

The Implementation of Stakeholder, Asymmetry, Signaling, and Agency Theories on the Determinant of Shariah Bond (Sukuk) Rating

Bedjo Santoso^{1*}, Ibnu Qizam², Wan Noor Hazlina Wan Jusoh³, Leonova Olga Viktorovna⁴

¹Department of Management, Faculty of Economics, Universitas Islam Sultan Agung, Indonesia

²Department of Accounting, Faculty of Economics and Business, Universitas Islam Negeri Syarif Hidayatullah Jakarta, Indonesia

³Academy of Contemporary Islamic Studies, UiTM Terengganu Branch, Malaysia

⁴Department of Strategic Management, Belgorod State Technological University Named after Shukhov, Belgorod, Russia

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Abstract

The paper aims to develop a model of determinant of the Sukuk (Islamic/shariah bond) rating (SR) derived from four theories combined together include stakeholder, asymmetry, agency, and signaling theory by using synthesizing process resulted a new concept of variables which have been neglected by some researchers. The variables; GCG (good corporate governance), FDQ (quality of financial disclosure) ABRs (accounting based risks) EM (earning management), and FP (financial performance). This research is important in Indonesia as the largest Muslim country that is intensively building infrastructures. This study used 570 data panel annual reports. This study revealed that GCG and FDQ have positive influence on the SR whereas ABRs and EM have a negative effect on SR. However, EM fail to mediate ABRs to SR. In addition, FP did not succeed to mediate EM on SR as this related to moral hazard issue, but FP affect to SR. Direct effect GCG, FDQ, and ABRs to SR is greater than indirect effect these variables to SR through EM. It means stakeholders and asymmetry theory powerful to strengthen SR research. In this study, it was found some new issues in SR such as; minimizing conflict, governance, board of commissions, report quality, risk performance, hence, it contributes to body of knowledge in asymmetry, agency, and stakeholder theory.

INTRODUCTION

Some researches on *SR* rarely involve stakeholder theory, most of them only included asymmetry and agency theory, as Santoso et al. (2022) concluded that the two theories strengthen *SR* implementation. Stakeholder theory states that the more investors and stakeholders focus on the company, the harmony between the company and society will be fulfilled. Stakeholder theory proxies by Good Corporate Governance (GCG) is expected to be able to answer the problems of *Sukuk* investment, most of which involve integrity, accountability, transparency, reliability and investor trust. Hence, the GCG problem is a crucial to be developed especially in Indonesia.

Indonesia, as one of the biggest *Sukuk* market, aggressively promotes *Sukuk* investment for infrastructure development, however has low level of GCG (rank number 57 in the world and number 4 in ASEAN countries (World Economic Forum, 2019). Therefore, it may affect *SR* which is very sensitive for investors in term of GCG elements of the country namely accountability, trust, integrity, transparency, and reliability.

The most studies focus on asymmetry, agency, and signaling theories. First, asymmetry theory approach focuses on the connection between *Sukuk* issuers and *investor*. In this relationship, there are the gap information held by both parties, one party has more access information while others no access, i.e. company management has more information in the capital market rather than investors. Hence, asymmetry in information will affect to financial decisions. Asymmetry theory has four elements; trust, moral hazard, reputation, and opportunistic behavior.

According to Jensen & Meckling, (1976); Watts & Zimmerman, (1986) the information asymmetry presented by financial and accounting data can help minimize conflicts of interest among investors and the firm's management. However, it is also generally accepted that such data can lead to management discretion and can reduce the gap between an agent and the principal.

The agency theory can also be used to address the various issues related to the issuance and valuation of *Sukuk*. According to the theory, the relationship between the principal and the agent is a contractual arrangement that allows the latter to carry out tasks for the former. For instance, the principal can delegate certain decisions to the agent (Melzatia et al. 2019). Agency theory involves various elements such as moral hazard, risk performance, costs, information asymmetry, monitoring, and incentives.

SR that have been studied from the above theories have provided several features that affect the financial performance through *SR*. However, many studies ignored/neglected the crucial issue namely comprehensive stakeholders which is many parties have been involved. Stakeholder theory encourages all parties to obtain information in the company for strategic decision-making process. In addition, the stakeholder approach strengthens the relationship with the society (external) to achieve the comparative advantage through norms and conscience based on the collaborative values and avoid individualistic values because the company is congruent with society. In fact, these factors affect the company's financial performance and *SR*.

In addition, from the theories, it will be derived a crucial variable namely good corporate government (GCG) which is represent the stakeholders interest such as the involvement of independent board, level of institutional/managerial ownership, and the existence of independence auditors (Luthan et.al 2016). Therefore, a stakeholder approach is appropriate in the development of *Sukuk* rating because it strengthens investor trust in the company and is considered a theoretical gap and novelty of the new concept in this study. This synthesis process for developing new models resulted four variables; Good Corporate Governance (GCG), Accounting Based Risks (ABRs), Financial Disclosure Quality (FDQ), and Earning Management (EM) to affect financial performance. While, the synthesizing process implemented on *SRs* will be discussed in the literature review section.

According to Qizam and Fong (2019), signaling, asymmetry, and agency theories result by deriving some variables i.e. FDQ, ABRs, and EM. Although the various factors that influence the quality of information presented by financial and accounting reports were considered in the development of SR, the short-term approach was mainly adopted. The studies that were conducted on this subject neglected the importance of long-term data quality. Because if economic condition is downtrends will affect to SR and bond rating as they have a quick response with future information in the capital and financial market. Hence, the next step is to identify the factors that influence the quality of financial disclosures. This will help in developing effective recommendations for improving the transparency of financial statements or ABRs. Besides that, it also to involve accounting disclosure quality (ADQ) in the FDQ and utilize the large prediction/potential of long-term financial information such as Earnings Management (EM) variable.

A gap point in the research literature revealed that the relationship between the quality of information presented by financial and accounting reports and SR is unclear. For instance, in a study conducted by Qizam and Fong (2019), it noted that the financial reporting quality can have a negative effect on the SR. Other studies conducted by Homsy et al. (2017), Arundina et al. (2016), Ningrum et al. (2019) revealed that the relationship between the quality of information presented by financial and accounting reports and SR is also inconsistent. They additionally noted that the bond rating factor influenced the relationship between the two. Studies conducted by Ningrum et al. (2019), Prastiani (2018), and Ulfa (2019) revealed that the relationship between SR and earnings management is indefinite, with inconsistencies still evident. Another study conducted by Hassan & Marston (2019) revealed that the lower the financial reporting quality index, the more likely it is that an organization will make adjustments to its earnings management strategy. According to studies conducted by Yuwono and Aurelia (2021), Astuti (2020), Ningrum et al. (2019), and Ulfa (2019), the link between earnings management and the variable known as ABRs is indistinct. They noted that financial leverage can affect how earnings are managed.

Previous studies on the relationship between SR and return on investment (ROI), leverage, and the accounting based risk (ABRs) on SR have been conducted by Elhaj et al. (2017, 2015), Hassan and Marston (2019), Ulfa (2019), Prastiani (2018). Other studies by Ulfa (2019), Homsy et al. (2017), Yuwono & Aurelia (2021), Toumeh et al. (2020) and Ningrum et al. (2019), produced varying results. A study conducted by Agustia and Suryani (2018) revealed the unclear link between various variables, such as leverage, current ratio, interest rate, and return on asset.

