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The Effect of Good Corporate Governance, Interest Rate, and Inflation on Islamic Stock Prices

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ABSTRACT

This study aims to examine the effect of corporate governance mechanisms and macroeconomic factors on the trading values of Shariah-compliant stocks. The governance variables include independent board representation, institutional ownership, managerial ownership, and audit committees, while the macroeconomic variables include inflation and interest rates. The research adopts a quantitative associative approach, using stock value as the dependent variable. The sample comprises 30 manufacturing companies listed on the Indonesia Stock Exchange (IDX) and included in the Jakarta Islamic Index (JII) during the 2020–2024 period, resulting in 150 annual financial statements. Data were obtained from secondary sources, selected purposively, and analyzed using multiple linear regression at the 5% significance level. The results show that independent directors, institutional ownership, managerial ownership, and audit committees do not have a significant effect on Shariah stock prices, indicating that internal corporate governance mechanisms have not effectively influenced market valuation. In contrast, inflation and interest rates have a significant negative effect on Shariah stock prices, as rising prices and higher borrowing costs reduce profitability and investor interest. These findings suggest that macroeconomic conditions play a more dominant role than internal governance factors in determining Shariah stock performance. Therefore, investors should pay closer attention to inflation and interest rate movements. At the same time, regulators and management should focus on maintaining economic stability and improving corporate governance effectiveness to enhance market confidence.

Keywords: Independent Board of Commissioners, Institutional Ownership, Managerial Ownership, Audit Committee, Inflation, Interest Rate, Islamic Stock Prices.

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INTRODUCTION

The movement of Islamic stock prices in Indonesia in 2025 shows strong, increasingly positive dynamics, in line with the development of the national sharia capital market. The Sharia Stock Index recorded significantly higher growth than the LQ45, with the Indonesia Sharia Stock Index (ISSI) increasing by 23.95% to 281.18 at the end of September in the third quarter of 2025. This position was also 24.07% higher year on year compared to the same quarter in the previous year. The rise in the index reflects growing investor optimism toward sharia-compliant stocks and improving overall conditions in the Islamic capital market. The positive ISSI trend is also aligned with the expansion of the Islamic stock investor base, predominantly driven by younger generations, as well as the increasing value of sharia stock transactions throughout 2025. This phenomenon indicates that the movement of Islamic stocks in Indonesia is currently more influenced by market fundamentals, corporate actions, and prevailing economic conditions (Jeffrey, 2025).

Picture 1. Movement of Islamic Stocks in Indonesia
Source: tradingview.com 2025

Based on the data above, it can be observed that Islamic stock prices in the market increased significantly in 2025. Referring to the Indonesia Sharia Stock Index (ISSI) chart, Islamic stock prices show a very strong upward trend in 2025. Throughout 2024, the ISSI remained relatively stable, with a moderate upward trend, fluctuating between approximately 190 and 220 points. Entering early 2025, the index experienced a brief correction; however, it subsequently reversed direction and increased sharply in a consistent manner.

A substantial rise occurred throughout 2025, with the ISSI climbing from around 185–190 points at the beginning of the year to approximately 308 points toward the end of the year. Overall, over one year, the ISSI increased by about 123 points, equivalent to approximately 66.9% growth, reflecting a strong surge in Islamic stock prices compared to the previous period. This year-to-year movement of the ISSI confirms that Islamic stocks in Indonesia are in a phase of solid and sustainable growth. The rapid increase in the number of Islamic stock investors has positively impacted the growth of listed stocks on the Sharia Exchange. Since mid-2021, the number of Islamic stocks has increased significantly. The most important factor investors must consider when investing in the capital market is stock price movements. Stock prices are one indicator of a company's management

performance. When a company's stock price rises, investors and potential investors perceive it as successful in managing its operations (Karamoy & Tulung, 2020).

