

# Analysis of the Effect Earnings Management, Financial Ratios, Governance on Bond

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## Abstract

The purpose of this study is to analyze the concentration on board profit factors, the proportion of liquidity, administrative ownership and review quality used to anticipate organizational security ratings. This study intends to provide experimental evidence that board income, monetary proportion and corporate administrative mechanisms affect security ratings. The subject of this exploration is an organization listed on the IDX and registered in Indonesia, PT. PEFINDO 2016-2019. Information check using strategic relapse investigation. The results showed that executive earnings, the proportion of liquidity, administrative ownership and review quality had an effect on bond ratings. While action proportion, market price proportion, institutional ownership and free head have no impact on security evaluation.

*Keywords: bond rating; earnings management; financial ratios; corporate governance mechanisms; logistics regression.*

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## 1. Introduction

The ineffective implementation of GCG was due to a lack of understanding of a value and fundamental business processes. In actuality, the application of GCG should enhance their financial performance. In a given period, a company's operating success may be measured by its financial performance. Good financial circumstances might draw the interest of investors. They will invest in organizations that have a strong financial performance. In addition to financial statistics, they must also observe the company's management prowess. They can observe the financial figures clearly on the sheet of strong company governance. The more their understanding and knowledge of the firm's performance, the more confident they are to invest in the company (Nurkholis & Damayanti, 2020). Financial risk is assessed through financial policies, capital, cash flow protection, profitability, liquidity and financial flexibility. The industrial risk assessment used by PT. PEFINDO is about the growth and stability of the industry, how the competition is within the industry, regulations, and financial profile. Business risk assessment includes assessment of market position, diversification, service quality and management and human resources, which includes the implementation of Good Corporate Governance (GCG) (Sari & Yasa, 2016).

Income the board is a type of deviation during the time spent planning fiscal reports, which influences the degree of benefit showed in the budget summaries (Herawaty, 2008). The reason for the act of profit the executives is so the evaluations of bonds gave by rating organizations fall into the class of organizations that are appropriate as spots of venture for financial backers. The rating of an organization that genuinely deserve being a position of venture is typically called speculation grade. With a decent appraising, it will expand financial backer certainty and amplify the assets that enter the organization. There are a considerable amount of cases in regards to organization (Biltekin, 2020; Boriboonrat, 2013; Devi et al., 2020), that complete profit the executives, one of which is Worldcom. In its report Worldcom recognized that the organization grouped more than \$3.8 billion in network costs as capital consumptions. By moving a business ledger to a capital record, Worldcom can expand its income or benefit. Worldcom had the option to expand benefit in light of the fact that the business ledger was recorded lower, while the resource account was

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recorded higher on the grounds that the capitalization cost was introduced as venture cost. With the increment in benefits, Worldcom's market execution has become better than anyone might have expected the revelation of profit the board rehearses did by the organization (Arif, 2012). Factors that can influence bond appraisals other than income the executives, as indicated by Magreta and (Nurmayanti, 2009) are bond rating expectations can be framed from monetary proportions like firm size, liquidity, benefit, influence, and efficiency. I According to study by Yuliana et al. (2011), certain monetary quantities impact bond valuations.

In 1998, when Indonesia had a protracted economic crisis that was attributed on irresponsible firm management, the phrase corporate governance began to appear in the country (Baghumian & Naghdi, 2014; Khan, 2010; Mohd et al., 2020; Rakkarnsil & Butsalee, 2022; Sihombing et al., 2020). The term governance is derived from the French word "gubernance," which implies control. The word governance is often used in the context of business operations to refer to corporate governance, which translates to corporate governance or governance in Indonesian (Mohammad Hamim, 2019). Improved organizational performance is directly tied to good corporate governance. Good corporate governance is something that SET emphasizes. The executives' performance might be guaranteed by taking into account the company's maximum reasonable benefits if there is a competent corporate governance framework to support effective management, such as operational monitoring and auditing (Rakkarnsil & Butsalee, 2022).