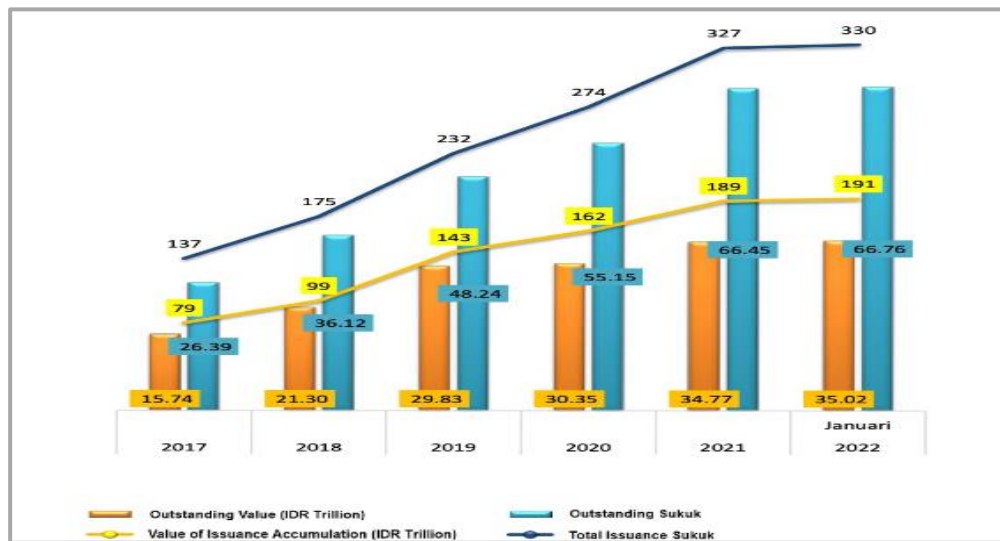
Moreover, some studies on SR with GCG elements i.e., transparency, trust, accountability, credibility, and earnings management also shown the inconsistency results. The researchers utilized a partial approach, which was derived from studies Homsy et al. (2017) and Hassan and Marston (2019).

Zhou (2021) noted that bond yields are heavily affected by economic growth, inflation, and short-term interest rate changes. Although interest rates aren't considered in this study since bonds and *Sukuk* have varying attributes, the former doesn't pay interest as it is not in line with Islamic principles. Dang & Huynh (2020) noted that the bank credit risk can influence people's decisions when it comes to investing in government bonds. They also stated that bonds are the primary source of economic growth.

The researchers decided to conduct a study on the effects of various factors on the development and growth of the Islamic bond market in Indonesia, specifically after the after the Financial Services Authority Regulation (POJK) No. 18/POJK.04/2015 concerning *Sukuk* Issuance and Requirements. According to the data released by the OJK, the number of *Sukuk* issuances in the country increased following the 2015 regulation (OJK, 2023).

According to the graph (see Figure 1), total *Sukuk* issuance on 2017 is 137, while outstanding *Sukuk* is 79 (with value of IDR 26,39 trillion), and increase to 327 of total issuance *Sukuk* in 2021, and outstanding *Sukuk* equal to 189 (IDR 66,45 trillion). Meanwhile, until January 2022, the growth was stagnant equal to 330 of total *Sukuk* issuance (with value of

IDR 66.76 trillion). However, based on the *OJK* report, the requirements of *Sukuk* fund in the market was increase (*OJK*, 2021).



Source: (<https://www.ojk.go.id>, 2022).

Figure 1. Outstanding and Total *Sukuk* Issuance

According to Elhaj et al. (2017), the annual increase in the number of *Sukuk* being issued will make the issue of rating crucial. In addition, in Indonesia, there is a government-backed bond known as state *Sukuk* and a corporate bond known as corporate *Sukuk*. Astuti (2020) noted that a comprehensive analysis of the various aspects of *Sukuk*, including transparency and accountability, is very important (Pranoto, Anggraini and Takidah, 2017).

Most of a company's assets used to be tangible, such as machines and buildings. However, due to the emergence of new business models and the increasing importance of intangible assets, such as brands, human resources, and intellectual property, they are now being used to improve a company's financial performance. These assets can be used to improve a company's strategic and operational performance. As a result, the accounting systems of companies have to undergo changes to provide more accurate and reliable data.

According to IAS 38 (International Accounting Standards Board, 2016) and Bouheraoua et al. (2015), the AAOIFI is the global organization that produces the Sharia Standard. It is regarded as a leading institution in the financial sector for providing sound financial information. Most studies on the importance of financial disclosures and reliability have used short-term metrics (Botosan and Plumlee, 2013); Qizam, 2011). They did not take into account the long-term potential of these data.

The rapid growth of the global economy and the rise of Islamic finance are driving the need for more efficient and effective ways to manage risk. One of these is the issuance of *Sukuk*, a type of Islamic bond that is widely used and traded. It is a safe and low-volatility fund that can be used by investors from different countries, from Western, African, and Asian nations not only from Islamic countries. Previous conventional instrument issuers included the United Kingdom, Luxembourg, Hong Kong and South Africa. The volatility of *Sukuk* developments is currently mostly attributable to the volatility of the oil prices. The decline in income caused by the oil prices will result in a reduction of around USD 300 billion in 2021 for the Gulf Cooperation Council. It will also increase the budget deficits of the members of the organization. As a result, many of them have started to issue *Sukuk* and bonds.

Sukuk growth is expected to average 10% each year in the near future. Furthermore, it has a positive supply-demand imbalance for *Sukuk* in the following years, namely (in USD billion) 143 (2017), 178.4 (2018), 221.1 (2019), 256.9 (2020), and 271.3 (2021) (Thompson, 2017). To establish confidence, transparency, accountability, and credibility and to guarantee

and provide chances for a favorable response and hopeful worldwide expansion of *Sukuk*/bond rating, it requires the quality of Jolly's financial information. As a result, every country that develops *Sukuk* must adhere to globally acknowledged standards and rules.

The Auditing Organization for AAOIFI and Accounting Board (AAB) of the Accounting, has approved the Financial Accounting Standards 33 (FAS 33) regulates *Sukuk* and to improve the recognition and classification of Islamic financial instruments. This new standard also provides a framework for the presentation and measurement of investments by the institutions. in *Sukuk*, shares, and other similar instruments in accordance with Shariah principles. This standard covers the various types of investment products that are Shariah-compliant. It also provides a framework for the accounting procedures that are used by the institutions when it comes to the management and presentation of these investments. As part of its efforts to ensure that the reporting of financial transactions is transparent and fair, the FAS 34 will create new accounting rules for the businesses and assets that are supporting the issuance of *Sukuk*.

In Indonesia, the use of *Sukuk* products refers to the country's the Statement of Financial Accounting Standards (PSAK) 110, which was established in 2011. The international standard for financial reporting is known as the IFRS (International Financial Reporting Standard) in these accounting standards. The government hopes that through internationally acknowledged standards, the comparability of financial reporting between countries may be recognized globally and quality improved.

Efficiency is essential in today's competitive environment, which demands relevance and dependability (Qizam and Fong, 2019). Every nation that aspires to be a global corporate powerhouse must take into account these challenges. Policymakers must determine the role of various factors, such as financial institutions, in achieving higher productivity and profitability. They should also consider the advantages of having resilient and efficient policies and procedures (Zeibote, Volkova and Todorov, 2019).

Motivated by these previous studies, theoretical gap, and research gaps, and phenomena gap; this research aims to examine GCG, FDQ, and ABRs variables in affecting *Sukuk* rating while EM variable becomes a mediating variable. Besides that, it will test these variables in affecting financial performance by using EM as mediating variables. The CMH (covariance market historical value) variable takes into account the covariance of the book value and intrinsic value split, which are proxies of the FDQ. On the other hand, the VMH (variance market historical value) variable's reliability indicates that the *Sukuk* rating's market value split is affected by the variant of book value. This study aims to analyze the impact of the total debt ratio on the rating of *Sukuk*, while GCG proxied by some indicators i.e., independence board committees, level of ownership, the auditor's numbers and activities. The study also takes into account the earnings management approach utilized by the Jones model in the ratings of *Sukuk* instruments.