To anticipate the potential for mismanagement and prevent conflicts between a company's management and its shareholders, protection for all interested parties is necessary through a good management system. Such protection is provided through Good Corporate Governance (GCG), which safeguards the interests of shareholders and company owners (Abror, 2022). In addition to internal factors, external factors can also influence stock prices. One external factor is the interest rate. An increase in interest rates reduces the present value of future dividend income, leading to a decline in stock prices in the capital market (Wismantara & Darmayanti, 2017). Interest rates affect stock prices because investors tend to allocate capital to more profitable investments. When interest rates are higher than stock returns, investors prefer low-risk investments, such as deposits, savings, or bonds, rather than high-risk investments, such as stocks. As interest rates rise, stock prices tend to fall. Stock price fluctuations depend on investor demand; higher demand drives higher prices (Ratnasari et al., 2016).

From 2022 to 2023, one of the policies implemented by Bank Indonesia (BI) to control inflation was raising interest rates to keep inflation within the 5–6% range. High inflation generally leads to lower stock prices, while very low inflation can slow economic growth, ultimately causing stock prices to move sluggishly. Although previous studies have extensively examined the influence of Good Corporate Governance (GCG) and macroeconomic factors, such as interest rates and inflation, on stock prices, most focus on conventional rather than Islamic (sharia-compliant) stocks. Moreover, existing findings show inconsistent results regarding the effectiveness of GCG mechanisms in influencing stock price performance. In addition, limited research simultaneously examines internal governance factors and external macroeconomic variables to explain the price movements of Islamic stocks, particularly amid the rapid growth of Islamic stock investors and recent monetary policy tightening in Indonesia. Therefore, further research is needed to comprehensively examine how corporate governance mechanisms and macroeconomic conditions jointly affect Islamic stock prices in the Indonesian capital market.

THEORETICAL FRAMEWORK AND HYPOTHESES

Agency Theory

The agency relationship is a contract in which one or more persons (principals) hire another person (agent) to perform a service on their behalf, delegating decision-making authority to the agent (Meckling, 1976). The agency theory explains the relationship between financial performance and stock prices. Companies with strong financial performance will increase investor confidence in investing in the company. Extensive information disclosure by a company will ensure that the principals' information needs are adequately fulfilled in line with the agency theory perspective. These mechanisms are viewed as tools to reduce agency conflicts, enhance transparency, and improve managerial performance and decision-making. In the Islamic capital market, sound corporate governance is expected to strengthen investor confidence and be reflected in Islamic stock prices. In addition to internal factors, this study also incorporates external factors in the form of macroeconomic conditions, such as inflation and interest rates, which may influence investor perceptions of firm performance and risk. Thus, within the agency theory framework, this research seeks to explain how managerial oversight effectiveness and economic conditions affect Islamic stock values, and the extent to which governance mechanisms can minimize agency conflicts and enhance firm value from investors' perspectives.

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Sharia Stocks

Sharia stocks are equity securities that comply with Islamic principles in the capital market. The definition of stocks in the context of Sharia stocks refers to the general definition of stocks as regulated under existing laws and other regulations issued by the Financial Services Authority (OJK). There are two types of Sharia stocks recognized in the Indonesian capital market. First, stocks that meet the Sharia stock selection criteria based on OJK Regulation No. 35/POJK.04/2017 concerning Criteria and Issuance of the Sharia Securities List. Second, stocks classified as Sharia stocks by issuers or Sharia public companies in accordance with OJK Regulation No. 17/POJK.04/2015.

Conceptual Framework

This research examines empirically the variables that influence stock prices. The variables to be tested include Good Corporate Governance (GCG)

