El-kahfi: Journal Of Islamics Economics
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Revisiting the Role of Institutional Ownership in Sharia-Compliant Stock Performance: Evidence from the Jakarta Islamic Index (2020–2023)

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Abstract
This study examines the effect of institutional ownership on the performance of Sharia-compliant stocks listed on the Jakarta Islamic Index (JII) during the period 2020–2023. Using a quantitative research approach with an ex post facto design, this study analyzes secondary data from 16 companies that consistently appeared in the JII for four consecutive years. The stock performance was measured using annual log-returns, while institutional ownership was calculated as the percentage of shares held by institutional investors. The data were analyzed using simple linear regression after fulfilling classical assumption tests, including normality, linearity, and heteroscedasticity tests. The results show that institutional ownership has a negative but statistically insignificant effect on Sharia stock returns, explaining only 3.4% of the variation. These findings imply that institutional ownership is not a dominant factor influencing the performance of Sharia stocks in Indonesia, particularly during periods of market volatility. Instead, factors such as Sharia governance quality, ethical compliance, and sector-specific risks may play a more important role. This study contributes to the literature on Islamic capital markets by offering empirical evidence that conventional ownership-performance models may have limited applicability in Sharia contexts and encourages future research to consider alternative explanatory variables grounded in Islamic principles.

Article Information:
Received Januari 3, 2025
Revised Februari 15, 2025
Accepted Maret 20, 2025

Keywords: *Institutional ownership, Sharia stock, Jakarta Islamic Index, stock return, Islamic finance*

How to cite: Taufik, M. I., Dwiastuti, N., & Lala, L. (2025). Revisiting the Role of Institutional Ownership in Sharia-Compliant Stock Performance: Evidence from the Jakarta Islamic Index (2020–2023). El-Kahfi | Journal of Islamic Economics, 6(01), 132-140. https://doi.org/10.58958/elkahfi.v6i01.455

E-ISSN: 2722 – 6557
Published by: Manna wa Salwa College of Islamic Economics, Tanah Datar, West Sumatra, Indonesia

INTRODUCTION

The capital market serves as a key pillar of the modern financial system, functioning as an efficient mechanism for fund mobilization and capital allocation. Within the Islamic economic framework, the Sharia capital market is developed in accordance with Islamic principles, which prohibit riba (interest), gharar (uncertainty), and maysir (gambling). According to the Financial Services Authority (OJK, 2023), Indonesia's Sharia capital market has continued to grow, as shown by the increasing number of investors and market capitalization.

As of the end of 2023, the number of Sharia stock investors in Indonesia exceeded 128,000, a significant increase from 89,000 in 2019 (OJK, 2023). This upward trend reflects a growing public interest in investment instruments that not only provide financial returns but also comply with ethical and religious values. This phenomenon underscores the substantial potential of Sharia capital markets in the national financial landscape.

One of the main instruments in the Sharia capital market is Sharia stocks. In Indonesia, these stocks are grouped under several indices, with the Jakarta Islamic Index (JII) being one of the most prominent. JII comprises 30 liquid Sharia-compliant stocks with large market capitalizations. According to the Indonesia Stock Exchange (IDX, 2023), the JII's market capitalization surpassed IDR 1,000 trillion in 2023, highlighting its role as a leading benchmark for Sharia stock performance.

However, the performance of Sharia stocks remains volatile. IDX (2023) data shows that returns in JII stocks for 2023 ranged from -83% to +130%, indicating high fluctuations. This volatility suggests that Sharia stock performance is unstable and influenced by a variety of internal and external factors.

One internal factor frequently studied in financial literature is corporate ownership structure, particularly institutional ownership. Based on agency theory proposed by Jensen and Meckling (1976), institutional investors can play a crucial monitoring role that reduces agency conflicts between management and shareholders, theoretically enhancing firm efficiency and value.

Empirical studies support this view. Elyasiani and Jia (2010) found that institutional ownership in the U.S. significantly improved market efficiency and reduced information asymmetry. This suggests that institutional investors can promote greater transparency and accountability, leading to improved stock performance. However, research findings in Indonesia reveal inconsistent outcomes regarding the effect of institutional ownership on stock performance. A study by Afifa and Rusmita (2020) found that institutional ownership significantly influenced the performance of Sharia firms, but the direction of the effect varied depending on the market and industry context, highlighting the need for further investigation.

In the context of Sharia investments, ethical considerations and Islamic principles also influence the behavior of institutional investors. Nurmayanti and Shanti (2023) noted that Sharia-based institutions tend to prioritize spiritual returns, such as barakah (blessings) and sustainability, over pure financial gains. This orientation could alter the conventional dynamics between institutional ownership and stock performance. Conversely, Muzakki and Zulaikha (2023) found a negative relationship between institutional ownership and stock returns in the Sharia property sector. Their findings suggest that large institutional investors may adopt passive long-term positions, reducing their role as active monitors and thereby diminishing their influence on managerial performance.

