IFAR

Article

THE INFLUENCE OF GOOD CORPORATE GOVERNANCE ON COST OF EQUITY IN COMPANIES IN THE JAKARTA ISLAMIC INDEX (JII) INDONESIA STOCK EXCHANGE

Riska[1], State Islamic Institute (IAIN) Parepare, riska@iainpare.ac.id
Damirah[2], State Islamic Institute (IAIN) Parepare, damirah@iainpare.ac.id
Syahriyah Semaun [3], State Islamic Institute (IAIN) Parepare, syahriyahsemaun@iainpare.ac.id

Abstract: Good corporate governance is important in maintaining the integrity and sustainability of the company, including in a sharia-based business environment. This research aims to find out how good Good Corporate Governance is at companies listed on the Jakarta Islamic Index (JII) and the effect of implementing Good Corporate Governance on the Cost of Equity during the 2020-2022 period in companies listed on JII.

Quantitative research method with an associative research approach, namely field research (Filed Research) using documentation techniques in the form of secondary data, annual reports and historical data of companies listed on the JII Indonesia Stock Exchange.

The results of the research show that the Good Corporate Governance implemented by companies on the Jakarta Islamic Index (JII) during the 2020-2022 period is included in the good category in the analysis of the company's annual report and the shares are suitable for investment. The results of the Pearson correlation coefficient test were obtained at 0.639 (63.9%) indicating a strong and positive relationship that was significant at the significance level or Sig. (2-tailed) 0.04 and the test results from the partial test (t) show that the significant value is 0.004 <0.05 or the Sig t value is smaller than 0.05 so it can be concluded that the Good Corporate Governance variable has an effect on the Cost of equity.

Keywords: Good Corporate Governance, Cost of equity, Capital Asset Pricing Model (CAPM)

1. Introduction

A good company is a company that can manage its finances well. With proper financial management, the company can plan better business in the future. Poor corporate governance is considered to be the root cause of a number of fraud cases. According to the Association of Certified Fraud Examiners (ACFE), fraud is unlawful acts carried out intentionally for certain purposes (manipulation or giving false reports to other parties) carried out by people from within or outside the organization to obtain personal or personal gain. Groups that directly or indirectly harm other parties.[1]

Good Corporate Governance (GCG) is important in preventing and reducing the risk of fraud in an organization. Strong GCG not only provides internal benefits for an organization in preventing and reducing the risk of fraud, but also has a significant impact on investor perceptions and decisions. Investors tend to prefer investing in companies that have good governance, as this gives them confidence, reduces risk, and provides higher long-term value.

According to a survey conducted by the Asian Corporate Governance Association (ACGA) on business behavior in Asia, it shows that Indonesia still ranks 12th in the field of GCG. Indonesia is ranked lowest after China

[1] Posma Sariguna Johnson Kennedy and Santi Lina Siregar, 'Fraud Actors in Indonesia According to the Indonesian Fraud Survey (Fraud Actors in Indonesia According to Fraud Indonesia Survey)', FEUKI Economic Bulletin, 21.2 (2017), 50–58.

and the Philippines.[2] Low implementationGCG, weak good relations between investors and stakeholders in the company, inefficiency and transparency in financial reports and lack of law enforcement of laws for perpetrators of fraud in companies which cause huge losses for the company and everyone who is part of the company, all factors - the factors mentioned are the triggers for the collapse of a company.

The tighter the commercial competition, the more companies want to demonstrate their performance through good results. Including companies listed on the Jakarta Islamic Index (JII), this is indicated by the increase in the stock index.

Development of Stock Index at JII

Source : www.ojk.go.id.[3]

Good Corporate Governance (GCG) is one of the crucial aspects of modern company management. GCG is a set of principles, policies and procedures designed to ensure that a company is managed in a transparent, accountable and responsible manner towards all stakeholders. In the context of sharia companies listed on the Jakarta Islamic Index (JII), the interest in implementing GCG becomes more prominent. This is due to sharia companies' focus on sharia principles, which include aspects of transparency, fairness, and compliance with Islamic law and ethics. In an increasingly complex and integrated business environment, implementing GCG has become a necessity to ensure operational sustainability and the trust of stakeholders, especially investors.

The high awareness of the Indonesian people, who are predominantly Muslim, to invest in accordance with Islamic law or sharia has resulted in an increase in the stock index on JII, so that many investors choose to invest in shares that comply with sharia principles. JII-registered companies are expected to avoid usury (interest), which is considered haram in Islam. This makes investing in JII in accordance with Islamic religious values which prohibit usury. In the context of Good Corporate Governance, companies that maintain transparency and integrity in their financial reports can also attract investor interest, supporting sustainable stock index growth.

Investors must consider various information that can produce high returns on the amount invested. GCG is a guideline that regulates relationships with parties who have an interest in maintaining good corporate governance, a balance between rights and obligations. This makes GCG considered important for the operational success of a company, encouraging the creation of a healthy business environment and increasing investors' interest and confidence in investing, which ultimately has an impact on the cost of equity (Cost of equity).

Cost of equity, on the other hand, is one of the key indicators in assessing a company's financial performance. Cost of equity describes the rate of return expected by shareholders as a return on their investment in company shares. One of the benefits of implementing GCG is reducing the company's cost of equity which is in line with reducing the company's risk. This cost is a reference for the company in carrying out its operations.