Review of Literatures and Development of Hypotheses

This section explores theoretical viewpoints on *Sukuk* in order to develop the fundamental theoretical framework and empirical study model. It will first address the significance of stakeholders, asymmetry, agency, and signaling theories in SR. These ideas are extremely significant in developing theoretical originality in *Sukuk* research. Furthermore, *Sukuk* (theory) difficulties are examined, and a fundamental theoretical and empirical model is created to produce an empirical model. Previous research studies are described in order to create research hypotheses.

Underlying Theory of SR

According to the introduction, the various theories related to SR are interconnected. This means that a model that illustrates their link must be created. Since the data collected are used to make informed decisions, the SR is vital for investors. Some of the factors that influence it

include leverage, solvency, and earning potential. Besides financial elements, other non-financial factors such as transparency, accountability, and trust are also considered when it comes to assessing the SR. These factors can influence the perception of the company..

Stakeholder Theory

In line with stakeholder theory, every stakeholder has the right to serve in order to get knowledge about firm practices that impact how they make strategic decisions. This includes the motive and obligation to obtain society's support (Freeman, 1984). Stakeholder theory is the understanding of the company as a business entity strategically, to strengthens relations with society (external) to develop a competitive advantage based on stakeholder satisfaction and it is a crucial issue as the company is not individualistic entity which is abandon conscience and good values so that the company can be unity with the society norms (company goals congruent with values in the society (Deegan, 2002). If stakeholders have the same motivation as the company, it will be stronger to get endorsement/support from the community including investors (Manisa & Defung, 2017). Stakeholder theory is founded upon six principles: the principle of active involvement (entering and leaving), the principle of external consequences, the principle of entrusted authority (governing), the principle of transactional expenses (contract cost), and the principle of bounded immortality (Sharma, 2023).

Asymmetry Theory

SR may help investors establish prudent investing decisions. Borhan & Ahmad (2018). Hemraj (2015), on the other hand, claims that SR can lessen information gap between *Sukuk* issuers and investors. The lesser the risk, the greater the SR. SR may also be used to calculate the timing of principle and payments for rent, as well as *Sukuk* profit margins (Al Haraqi & Ningsih, 2017).

According to Atmaja (2008), asymmetry theory indicates that information about a company's prospects and risks is not evenly distributed among relevant parties. Instead, there are certain parties who have better knowledge than others. The asymmetry information means one party has more information than the other. The degree of an imbalance information varies from extremely high to extremely low, and it has a significant effect on investment decision.

In general, managers have greater access to information than outside parties (include investors). Due to this phenomenon, managers and investors engage in the practice of exchanging information, commonly referred to as information sharing. This allows investors who have limited access to information to exploit the available opportunities. Consequently, there exists an asymmetry in the distribution of acquired information, with managers serving as information providers and shareholders and stakeholders in a broader sense acting as information recipients.

Information asymmetry can give rise to moral hazard, as shareholders may lack complete awareness of the activities conducted by the investment principal. This potentially allows for actions that are not in accordance with ethics and in line with conflicting understandings between the parties involved (Scott, 2006). Moreover, information asymmetry can lead to a divergence of interests between the principal and the agent, creating a situation where both parties attempt to exploit the other's interests for personal gain. Various indices, such as firm size, company age, and the fraction of shares made accessible to the public, can be used to assess the amount of information asymmetry. These considerations, in turn, have an influence on underwriting processes and auditor reputation. It is crucial to highlight, however, that business size, firm age, and the fraction of shares issued have no effect on underpricing (Lin et al., 2015).

Signaling Theory

Signaling theory explores the fluctuation of prices in the market, thereby exerting influence on investor decision-making. Prevailing market conditions significantly influence the response of investors to positive and negative signals. Investors exhibit diverse reactions to these signals, including engaging in the pursuit of sold stocks or opting for a course of inaction, often characterized as a “wait and see” approach. This decision to adopt a “wait and see” stance is not a matter of judgment regarding correctness or incorrectness, rather, it represents an investor’s response aimed at mitigating higher risk associated with market factors that offer no earnings potential or lack favorable prospects for them (Chandra, 2019).

As per the insights provided by Tamara et al. (2020), reputable companies proactively engage in signaling strategies to enable potential investors in distinguishing between high-quality and low-quality companies. During the process of a public offering, potential investors face challenges in accurately discerning the disparity between companies of varying quality. Consequently, issuers and underwriters deliberately employ signaling techniques to convey pertinent information to the market.

Ross (1977) framework includes a scenario in which managers use signaling to communicate information to the market. Managers actively express to investors their confidence in the firm’s favorable prospects and desire for an increase in stock price. In accordance with Fadah et al. (2020), signaling theory emphasizes the necessity of companies disclosing information about their financial statements to external stakeholders such as investors and lenders. This is due to the company’s intrinsic information asymmetry with respect to external parties, in which management has better access to knowledge about the company’s long-term prospects and opportunities. It is worth noting, however, that management may occasionally present information regarding the firm’s status that does not fully reflect the actual conditions (West, 1970). As a result, investors confront difficulties distinguishing between high-quality and low-quality enterprises. In actuality, the corporation may increase its value by reducing information asymmetry and sending positive signals to external stakeholders (Tamara et al., 2020). Furthermore, SR functions as a company performance indicator, sending an upbeat signal that has the ability to impact investors’ viewpoints when making investment decisions. According to signal theory, a high SR score is a good indication of the company’s future status (Mariana, 2016). One strategy to reduce information asymmetry is to provide external parties with signals that include clear, trustworthy, and high-quality information, such as financial quality, as revealed in the company’s financial statements (Fadah et al., 2020).

Theory of Agency

Agency theory is primarily concerned with addressing two key issues inherent in the principal-agent relationship. The initial challenge arises from the divergence of goals between the two parties, leading to the potential for conflicting objectives. Principals encounter difficulties in effectively monitoring and ensuring that agents fulfill their responsibilities diligently. The second predicament involves the sharing of risks, as principals and agents possess varying risk preferences in the face of uncertainty.

Agency theory is concerned with the contractual partnership that exists between the principal and the agent. According to Jensen and Meckling (1976), an agency relationship is a contract in which one or more persons (principals) engage other people (agents) to take action on their behalf and accomplish particular responsibilities. Within the corporate context, shareholders assume the role of principles, while the company’s managers function as agents. Shareholders rely on the managers to act on their behalf and safeguard shareholder interests.

Individuals’ inherent drive to pursue their own self-interests form the foundation of agency theory. According to Eisenhardt (1989), individual in generally participate in opportunistic conduct by prioritizing their separate gains. As a result, the company faces different interests, each attempting to attain expected wealth. The dynamism creates the possibility of conflicting of interest among an agent and the principal, which is known as the agency issue

and is connected with the risk of moral conflict of interest exist between the principal (*Sukuk*-supplier) and the agent (*Sukuk*-investor) in the context of agency difficulties.

The main assumption of agency theory that each individual acts based on his own interests, that why, Eisenhardt (1989) suggests that in general, individuals tend to behave opportunistically both as agents and principals, where each tries to maximize the benefits that can be obtained. As a result, in a company, there are two different interests, each of which strives to achieve its own goals. Conflicts of interest can arise between agents and principals in the setting of agency problems, leading to what is usually characterized as agency issues accompanied by moral hazard. A conflict of interest occurs between the principals (*Sukuk*-supplier) and the agents (*Sukuk*-investor) in this situation. Borhan and Ahmad (2018) argue that conflicts of interest in principal-agent interactions account for a significant amount of conflict inside a corporation, happening not just between corporate management and shareholders but also between shareholders and debt holders or creditors. Bondholders, as lenders, may have different viewpoints on corporate management than shareholders (Borhan & Ahmad, 2018).