Another study by Mahira (2023) discovered that the influence of institutional ownership becomes more significant in companies included in ESG-based indices, indicating that governance and sustainability factors act as moderating variables. This implies that ownership structure should be examined in conjunction with non-financial elements. Notably, the global economy faced unprecedented challenges during 2020–2023 due to the COVID-19 pandemic. According to the World Bank (2022), the pandemic triggered economic uncertainty and financial market turmoil, including in Indonesia. Many firms faced operational and financial distress, which was reflected in the extreme volatility of stock prices, including Sharia stocks.

In Indonesia, returns on Sharia stocks during 2020–2023 fluctuated widely. This study's data show that annual returns ranged from -83% to 130%, highlighting the investment risks during this period. In such an environment, the impact of institutional ownership may have been overshadowed by external macroeconomic forces such as global interest rates, inflation, and government policies. Although institutional ownership is theoretically expected to enhance performance, in the Sharia market context, it has not proven to be a dominant factor. The results of this study show that institutional ownership explains only 3.4% of the variability in Sharia stock returns, suggesting the presence of other influential variables.

The research gap highlighted by previous studies indicates a need to re-evaluate the assumption that institutional investors always positively affect stock performance. In Sharia-compliant stocks, where investment restrictions and ethical oversight prevail, traditional ownership-performance models may not be directly applicable. Based on this background, this study aims to examine the effect of institutional ownership on the performance of Sharia stocks listed in the Jakarta Islamic Index (JII) during the 2020–2023 period. Employing a quantitative approach and simple regression analysis, this research seeks to contribute to the literature on ownership structure in Sharia capital markets and provide practical insights for investors, asset managers, and regulators in making informed investment decisions.

METHODS

This study adopts a quantitative research approach with an ex post facto design, where the researcher analyzes the relationship between variables based on historical data without manipulating the variables. The main objective is to examine the effect of institutional ownership on the performance of Sharia-compliant stocks listed in the Jakarta Islamic Index (JII) over the 2020–2023 period. Quantitative methods were chosen for their ability to statistically test hypotheses and provide measurable, generalizable results.

The population in this study consists of all companies listed on the Jakarta Islamic Index (JII) during the period 2020–2023. The sample comprises 16 companies that meet specific inclusion criteria, namely: (1) continuously listed in the JII for the entire study period, and (2) publicly available and complete annual report data for all four years. The sampling technique used is purposive sampling, which involves selecting samples based on certain considerations and research objectives.

The data used in this study are secondary data obtained from the official websites of the respective companies. The time period under investigation is from 2020 to 2023. The independent variable is institutional ownership, measured by the percentage of shares held by institutional investors relative to the total outstanding shares. The dependent variable is the performance of Sharia-compliant stocks, which is measured using the log-return formula to capture annual stock returns.

Data analysis was conducted using **simple linear regression** to examine the influence of institutional ownership on Sharia stock returns. The analysis was performed using SPSS statistical software. Prior to the regression test, several **classical assumption tests** were conducted to ensure the validity of the regression model:

Normality Test: Assessed using the Kolmogorov–Smirnov method to determine whether the residuals follow a normal distribution.

Linearity Test: Conducted using SPSS's "Test for Linearity" to evaluate whether the relationship between variables is linear.

Heteroscedasticity Test: Performed using the Glejser Test, which detects whether the variance of residuals is consistent across all levels of the independent variable.

If the data meet these assumptions, the regression results are considered statistically valid and reliable.

The following hypotheses were tested:

H_0 (null hypothesis): Institutional ownership has no significant effect on the performance of Sharia-compliant stocks listed in JII.

H_1 (alternative hypothesis): Institutional ownership has a significant effect on the performance of Sharia-compliant stocks listed in JII.

Significance testing was conducted using the **t-test** to evaluate the individual impact of institutional ownership on stock returns. A significance level (α) of 0.05 was used to determine the threshold for rejecting or accepting the null hypothesis.

To determine the proportion of variance in Sharia stock returns that can be explained by institutional ownership, the **coefficient of determination (R^2)** was calculated. A higher R^2 value indicates a stronger explanatory power of the independent variable over the dependent variable.

RESULT AND DISCUSSION

RESULT

This study analyzes data from 16 companies listed on the Jakarta Islamic Index (JII) during the 2020–2023 period, resulting in a total of 64 observations. The variables examined are institutional ownership (independent variable) and Sharia stock returns (dependent variable).

Descriptive Statistics

The descriptive statistics provide an overview of the central tendency and distribution of the research variables.