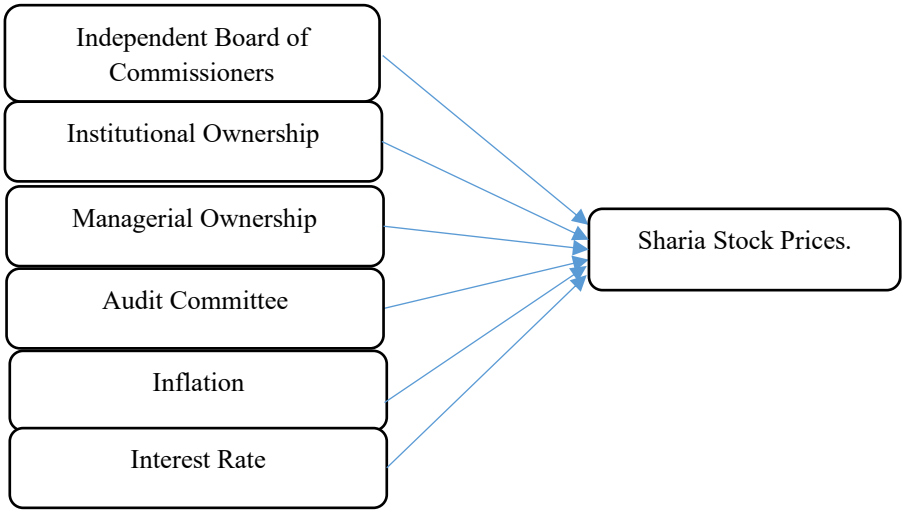

Figure 2. Theoretical Framework
Source: primary data 2025

Independent Board of Commissioners

The Independent Board of Commissioners is expected to affect Sharia stock prices. From the perspective of agency theory, independent commissioners play a crucial role in monitoring management and reducing agency conflicts between managers and shareholders. Their independence allows them to provide objective oversight, ensure transparency, and protect shareholder interests, thereby improving corporate governance quality. In the context of Sharia-compliant companies, effective supervision by an independent board is expected to enhance investor confidence, as it signals strong governance practices aligned with ethical and Sharia principles. Increased investor trust may lead to higher demand for Sharia-compliant stocks, which, in turn, can positively influence stock prices. An Independent Commissioner is a member of the Board of Commissioners who has no financial, management, share ownership, and/or family relationship with other members of the Board of Commissioners, members of the Board of Directors, and/or controlling shareholders, or with the company, that could interfere with or hinder their ability to act independently in accordance with the principles of Good Corporate Governance (GCG). Independent Commissioners are responsible for overseeing and representing the interests of minority shareholders. The presence of Independent Commissioners within the company ensures that the supervisory mechanism operates effectively and in compliance with applicable laws and regulations.

H1: The Independent Board of Commissioners affects Sharia stock prices.

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Institutional Ownership

Institutional ownership refers to the ownership of a company's shares by other institutions such as insurance companies, banks, investment firms, and other organizations (Alfira et al., 2021). This type of ownership helps ensure effective management supervision through monitoring processes. A high level of institutional ownership can enhance oversight by institutional investors, thereby reducing the likelihood of opportunistic behavior by managers and minimizing the risk of managerial fraud, ultimately preserving the company's value. Dwiyani (2017) stated that institutional ownership can support proper and sound corporate management, especially when privately run companies also comply with applicable regulations.

H2: Institutional ownership affects Sharia stock prices.

Managerial Ownership

Managerial ownership refers to the portion of a company's shares owned by its management, who are responsible for running the company's operations. By owning shares, managers hold a dual role as both owners and managers of the company. According to Mutiara (2018), managerial ownership is measured by the percentage of shares held by management. This information is important for financial statement users and is typically disclosed in the notes to the financial statements. The higher the level of managerial share ownership, the more proactive managers tend to be in pursuing shareholders' interests, which in turn can enhance investor confidence and increase the company's value (Ashari, 2022).

H3: Managerial ownership affects Sharia stock prices.

Audit Committee

The Audit Committee is an organ of the Board of Commissioners that assists the Board in carrying out its supervisory duties and functions. The scope of the Audit Committee's oversight includes matters related to financial information, internal control systems, the effectiveness of audits conducted by both external and internal auditors, the effectiveness of risk management implementation, and compliance with applicable laws and regulations (Swarly, 2008).

H4: The Audit Committee affects Sharia stock prices.

Inflation

Inflation is a condition in which there is a continuous increase in the prices of various goods within a particular economy (Nurtyas & Yudiantoro, 2023). In general, inflation is a sustained rise in the prices of goods resulting from an imbalance between the amount of money in circulation and the availability of goods or services. This factor is often influenced by monetary policy, high demand, or rising production costs, ultimately affecting society's purchasing power.

H5: Inflation affects Sharia stock prices.