Bondholders frequently opt for professionally managed corporations that demonstrate timely repayment of their loans. Conversely, shareholders often advocate for a more aggressive approach from the corporation in terms of investment for development and growth. Borhan & Ahmad (2018) posit that such aggressive investment strategies may potentially lead to a downgrade in bond ratings, posing risks for bondholders holding lower-rated bonds. To address conflicts of interest, debt agreements serve as a means for shareholders to navigate and mitigate potential conflicts. Implementing debt agreements can provide protection for bondholders against potential defaults and contribute to the improvement of credit ratings (Borhan & Ahmad, 2018). Agency theory has gained interest in the financial and Islamic banking fields due to its role in the context of the relationship between the agents and the principal owners of *Sukuk*. Borhan & Ahmad (2018) proposed that this theory can be used to investigate the link between the performance of firms and the factors that influence their SR.

***Sukuk* Ratings**

Moreover, Erdoğan et al. (2018), state that three prominent rating agencies, namely Standard and Poor's, Moody's, and Fitch, have established and maintained a dominant position, collectively capturing 90% of the global market. It is noteworthy that the credit rating industry has been in existence for approximately 158 years. Over time, various market participants have extensively relied upon these credit ratings for their respective purposes. *Sukuk* credit ratings serve multiple purposes, including facilitating buying and selling transactions, guiding private contracts, and providing guidance for investment regulators (Covitz & Harrison, 2003). These ratings aim to assess credit risk, ensure compliance with investment norms and regulations, and determine the necessary collateral to mitigate credit derivatives exposure. However, in the rapidly evolving financial system, numerous competitors have raised concerns about the efficacy of this approach and its susceptibility to the influence of timely information on credit, bonds, and SR.

As emphasized by Sudaryanti et al. (2014), the evaluation of corporate and SR holds significant importance for both *Sukuk* issuers and investors as it can provide indications of potential default risks and the overall risk profile of the issuing business. Given that the rating signifies the level of risk and potential return on investment in a company, a higher *Sukuk* rating corresponds to a lower likelihood of default. Therefore, ratings play a crucial role in facilitating long-term investments in the capital market. Moreover, Elhaj et al. (2015) explained that SR are an evaluation of the possibility of scheduled principal and/or interest payments.

The higher the rating of a *Sukuk*, the lower the risk. According to Situmorang (2017), SR are assets that investors can purchase and are eligible to receive dividends. The issuance and buying of *Sukuk* are mainly carried out based on ratings from reputable agencies. The importance of SR is acknowledged by Situmorang (2017), as it provides investors with im-

portant information about a company's financial position and indicates the likelihood of its debt default. Sudaryanti et al. (2014) stated that the function of *SR* is to: (1) Determine bond structure from details on the strength and weaknesses of the firm's management (2) Obtain information on the firm's business position; ; (3) Become a firm marketing tool; (4) Maintain investor confidence; (5) Support for firm performance.

Sukuk Ratings-Related Research

Hermawan and Gunardi (2019) conducted a comprehensive investigation into the interplay between corporate governance (GCG) variables and various theoretical frameworks, such as agency theory. They established connections between the disclosure of societal responsibility and GCG elements within the conceptual framework of stakeholders. Additionally, Czaja-Cieszyńska et al. (2021) highlighted the correlation between social disclosure factors and corporate transparency, a fundamental component of GCG. However, it is important to note that this study is primarily focused on short-term financial market information and does not encompass all relevant factors. Consequently, future research endeavors should address these limitations to further strengthen the theoretical foundations supporting *SR*.

Several studies also have been conducted to discuss *FDQ*, financial information, GCG, company size, earning power, leverage, and their relationship with *SR* and revealed that financial leverage has a negative relationship with company size and *SR* relationships, while *Sukuk ijarah* has a positive relationship with structure *Sukuk* and *SR* relationships (Arundina et al., 2015; Elhaj et al., 2015; Farooq & AbdelBari, 2015; Homsî, Zulkarnain Muhamad Sori, et al., 2017; Qizam, 2011). These researchers further emphasized the close relationship between the credit of *Sukuk* and crucial factors such as financial information, robust governance practices, and structural attributes. Moreover, firm size, profitability, and leverage were found to exert a positive influence on the credit rating. Research findings also indicate the enhanced transparency can lead to a reduction in the cost of equity. Additionally, the moderating effect of information risk, resulting from the trade-off between *ABR* and acquired cost. Lastly, it is noteworthy that there are discernible differences in the disclosure quality (*FDQs*) of *SR* between *Shariah*-compliant and non-*Shariah*-compliant enterprises.

Botosan & Plumlee (2013) performed research on the fields of accounting effectiveness, ratings for credit, threat of default, equity, and disclosures factors. They find that a drop in credit rating and tougher rules have an impact on *SR*, and accounting quality is essential in *SR*. *SR* is negatively influenced by credit rating and default risk. Increased transparency will lower equity cost and have an impact on *SR*. Furthermore, Jolly (2017), Ismail & Arundina (2019), and Qizam & Fong (2019) performed studies that focused on the link between *SR* and factors such as financial details, assets, current ratio (*CR*), interest, return on assets (*RA*), return on investment (*ROI*), and operational profit. Their research findings revealed a positive relationship between the quality of financial information and the extent of its impact on *SR*. A higher quality of accounting information not only enhances factors like the financial disclosure quality (*FDQ*) but also elevates the *Sukuk* rating. Furthermore, the *SR* is influenced by various factors including total assets, long-term leverage ratio, current ratio, Return on Assets, return on investment (*ROI*), interest coverage ratio, *Sukuk* structure, and operational unitization.

In accordance with Qizam & Fong (2019), the quality of financial disclosure (*FDQ*) has a stronger impact on *SR* rather than on bond ratings. Leverage is identified as the most influential factor on both *Sukuk* and bond ratings. The association between *SR* factors (such as operational income, leverage, and *ROI*) and *Sukuk* or bond ratings (*ABRs*) is partially influenced by *FDQ*. While recent studies in *SR* research focus on *FDQ* and *ABR* factors, there are conflicting results regarding the relationship between these variables and *SR*. The exact nature of the link between these variables remains unknown. Therefore, an additional variable is required as an intervening factor to strengthen the connection in the model.

Besides that, Qizam & Fong (2019), states that the rating of the *Sukuk* is influenced by FDQ Leverage has the most significant influence on *Sukuk* and bond rating. The lesser extent, FDQ influences the link between ABRs, such as operational income, leverage, and ROI, as well as *Sukuk* or bond rating. Despite the fact many prior studies have related FDQ and ABRs to SR, the study findings are varied, and the association between these variables and SR is not totally significant. Therefore, further research is needed to involve other variables as intervening variable (such as earning management and financial performance) to clarify the relationship between these variables and the SR.

Theoretical Modeling

In the previous section, it was stated that the construction of the theoretical model used in the study differed from that of the previous model. The four theories that were used in this study are the asymmetry, signaling, stakeholder, and agency theories. These theories are very important for the development of new concepts. The model will then be used to generate various research variables. Figure 2 shows the models.