Table 1. Descriptive Statistics

Variable	N	Minimum	Maximum	Mean	Std. Deviation
Institutional Ownership (%)	64	78,05	99,39	93,60	5,51
Sharia Stock Return (%)	64	-83	130	-1,28	35,30

The data show that institutional ownership among the sampled companies averaged 93.60%, indicating high levels of institutional participation. Meanwhile, Sharia stock returns showed a wide range of fluctuation, from -83% to 130%, reflecting the volatile nature of the market during the study period.

Linearity Test

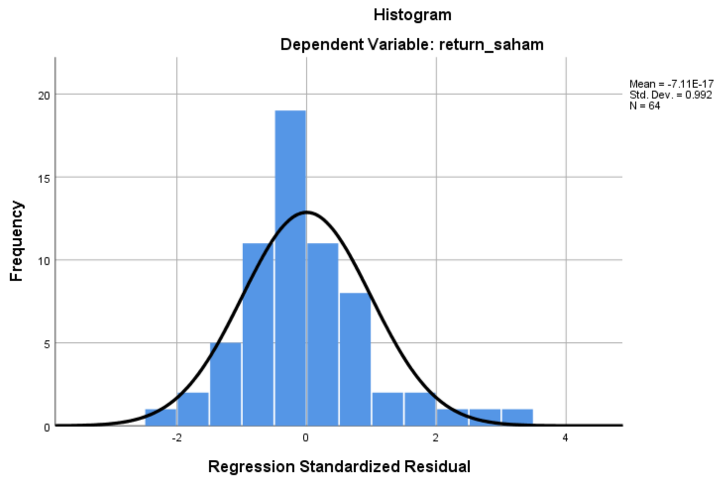
The linearity test evaluates whether a linear relationship exists between institutional ownership and Sharia stock returns.

Table 2. Linearity Test Results

Relationship	Sum Of Squares	df	Sig.
(Combined)	73,905.938	57	0.262
Linearity	2,699.721	1	0.109
Deviation from Linearity	71,206.216	56	0.271

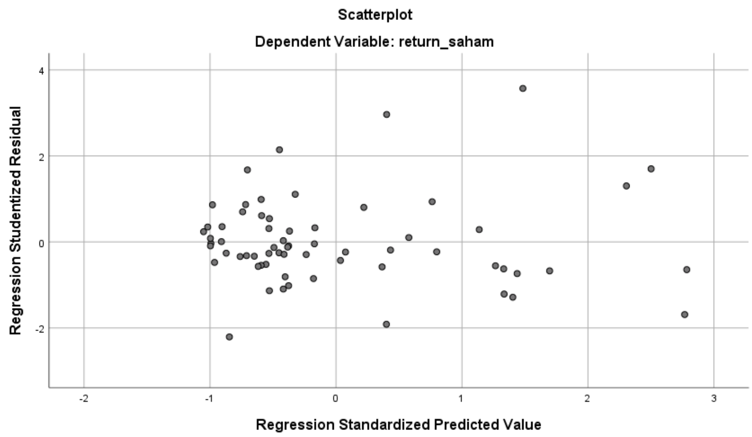
The significance value for deviation from linearity is 0.271 (> 0.05), indicating that the relationship between institutional ownership and stock returns is linear.

Normality Test



The residuals follow a normal distribution, as observed from the bell-shaped histogram and supported by the Kolmogorov–Smirnov test results (not shown due to space limitations).

Heteroscedasticity Test



The scatterplot exhibits random distribution, suggesting the absence of heteroscedasticity.

Simple Linear Regression Analysis

The following regression equation was generated:

$$Y = 109.876 - 1.188X$$

Table 3. Regression Coefficients

Model	Unstandardized Coefficients	Std. Error	Standardized Coefficients (Beta)	t	Sig.
(Constant)	109.876	74.922	-	1.467	0.148
Institutional Ownership (X)	-1.188	0.799	-0.185	-1.486	0.142

Interpretation:

- The constant of 109.876 implies that if institutional ownership is zero, the expected Sharia stock return would be 109.876%.
- The coefficient for institutional ownership is -1.188, indicating that each 1% increase in institutional ownership is associated with a 1.188% decrease in Sharia stock return. However, this relationship is not statistically significant ($p = 0.142 > 0.05$).

Coefficient of Determination (R^2)

Table 4. Model Summary

Model	R	R Square	Adjusted R Square
1	**0,185**	**0,034**	**0,019**

The R^2 value of 0.034 implies that only 3.4% of the variation in Sharia stock returns is explained by institutional ownership, while the remaining 96.6% is attributed to other factors.