Interest Rate

One factor that influences the demand and supply of stock prices and also serves as an alternative investment option for investors is the interest rate (Karamoy & Tulung, 2020). The interest rate is the compensation the borrower pays the lender; from the borrower's perspective, it represents the cost of the funds borrowed (Munadiyan, 2020). Fluctuations in interest rates affect the attractiveness of investments. When interest rates rise, stock price indexes tend to decline, and when interest rates fall, they tend to increase. This dynamic influences investors' choices of the most profitable investment options.

H6: Interest rates affect Sharia stock prices.

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METHODS

Type of Research

This study is a quantitative associative research, which aims to determine the relationship between two or more variables (Sugiyono, 2017). This framework illustrates the connection between outcome and predictor factors. The outcome measure in this investigation is equity valuation, whereas the predictor factors comprise independent director representation, institutional shareholding, executive equity holdings, audit oversight bodies, and price level changes.

Population and Sample

This investigation examines manufacturing entities registered on the Indonesia Stock Exchange (IDX) and included in the Jakarta Islamic Index (JII) between 2020 and 2024, representing 30 organizations. Annual documentation from 2020–2024 provides the research material, yielding an aggregate of 150 financial statements. The sampling methodology implements purposive selection criteria. Secondary information sources form the foundation of the data. Statistical analysis applies multiple linear regression techniques utilizing SPSS as the computational tool.

Sample Criteria (Purposive Sampling)

1. The company is included in the list of Sharia-compliant stocks as determined by the Financial Services Authority (OJK) and the Indonesia Stock Exchange (IDX).
2. The company is consistently listed in the Jakarta Islamic Index (JII) throughout the research observation period.
3. The company publishes complete annual financial statements consecutively during the research period.
4. The company has complete and accessible data on the research variables, including the structure of independent commissioners, institutional ownership, managerial ownership, audit committees, and stock prices.
5. The company does not experience delisting during the research period.

Table 1. Sample Criteria

No	Description	Sample
1	The company is **included** in the list of Sharia-compliant stocks as determined by the Financial Services Authority (OJK) and the Indonesia Stock Exchange (IDX).	30
2	The company **is not consistently listed** in the Jakarta Islamic Index (JII) throughout the research observation period.	(0)
3	The company **does not publish** complete annual financial statements consecutively during the research period.	(0)
4	The company **does not have** complete and accessible data on the research variables, including the structure of independent commissioners, institutional ownership, managerial ownership, audit committees, and stock prices.	(0)
5	The company **experiences delisting** during the research period.	(0)
Total Sample		30
Total observation data (2020 – 2024) 30 x 5 Years		150 data observations

Source: Primary Data, 2025

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Table 2. Table of Operational Variables

Variabel	Formula	Scale
Dependent Variable (Y)	**Stock Price = Closing Price** *(Titik, 2024)*	Ratio
Independent Variable (X1)	**Independent Board of Commissioners** = (Number of Independent Commissioners / Total Board of Commissioners) *(Nurfaza et al., 2017)*	Ratio
Independent Variable (X2)	**Institutional Ownership** = (Number of Shares Owned by Institutions / Total Outstanding Shares) × 100%.	Ratio
Independent Variable (X3)	**Managerial Ownership** = (Number of Shares Owned by Management / Total Outstanding Shares) × 100% *(Nurfaza et al., 2017)*	Ratio
Independent Variable (X4)	Audit Committee *Komite Audit* = ∑ *Audit Committee Members* ***Titik, 2024***	Ratio
Independent Variable (X5)	*Inflation* = $\mathbf{IHn = \frac{\Sigma Pn}{\Sigma po} x100\%}$ *The price index compares the average price in a given year to the average price in the base year. The formula calculates the price index. (Lailatul, 2020)*	Ratio
Independent Variable (X6)	**Interest Rate = Average annual BI rate *(Boediono, 2014, p. 4)***	Ratio

Source: Primary Data, 2025

RESULT AND DISCUSSION

Normality Test

The normality test aims to determine whether, in the regression model, the independent variables (Audit Committee, Net Profit Margin, Return on Assets, and Interest Rate) and the dependent variable (Stock Price) are normally distributed. The statistical test results can be seen in the following table:

Table 3. One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		30
Normal Parameters[a,b]	Mean	,0000000
	Std. Deviation	4991,45907988
Most Extreme Differences	Absolute	,104
	Positive	,104
	Negative	-,062
Test Statistic		,104
Asymp. Sig. (2-tailed)		,200[c,d]

Source: Primary Data, 2025

Table 2 presents findings from the one-sample Kolmogorov-Smirnov normality test, showing an Asymp. Sig. (2-tailed) result of 0.200, exceeding the 0.05 reference point. This outcome verifies that the data exhibit normal distribution, as the p-value exceeds the predetermined 0.05 threshold.