Bond rating is a risk assessment of bonds issued in Indonesia by a rating agency, namely PT Perneringkat Efek Indonesia (PT PEFINDO). This bond rating is used as information on the risk of a bond, so that this rating can explain the probability of debt repayment failure and the performance of a company. Ratings for bonds can be derived from the financial records of a corporation. If a company's performance is strong, its bonds will likewise have a strong rating, so attracting more investors. Earnings management is one method for making financial accounts appear nice (Prayitno, 2020). Earnings' management is a method by which a company can manipulate the amount of profit reported in its financial statements by altering the compilation process (Chandra & Hanna, 2017).

Sari and Bandi's research (Chandra & Hanna, 2017) which examines that better profits management led to higher bond ratings upon issuance. In their study, Rani and Christine conclude that there is no statistically significant connection between discrepancies in bookkeeping according to tax and accounting and changes in bond ratings. Bond ratings in Indonesia are studied by Christina, Yulianti, and Christine (2010), and it is shown that a substantial positive difference between bookkeeping according to tax and accounting has no meaningful influence on bond ratings, whereas a huge negative difference does (Nurmayanti, 2009b). Monetary proportions like benefit, efficiency, can foresee bond appraisals, while liquidity and use proportions don't can anticipate bond evaluations. Almia and Devi (2007) found that liquidity is a key factor that is evaluated by the current ratio used in forecasting bond values. As defined by the Indonesian Forum for Corporate Governance (FCGI), "corporate administration" is "a set of guidelines that characterize the relationship between investors, the executive team, lenders, the government, representatives, and other internal and external partners in terms of their respective rights and responsibilities."

Based on the research of Saleh et al (Mahrani & Soewarno, 2018), there is empirical evidence that CSR adoption has a significant positive influence on financial performance, using a sample of firms listed on the Malaysia Exchange between 1999 and 2005, but study by Mwangi and Jerotich (2013), using a cross-section of companies listed on the Stock Exchange in the sectors of industry and construction, we find the contrary to be true. The Nairobi Influence Between 2007 and 2011, empirical research shown that CSR had no effect on the financial success of a firm. Researchers are encouraged to employ other study factors that might mitigate the association between GCG and CSR and a company's financial success due to the variability of the results of prior studies (Clarke, T., Lindorff, M., Jonson, 2013; Hopkins & Hopkins, 1997; Ichsan et al., 2021; Juita et al., 2021; Tripalupi & Anggahegari, 2020). The authors intend in reviewing the effect of GCG and CSR on financial performance by including earnings management as a mediating variable. Based on past study findings. (Gusni, 2017) the use of this firm was inspired by the research of Naceur, Goaid, & Belanes which used regulated industries (financial, transportation, and telecommunications companies) and unregulated industries on the Tunisian Stock Exchange. Their study is limited to profitability, market value to book, ownership (number of predominant shareholders owning more than 5 percent of the company), leverage, market size, and liquidity, and concentrates on current profits and past dividends. Their analysis disregards corporate governance procedures and systematic risk as dividend policy determinants. In Indonesia, corporate governance is still a relatively new concept, thus it is essential to assess its function in protecting outsiders from asset manipulation by firm insiders. Systematic risk must also be analyzed in relation to the business risk of the corporation, which has been explored infrequently in prior research.

Das and Swain (Ichsan et al., 2021) argued that there is no correlation between financial leverage and profitability. Rajverma (2019) revealed that there has a relationship between capital structure and profitability. Malaysian researcher

Alarussi Ali (2018) found that high levels of leverage had a detrimental effect on a company's bottom line. According to the research of Ajibade et al. (2019), dividend policy has an effect on the financial success of manufacturing firms in Kenya and Nigeria. The dividend policy of the chosen Nigerian banking businesses influences their profitability, according to research by Nurlala et al. (2019). Along these lines, this study attempts to join income the board, monetary proportions and corporate administration according with their impact on security evaluations. This examination on profit the executives, monetary proportions and corporate administration intends to give experimental proof that one of the conclusions of security evaluations depends on monetary execution, with the supposition that monetary exhibition seen from budget summaries better depicts the state of the organization. Combined with the presence of corporate administration will actually want to expand the worth of the organization so the security rating increments.

