	246.460

Source: Results of Data Processing with STATA 16

Table 1 shows that in the 2014-2018 period, the average percentage value of the minimum number of Independent Commissioners (PDKI) was 43%. This value is above the requirement of the minimum percentage for the composition of Independent Commissioners, which is 30% of the total Board of the Commissioners. However, it can be seen that at the minimum value, some companies had a composition of Independent Commissioner of 20%. This value is below the applicable requirements. The minimum number of Directors (JDD) in the 2014 - 2018 period is three people. This number had met the requirements related to the minimum number of Directors. In the variable of average corporate secretaries, the value of company compliance with the requirements of the implementation of education/ training for corporate secretaries was 68%.

In the 2014 - 2018 period, the average ROA produced by the company was 7%. This number shows that on average, the company can empower its assets to generate profits. As seen from the EPS, on average, the company generated earnings per share of IDR 358 per share. The company can print EPS up to a maximum of IDR4,050 per share. Earnings per share (EPS) shows the ability of a company to generate company profits. As seen from the PER and PBV, the average company generates 20.23x and 4.43x,

respectively. The PER and PBV ratios aim to see the fair price of a stock. The higher the PER and PBV values, the more expensive the stock prices are.

Panel Data Regression Result

In determining the best model approach between the Fixed Effects Model or the Random Effects Model, the Hausman test was performed. Based on the Hausman test, the best model chosen was the Fixed Effects Model (FEM). Tabel 2 are the results of panel data regression processing with the best FEM model.

Table 2 shows the comparison between the FEM and FEM LSDV models. The two models generate the same variable coefficients, SSE, SEE, and degrees of freedom, but seen from the R2 and adjusted R2 values, the results of FEM LSDV were better, which were 96,39% and 95.31% respectively. The LSDV FEM Model provides a better way of understanding the FEM model. By adding a dummy for every company, this model can predict the pure effect of among the independent variables. The effect of each independent variable is mediated by differences among companies. Another difference is that the FEM LSDV model generates a more specific or different intercept for each company compared to the FEM model which assumes the

Table 2. Comparison of the Results of FEM Analysis with FEM LSDV

Variabel	FEM		FEM LSDV	
	Coefficient	Prob	Coefficient	Prob
PDKI	-0.3104	0.288	-0.3104	0.288
JRDK	0.0103	0.884	0.0103	0.884
Ln_JDD	0.0027	0.986	0.0027	0.986
JRDD	-0.3469	0.011**	-0.3469	0.011**
PPSK	0.0219	0.768	0.0219	0.768
ROA	4.8472	0.000***	4.8472	0.000***
Ln_EPS	0.1203	0.035**	0.1203	0.035**
PER	0.0011	0.005***	0.0011	0.005***
PBV	0.0014	0.402	0.0014	0.402
JRDDxD_1	0.3869	0.020**	0.3869	0.020**
Intersep	6.9548	0.000	8.5079	0.000
_Icode_2 (dummy)			-2.8448	0.000***
_Icode_3 (dummy)			-1.5231	0.000***
_Icode_4 (dummy)			-2.1644	0.000***
_Icode_5 (dummy)			-0.9116	0.000***
_Icode_6 (dummy)			-2.3332	0.000***
_Icode_7 (dummy)			-0.6024	0.005***
_Icode_8 (dummy)			-3.0293	0.000***
_Icode_9 (dummy)			0.3712	0.104
_Icode_10 (dummy)			-0.4885	0.027**
_Icode_11 (dummy)			-1.3932	0.000***
_Icode_12 (dummy)			-1.5799	0.000***
_Icode_13 (dummy)			-0.7158	0.001***
_Icode_14 (dummy)			-3.5144	0.000***
_Icode_15 (dummy)			-3.8899	0.000***
_Icode_16 (dummy)			-1.6960	0.000***
_Icode_17 (dummy)			-2.6986	0.000***
_Icode_18 (dummy)			-0.5968	0.008***
_Icode_19 (dummy)			-2.2839	0.000***
_Icode_20 (dummy)			-1.9978	0.000***
_Icode_21 (dummy)			-2.7939	0.000***
_Icode_22 (dummy)			-1.3796	0.000***
_Icode_23 (dummy)			-2.0557	0.000***
_Icode_24 (dummy)			-1.1303	0.000***
_Icode_25 (dummy)			1.1825	0.000***
_Icode_26 (dummy)			-1.7299	0.000***
_Icode_27 (dummy)			-0.7513	0.001***
_Icode_28 (dummy)			-1.4968	0.000***
_Icode_29 (dummy)			-0.5729	0.000***
_Icode_30 (dummy)			0.0732	0.734
_Icode_31 (dummy)			-0.1834	0.569
_Icode_32 (dummy)			-0.4803	0.022**
_Icode_33 (dummy)			-2.1803	0.000***
_Icode_34 (dummy)			-0.7560	0.000***
_Icode_35 (dummy)			-1.9251	0.000***
_Icode_36 (dummy)			-2.5133	0.000***
_Icode_37 (dummy)			-1.7564	0.000***
_Icode_38 (dummy)			-2.0452	0.000***
_Icode_39 (dummy)			-2.5062	0.000***
_Icode_40 (dummy)			-2.0872	0.000***
_Icode_41 (dummy)			-1.4700	0.000***
_Icode_42 (dummy)			-2.1357	0.000***
_Icode_43 (dummy)			-2.2942	0.000***
_Icode_44 (dummy)			-1.2681	0.000***
_Icode_45 (dummy)			-2.9996	0.000***
_Icode_46 (dummy)			-2.1881	0.000***
_Icode_47 (dummy)			-2.2895	0.000***
_Icode_48 (dummy)			-0.4160	0.044**
_Icode_49 (dummy)			-1.5825	0.000***
_Icode_50 (dummy)			-2.7679	0.000***
_Icode_51 (dummy)			-2.3962	0.000***
_Icode_52 (dummy)			-1.3981	0.000***
_Icode_53 (dummy)			0.2522	0.212
_Icode_54 (dummy)			-0.5866	0.139
_Icode_55 (dummy)			-1.4962	0.000***