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Multicollinearity Test

The multicollinearity assessment assesses whether predictor variables are strongly correlated within the multiple linear regression framework. Multicollinearity is detected by analyzing Variance Inflation Factors (VIFs) and Tolerance values for individual variables. Findings from the multicollinearity evaluation appear in the table below:

Table 4. Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
		B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1	(Constant)	9,921	2,834		3,501	,002		
	Dewan Komisaris Independen	-1,083	3,085	-,071	-,351	,728	,793	1,261
	Kepemilikan Institusional	-,381	2,537	-,034	-,150	,882	,641	1,559
	Kepemilikan Manajerial	-13,049	9,181	-,293	-1,421	,167	,762	1,312
	Komite Audit	-,468	,715	-,128	-,654	,519	,843	1,186
	Inflasi	,346	,380	,250	,908	,372	,427	2,341
	Suku Bunga	-,146	,528	-,073	-,276	,785	,462	2,165

a. Dependent Variable: Y

Source: Primary Data, 2025

According to the multicollinearity diagnostic results displayed in the above table, all predictor variables exhibit tolerance values exceeding 0.10 and Variance Inflation Factors (VIFs) below 10. This confirms the absence of multicollinearity concerns among predictor variables within the applied regression framework. More precisely, tolerance measurements across variables range from 0.427 to 0.843, whereas VIF measurements range from 1.186 to 2.341. These figures remain considerably beneath the critical benchmarks that would signal problematic correlation levels among variables. Therefore, it can be concluded that variables such as the Independent Board of Commissioners, Institutional Ownership, Managerial Ownership, Audit Committee, Inflation, and Interest Rate do not strongly or excessively influence one another. This means that each variable independently contributes to the dependent variable, and the regression model is free of multicollinearity and suitable for further analysis.

Heteroscedasticity Test

The basis for measuring heteroscedasticity is to observe whether the scatterplot shows a specific pattern, such as points that systematically widen and then narrow or form waves. If no clear pattern is observed and the points are randomly distributed above and below zero on the Y-axis, it can be concluded that heteroscedasticity does not occur. The results of the heteroscedasticity test are presented below:

Table 5. Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	1,869	1,535		1,218	,234

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Dewan Komisaris Independen	-,157	1,670	-,019	-,094	,926
Kepemilikan Institusional	-,437	1,374	-,071	-,318	,753
Kepemilikan Manajerial	-4,552	4,972	-,188	-,916	,368
Komite Audit	-,161	,387	-,081	-,416	,681
Inflasi	-,395	,206	-,526	-1,916	,066
Suku Bunga	,301	,286	,278	1,054	,302

a. Dependent Variable: ABS_RES2

Source: Primary Data, 2025

According to the heteroscedasticity assessment conducted using the Glejser technique presented in the preceding table, all predictor variables exhibit significance (Sig.) values exceeding 0.05. This demonstrates that none of the predictor variables has a meaningful impact on the absolute residual measure (ABS_RES2). Consequently, the regression specification exhibits no heteroscedasticity characteristics. More precisely, the significance measurements for the individual variables are: Independent Commissioners on the Board (0.926), Institutional Shareholding (0.753), Management Equity Holdings (0.368), Audit Oversight Committee (0.681), Price Inflation (0.066), and Lending Rate (0.302), each exceeding the 0.05 significance threshold. These findings establish that the predictor variables Independent Commissioners on the Board, Institutional Shareholding, Management Equity Holdings, Audit Oversight Committee, Price Inflation, and Lending Rate do not meaningfully influence residual variance.