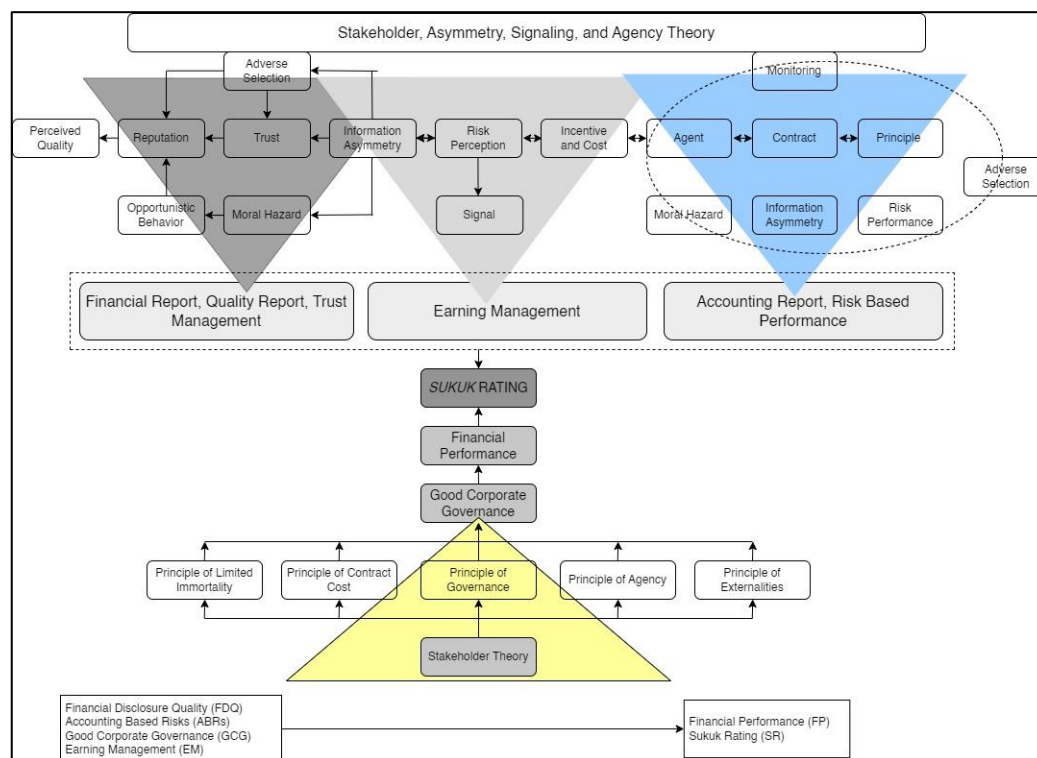


Figure 2. Theoretical Model; Synthesizing Process for Deriving New Model by Combining Four Theories (Stakeholders, Asymmetry, Agency, and Signaling Theories).

Hypothesis Advancement

The Influence of GCG on SR

As stated by Monks, A.G. and Minow, (2011), GCG is a comprehensive framework that guides and oversees the management of firms to enhance value for all stakeholders. Various elements, such as the presence of independent commissioners, institutional and management ownership, audit quality, and audit committees, are considered crucial components of the corporate governance process (Bhojraj & Sengupta, 2003). SR serves as an indicator of the issuer's credibility in the *Sukuk* market, ensuring timely payment of bond coupons and instilling confidence among investors.

The higher a bond's rating, the more secure its coupon will be for investors. A favorable bond grade reduces the risk that they will experience losses. On the other, a lower bond rating

can increase the risk that they will encounter bad credit (Melzattia et al., 2018). Conversely, the composition of the audit panel, the frequency of meetings of the commissioners, the size of the committee, and institutional ownership are components of GCG. This hypothesis is based on the data collected in this study.

H1: GCG has a significant and positive influence on SR

The Influence of FDQ on SR

Financial reporting is a process that involves the presentation of financial information in the form of numerals. It also includes textual analysis and numerical data to support the financial statements (Hassan and Marston 2019). Due to the varying findings of previous studies, it is still important to conduct more research.

Financial reporting is the process of presenting company financial information to the stakeholders in the form of items of financial reports (include qualitative text and value of number). Meanwhile, financial disclosure support company financial performance (Hassan & Marston, 2019). However, the results do not elaborate positive or negative and some research shows difference results and considers inconsistent. The study found that information satisfaction is a phenomenon that occurs when one of the parties has more data than the other. This allows investors and managers to perceive information more easily. The role of SR and financial reporting in reducing bias information can be beneficial. According to a study conducted by Qizam and Fong (2019), financial reporting's importance to SR significantly exceeds that of other factors. On the other, a study conducted by Homsy et al. (2017) revealed that time reporting's accuracy significantly affects SR.

The FDQ indicator refers to Qizam and Fong (2019) study namely the level of relevance and reliability of the FDQ. The level of relevance is measured by using the ratio between intrinsic and market values divided by intrinsic and firm book value. Meanwhile, the reliability of FDQ is measured using the ratio between market value divided by the book value of the firm in a period. Based on the previous description, the research hypothesis can be formulated as follows:

H2: FDQ has a significant and negative influence on SR

The Influence of ABRs on SR

Credit rating agencies utilize ABRs as a benchmark to evaluate a company's financial stability, serving as one of the factors for assessing its creditworthiness. ABRs play a pivotal role in aiding investors in their decision-making process, encompassing not only the stock market but also the debt market. By leveraging ABRs, investors can effectively navigate both realms and make informed investment choices (Homsy et.al, 2017).

According to Agustia and Suryani (2018), the financial leverage ratio serves as a tool to gauge the extent to which a company's assets are funded through loans. A higher leverage ratio indicates a heightened risk that the company must assume in fulfilling its obligations, subsequently eroding creditor confidence and leading to a decline in the *Sukuk's* rating. When the leverage ratio is substantial, it implies that the company has a significant amount of debt owed to external parties, thereby increasing the potential threat of default.

In this study, the ABRs indicator employed refers to the total debt ratio formulated by Qizam and Fong (2019), which compares the total debt against the total equity. Considering the information provided above, the hypothesis for this study can be expressed in the following manner:

H3: ABRs have a significant and negative influence on SR

The Influence of GCG on EM

Luthan et al. (2016) conducted research indicating that indicators of GCG, such as the presence of an independent board of commissioners, the composition of auditing committees, managerial ownership, institutional ownership, and audit quality, have an influence on SR. The study also establishes a relationship between GCG and earning management. In a separate study by Pramithasari and Yasa (2017), it was discovered that managerial ownership, institutional ownership, independent commissioners, and independent audit committees negatively impact earning management in firms undertaking initial public offering (IPOs). Based on these findings, the proposed hypothesis is as follows:

H4: GCG has a significant and negative influence on EM

The Influence of FDQ on EM

As states by Hassan and Marston (2019), company disclosure of finances encompasses the provision of both qualitative and quantitative financial information by corporations, which can be shared voluntarily or through informal means. Financial company disclosure holds immense significance as it serves as the fundamental medium for communication between management and investors within the capital market. The company's financial reporting should strive to offer enhanced value to its users. Conversely, financial reporting can exert influence over business operations and incentivize managers to manipulate reported financial statements, contingent upon the level of Earning Quality Discretionary Flexibility (FDQ). If the FDQ is lower, there is a higher probability of management altering the financial statements. Conversely, if the FDQ is higher, management is less likely to make adjustments to the disclosed financial information (Alzoubi, 2016). Based on this rationale, the proposed hypothesis is as follows:

H5: FDQ has a significant and negative influence on EM

The Influence of ABRs on EM

Toumeh et al. (2020) indicated that a corporation with a higher leverage ratio exhibits a substantial likelihood of engaging in earning management and faces a heightened necessity to disclose information to the public. As management endeavors to enhance performance, it requires additional working capital from external sources, such as loans, which also increase in magnitude. Consequently, a higher leverage ratio amplifies the risk of the firm failing to fulfill its obligations, consequently impacting creditor trust. A high score on the leverage ratio signifies that the company holds a substantial amount of debt owed to external parties. In such situations, business management is compelled to employ income smoothing techniques to mitigate the effects, (Yuwono and Aurelia, 2021) highlight this phenomenon. Moreover, Ningrum et al. (2019) have revealed that financial leverage significantly influences earnings management, aligning with findings of Ulfa (2019) study. Considering the information provided, the following research hypothesis can be formulated on this description:

H6: ABRs have a significant and positive influence on EM

The Influence of EM to FP

Based on research conducted by Karina and Rosmery (2023) and Widagdo et al., (2021) stated that earnings management has a positive effect on financial performance which is reflected in ROA. Moreover, Widagdo et al., (2021) explained that the manager tends to adjust earnings management is to reduce information asymmetry and to improve the company's financial performance, ROA makes managers focus on the efficiency of operating assets. The more operating assets are consolidated, the company's profits will also increase, it means

ROA represent the company financial performance. Based on the previous description, the study hypothesis may be stated as follows:

H7: EM has significant and positive association to FP

The Influence of EM to SR

Watts and Zimmerman (1986), define EM as the deliberate actions taken by managers in relation to accounting figures, either within or beyond permissible boundaries, with the aim of optimizing the value of the company. EM serves to enhance the perceived performance of the firm among investors by artificially inflating earnings (Oktaviyani, 2021). Additionally, Prastiani (2018) suggest that EM and bond issuance can impact a company's bond rating. By artificially boosting firm earnings, the company presents a positive performance image to investors, which may lead to their increased trust and willingness to provide financial support to the firm. During the timeframe encompassing a bond offering, it is common for the firm's management to partake in EM or earning engineering practices, aiming to present an enhanced performance image of the company. This intentional manipulation of earnings can impact the acquisition of bond ratings, thereby increasing the firm's appeal to creditors. In this study, the indicator for EM aligns with the recommendations put forth by Ningrum et al. (2019) and is assessed using the modified Jones model. Taking into account this explanation, the following research hypothesis can be formulated:

H8: EM has a significant and negative influence on SR

FP to SR Relationship

Based on the research conducted by Afiani (2013), it is evident that profitability plays a significant role in determining the *Sukuk* grade. Elhaj et al. (2015) further established a positive relationship between profitability and bond rating, indicating that higher profitability ratios and increased net profits correspond to higher bond ratings. In this study, the measure of financial success is represented by ROA, and it can be argued that a higher ROA corresponds to a higher SR. Therefore, the proposed hypothesis can be formulated as follows:

H9: FP has a significant and positive influence on SR

Empirical Research Model

The hypothesis that has been formulated (H1-H9) is based on the theoretical framework model that has been successfully synthesized as above (Fig.2) which explains the relationship between research variables namely: GCG, FDQ, ABRs, EM, FP and SR. EM is expected to mediate GCG, FDQ, and ABRs on SR and PF as intervening variables for EM and SRs. The mediating variables of EM and FP were selected to address a research gap identified in the understanding of the relationship between GCG, FDQ, ABRs, and SR, which has yielded conflicting and debated results regarding their benefits and drawbacks. To establish a comprehensive understanding, the relationships among these variables in this study are organized into a theoretical model, visually represented in Figure 3, as follows:

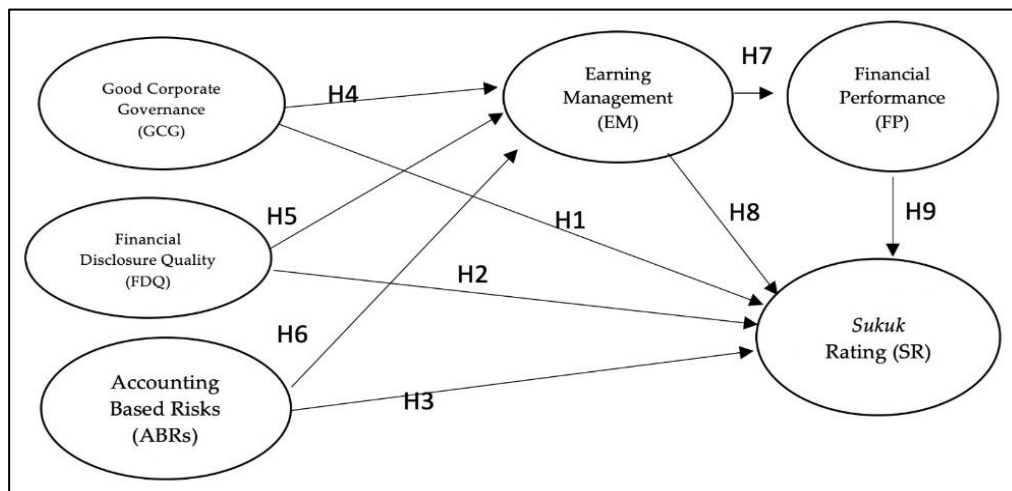


Figure 3. Empirical Research Model.

METHOD

The Indonesian Stock Exchange periods of 2019, 2020, and 2021 were used in the research (secondary data). The data source related to variables research indicators of GCG, FDQ, ABRs, EM, FP, and SR by using purposive, non-random sampling as technique sampling in this research. The research used panel data by combining three years (time series) consecutive and the number of firms were 190 (cross section). The number 246 is required from 334 (the number of corporate *Sukuk* that were still listed until 2021), 31 firms that had incomplete financial statements for three years (consecutively) were deducted, and 84 firms which were not rated by *PT. PEFINDO* (Indonesian Rating *Sukuk* Agency) for three consecutive years. Therefore, the total data processed were 884 (221×4), as shown in Table 1.

Table 1. Sample Description.

Criteria	Quantity
The number of corporate <i>Sukuk</i> that were still listed until December 31, 2022	389
The number of corporate <i>Sukuk</i> (Which are not rated by Indonesian SR agency (PT FEFINDO)).	85
Incomplete financial statements for three consecutive years.	83
Total (data that can be used).	221

Source: Indonesia Stock Exchange

This research is quantitative method analyzed by smart partial least square (Smart-PLS) version 4.0 (structural equation modeling-SEM). According to *Wold et al. (1996)* PLS is powerful analysis method it is because not based on many assumptions or conditions i.e. multicollinearity and normality tests. PLS has some features: normal data assumption is not necessary, indicators categorical can be ordinal, interval, and ratio. Besides that, PLS approach is free distribution assumption. PLS consider as appropriate tool for this research because it capable to analyze some variables with different data scales, and it can analyze constructs formed by reflective and formative indicators. PLS includes three stages iteration; firstly, weight estimation; secondly, calculate inner model and outer model estimation, thirdly, Estimation of location parameters (Ghozali, 2014).

$$TAcc_{it} = EBIT_{it} - CFO_{it} \quad (1)$$

$$\frac{Tacc_{it}}{TA_{it-1}} = \alpha \frac{1}{TA_{it-1}} = \beta \frac{\Delta Sales_{it}}{TA_{it-1}} + \gamma \frac{PPE_{it}}{TA_{it-1}} + \delta \frac{ROA_{it-1}}{TA_{it-1}} + \varepsilon_{it} \quad (2)$$

Tacc: Total accruals; EBIT: Earnings before taxes and interest; CFO: Operating cash flows; REV: Revenue; TA: Total asset; PPE: Property, plant, and equipment (gross); REC: Receivable (net); ε : Error; ROA indicate net income and ε is discretionary accruals. The details variables are presented in Table 2.