## 2. Research Method and Materials

The yearly financial summary provided on the Indonesia Stock Exchange (IDX), whose disclosure period ends on December 31, is used as supplemental data in this study. Similar to PEFINDO's corporate security rating data collection, the information was gathered through the Indonesian Capital Market Directory (ICMD) ([www.pefindo.com](http://www.pefindo.com)). Companies that issue securities have their financial reports evaluated by PT. Pefindo, and such reports consist of summaries of their yearly budgets. Bond assessments offered by PT. PEFINDO are utilized with a sample of all publicly traded companies listed on the Indonesia Stock Exchange (IDX) to draw conclusions. This study's examination approach is predicated on the use of a deliberate examination method. In this review, we put our assumptions to the test using multivariate analysis with tactical relapse. To determine if the independent variable may be used to forecast the likelihood of a nonmetric or straight subordinate variable, this model is put to the test; in this case, the independent variable is a free factor consisting of both metric and nonmetric or straight variables. Also, direct likelihood models like multinomial logit cannot be utilized since the dependent variable in the research is a subjective ranking variable (Ghozali, 2012). Ordinarity tests and traditional suspicion tests on independent variables are unnecessary for this inquiry approach (Ghozali, 2012). The impact of various independent variables on the dependent variable, bond ratings, is examined in this study using a logistic regression model. These independent variables include earnings management, liquidity ratios, activity ratios, market value ratios, institutional ownership, managerial ownership, independent commissioners, and audit quality. The level of confidence used in conjunction with the test criteria is 95%, assuming a significance level of 5% (= 0.05). The eight independent variables in this analysis include earnings management, liquidity ratios, corporate activity ratios, market value ratios, institutional ownership, managerial ownership, independent commissioners, and audit quality. Table 5 from SPSS version 25 output demonstrates that the four elements that affect bond ratings are earnings management, liquidity ratios, managerial ownership, and audit quality. The existence or absence of a company's activity ratio, market value ratio, institutional ownership, and independent commissioners has no bearing on any other aspect of the company's bond rating.

## 3. Results and Discussion

The example utilized in this study was chosen by purposive testing as a condition that should be met to turn into the examination test. This study involves optional information as yearly reports of non-monetary organizations from 2016 to 2019 got from [www.idx.co.id](http://www.idx.co.id).

### 3.1. Aftereffects of Descriptive Data Statistical Analysis

The autonomous factors in this study are income the executives, liquidity proportions, action proportions, market esteem proportions, institutional proprietorship, administrative possession, free officials and review quality. The data contained in elucidating measurements is as mean, least, greatest and standard deviation esteems. Here are the consequences of the unmistakable factual test utilizing SPSS 25:

**Table.1.** Descriptive statistical test of bond ratings

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Non investment grade	18	40.9	40.9	40.9
	Investment grade	26	59.1	59.1	100.0
	<b>Total</b>	44	100.0	100.0	

The aftereffects of the elucidating examination in table 1 show that the quantity of tests (N) is 44. This number is the complete example of non-monetary organizations that have administrative proprietorship for quite a long time of perception in the review from 2016 to 2019 where consistently there are 11 non-monetary organizations that are inspected. study. SPSS yield brings about engaging insights show that there are 26 (59.1%) securities that are remembered for the speculation grade class and (40.9%) securities are remembered for the non-venture classification.