Variabel	FEM		FEM LSDV	
	Coefficient	Prob	Coefficient	Prob
_Icode_56 (dummy)			-1.7132	0.000***
F-test (model)	7.24	0.000***	70.87	0.000***
Degrees of freedom	198		198	
SSM (model)	6.9959		445.0487	
SSE *(error/residual)*	19.1289		19.1289	
Root MSE (SEE)	0.3108		0.3108	
R^2	0.4631		0.9588	
Ad. R^2	0.4481		0.9453	
F-test *(fixed effect)*	12.75			
N	264		264	

Source: Results of Data Processing with STATA 16
Standard errors in parentheses
* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

intercept of all companies is constant or the same. The LSDV FEM model was chosen since it provides unbiased and more efficient results.

Besides adding a dummy among companies, this study also added a dummy interaction among the level of company compliance (percentage) with the variables of corporate governance. It aimed to see whether there is a difference in results between companies with good and bad levels of corporate governance compliance. As shown in table 8 above, the selected dummy interaction was JRDDxD_1, where the JRDD variable was the number of Director meetings and D_1 was the dummy for the level of company compliance with corporate governance. This dummy interaction was chosen since it produced a significant effect, compared to other dummy interactions. Dummy D_1 was measured by two categories, code "1" for companies with a compliance level of $\geq$ 80%, and code "0" for companies with a compliance level of < 80%. The existence of this dummy interaction will lead to a different slope between companies as measured by their level of compliance.

Corporate governance compliance level of $\geq$ 80% (D=1)

$$Ln\_HS_{it} = \alpha_i d_{1it} + ... + \alpha_{56} d_{56it} + PDKI_{it}\beta_1 + JRDK_{it}\beta_2$$
$$+ Ln\_JDD_{it}\beta_3 + JRDD_{4it}\beta_4 + PPSK_{it}\beta_5 + ROA_{it}\beta_6$$
$$+ EPS_{it}\beta_7 + PER_{it}\beta_8 + PBV_{it}\beta_9 + \boldsymbol{JRDDxD\_1_{it}\beta_{10}(1)} + \varepsilon_{it}$$

Corporate governance compliance level of $\geq$ 80% (D=0)

$$Ln\_HS_{it} = \alpha_i d_{1it} + \alpha_i d_{2it} + ... + \alpha_{56} d_{56it}$$
$$+ PDKI_{it}\beta_1 + JRDK_{it}\beta_2 + Ln\_JDD_{it}\beta_3 + JRDD_{4it}\beta_4$$
$$+ PPSK_{it}\beta_5 + ROA_{it}\beta_6 + EPS_{it}\beta_7 + PER_{it}\beta_8 + PBV_{it}\beta_9$$
$$+ \boldsymbol{JRDDxD\_1_{it}\beta_{10}(0)} + \varepsilon_{it}$$