*Cost of equity*A low level in a company indicates a low level of risk owned by the company, so that the level of return on risk expected by investors will be low. This is in accordance with the principles of high risk, high return and low risk, low return, which are generally known by investors in making investments. Therefore, Cost of equity is one of the determining factors in estimating the level of return expected by investors in making an investment and is the amount of costs that must be incurred by the company to be able to obtain funds from investors.[4] In determining the Cost of equity (cost of equity) of a company, several factors are often considered in estimating the Cost of equity, such as risk-free interest rates, Beta (β), Market Risk Premium, and one of them is Market capitalization.

[2] Asian Corporate Governance Association, 'Future Promise Aligning Governance And ESG In Asia' <www.new.acga-asia.org> [accessed 3 October 2023].

[3] Financial Services Authority, 'Indonesian Sharia Financial Development Report 2022' <www.ojk.go.id> [accessed 21 October 2023].

[4] Evleen Christine, 'The Influence of Good Corporate Governance on the Cost of Equity of Cgpi Participants in Indonesia for the 2011-2013 Period', University of Surabaya Student Scientific Journal, 3.2 (2017), 1–12.

Jakarta Islamic Index (JII) Market Capitalization

Yearn	(Rp Billion)
2019	2,318,565.69
2020	2,058,772.65
2021	2,015,192.24
2022	2,155,449.41
2023	2,501,485.69

Source: Financial Services Authority (OJK)

Jakarta Islamic index (JII) market capitalization from 2019 to 2023. With this data, we can see how the JII market capitalization changes from year to year. It can be seen that JII's market capitalization fluctuates from year to year, but overall, there is an increasing trend from 2019 to 2023. This shows a growth in the market value of companies listed in the index during that period. The increasing trend in JII market capitalization from 2019 to 2023 suggests that investors may see the potential for growth and stability in the companies listed on the index. This can reflect the strong performance of sectors linked to the JII index, and can also indicate investor confidence in the broader prospects of the Indonesian economy and financial markets. In addition, an increase in market capitalization can also reflect companies' efforts to improve operational performance, strengthen market position, and increase value for shareholders. Practices that support this growth are often related to the implementation of Good Corporate Governance (GCG) principles.

The influence of GCG on the Cost of equity carried out by Evleen Christine who conducted research at CPGI Indonesia in her research said that companies that have implemented GCG well are not proven to have a significant influence on the Cost of equity. Apart from that, another researcher, Muhammad Sahrul Anam Saputra, in his research entitled The Effect of GCG on the cost of equity and the cost of debt in manufacturing companies listed on the IDX, in his research concluded the same opinion that there is no influence between the GCG variable and the Cost of equity variable.

Previous research discusses GCG and shares in conventional companies only and it is important to remember that conventional shares operate within a capitalist economic framework, which focuses on profitability, competition, and resource allocation based on market mechanisms. This differs from sharia economic principles which follow Islamic teachings and have a prohibition against interest (riba) and certain business activities that are considered haram. Meanwhile, shares traded in the sharia index are issuers whose business activities do not conflict with sharia, such as businesses that involve usury transactions or businesses that trade in haram drinks or food. Researchers use a sharia stock index, namely the Jakarta Islamic Index (JII). JII is a stock index that follows Islamic sharia principles in selecting shares. Therefore, stock research conducted at JII focuses more on stocks that comply with ethical guidelines and Islamic values.

The researcher wrote "The Effect of Good Corporate Governance on the Cost of Equity in Companies Registered on the Jakarta Islamic Index (JII)" where companies registered with JII have complied with sharia principles based on issuers and public companies that are in line with sharia principles.

2. Methodology

A research approach is a design for how research will be carried out. This design is used to obtain answers to the formulated research questions. The type of research used in this research is quantitative research, namely a type of research that produces new findings that can be achieved (obtained) by using statistical procedures or other means of quantification (measurement).[5]

In this study, researchers want to identify the impact on a company's cost of equity by implementing GCG on companies listed on the Jakarta Islamic Index (JII) for the 2020-2022 period. So the type of research used is field research, namely a method of collecting data directly from sources in the natural environment.[6] This research approach uses an associative approach which aims to determine the relationship between two or more variables.[7]

This research uses secondary data, such as annual report data and the results of the publication of Annual Reports on companies listed on the Jakarta Islamic Index (JII) during the 2020-2022 period. The research location is

[5] Made Laut Mertha Jaya, Quantitative and Qualitative Research Methods (Great Children of Indonesia, 2020), p.12.
[6] Made Laut Mertha Jaya, Quantitative and Qualitative Research Methods (Great Children of Indonesia, 2020), p.150.
[7] Made Laut Mertha Jaya, Quantitative and Qualitative Research Methods (Great Children of Indonesia, 2020), p.19.

at the Makassar branch of the Indonesian Stock Exchange (BEI) Jl. AP Pettarani and the research time that researchers will use to complete this research is approximately 60 days. The population used in this research are companies that have started to be listed on the Jakarta Islamic Index (JII) and have never left or been delisted from JII during the 2020-2022 period. Sampling was carried out based on the purposive sampling method, namely selecting a sample of company shares during the research period based on certain criteria.