**Table 2.** Descriptive statistical test

		<b>ML</b>	<b>LIQ</b>	<b>TAT</b>	<b>PER</b>	<b>MANJ</b>	<b>BOARD_IND</b>
N	Valid Missing	44	44	44	44	44	44
Mean		-.0920	.4600	81.741	604.500	62.930	84.200
Std. Deviation		.20402	.34533	907.992	24.243.659	.32581	.09713
Minimum		-.39	-.20	.80	-4.46	.00001	.30
Maximum		.41	3.55	1.39	45.34	99.99	.66

The results of the descriptive statistical test in table 2 show the earnings management variable has an average value of -0.0920 with a standard deviation of 0.20402 from the average. Where the minimum value is -0.39 which is owned by Mobile-8 Telkom Tbk (FREN 2019) and the maximum value is 0.41 which is owned by Mobile-8 Telkom Tbk (FREN 2016). This means that the difference in earnings management in non-financial companies is a minimum of -0.39% and a maximum of 0.41%. Earnings management variable has an average value of -0.0920, smaller than the standard deviation of 0.20402. These results indicate that the distribution of data for earnings management variables is different. This can be seen from the difference in numbers between the mean and standard deviation which is much different. This means that there is a large deviation from the acquisition of bond ratings when predicted by earnings management. The variable liquidity ratio (LIQ) is a ratio that shows the ability of a company to meet its financial obligations that must be fulfilled immediately or the company's ability to meet financial obligations when billed which is calculated by the current ratio, namely current assets divided by current liabilities.

The results of the descriptive statistical test in table 2 show that the liquidity variable has an average value of 1.3385 with a standard deviation of 0.94696 from the average. Where the minimum value is 0.20 which is owned by Arpeni Pratama Ocean Line Tbk (APOL 2018) and the maximum value is 3.55 which is owned by Surya Citra Televisi (SCTV 2018). This means that the difference in liquidity in non-financial companies is at least 0.20% and a maximum of 0.355%. The average value obtained from liquidity is 1.3385, which is greater than the standard deviation of 0.94686. These results indicate that the distribution of data for the liquidity variable in the sample companies is not much different or almost the same. This means that there are rarely deviations in the acquisition of bond ratings when predicted by the liquidity ratio.

The activity ratio variable (TAT) is a tool to measure the company's effectiveness in using or utilizing its resources. This activity variable is proxied by Total Asset Turnover (TAT), which is net income divided by total assets. The results of the descriptive statistical test in table 2 show that the activity ratio has an average value of 0.46 with a standard deviation of 0.345 from the average. Where the minimum value is 0.078 which is owned by Mobile-8 Telkom Tbk (FREN 2016) and the maximum value is 1.39 which is owned by Indosat Tbk (ISAT 2019). This means that there is a difference in the ratio of company activity in non-financial companies with a minimum of 0.08% and a maximum of 1.39%. The average value obtained from the company's activities is 0.4600, which is greater than the standard deviation of 0.34533. These results indicate that the distribution of data for the sample company activity variables is not much different or almost the same. This means that there is rarely a deviation in the acquisition of bond ratings when predicted by the activity ratio.

The movement proportion variable (TAT) is an instrument to gauge the organization's viability in utilizing or using its assets. This movement variable is proxied by Total Asset Turnover (TAT), which is net gain separated by all out resources. The aftereffects of the expressive measurable test in table 2 show that the action proportion has a normal worth of 0.46 with a standard deviation of 0.345 from the normal. Where the base worth is 0.078 which is possessed by Mobile-8 Telkom Tbk (FREN 2016) and the greatest worth is 1.39 which is claimed by Indosat Tbk (ISAT 2019). This truly intends that there is a distinction in the proportion of organization action in non-monetary organizations with at least 0.08% and a limit of 1.39%. The normal worth acquired from the organization's exercises is 0.4600, which is more prominent than the standard deviation of 0.34533. These outcomes show that the dispersion of information for

the example organization movement factors isn't very different or practically the equivalent. This intends that there is seldom a deviation in the obtaining of bond appraisals when anticipated by the action proportion