DISCUSSION

The results of this study reveal that institutional ownership has a negative but statistically insignificant effect on the performance of Sharia stocks listed in the Jakarta Islamic Index (JII) during the 2020–2023 period. Although the regression coefficient is negative (−1.188), the effect does not meet the conventional significance threshold ($p > 0.05$), suggesting that institutional ownership does not meaningfully influence Sharia stock returns in the observed sample.

This finding aligns with the study of Muzakki and Zulaikha (2023), who reported a negative influence of institutional ownership on stock returns in the Sharia-compliant property and real estate sector listed on the Indonesia Stock Exchange. They argue that institutional investors often adopt long-term investment horizons and may refrain from actively intervening in company decisions, thereby reducing their role as effective monitors of management.

In contrast, research conducted by Aprilia and Riharjo (2022) in conventional firms shows a significant positive relationship between institutional ownership and stock performance. This discrepancy can be attributed to the unique characteristics of the Sharia market, which emphasizes compliance with Islamic values such as ethical operations, avoidance of speculative behavior, and long-term sustainability, rather than short-term profit maximization.

In the Islamic finance context, investor behavior is not solely motivated by economic gain. According to Afifa and Rusmita (2020), institutional investors in Sharia markets tend to prioritize values like barakah (spiritual blessing) and ethical governance, which may lead them to hold stocks for longer periods and avoid speculative trading. This behavior could reduce their responsiveness to market dynamics and explain the lack of significant impact on stock performance.

Furthermore, Nurmayanti and Shanti (2023) found that the ownership structure in Sharia firms is influenced more by ethical commitment than financial performance. This reinforces the idea that the monitoring function of institutional ownership in Islamic finance may differ in its effectiveness compared to conventional settings.

Another potential explanation for the insignificant findings is the high volatility in the Sharia stock market during the 2020–2023 period. The COVID-19 pandemic and global economic uncertainty led to significant fluctuations in market performance. The descriptive statistics in this study show that stock returns ranged from −83% to +130%, with a standard deviation of 35.30%. Such extreme volatility may have overshadowed the influence of firm-level variables like institutional ownership.

This observation is supported by Febianti et al. (2024), who highlight that in periods of economic turbulence, macroeconomic factors such as interest rates, inflation, exchange rates, and government policies often exert a greater influence on stock returns than internal corporate governance mechanisms.

Moreover, the composition of the sample used in this study is dominated by mining, energy, and industrial companies (e.g., ADRO, ANTM, PTBA), sectors that are highly sensitive to global commodity prices. As shown by Kartika et al. (2020), stock performance in resource-intensive sectors is more affected by external price shocks and profitability indicators than ownership structure.

In the context of Sharia-compliant companies, the effectiveness of institutional monitoring may also depend on the strength of Sharia governance mechanisms, such as the presence and quality of the Sharia Supervisory Board (SSB). Amrullah (2020) found that Sharia governance quality had a greater impact on stock performance than ownership structure. This implies that institutional ownership alone may not serve as a sufficient indicator of firm control in Islamic business environments.

Taken together, these findings suggest that the traditional agency theory model—where institutional ownership enhances performance through monitoring—may not fully apply in the Sharia market context. The Sharia market operates under different norms and regulatory expectations, and investors' motivations extend beyond financial returns.

For future research, it would be valuable to explore the interaction between institutional ownership and other moderating variables, such as ESG scores, Sharia audit quality, or managerial ownership, to develop a more holistic understanding of what drives performance in Sharia-compliant stocks. Moreover, employing panel data regression or quantile regression models could offer more nuanced insights into how institutional ownership affects firms across different return distributions and market conditions

CONCLUSION

This study concludes that institutional ownership has no significant effect on the performance of Sharia-compliant stocks listed in the Jakarta Islamic Index (JII) during the 2020–2023 period. The simple linear regression results show a negative coefficient of −1.188 with a significance level of 0.142, indicating that institutional ownership explains only 3.4% of the variation in Sharia stock returns. This finding suggests that ownership structure—particularly institutional participation—is not a dominant factor in determining Sharia stock performance, especially during a period characterized by extreme volatility and macroeconomic shocks such as the COVID-19 pandemic. These results also reflect the unique nature of Sharia investing, where investor behavior is driven by long-term ethical values rather than short-term profit maximization.

From a broader perspective, the insignificant relationship highlights the importance of non-financial aspects—such as Sharia governance quality, ethical compliance, and sector-specific risks—as critical elements in evaluating Sharia stock performance. It also implies that agency theory and conventional financial models may have limited applicability in Islamic capital markets, which operate under different principles and investor motivations. Accordingly, future research should consider additional moderating variables, such as ESG scores, Sharia Supervisory Board (SSB) effectiveness, or firm-specific fundamentals, to develop a more comprehensive understanding of performance drivers in the Islamic capital market.

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