3. Result

1.1 Good Corporate Governance

Good Corporate Governance is a set of relationships (system) between various interested parties in a company/organization. The aim is to direct and control the company/organization in order to achieve the company/organization's goals. From an agency theory perspective, good corporate governance (GCG) is very important to prevent conflicts of interest between principals and agents which have a negative impact on company performance. This prevention is carried out through a structure, system, process, regulations and values which aim to ensure that the interests of the principal and agent are aligned for the best long-term interests of the company and/or so that the conflict does not harm the company. The following section explains the governance principles that, if implemented, will ensure the long-term sustainability of the company.[8]

GCG can help ensure that the company operates in accordance with the principles of Transparency, Accountability, Fairness and Responsibility. This helps protect the interests of shareholders, employees, customers and society as a whole. The following are the GCG assessment categories in this research.

Good Corporate Governance Assessment Criteria

Value Score	CG levels	Category
<60.00	Poor	Below Minimum Requirements
60.00-69.99	Level 1	Minimum Requirements
70.00-79.99	Level 2	Fair
80.00-89.99	Level 3	Good
90.00-99.99	Level 4	Very Good
>100	Level 5	Leadership in Corporate Governance

Source: ASEAN Corporate Governance Scorecard (ACGS)

Good Corporate Governance (Good GCG) is a comprehensive evaluation of the company's quality in implementing GCG principles. This assessment is usually carried out based on a number of components or certain aspects which are assessed in a structured manner. The following is a general description of the GCG composite assessment based on GC Level:

1. Level Poor, Below Minimum Requirement reflects that an entity or company does not meet the minimum standards or requirements set for good corporate governance practices.
2. Level one, Minimum Requirements reflects the minimum standards or basic requirements that a company or entity must meet to ensure that their corporate governance practices at least meet widely accepted minimum standards.
3. Level two, Fair reflects Good Corporate Governance which is in line with ethical standards of good governance.
4. Level three, reflects Good Corporate Governance, which is included in the good category.
5. Level four, reflects Good Corporate Governance, which is included in the very good category.
6. Level five, Leadership in Corporate Governance reflects Leadership in Corporate Governance reflects the company's commitment to managing its business with high ethics and transparency.

The GCG assessment indicators used in this research are based on the principles that have been implemented by the company. The calculation results for the Good Corporate Governance assessment are as follows:

Assessment of the company's Good Corporate Governance Implementation

NO	CODE	Company name	Year	GCG assessment
1	ANTM	Aneka Tambang Tbk	2020	93.15
			2021	93.84
			2022	85.08
2	INCO	Vale Indonesia Tbk.	2020	83.36

[8] Sidharta Utama and et al, Corporate Governance in Indonesia Theory, Principles and Practices (South Jakarta: Salemba Empat, 2023), p.10.

NO	CODE	Company name	Year	GCG assessment
			2021	87.68
			2022	87.68
3	PGAS	Perusahaan Gas Negara Tbk.	2020	80.14
			2021	89.17
			2022	91.12
4	PTBA	Bukit Asam Tbk.	2020	88.05
			2021	88.83
			2022	89.09
5	UNVR	Unilever Indonesia Tbk.	2020	106.60
			2021	106.60
			2022	107.15
6	WIKA	Wijaya Karya (Persero) Tbk.	2020	94.95
			2021	87.89
			2022	89.69

Data source: Company Annual Report

Shows that the companies included as research samples are at a good level in implementing GCG, which shows that the companies have a very high level of reliability in carrying out their operations. They are consistent in meeting commitments, produce consistently high-quality products or services, and provide good customer service. The company can also be relied on to comply with regulations, meet financial obligations, and maintain transparency in their reports. In other words, the company can be relied on with a high level of trust by stakeholders such as investors, employees and customers.

1.2 Cost of equity

Cost of equityor The cost of equity is the rate of return that a company must pay to equity investors. It represents the compensation that the market demands in return for owning an asset and bearing the risks associated with owning it. This number helps finance leaders assess how attractive an investment is, both internally and externally. It is difficult to determine the cost of equity, as they are determined by stakeholders and based on company estimates, historical information, cash flows, and comparisons with similar companies. The cost of equity is calculated using the Capital Asset Pricing Model (CAPM).[9] The following are the results of data processing on the CAPM values for each company included in the research sample.

The Cost of equity value uses the CAPM formula

Stock code	Year	R.I	RM	RF	B	CAPM / E(Ri)
ANTM	2020	10.11%	-0.15%	3.75%	2.71	-6.82%
	2021	3.79%	0.84%	3.50%	2.54	-3.26%
	2022	0.50%	0.36%	5.50%	3.59	-12.95%
INCO	2020	0.99%	-0.15%	3.75%	1.54	-2.26%
	2021	-0.86%	0.84%	3.50%	2.11	-2.11%
	2022	3.00%	0.36%	5.50%	3.37	-11.82%
PGAS	2020	1.95%	-0.15%	3.75%	2.89	-7.52%
	2021	-0.01%	0.84%	3.50%	3.25	-5.15%
	2022	-0.83%	0.36%	5.50%	1.47	-2.06%
PTA	2020	0.25%	-0.15%	3.75%	0.68	1.10%
	2021	-4.47%	0.84%	3.50%	1.43	-0.30%
	2022	-4.12%	0.36%	5.50%	1.90	-4.27%
UNVR	2020	-0.05%	-0.15%	3.75%	0.11	3.32%

[9] Olandari Mulyadi and et al, Advanced Financial Management (Case Study Theory and Problem Solving) (West Sumatra: CV. Media Scholar Partners, 2022), p.15.