**Table 3.** Kolmogorov-Smirnov statistical test

	ML	TAT	PER	INST	MANJ	BOARD_IND	Rating
N	44	44	44	44	44	44	44
Normal Mean	-.0920	.4600	81.741	604.500	62.930	84.200	208.343
Parameters <sup>a</sup> Std	.20402	.34533	907.992	24.243.659	.32581	.09713	12.575.826
Deviation Most Absolute	0.097	0.234	24.135	0.091	0.237	0.230	24.135
Extreme Positive	.097	.234	.135	.082	.237	1.230	1.230
Differences Negative	-.072	-.134	-.112	-.091	2.484	.353	2.484
Kolmogorov Smirnov Z							
Kolmogorov Smirnov Z	.646	.549	2.895	.604	.972	.729	2.895
Asymp Sig (2-tailed)	.798	.716	1.400	.859	.714	.819	1.400
<b>A Test distribution is Normal</b>	<b>Normal</b>	<b>Normal</b>	<b>Normal</b>	<b>Normal</b>	<b>Normal</b>	<b>Normal</b>	<b>Normal</b>

The consequences of the Kolmogorov Smirnov test in table 3 show the factors of liquidity, action, board ownership, complimentary head, and review quality. These factors are usually not spread out when viewed from the Asymp esteem. Signature. (2-followed) is more straightforward than the level of importance ( $\alpha$ ) of 0.05. The distribution of income typical of organizational factors, the proportion of market prices, and institutional ownership should not be changed to an odd distribution because there is no mandatory arrangement to change the distribution. If the reasonableness assumption has been fully met and the distribution test is standard.

### 3.2. Inferential Statistical Analysis

In this concentrate on the theory was created utilizing calculated relapse examination. The consequences of the review utilizing the SPSS form 25 program acquired the result of calculated relapse in table 4 beneath:

**Table 4.** Logistics regression

		B	S.E.	Wald	df	Sig	Exp (B)
Step 1 <sup>a</sup>	ML	-7.799	3.965	3.652	1	0.032	0.001
	TAT	-3.232	1.290	1.023	1	0.009	23.230
	PER	-.087	.376	.453	1	0.032	0.876
	INST	2.202	0.542	.476	1	0.045	1.980
	MANJ	3.879	2.769	2.870	1	0.022	291.900
	BOARD_IND	5.789	6.900	.753	1	0.018	1.29E2
	Constant	-9.348	4.788	3.567	1	0.023	0.002

a. Variable (s) entered on step 1 : ML, TAT, PER, INST, MANJ, BOARD\_IND

Table 4 shows the logistic regression equations in this study are as follows:

$$\text{Bond Rating (PO)} = -9.348 - 7.799\text{ML} - 3.232\text{TAT} - 0.087\text{PER} + 2.202\text{INST} + 3.879\text{MANJ} + 5.789\text{BOARD\_IND} + e$$

From the strategic relapse condition, it tends to be clarified as follows:

- a. If organization action (TAT), market esteem proportion (PER), institutional possession (INST), administrative proprietorship (MANJ), autonomous magistrates (BOARD\_IND) and BOARD-IND are viewed as steady, then, at that point, the log of the security rating chances will diminish to 7.799.706 for each one income the executives unit (ML) increment.