Autocorrelation Test

The basis for detecting the presence or absence of autocorrelation is by performing the Durbin-Watson (DW) test. If the DW value lies between -2 and +2, it indicates no autocorrelation. The results of the autocorrelation test are presented in the following table:

Table 6. Model Summary

Model	R	R Square	Adjusted R-Square	Std. Error of the Estimate	Durbin-Watson
1	,503[a]	,253	,073	4976,85733	1,499

a. Predictors: (Constant), X1, X3, X4, X2, X5, X6
b. Dependent Variable: Y

Source: Primary Data, 2025

Based on the autocorrelation test results shown in the Model Summary table, the Durbin-Watson (DW) value is 1.499. With a total sample size (N) of 55 and the number of independent variables (K) being 6, the value of N – K – 1 = 48. Based on this value, the upper limit (dU) from the Durbin-Watson table is 1.2709. These results indicate that the Durbin-Watson value falls within the range dU < DW < 4 – dU, or 1.2709 < 1.499 < 2.791. Therefore, it can be concluded that the regression model does not exhibit autocorrelation problems, either positive or negative. This means that the residuals (errors) between observations are independent of one another, indicating that the regression model satisfies one of the key classical assumptions of linear regression. Hence, the model used is considered appropriate and reliable for further analysis without requiring any correction for autocorrelation.

Hypothesis Testing

The t-test essentially measures the extent to which an independent variable influences the dependent variable (Ghozali, 2011, p. 98). The partial testing criterion is set at a significance level (α) of 5%.

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Based on the results of the partial hypothesis testing using SPSS, the t-test results are presented in Table 7 below:

Table 7. Coefficients[a]

	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	T	Sig.
(Constant)	11099,864	5380,089		2,063	,050
X1	15448,081	9504,913	,325	1,625	,117
X2	3112,234	10115,068	,063	,308	,761
X3	29449,498	50024,713	,117	,589	,561
X4	2442,976	1992,736	,247	1,226	,232
X5	-40,682	1172,714	-,010	-4,836	,003
X6	-949,964	1566,648	-,165	-3,606	,020

a. Dependent Variable: Y

Source: Primary Data, 2025

Based on the hypothesis test table above, it can be interpreted as follows:

a. The variable **X1 Independent Board of Commissioners** shows a p-value of 0.117 > 0.05, indicating that the Independent Board of Commissioners does not affect **Sharia Stock Prices**.
b. The variable **X2 Institutional Ownership** has a p-value of 0.761 (> 0.05), indicating that Institutional Ownership does not affect **Sharia Stock Prices**.
c. The variable **X3 Managerial Ownership** shows a probability value of 0.561 > 0.05, indicating that Managerial Ownership does not affect **Sharia Stock Prices**.
d. The variable **X4 Audit Committee** shows a p-value of 0.232 > 0.05, indicating that the Audit Committee does not affect **Sharia Stock Prices**.
e. The variable **X5 Inflation** shows a p-value of 0.003 < 0.05, indicating that Inflation has a significant negative effect on **Sharia Stock Prices**.
f. The variable **X6 Interest Rate** shows a p-value of 0.020 < 0.05, indicating that the Interest Rate has a significant negative effect on **Sharia Stock Prices**.

The Effect of the Independent Board of Commissioners on Stock Prices

From the perspective of agency theory, the independent board of commissioners is expected to function as a key governance mechanism to reduce agency conflicts between principals (shareholders) and agents (management). By providing independent oversight, monitoring managerial actions, and ensuring transparency, independent commissioners should help align management decisions with shareholders' interests, thereby enhancing firm performance and positively influencing stock prices. However, the findings of this study indicate that the independent board of commissioners has no significant effect on stock prices. This suggests that, in practice, the role of independent commissioners has not been fully effective in mitigating agency problems or signaling improved governance quality to investors. From an agency theory standpoint, this may imply that the market perceives the monitoring function performed by independent commissioners as weak, symbolic, or merely fulfilling regulatory requirements rather than actively constraining managerial opportunism.