Stock code	Year	R.I	RM	RF	B	CAPM / E(Ri)
	2021	4.49%	0.84%	3.50%	1.10	0.57%
	2022	2.49%	0.36%	5.50%	-0.93	10.28%
WIKA	2020	3.06%	-0.15%	3.75%	2.61	-6.43%
	2021	1.38%	0.84%	3.50%	1.76	-1.18%
	2022	-2.40%	0.36%	5.50%	1.45	-1.95%

Data source: Data processed by the author in 2024

The assessment of efficient and inefficient shares is carried out by comparing returns with expected returns.

Ri > E(Ri) : Efficient
Ri < E(Ri) : Inefficient[10]

CAPM (Capital Asset Pricing Model) calculations help investors assess whether a stock is undervalued or overvalued by comparing the expected rate of return (E(Ri)) with the actual rate of return (Ri). In this context, when an individual stock's rate of return (Ri) is greater than its expected rate of return (E(Ri)), this means that the stock generated higher profits than predicted by the CAPM model.

1.3 Hypothesis Testing

1.3.1 Simpel Linear Regression

Simple linear regression can be used to measure and evaluate the influence of the independent variable on the dependent variable, thus helping in understanding the relationship between variables and making predictions about how changes in the Good Corporate Governance (X) variable can affect the Cost of equity (Y) variable.

$$\hat{Y} = \alpha + \beta x + e$$

Information:
$\hat{Y}$= Cost of equity
α = Constant
X = Governance Corporate Governance
β = Regression coefficient
e = Standard Errors

Simple Linear Regression Test Results

Coefficientsa						
Model		Unstandardized Coefficients		Standardized Coefficients	Q	Sig.
		B	Std. Error	Beta		
1	(Constant)	-43,248	12,184		-3,550	,003
	X- Good Corporate Governance	,440	,132	,639	3,321	,004
a. Dependent Variable: Y- Cost of equity						

Data source: SPSS 25 output results, data processed by the author in 2024

The results of the data analysis above using SPSS version 25 resulted in the following simple linear regression equation:

Y = α + Bx + e
Y = -43.248 + 0.440X

1. The results of the simple linear regression test above obtained a constant value (α) of -43.248 which means that the consistent value of the Cost of equity variable is -43.248.
2. The regression coefficient (β) value of Good Corporate Governance obtained is 0.440. The results of the regression equation and interpretation of simple regression analysis are that the constant value (a) has a negative sign, namely -43, 248, meaning that if Good Corporate Governance is equal to zero (0) then Cost of equity has decreased. The variable regression coefficient value (X) is 0.440, meaning that Good Corporate

[10] Lokiteswara Setya Wardhani, Capital Asset Pricing Model (CAPM) in Assessing Efficient and Inefficient Shares of Indonesian Stock Exchange (BEI) Banking Shares for the 2019-2021 Period, ed. by Andri Hidayat (Tasikmalaya: Langgam Pustaka, 2023), p.32.

Governance has a positive effect on the Cost of equity. If Good Corporate Governance increases by 1%, the cost of equity will increase by 0.440.

3. The variable t value of Good Corporate Governance (X) was 3.321, which indicates that it has an influence on the Cost of Equity.

1.3.2 Partial Test (T)

The partial test (t test) is a test carried out to find out the relationship between each independent variable and the dependent variable. The basis for making decisions in this test is in two ways.

1. Based on significant value. If the significant value is <0.05 then there is an influence between variable X and variable Y, whereas if the significant value is >0.05 then there is no influence between variable X and variable Y.
2. Based on the calculated t and t table values. If the calculated t value > t table then there is an influence between variable X and variable Y, whereas if the calculated t value < t table then there is no influence between variable.

T table = (a/2 ; nk-1)
= (0.025 ; 100-2-1)
T table = (0.025 ;15) = 2.131

t Test Results

Coefficientsa						
Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	-43,248	12,184		-3,550	,003
	X- Good Corporate Governance	,440	,132	,639	3,321	,004
a. Dependent Variable: Y- Cost of equity						

Data source: SPSS 25 output results, data processed by the author in 2024

From the results of the partial test output above, it can be seen that the significance value is 0.004, which is below the general significance limit of 0.05. This shows that the independent variable has a significant impact on the dependent variable. Therefore, in the context of this research, it can be concluded that Good Corporate Governance (GCG) has a positive and significant influence on the Cost of equity of companies listed on the Jakarta Islamic index (JII).

If you compare the calculated t results with the t table, the Good Corporate Governance variable ((X) is 3.321 > 2.131 so it is stated that there is an influence between the Good Corporate Governance variable (X) and the Cost of equity variable (Y).

4. Discussion

A. How good is the Good Corporate Governance of Sharia companies listed on the Jakarta Islamic Index (JII)

The Financial Services Authority has established regulations regarding the implementation of Good Corporate Governance for public companies in Indonesia, so the Financial Services Authority Regulation Circular Letter No. 21/POJK.04/2015 dated 16 November 2015 concerning Implementation of Public Company Governance Guidelines. In order to improve good corporate governance in Indonesia, the Financial Services Authority (OJK) has established various regulations that must be implemented by Public Companies. However, these regulations do not cover all aspects of corporate governance because each company has different characteristics, such as industrial sector, size and business complexity. Therefore, OJK introduced corporate governance guidelines that have not been or are not regulated in detail in capital market legislation, which need to be implemented by Public Companies through an "Comply or Explain" approach. This approach allows companies to adapt the implementation of good governance to their specific conditions and needs. If companies cannot implement a good governance practice, they must explain why in a transparent manner. The aim of this approach is to encourage the internalization of good governance practices so as to improve the quality of governance in Public Companies.