- b. If profit the executives (ML), organization movement (TAT), market esteem proportion (PER), institutional proprietorship (INST), administrative possession (MANJ), autonomous officials (BOARD\_IND) are viewed as steady, then, at that point, the log of chances the security rating will increment to 3,232 for each expansion in one unit of liquidity (TAT).
- c. If profit the executives (ML), institutional possession (INST), administrative proprietorship (MANJ), autonomous magistrates (BOARD\_IND) are viewed as steady, then, at that point, the log of the security rating chances will diminish to 0.087 for each increment of one unit of corporate action market esteem proportion (PER).
- d. On the off chance that profit the executives (ML), liquidity (LIQ), organization movement (TAT), administrative possession (MANJ), free officials (BOARD\_IND) are viewed as consistent, then, at that point, the log of chances the security rating will increment to 2.202 for each one unit expansion in institutional proprietorship (INST).
- e. On the off chance that income the executives (ML), organization movement (TAT), market esteem proportion (PER), free officials (BOARD\_IND) are viewed as consistent, then, at that point, the log of the security rating chances will diminish to 3.879 for each one unit expansion in administrative proprietorship (MANJ).
- f. If income the executives (ML), organization movement (TAT), market esteem proportion (PER), institutional proprietorship (INST), are viewed as steady, then, at that point, the log of the security rating chances will increment to 5.789 for autonomous magistrates (BOARD\_IND).

3.3. *Analysis of Overall Model Test (Model Fit)*

The initial study aims to look at the entire model (overall model fit). Statistical analysis is based on the Likelihood function. The model's likelihood (L) is the probability that the hypothesized model adequately describes the supplied data. L was changed to  $-2\text{LogL}$  for the purpose of testing the null hypothesis and the alternative hypothesis. This study reveals that the statistical value of  $-2\text{LogL}$ , that is, without a variable, it is constant at 49,534, reduces to 20,316, or a decrease of 39,218 following the addition of the three new variables presented in table 5. This drop is statistically significant or cannot be compared to df (difference in df with constant only and df with 8 independent variables).  $Df1 = (n-k) 44$ , and  $df2 = 44 - 8 = 36$ , therefore  $df = 44 - 36 = 8$ . The number is 2,306 based on the percentage points of the t distribution table with  $df = 8$  Since 39,218 is more than the figure in the table (2,306), the difference in the reduction of  $-2\text{LogL}$  is deemed significant. This result indicates that the model is enhanced by the addition of 90 independent variables, including earnings management, liquidity ratio, activity ratio, market value ratio, institutional ownership, managerial ownership, independent commissioner, and audit quality.

3.4. *Feasibility Test Results With Regression*

The feasibility of the regression model was assessed using Hosmer and Lemeshow's Goodnes of Fit Test. The following table shows the results of the feasibility assessment:

**Table 5.** Hosmer and Lameshow Test

Step	Chi-square	df	Sig
1	2.387	8	.075

Table 5 shows the Hosmer and Lemeshow value of 2.387 and significant at 0.075 because this value is above 0.05, the model is said to be fit and the model is acceptable.

3.5. *Nagelkerke Test Analysis (R<sup>2</sup>)*

Nagelkerke R Square is a modification of the Cox and Snell's coefficients to ensure that the value varies from 0 to 1. The test is carried out to assess how much variation in the dependent (bond rating) can be explained by variations in the independent variables (earnings management, liquidity ratio, activity ratio, value ratio). market, institutional ownership, managerial ownership, independent commissioners and audit quality). The Nagelkerke R<sup>2</sup> value can be interpreted as the R<sup>2</sup> value in multiple regression. Based on the test results, the Cox and Snell's R values are 0.490 and the Nagelkerke R<sup>2</sup> values are 0.695. This result means the variability of the dependent variable (bond rating) which can be explained by the variability of the independent variable. The SPSS output in table 6 gives a Cox and Snell's R value of 0.490 and a Nagelkerke R<sup>2</sup> value of 0.695. This result means that the variability of the dependent variable (bond rating) which can be explained by the variability of the independent variables (earnings management, liquidity ratio,

activity ratio, market value ratio, institutional ownership, managerial ownership, independent commissioners and audit quality) is 69.5%