Table 2. Variable and Operational Definition.

No.	Variables	Indicators	Definition	Sources
1	<i>Sukuk</i> Rating	Scale 1 to 18	SR is an indicator of the timeliness of payment of principal debt and yield sharing of sharia bonds, which reflects the risk scale of all traded sharia bonds (Afiani, 2013)	(Arundina et al., 2015; Elhaj et al., 2017)
2	Good Corporate Governance	Institutional ownership, The board of commissioners meeting frequency, Independent commissioners proportion Audit committee size	GCG is a good governance system which can assist in building shareholder confidence and ensure that all stakeholders are treated equally (Mahrani & Soewarno, 2018)	(Bhojraj & Sengupta, 2003; Luthan, Asniati, et al., 2016; Mahrani & Soewarno, 2018)
3	FDQ	The relevance ratio (represented CMH) reflects the covariance of intrinsic value and market value divided by intrinsic and book values. The reliability ratio (represented VMH) describes the market value variance divided by the book value variance.	Measured/calculated from the ratio of covariance of intrinsic value and market value divided by covariance of intrinsic value and book value in a company i period t (Qizam & Fong, 2019).	(Qizam & Fong, 2019)
4	ABRs	Proxy by leverage * Total debt ratio (total debt/total equity)	ABRs or accounting ratio-based risks are one of the measures used by rating agencies in assessing a firm's credit worthiness (Homsy et.al, 2017)	(Arundina et al., 2016; Elhaj et al., 2017; Faozi & Ghoniyah, 2019; Qizam & Fong, 2019)
5	Earnings Management	Modified Jones model **	Earnings management (EM) is accounting techniques to modify the financial reports look better. Earnings management occurred when a the firm feels under pressured and manipulating earnings (increase the income and reduce the cost) in order resulting a better financial reports (Qizam & Fong, 2019).	(Ningrum et al., 2019; Venganzones et al., 2021)

6	Financial Performance	Return on Asset (ROA)	Financial performance is the company's ability to manage and control its resources (IAI 2007 in (Mahrani & Soewarno, 2018)	(Karina & Rosmery, 2023; Widagdo et al., 2021)
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Variables Description:

* ABRs: ABRs (Firm risk) is measured by using leverage, because the higher debt level (uncertain level) will be the higher firm risk, it is according to capital structure theory (Faozi & Ghoniyah, 2019). From accounting perspective, firm risk can be perceived from materiality aspect. In other words, the amount of debt (leverage) will affects (materially) firm risk (firm value).

** Earning management (EM): EM is earnings manipulation can be took up by detecting accounting abnormalities (misleading moral/hazard behavior). EM can be approached by determining the discretionary accrual or abnormal accrual in the company using financial information. EM models have been developed to estimate the discretionary accruals and using measurement the modified of the Jones model, which is considered as the most powerful indicator to measure the level of earnings management (Veganzones et al., 2021)

RESULTS AND DISCUSSION

Based on Table 3, it shows that the 570 samples of the *Sukuk* rating variable (SR) have a minimum value of 1 and a maximum of 18 which are tested through a descriptive test. The average value of the *Sukuk* rating is 14.48 with a high category. Whereas FP with ROA indicators has a minimum value of 3.90 and a maximum of 15.21 in the high category. The GCG variable has four indicators, the IO indicator has a minimum value of 33.91 and a maximum value of 100.00. The IC indicator has a minimum value of 30.00 and a maximum value of 76.00. The AC indicator has a minimum value of 3.00 and a maximum value of 5.00, the three indicators are in the high category. And the last indicators, BC indicator has a minimum value of 4.00, a maximum value of 49.00, and an average value of 30.00 in the moderate category. Meanwhile, the ABRs variable is measured through the Leverage indicator (LEV) using the Debt-to-Equity Ratio (DER), which has a minimum value of -2,13 and a maximum of 7,34, and an average of 4.15 and category is medium. These results indicate that the average *Sukuk* issuing company in this research has a higher debt ratio than its equity ratio, therefore, there is a high potential risk of default.

This research uses the modified Jones model to measure EM variables. The minimum EM value is -0.14, while the maximum value is 0.64 and the average value is 0.40 in the moderate category. Meanwhile, the FDQ variable is calculated using indicators of financial report characteristics, namely relevance and situation. Relevance is calculated by comparing the intrinsic value and market value of the company with the intrinsic value and book value of the company, while the situation is calculated by comparing the market value with the book value of the company. The results of the descriptive test from this research indicate that on average the companies issuing *Sukuk* have a high level of FDQ, with an average relevance value of 1.60 and an average reliability value of 2.15, the both categories are high.

Table 3. Descriptive Analysis.

Indicators	No	Missing	Mean	Min.	Max.	Standard Deviation	Category
SR	1	0	14.48	1.00	18.00	5.67	High
ROA	2	0	12.21	3.90	15.21	0.66	High
IO	3	0	80.34	33.91	100.00	19.09	High
BC	4	0	30.00	4.00	49.00	9.02	Medium

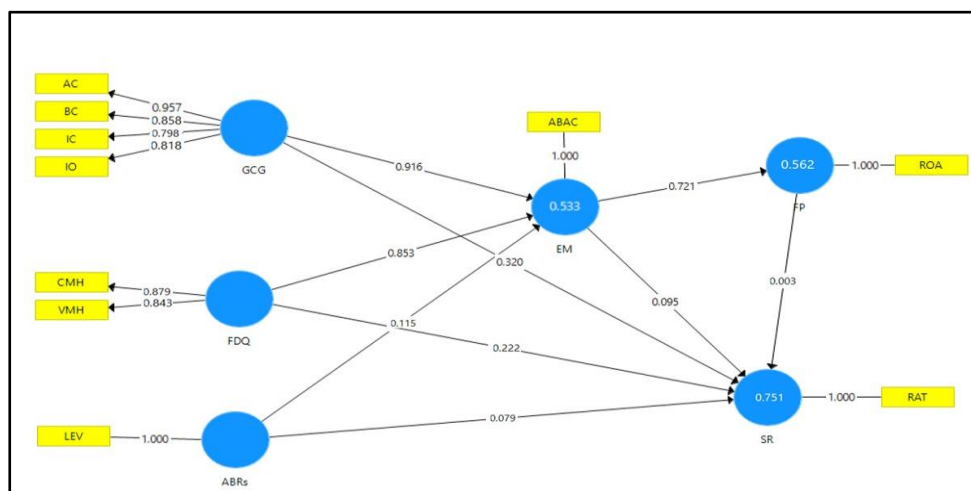
IC	5	0	49.00	30.00	76.00	0.76	High
AC	6	0	3.56	3.00	5.00	0.82	High
LEV	7	0	4.15	-2.13	7.34	2.36	Medium
EM	8	0	0.40	-0.14	0.64	0.01	Medium
CMH	9	0	1.60	-0.67	1.97	0.47	High
VMH	10	0	2.15	-1.93	2.55	0.88	High

High: If mean > min + (2*range), Medium: If mean > min + (1*range), Low: If mean <= min + (1*range). Range: (Max-Min)/ Intervals (3) (Azwar, 2009).

Source: SmartPLS 4.0 Output.

SEM Analysis – Partial Least Square

Data analysis in this research used the Smart PLS 4 application by beginning validity test (discriminant and convergent validity) and a reliability test. Evaluation of convergent validity from examining the reliability of individual items can be seen from the standardized loading factor. A standardized loading factor can show the correlation between each indicator and its construct. The loading factor value is 0.7 which is ideal. This means that the indicator is valid for measuring constructs. However, loading factor value of 0.5 is acceptable (Siswoyo, 2016). The test results are as follows: The outer loading factor value for all indicators is more than 0.70, so considered significant, as shown on Figure 4, as follows:



Source: Smart-PLS Output.