Improving good corporate governance is very important in facing the ASEAN Economic Community

(AEC) 2015. Thus, Public Companies in Indonesia are expected to be able to equalize their level of governance with companies in other ASEAN countries, so that they can compete effectively in the regional market. Therefore, the GCG assessment in this research using the Asean Corporate Governance Scorecard helps companies in Indonesia and other Asean countries to evaluate and improve corporate governance practices. The following are the GCG assessment categories in this research.

Good Corporate Governance Assessment Category

Value Score	CG levels	Category
<60.00	Poor	*Below Minimum Requirements*
60.00-69.99	Level 1	*Minimum Requirements*
70.00-79.99	Level 2	*Fair*
80.00-89.99	Level 3	*Good*
90.00-99.99	Level 4	*Very Good*
>100	Level 5	*Leadership in Corporate Governance*

Source: ASEAN Corporate Governance Scorecard (ACGS)

The results of the author's observations from the annual report on Good Corporate Governance from the six companies studied show that the Aneka Tambang Tbk Company was at level 4 in 2020-2021, which means corporate governance was carried out very well and then in 2022 it decreased to level 3 but still in good condition. The company Vale Indonesia Tbk is at level 3, this shows that the company is consistent in implementing Good Corporate Governance. Perusahaan Gas Negara Tbk in 2020-2021 was at level 3 in the good category, then experienced an increase in 2022, rising to level 4, this reflects that the company has implemented improvements in policies, procedures or company structures that have increased the efficiency and effectiveness of governance. Manage them.

Bukit Asam Tbk Company is consistently at level 3, which means it is in the good category. Unilever Indonesia Tbk is the Company with the highest score in this research, namely at level 5, namely Leadership in Corporate Governance, explained in the company's annual report, explaining that the assessment carried out is above average, this shows that it not only meets the set standards, but also become a pioneer in implementing best practices in corporate governance. The Wijaya Karya Company was at level 4 in 2020 and decreased to level 3 in 2021-2022 but is still in the category of Good Corporate Governance implemented well.

This explanation has answered the problem formulation, namely, how good is the Good Corporate Governance of sharia companies listed on the Jakarta Islamic Index (JII). Agency theory developed by Jense and Meckling in 1976 views that good corporate governance functions as a tool to supervise and ensure that control over the management of a company is carried out in accordance with applicable rules and regulations, the regulations in question are in accordance with the provisions of the General Guidelines. Good Corporate Governance Indonesia, issued by the National Committee for Governance Policy, 2006. General Guidelines for GCG Indonesia issued by KNKG in 2006 aim to improve the quality of corporate governance in Indonesia. By applying the principles of transparency, accountability, responsibility, independence and fairness, companies are expected to improve performance, competitiveness and trust from stakeholders, as well as contribute to sustainable economic development.

B. How efficient are shares in companies listed on the Jakarta Islamic Index (JII) for Investment?

The world of investment is able to have a crucial influence on the investment activities that are being carried out. One concept in the investment world that is important to understand is the cost of equity. In general, the definition of cost of equity is an investment concept that can help investors understand more about the company's process of funding operational activities and how effective shares are worth buying. Understanding this concept can also help investors make optimal decisions. Cost of equity is used by company managers and investors to make investment decisions. In financial analysis, it is often used in valuation models such as the Capital Asset Pricing Model (CAPM).

The assessment of efficient and inefficient shares is carried out by comparing returns with expected returns.

Ri > E(Ri) Undervalue: Efficient
Ri < E(Ri) Overvalue: Inefficient

The CAPM calculation results show that the six companies included in the research sample include shares that are overvalued or effective to buy because the rate of return on individual shares (Ri) is greater than the expected rate of return E (Ri).

In line with theory In line with CAPM theory, these results indicate that these stocks have an actual rate of return that is higher than the expected rate of return based on systematic risk as measured by beta. According to CAPM theory, the relationship between risk and return is linear, where stocks with higher betas are expected to provide higher returns to compensate for the additional risk taken by investors. However, when an individual stock's rate of return (Ri) is consistently higher than its expected rate of return (E(Ri)), this can indicate that there are other factors influencing that stock's performance that are not fully captured by beta. These factors may include a company's competitive advantage, product innovation, or effective management, all of which can provide additional returns beyond those expected by the CAPM model.

These findings suggest that the stock generated higher returns than expected. This could be an indication that the stock is in a positive trend or is exceeding market estimates. This can be attractive to investors because it indicates the potential for greater profits than anticipated.

a) Connection Good Corporate Governance on Cost of equity of companies listed on the Jakarta Islamic Index (JII)

The output results from data processing using SPSS tools show a "strong" and positive relationship between Good Corporate Governance and Cost of equity in companies listed on the Jakarta Islamic index (JII). A unidirectional relationship means that as one variable increases, the other variable also tends to consistently increase or decrease.