#### 4. Discussion

##### 4.1. Earnings Management That Affects Bond Ratings

Based on the calculation results in the study that the variability of the dependent variable (bond rating) which can be explained by the variability of the independent variables (earnings management, liquidity ratio, activity ratio, market value ratio, institutional ownership, managerial ownership, independent commissioners and audit quality) is 69, 5%. This is reinforced by Gerinta (Wahyudi & Swiyanto, 2014) conducting research related to bond ratings as a trigger for earnings management. The sample used is 30 companies. The results of this study indicate that financial information and ratios have an influence on bond ratings and are supported by their ability to form a discriminant model with an accuracy of 83.33%. The study also concludes that the average earnings management of bond and non-bond issuing companies is significantly different. In addition, the research results are strengthened by Ndriyani and Darmawati (Sylvia et al., 2020) who find that earnings management affects bond ratings. Earnings management arises to inform external parties such as rating agencies to show how well the company is performing in the hope that the rating agency will give the company a high rating. Earnings management is influenced by the growth variable. The results of this research show that growth has a beneficial effect on earnings management, with higher levels of growth resulting in more effective earnings management. This is because a company experiencing rapid expansion will have more money to invest in its operations and will work harder to maintain a constant rate of expansion. Total asset value is a measure of development. Investors are more willing to put money into a company with steadily increasing assets (Marchellina & Firnanti, 2021). There is a method for analyzing earnings management that utilizes a discretionary proxy (DA). In the presented financial statements, Discretionary Accrual is utilized to establish corporate revenue procedures in compliance with industry standards. Incentives or incentives are employed for many goals, including: (1) misleading capital actors or consumers of financial statements; (2) avoiding political spending; (3) avoiding debt breaches; and (4) preventing default (Juita et al., 2021).

##### 4.2. Organization Movement (TAT) An Effect On Bond Rating

The average value from is 0.460.4600, which exceeds the standard deviation of 0.94,686. These results imply that the data distribution for the liquidity variable among the sample firms is comparable or nearly identical. This indicates that it is uncommon for bond ratings to deviate from those indicated by the liquidity ratio. The findings of this investigation are consistent with those of Retno (Putra & Djazuli, 2018) which asserts that the liquidity ratio has a substantial impact on bonds. According to research by Ni Made and Ida, liquidity has a large and negative influence on bond ratings. A high liquidity ratio shows that the corporation is able to meet its short-term obligations. These findings corroborate the conclusions of prior research that the liquidity ratio has a strong negative influence on the likelihood of financial hardship. (Lumbantobing, 2020).

Companies that have a high current ratio value are often considered good companies and are good at fulfilling their short-term obligations. However, if the current ratio value is too high, it is also considered not good (Xiong et al., 2019; Bozarth & Budak, 2021; Mapila et al., 2010; Munro, 2014; Simsa, 2019). This can indicate the presence of cash hoarding or even the amount of cash that is not utilized. If a company has abundant cash, they will automatically use the funds for their operational needs first compared to using investment funds. Whereas in Islamic bonds there are several types of bonds whose distribution of results depends on the utilization of investment funds. If this happens, investors will not get the expected profit share. If the current ratio level is too high, this also indicates that the company cannot manage its assets properly. Too many unproductive funds. This finding is in line with previous research which states that the liquidity variable has an effect on bond ratings (Kustiyaningrum et al., 2017; Noviana & Solovida, 2018; Surya & Wuryani, 2014, (Fitriani et al., 2020). The cash ratio measures a company's liquidity by comparing its total cash and cash equivalents to its current obligations. This indicator measures a company's capacity to fulfill its short-term obligations using cash and other liquid assets, such as marketable securities. The fact that liquidity has a large influence on bond ratings demonstrates that liquidity has a significant impact on bond ratings, indicating that liquidity ratios have a significant impact on bond ratings (Rahmawati, 2020). The liquidity ratio measures a company's capacity to satisfy its short-term obligations. The greater a company's current ratio, the greater its ability to meet and service its debt, which might impact its bond rating (Syarifah, 2021).