As a result, investors may not consider the presence or proportion of independent commissioners as a reliable indicator of reduced agency risk or improved firm value. Instead, market participants appear to place greater emphasis on observable outcomes such as financial performance, growth prospects, and macroeconomic conditions. Consequently, although agency theory predicts that stronger governance mechanisms should increase firm value, the empirical results of this study

suggest that the effectiveness of independent board oversight in reducing agency costs has not yet translated into higher stock prices in the capital market.

This finding highlights a gap between agency theory's expectations and actual market behavior, indicating that governance mechanisms such as independent commissioners must function substantively, not merely formally, to be recognized by investors and reflected in stock price movements. This finding aligns with several studies (Ashari, 2022; Al, 2022), which also indicate that the proportion of independent board members does not have a significant effect on stock prices. Therefore, it can be concluded that independent board members have not yet become a determining factor in stock price movements.

The Effect of Institutional Ownership on Stock Prices

Institutional ownership is viewed as one of the control mechanisms to reduce conflicts of interest between principals (shareholders) and agents (management). Institutional investors are expected to possess greater resources, expertise, and power to monitor management, thereby restraining managerial opportunistic behavior and encouraging improved firm performance, which should ultimately be reflected in higher stock prices. However, the results of this study indicate that institutional ownership does not affect stock prices, suggesting that this monitoring mechanism has not functioned effectively. Within the context of agency theory, this condition reflects that the role of institutional investors as management monitors tends to be passive and has not optimally reduced agency conflicts. Institutional investors are more focused on specific investment objectives, such as short-term returns or portfolio strategies, which limits their involvement in managerial decision-making and oversight.

As a result, institutional ownership has not provided a strong positive signal to the market regarding improvements in corporate governance quality. The capital market does not automatically respond to high levels of institutional ownership as an indicator of reduced agency conflicts or increased firm value. Thus, within the agency theory framework, the findings of this study indicate that institutional ownership has not yet been effective in aligning management and shareholder interests and has not significantly influenced stock prices. The findings of this study are in line with several previous studies, such as those by Robby et al. (2022) and Ashari (2022), which indicate that institutional ownership does not affect stock prices.

The Effect of Managerial Ownership on Stock Prices

Managerial ownership is viewed as one of the mechanisms for aligning the interests of agents (management) and principals (shareholders). When managers hold company shares, they are expected to be motivated to improve firm performance because they directly bear the consequences of their decisions, both in terms of gains and losses. Thus, managerial ownership can theoretically reduce agency conflicts and enhance firm value, which is reflected in higher stock prices. However, the results of this study indicate that managerial ownership does not have a significant effect on stock prices, suggesting that this interest-alignment mechanism has not been effectively implemented. Within the agency theory framework, this condition indicates that managerial share ownership is insufficient to encourage managers to prioritize enhancing firm value. Relatively small managerial ownership tends to be symbolic and does not provide strong economic incentives for management to improve company performance optimally.

Moreover, in many companies, particularly large firms or those with concentrated ownership structures, strategic decision-making remains dominated by controlling shareholders or the board of directors. As a result, managers with limited share ownership lack the power to influence corporate policies significantly. Consequently, the market does not perceive managerial ownership as a strong signal of reduced agency conflicts or increased firm value. These findings are consistent with

empirical evidence from previous studies, such as Ashari (2022) and Robby et al (2022), which also found that managerial ownership does not significantly affect stock prices. These studies suggest that the effectiveness of managerial ownership largely depends on the proportion of shares held, firm characteristics, and the industry environment. When managerial ownership is low, its impact on reducing agency conflicts and increasing stock prices becomes negligible. Therefore, from an agency theory perspective, the results of this study confirm that managerial ownership has not yet been effective as a control mechanism for aligning management and shareholder interests, nor has it significantly influenced stock prices in the capital market.

The Effect of the Audit Committee on Stock Prices

The audit committee is viewed as an important governance mechanism designed to reduce agency conflicts between principals (shareholders) and agents (management). By overseeing financial reporting, internal control systems, and regulatory compliance, the audit committee is expected to limit managerial opportunism, enhance transparency, and protect shareholders' interests. Effective audit committee oversight should reduce information asymmetry and increase investor confidence, which in turn may be reflected in higher stock prices. However, the findings of this study indicate that the audit committee has no significant effect on stock prices, suggesting that this agency control mechanism has not functioned effectively in practice. In the context of agency theory, this result implies that the audit committee has not been able to optimally mitigate agency problems or provide credible signals to the market regarding improved governance and firm performance. The audit committee's role may be largely symbolic or compliance-oriented, rather than being actively involved in strengthening monitoring and accountability.