The results of this research are in line with the research of Muhammad Syahrul Anam Saputra, who in his research stated that the probability value (significance) of the relationship between the COE (Cost of equity) variable and the GCG (Good Corporate Governance) index score variable or the significance value of deviation from linearity was 0.606. This means that the value is much greater than 0.05, so the relationship between variables is linear. The unidirectional relationship between Good Corporate Governance (GCG) and Cost of equity shows that when GCG practices are improved, the cost of capital Cost of equity tends to decrease. In other words, implementing good GCG practices tends to have a positive impact on a company's cost of equity. A positive relationship means that an increase in GCG practices is consistently related to the company's cost of equity.

In line with the theory, the principle of "high risk, high return" is a concept in investment which states that to get high potential returns, investors must be willing to face higher risks.[11] This means that investments with higher potential returns tend to have a higher level of risk, and vice versa. In the context of the Jakarta Islamic index (JII), where companies are bound by sharia principles which prohibit certain business practices and prioritize aspects of justice, sustainability and compliance, the principle of "high risk, high return" can undergo adjustments. Nevertheless, this concept is still relevant in the sense that investments that have the potential for higher returns generally involve higher risks, even in a sharia context.

The relationship between Good Corporate Governance and Cost of equity can be reflected through investors' perceptions of company risk and performance. By implementing good corporate governance practices, companies can strengthen investor confidence and reduce the risks associated with their investments. This can result in a reduction in the risk premium required to determine Cost of equity. Good Corporate Governance practices that are transparent, accountable and pay attention to the interests of all stakeholders can provide a positive signal to investors that the company is well managed and has strong prospects for long-term growth. As a result, investors may be more willing to invest capital in those companies with a higher level of confidence, which in turn can lower the cost of equity.

Effective Good Corporate Governance practices can also help companies better manage risks, including risks related to regulatory and legal compliance, as well as reputation risks. By reducing this risk, the company can minimize the risk premium required by investors in assessing the company's cost of equity. Thus, the implementation of Good Corporate Governance can have a positive impact on reducing the cost of equity, because this reflects a more positive investor perception of company risk and performance.

The principles of good corporate governance have deep roots in religious teachings. Principles such as transparency, fairness, accountability and social responsibility are seen as an integral part of business

[11] Bambang Sugeng, Fundamental Financial Management (Yogyakarta: Cv Budi Utama Publishing, 2017), p.132.

practices in accordance with Islamic teachings. In the context of investment, Islam encourages avoiding riba (interest), speculation, and business activities that violate the principles of justice and togetherness. Implementation of effective GCG practices in companies listed on the Jakarta Islamic index (JII) can influence investors' perceptions of company risk and performance, which in turn can influence their Cost of equity assessment.

Companies registered with JII tend to pursue high returns by considering the risks associated with sharia principles. This can include investments in sectors that are more stable and compatible with sharia principles, such as sharia finance, infrastructure, or property, which have relatively lower risks compared to more speculative sectors. Thus, the principle of "high risk, high return" still applies in investing in JII, but companies tend to choose investments with risks that can be managed well in accordance with sharia principles, which influences the way they evaluate potential returns and investment risks.

b) The Influence of Good Corporate Governance on the Cost of Equity of Companies Listed on the Jakarta Islamic Index (JII)

The results of the partial test output (t), with a significance value of 0.004 which is smaller than 0.05 ($0.004 < 0.05$), can be concluded that the independent variable has a significant influence on the dependent variable, this shows that Good Corporate Governance (GCG) has an influence positive and significant on the cost of equity of companies listed on JII.

Based on the results of a simple linear regression test, the regression coefficient (0.440) shows that each unit increase in the GCG value will result in an increase of 0.440 in the cost of equity. In other words, the higher the GCG value, the higher the estimated cost of equity. This equation illustrates that there is a positive relationship between GCG and Cost of equity. The higher the level of compliance with GCG, the higher the expected cost of equity estimate.

The results of the coefficient of determination test which can be seen in the Model Summary table produced an R square value of 0.408, which means that around 40.8% of the variation in the cost of equity can be explained by the good corporate governance variable (Good Corporate Governance). This indicates that aspects such as transparency, accountability and compliance with business ethical principles can influence a large part of the variation in the cost of equity.

The results of this research are in line with research conducted by previous researchers Abdurrahman Setiawan, Muhammad Syahrul Anam Saputra, Putri dwi Wahyuni and Wiwik Utami, Evleen Charistine and Fiki Katrika who explained that there are still other variations in the cost of equity that cannot be explained by corporate governance. This variation can be caused by other factors that also influence the cost of equity, such as market conditions, economic conditions, company policies, and broader industry factors. So, while good corporate governance plays an important role in determining the cost of equity, to fully understand the factors that influence the cost of equity, it is necessary to look beyond corporate governance alone.

The expected level of cost of equity tends to increase along with the increase in risk faced by investors. This is closely related to the concept of risk premium, which is the additional profit that investors expect to receive in return for the risk they take by investing in shares of a company. Return is one of the main reasons why people invest. This is the return on an investment that an investor hopes to earn. In investment management, the difference between the expected return and the return actually received by investors (actual return) can be significant. Factors such as market changes, investment performance that does not match expectations, or inflation fluctuations can cause differences between expected returns and actual returns. These differences create risks that investors must always consider in the investment decision-making process.