#### 4.3. *The Activity Ratio Has No Effect On Bond Ratings*

According to the findings of this study, business size has a considerable positive influence on bond rating forecasts, whereas Net Profit Margin and auditor reputations have a significant negative effect (Barucci et al., 2014; Caldwell et al., 2015; Jung, 2008; KOSOVSKY, 2013; McCloskey, 1999). This investigation failed to demonstrate that leverage, Return on Assets, bond guarantees, and bond age have a substantial impact on bond ratings (Herlinasari, 2021). This is also reinforced by the results of research (Alfiani, 2013) which states that the greater the company's solvency ratio, the greater the risk of company failure. The bond rating is higher for a corporation if its solvency ratio is lower.

#### 4.4. *Corporate Governance Mechanism of Bond Rating*

This study is reinforced by (Ariwangsa & Abundanti, 2013) Rinaningsih that The primary determinant of debt securities ratings is a company's financial situation; however, corporate governance systems may also assist explain discrepancies in debt ratings across firms that are unrelated to their respective financial conditions. By minimizing agency costs, notably by monitoring management performance and reducing information asymmetry between corporations and creditors, corporate governance procedures can minimize default risk. Credit ratings are an important instrument of governance. Another body of research demonstrates that company governance is a crucial factor in rating agencies' credit ratings (Arora, 2020).

Meanwhile, the results of Husnan's research (Mariana, 2016) are to determine the effect of corporate governance mechanisms on default risk (credit risk) which is proxied by bond ratings. Investment in bonds is an investment that is in demand by investors because it provides a fixed income. However, this does not mean that bonds are free from risk, but that they are also possible to default. Another factor is the structure of the bonds and coupons offered. In general, investors are not only fixated on bond coupons but also pay attention to the risks that may occur. Poor governance compliance due to insufficient corporate control increases the cost of debt, as shown by a review of the connection between corporate governance and bond performance. When a principle and agent's relationship breaks down, as in a divorce or custody battle, an agency conflict arises (Mohd et al., 2020).

### 5. **Conclusion**

The results of the logistic regression test indicate that earnings management has an impact on bond ratings based on the results of the study's calculations that the variance of the dependent variable (bond ratings) can be explained by the variance of the independent variables (earnings management, liquidity ratios, activity ratios, market value ratios, institutional ownership, managerial ownership, independent commissioners, and audit quality). Liquidity Ratio Affects Bond Rating with the average value obtained from liquidity is 1.3385, greater than the standard deviation of 0.94686. These results indicate that the distribution of data for the liquidity variable in the sample companies is not much different or almost the same. It suggests that if a liquidity ratio is used to forecast a bond's rating, there is little variance. There is no influence of activity ratio on bond ratings. According to the findings of this study, business size has a considerable positive influence on bond rating forecasts, whereas Net Profit Margin and auditor reputations have a significant negative effect. Mechanism of corporate governance for grading bonds fluctuating liquidity percentage (LIQ) is a ratio that reflects an organization's capacity to satisfy financial obligations that must be fulfilled promptly or to fulfill financial obligations.

**Research Restrictions** Although researchers have attempted to construct and refine this study in such a way, it still has certain drawbacks, including the following: (a) For testing the prediction model, it cannot perfectly explain the company's financial ratios when predicting the company's bond rating, (b) Researchers only examine variables from financial ratios, whereas there are still non-financial ratios that can affect bond ratings, such as Institutional Ownership, Managerial Ownership, Board of Commissioners Size, KAP Reputation, and many others, and (c) Investors should be more selective when investing in bonds. It is advised that future researchers expand the number of company samples and variables other than financial aspects so that the results produced are more accurate and the findings of the study are strengthened.

### **Acknowledgements**

Based on the results of the discussion and conclusion, there are several suggestions as follows: This study uses several variables related to corporate governance. Further researchers are able to use elements of broader corporate governance mechanisms such as audit committees, and are able to use broader financial information such as leverage, profitability

and other financial ratios to provide a more real picture and compare the results of one rating agency with other rating agencies. And this research uses non-financial companies. Future research is expected to replace the sample so that the research results can vary. Alternatives that can be taken for example by researching financial companies.

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