Moreover, the audit committee's limited impact on stock prices may be attributed to insufficient independence, expertise, or authority in carrying out its supervisory functions. When audit committees cannot effectively monitor management or influence strategic decisions, agency conflicts remain unresolved, and investors do not perceive audit committees as value-enhancing mechanisms. Consequently, the market does not respond to the presence or size of the audit committee as an indicator of reduced agency risk or increased firm value. Thus, within the agency theory framework, the results of this study suggest that the audit committee has not yet served as an effective governance tool for aligning management and shareholder interests, nor has it significantly influenced stock price movements in the capital market. These findings are consistent with empirical evidence from previous studies, such as Ashari (2022) and Robby et al (2022),

The Effect of Inflation on Stock Prices

Based on the hypothesis test results, inflation was found to hurt stock prices. This means that when inflation rises, stock prices tend to decrease because company production costs increase, leading to lower corporate profits. This finding aligns with the theory that high inflation levels put downward pressure on stock prices, while low inflation tends to encourage stock price increases. Excessively high inflation can reduce the value of assets in manufacturing companies due to rising production costs and declining consumer purchasing power. In contrast, very low inflation can slow economic growth and asset movement. This study shows that high inflation leads to a general increase in goods prices, raising production costs and product prices. Higher selling prices reduce consumer purchasing power, thereby decreasing company profits and ultimately putting downward pressure on stock prices (Wismantara & Darmayanti, 2017). In addition, rising raw material costs reduce product demand, both individually and in aggregate, lowering company revenue and returns.

The Effect of Interest Rates on Stock Prices

Based on the hypothesis test results, interest rates were found to hurt stock prices. When interest rates increase, stock prices tend to decline because companies face higher borrowing costs. Higher interest rates force companies to spend more on capital and operational financing, thereby reducing

profits. On the other hand, rising interest rates make interest-based investment instruments such as deposits or bonds more attractive to investors. As a result, some investors shift from the stock market to safer instruments, leading to decreased demand for stocks and lower stock prices. This phenomenon aligns with the theory that the relationship between interest rates and stock prices is inversely proportional. When interest rates rise, the stock market tends to weaken; conversely, when interest rates fall, the stock market tends to strengthen (Wismantara & Darmayanti, 2017). Low interest rates provide opportunities for companies to reduce borrowing costs, expand investments, and increase profits. This situation usually boosts investor confidence, driving stock prices upward. Conversely, high interest rates increase capital costs and limit investment activities, ultimately putting pressure on company financial performance and lowering stock prices.

CONCLUSION

This study examines the effect of corporate governance mechanisms and macroeconomic factors on stock prices within the framework of agency theory. The governance variables analyzed include the independent board of commissioners, institutional ownership, managerial ownership, and the audit committee, while inflation and interest rates represent macroeconomic conditions. The empirical results indicate that the independent board of commissioners, institutional ownership, managerial ownership, and the audit committee do not have a significant effect on stock prices. These findings suggest that, although agency theory predicts that stronger governance mechanisms should reduce agency conflicts and enhance firm value, such mechanisms have not yet functioned effectively in practice or been perceived by investors as value-relevant signals. In many cases, these governance structures appear to be implemented primarily to meet regulatory requirements rather than to provide substantive monitoring and control over managerial behavior. Consequently, market participants tend to place greater emphasis on observable firm performance and external economic conditions than on formal governance attributes when making investment decisions. In contrast, the macroeconomic variables, namely inflation and interest rates, are found to have a significant negative effect on stock prices. Rising inflation increases production costs and reduces consumer purchasing power, thereby lowering corporate profitability and exerting downward pressure on stock prices. Similarly, higher interest rates increase borrowing costs and encourage investors to shift funds toward lower-risk, interest-bearing instruments, which reduces demand for stocks and leads to declining stock prices.

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