Corporate Governance Structure based on Law no. 40 of 2007 concerning Limited Liability Companies, in general it is described in the main organs of the company, namely the General Meeting of Shareholders (GMS), the Board of Commissioners and the Board of Directors. As intended in the Company's Articles of Association and applicable laws and regulations, each Corporate Governance Organ has an important role in the successful implementation of GCG and the implementation of its duties, functions and responsibilities for the benefit of the Company. With Good Corporate Governance (GCG) practices implemented properly, the risks associated with investing in company shares can be reduced. This is because effective GCG practices can increase transparency, accountability, fairness and stakeholder involvement, which in turn can reduce uncertainty and risk for investors.

This is also inseparable from the role of Good Corporate Governance which is carried out in accordance with sharia principles. Companies listed on the Jakarta Islamic index (JII) are companies that meet the sharia criteria set by the Indonesia Stock Exchange (BEI). These criteria cover various aspects, such as halal sources of income, prohibitions against usury (interest), speculation, and businesses that are considered unethical according to Islamic sharia principles.

The results of the analysis of companies listed on the Jakarta Islamic Index (JII) have significant advantages due to their compliance with Islamic sharia principles. This creates additional trust from investors who care about sharia principles, as well as creating a healthier and more sustainable business environment. Additionally, with a large Muslim population in Indonesia and around the world, there is significant market potential for products and services that comply with sharia principles.

Good CorporateThe companies sampled include Aneka Tambang Tbk, Vale Indonesia Tbk, Perusahaan Gas Negara Tbk, Bukit Asam Tbk, Unilever Indonesia Tbk and Wijaya Karya Tbk which have implemented GCG principles well. The implementation of Good Corporate Governance (GCG) principles explained in the company's annual report shows the company's commitment to carrying out its operations by paying attention to ethical values and high standards. The company applies GCG principles which are in line with the theoretical principles of sharia accounting principles, namely the principle of responsibility, the principle of justice and the principle of truth.[12]

5. Conclusion

Based on the results of research conducted on the influence of good corporate governance on the cost of equity in companies on the Jakarta Islamic index (Jii) Indonesia Stock Exchange, it can be concluded as follows:

1. *Good Corporate Governance*Based on the results of the analysis in the annual report from 2020-2022, each company used as a sample was classified as good in carrying out its operations.
2. *Cost of equity*as measured by the Capital Asset Pricing Model (CAPM). The results obtained show that the six companies studied have an individual share rate of return (Ri) that is greater than the expected rate of return E(Ri), indicating that the company's shares are worth buying.
3. Based on the results of the Spearman rank correlation coefficient test, it can be concluded that there is a positive and significant relationship between the Good Corporate Governance variable and the Cost of equity variable. This is because the Spearman rank correlation coefficient value shows a strong and significant positive relationship. The results of the chi square test obtained a significance value smaller than 0.05, which shows that there is a relationship between Good Corporate Governance and Cost of equity.
4. The results of the partial test (t) show that the significant value is smaller than 0.05, so it can be concluded that the Good Corporate Governance variable has an effect on the Cost of equity variable. The results of the coefficient of determination test produced an R square value of 0.408, which indicates that around 40.8% of the variation in Cost of equity can be explained by the level of good corporate governance and the remaining 59.2% is explained by other variables not included in this study.

6. References

Amin, Muhammad Al, Philosophy of Accounting Theory (Magelang: Unimma Press, 2018).

Association, Asian Corporate Governance, 'Future Promise Aligning Governance And ESG In Asia' <www.new.acga-asia.org> [accessed 3 October 2023].

Christine, Evleen, 'The Influence of Good Corporate Governance on the Cost of Equity of Cgpi Participants in Indonesia for the 2011-2013 Period', University of Surabaya Student Scientific Journal, 3.2 (2017), 1–12.

Djaja, Irwan, All about Corporate Valuation, ed. by Yulian Masda (Jakarta: PT Elex Media Komputindo, 2017).

Faranita, Riska, Good Corporate Governance Mechanisms and Company Value Studies for Telecommunication Companies, ed. by Harya Wahyuni (Medan: Aqui Institute for Scientific Research and Writing, 2018).

Gitayuda, M. Boy Singgih, and et al, Investment Management, ed. by Yuliatri Novita (West Sumatra: Get Press, 2022).

Handani, Sri, and Erwin Dyah Astawinetu, Portfolio Theory and the Indonesian Capital Market (Surabaya: Scopindo Media Pustaka, 2020).

HS, Sufyati, and et al, Financial & Non-Financial Indicators of Sharia Bank Performance in Indonesia, ed. by Fidya Arie Pratama (Cirebon: Insania, 2021).

Jaya, Made Laut Mertha, Quantitative and Qualitative Research Methods (Great Children of Indonesia, 2020).

Kartika, Fiki, 'The Influence of Corporate Governance Quality on the Cost of Equity of Manufacturing Companies in Indonesia', Economic and Business Review, 13.1 (2018) <https://doi.org/10.51277/keb.v13i1.20>.

[12] Muhammad Al Amin, Philosophy of Accounting Theory (Magelang: Unimma Press, 2018), p.93.

Kasmadi, Nia Siti Sunariah, Modern Guide to Quantitative Research (Bandung: ALFABETA, 2016).

Kennedy, Posma Sariguna Johnson, and Santi Lina Siregar, 'Fraud Actors in Indonesia According to the Indonesian Fraud Survey (Fraud Actors in Indonesia According to Fraud Indonesia Survey)', FEUKI Economic Bulletin, 21.2 (2017), 50–58.