This study succeeded in proving that there was a significant positive effect of the ROA, EPS, and PBV variables on stock prices (Muhammad and Scrimgeour 2014; Farooq and Chetioui 2012; Zulkarnaen 2017; Kennedy 2003; Ulupui 2007). Other variables like the number of the board of the commissioner meetings, the number of directors, education/training for the corporate secretaries, and PER had a positive but insignificant effect (Rajabi, Mahdavifkhou and Khotanlou 2014); Vivekanand 2019). These results supported the research hypotheses of H2, H3, H5, H6, H7, H8, and H9. These results also supported the agency theory that good corporate governance has a positive effect on stock prices. The positive effect of the variable of the number of the Board of the Commissioner meetings is due to the implementation of meetings that have been running effectively and resulted in decisions or policies that can have a positive effect on company performance. The Board of the Commissioners has performed its supervisory and advisory functions well, thus obtaining good signals for investors. The better a company is in implementing governance practices, the higher investor confidence so that

the investors will be more interested in investing its funds. Besides, the results of this study also support the signaling theory, where information related to ROA, EPS, PER, and PBV published by the company will be a signal for investors in making investment decisions, affecting the volume of stock trading. Positive financial information will also provide positive signals for investors.

The variables of the number of independent commissioners and the number of the board of the director meetings were negative in the constant. The negative form shows that there is an inverse relationship between the number of independent commissioners and the number of board of the director meetings on the stock prices (Nguyen et al. 2020; Kurniati 2019; Aloui and Jarboui 2018; Erkens et al. 2012). These results do not support the hypotheses of H1 and H4. These results also do not support agency theory where the existence of Independent Commissioners should be able to reduce agency problems arising from the interests of shareholders and management. The presence of Independent Commissioners should be able to control the management of the company by management so that the company's objectives of maximizing shareholder welfare can be achieved. However, the negative form of the two variables reflects that the presence of Independent Commissioners and the implementation of the Board of the Director meetings is only limited to meeting existing provisions or regulations. Besides, the stipulation regarding the minimum number of Independent Commissioners of 30% is not high enough to dominate the policies adopted by the Board of the Commissioners. Another cause is the ineffective performance of the Independent Commissioners in implementing corporate governance practices.

Likewise, the number of Director meetings should be able to support the agency theory. Based on Table 2 above, it is concluded that the form of the variable coefficient of the number of Director meetings is not the same for all companies.

Companies with a compliance level of $\geq$ 80% had a positive coefficient (-0.3469 + 0.3869 = 0.04), indicating that the variable of the number of Director meetings had a positive effect on stock prices. In contrast to companies with a compliance level of < 80%, the resulting coefficient was negative (-0.3469), indicating that the variable of the number of Director meetings had a negative effect on stock prices. It can be concluded that companies with good corporate governance compliance levels will be able to increase their stock prices.

MANAGERIAL IMPLICATION

The implication of the research results is that the corporate governance variables of the Number of Board of the Commissioner Meetings, the Number of Directors, Education/Training for Corporate Secretaries, ROA, EPS, PER, and PBV had positive effects on stock prices. It supports OJK's attempts to improve the corporate governance practices of companies in Indonesia. Attempts that had been made include strengthening policies and implementing socialization related to corporate governance and appreciating companies that have implemented good governance practices.

The results also reveal that some variables had negative effects, including the number of independent commissioners and the number of board of the director meetings. OJK needs to evaluate the minimum requirement for Independent Commissioners at 30%. This requirement may not be sufficient to dominate independent policymaking or decisions taken by the Board of the Commissioners. Independent Commissioners will be more effective if the proportion is more than 50% so that they can perform their supervisory functions effectively. OJK also requires to evaluate the implementation of the Board of the Director meetings. They remain ineffective and tend to be only a formality to comply with existing regulations.

CONCLUSION

This study aimed to analyze the effects of good corporate governance on stock prices. Indicators

of corporate governance variables included the number of independent commissioners, the number of the board of the commissioner meetings, the number of the board of the directors, the number of the board of the director meetings, education/training for the corporate secretaries, ROA, EPS, PER, and PBV. Based on the results of panel data regression, the number of the board of the commissioner meetings, the number of directors, education/training for corporate secretaries, ROA, EPS, PER, and PBV had positive effects on stock prices. Meanwhile, the Number of Independent Commissioners and the Number of Board of the Director Meetings had negative effects on stock prices.. ■

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