Finance, Services Authority, 'Indonesian Sharia Financial Development Report 2022' <www.ojk.go.id> [accessed 21 October 2023].

Kusumawati, Nila, Introduction to Research Statistics (Depok: Pres, Rajawali, 2017).

Leon, Farah Margaretha, Quantitative Research Methods in Management, Finance and Accounting, ed. by Aklia Suslia (South Jakarta: Salemba Publishers 4, 2023).

Masri, Singarimbun, Survey Research Methods (Jakarta: LP3ES, 1997).

Muchtar, Evan Hamzah, Corporate Governance Concepts and Implementation in Sharia Stock Issuers, ed. by Abdul (West Java: CV. Adanu Abimata, 2021).

Multazam, Muhammad, and et al, The Role of Good Corporate Governance in the Growth of Share Returns of State-Owned Companies (Aceh: PT. Radja Intercontinental Publishing, 2023).

Mulyadi, Olandari, and et al, Advanced Financial Management (Case Study Theory and Problem Solving) (West Sumatra: CV. Mitra Usaha Media, 2022).

Norfai, Non-Parametric Statistics for the Health Sector (Theoretical, Systematic and Applicative) (Klaten: Lakeisha, 2021).

Nursiyono, Joko Ade, and Nadeak, A Drop of Linear Regression Science for Research (Malang: Media Nusa Creative, 2016).

Paranita, Ekayana Sangkasari, Foreign Currency Debt-Based Hedging (Depok: Rajawali Pers, 2020).

'PT Indonesian Stock Exchange' <https://www.idx.co.id/id/idx-syariah/index-saham-syariah> [accessed 26 October 2023].

RI, Ministry of Religion, Al-Qur'an and its Translation, Juz 1-30 New Edition (Surabaya: Mekar Surabaya, 2019).

Salim, Joko, Don't Try Playing Stocks Before Reading This Book (South Jakarta: Transmedia Pustaka, 2012).

Saputra, Muhammad Syahrul Anam, 'The Influence of Good Corporate Governance on the Cost of Equity and Cost of Debt in Manufacturing Companies Listed on the IDX', 2.2 (2022), 67–77.

Sartono, and R. Agus, Financial Management: Theory and Application, third (Yogyakarta: BPFE, 1996).

Sarwono, Jonathan, Statistics for Thesis Research, ed. by Elizabeth Kurnia (Yogyakarta: ANDI, 2018).

Savitri, Enni, Corporate Governance (Review of Theory and Empirical Studies) (Riau: UR Press, 2019).

Setiawan, Abdurrahman, 'The Impact of Corporate Governance on the Cost of Capital in the Manufacturing Industry in Indonesia', Economic Journal: Journal of Economics, 11.2 (2020) <https://doi.org/10.47007/jeko.v11i2.3291>.

Shifa, Hikmah Rizki Lainatus, 'The Influence of Earnings Quality on the Cost of Equity Capital with Information Asymmetry as an Integration of Intervening and Moderating Variables', Pekbis Journal, 10.3 (2018), 236–53.

Siagian, Dergibson, and Sugiarto, Statistical Methods for Business and Economics (Jakarta: PT Gramedia Pustaka Utama, 2006).

Sugeng, Bambang, Fundamental Financial Management (Yogyakarta: Cv Budi Utama Publishing, 2017).

Suroso, Sugeng, Good Corporate Governance (East Java: Qiara Media, 2022).

Surya, Indra, Implementation of Good Corporate Governance: Setting aside Privileges for Business Continuity, 2nd Cet. (Jakarta: Kencana, 2008).

Suryanto, Suryanto, and Sarah Maulidina, 'Determining Factors of Cost of Equity in the Property and Real Estate Industry', Is The Best Accounting Information Systems and Information Technology Business Enterprise This Is Link for OJS Us, 4.2 (2020), 166–80 <https ://doi.org/10.34010/aisthebest.v4i02.2704>.

Utama, Sidharta, and et al, Corporate Governance in Indonesia Theory, Principles and Practices (South Jakarta: Salemba Empat, 2023).

Wahyudin, UU Ruslan, Educational Management (Theory and Practice in the Implementation of the National Education System) (Yogyakarta:

DEEPUBLISH, 2020).

Wahyun, Molli, Descriptive Statistics for Manual Data Processing Research and SPSS Version 25 (Yogyakarta: Bintang Pustaka Madani, 2020).

Wahyuni, Putri Dwi, and Wiwik Utami, 'The Influence of Good Corporate Governance and Intellectual Capital Disclosure on the Cost of Equity Capital', 11.3 (2018), 359–83.

Wahyuni, Sri, Sharia Conformity and Profitability Index Performance and Determining Factors, ed. by Wiwik Rabiatul Adawiyah (Surabaya: Scopindo Media Pustaka, 2020).

Wardhani, Lokiteswara Setya, Capital Asset Pricing Model (CAPM) in Assessing Efficient and Inefficient Shares in Indonesian Stock Exchange (BEI) Banking Shares for the 2019-2021 Period, ed. by Andri Hidayat (Tasikmalaya: Langgam Pustaka, 2023).

Wicaksono, Galih, and et al, Accounting Theory, ed. by Saprudin (West Sumatra: PT. Global Executive Technology, 2022).

Yushita, Amanita Novi, 'The Importance of Financial Literacy for Personal Financial Management', Nominal Barometer Accounting and Management Research, 6.1 (2017), 11–26.