Figure 4. Measurement Model (Outer Model) Evaluation.

Internal Consistency or Construct Reliability

Construct reliability was measured using composite reliability (CR) and Cronbach's alpha (Fornell & Larcker, 1981), (Yamin & Kurniawan, 2011) and (Siswoyo, 2016). The interpretation of CR results is the same as Cronbach's alpha. This means that a limit value of 0.7 is acceptable, while a value of 0.8 is considered very satisfactory. The results of the construction reliability test are shown in Table 4 which shows that the value of Cronbach's alpha is greater than 0.7 for all variables. All variables also have a composite reliability value greater than 0.7 so that these indicators are acceptable.

Table 4. Construct Reliability.

Latent VARIABLES	Cronbach's Alpha (>0.7)	rho_A (>0.7)	Composite Reliability (>0.7)	Average Variance Extracted (>0.5)
ABRs	1.000	1.000	1.000	1.000
FDQ	0.720	0.708	0.713	0.555
GCG	0.801	0.741	0.714	0.526
EM	1.000	1.000	1.000	1.000
FP	1.000	1.000	1.000	1.000
SR	1.000	1.000	1.000	1.000

Source: Output of SmartPLS 4.

Average Variance Extracted (AVE)

The AVE value is a measured by convergent validity that describes the diversity/variance of variables which is explained by latent constructs. Yamin and Kurniawan (2011) and Siswoyo (2016), declared that AVE can be used as a criterion for assessing convergent validity. The AVE value indicates convergent validity is quite good if it has at least value:0.50. The test results shown in Table 4 show that all AVE indicator values are greater than 0.50 so this indicates that the convergent validity obtained is quite good.

Discriminant Validity Test

To find out the value of discriminant validity, this study uses the PLS test with the Fornell and Larcker procedure by comparing the AVE root (diagonal) which is higher than all other latent variables. The validity test of Fornell and Larcker procedure as shown in Table 5.

Table 5. Discriminant Validity—Fornell and Larcker.

	ABRs	Earnings. management	FDQ	FP	GCG	Sukuk Rating
ABRs	1.000					
EM	-0.190	1.000				
FDQ	0.290	0.101	0.745			
FP	0.120	0.338	0.105	1.000		
GCG	0.256	0.362	0.240	0.417	0.571	
SR	-0.086	-0.008	-0.216	-0.141	-0.175	1.000

Source: Output SmartPLS 4.

Discriminant Validity test shown in Table 5, the AVE root (diagonal) for ABRs, EM, FP, and SR is 1,000, while FDQ and GCG are 0.745 and 0.571 higher than all other latent variables. *Fornell and Larcker's* method aims to compare construct correlations with AVE roots. Based on the research results, the FDQ correlation with the relevant construct is 0.745 more significant than the correlation with other variables, for example FP 0.105, EM 0.101, and *Sukuk* rating -0.216. The results indicate that the construct is valid and reliable based on validity/reliability by cross-loading factors test procedures according to *Fornell and Larcker* methods. Hence, the model can be proceeded to the next stages.

Inner - Structural Model Test

The inner model is a structural model that is used to predict causality relationships between latent variables or variables that cannot be measured directly where the relationship has been built based on the theories involved. In the structural model test (inner model) using the help of Bootstrapping and Blindfolding procedures in SMART PLS 4.0. The test on the

structural model is carried out with: Estimating variable and Path Coefficients which is done by *Bootstrapping* procedure and R Square on the ability the endogenous variables to predict the model.

Path Coefficient Analysis and Mediating Test

The result of the path coefficients (Table 6) show the coefficients reflected relationship between exogenous variables and endogenous variable with direct path, mediation effect, and total effect. These results are used to explain hypothesis test.

Table 6. Path and Mediating Coefficients

Hypothesis/Path	Path Coefficient			T-stat	p-Values	VAF	Hypothesis / Results	Effect
DIRECT	DE	IE	TE			IE/TE		
H1a: GCG →SR	0.105			1.965	0.015		Positive significant (Supported)	
H2a: FDQ →SR	0.190			1.960	0.024		Positive significant (Supported)	
H3a: ABRs →SR	-			2.589	0.036		Negative Significant (Supported)	
H4: GCG →EM	-			2.751	0.000		Negative Significant (Supported)	
H5: FDQ →EM	-			2.218	0.028		Negative Significant (Supported)	
H6a: ABRs →EM	0.142			2.904	0.019		Positive Significant (Supported)	
H7: EM →FP	0.338			0.645	0.828		Positive Not Significant (Not Supported)	
H8: EM →SR	0.102			1.985	0.024		Positive Significant (Supported but opposite sign)	
H9: FP →SR	0.099			1.980	0.039		Positive Significant (Supported)	
Mediation Effect								
H1b: GCG–EM →SR		0.132			0.490	0.343		Partial Mediation
H2b: FDQ– EM →SR		0.102			0.875	0.537		Partial Mediation
H3b:ABRs– EM→SR		0.014			0.532	-0.233		No Mediation
H8b: EM – FP →SR		-			0.356	-0.538		No Mediation
Total Effect		0.035						
CGC →SR			0.385		0.578	0.564		
FDQ →SR			0.190		1.579	0.114		
ABRs →SR			-		0.527	0.598		
			0.060					
EM →SR			0.065		0.563	0.574		

If VAF: < 0.2 = No Mediation; If VAF > 0.2 = Partial Mediation; If VAF > 0.8 = Full Mediation (Hair et al., 2019).

Source: Output of SmartPLS 4.

Direct effect results show: (a) GCG affect positive significantly to SR, (b) FDQ affect positive significantly to SR, (c) ABRs affect negative significantly to SR, (d) GCG affect

negative significantly to EM, (e) FDQ affect negative significantly to EM, (f) ABRs affect positive significantly to EM, (g) EM affect positive but not significant to FP, (h) EM affect significantly but opposite sign to SR, (i) FP affect positive significantly to SR. Intervening variables in this research EM and FP which are expected to cover the research gaps in this study can be able to mediate the relationship between the exogenous variables; GCG, FDQ and ABRs to the endogenous SR variables as presented in Table 6. The mediation test indicated that EM can partially mediate both GCG (VAF 0.343) and FDQ (VAF 0.537) on the SR. However, EM was unable to mediate ABRs to SR (VAF -0.232). Likewise, Financial Performance also failed to mediate EM to SR.

R Square Results

Table 7 shows the structural model (inner model) which is tested by R square value of the endogenous variables, as follows:

Table 7. R-Square Results.

	R Square (R²)
Financial Performance (FP)	0.562
Sukuk Rating (SR)	0.751
Earnings Management (EM)	0.533

Source: Output of SmartPLS 4.

R square values of all endogenous variables indicate the ability of endogenous variable to predict the model, if the value greater than 0.67 (strong), greater than 0.33 (moderate), and greater than 0.19 (weak) Ghazali (2014). Table 7 shows that R square value of SR is 0.751, which indicates that 75.60% of variation in the SR can be explained by GCG, FDQ, ABRs, EM, and FP (considered as high). Meanwhile R square value of FP is 0.562, indicated that 56.20% of variation in the FP can be explained by GCG, FDQ, ABRs, and EM (moderate). Furthermore, EM R square value illustrated that GCG, FDQ, and ABRs were able to explain 53.30% of the variation in EM and also considered as moderate.

Partial Regression Affecting Factors to SR

Table 8 shows the mean, standard deviation, and beta coefficients for the research variable in each sector of companies that issue *Sukuk*. The beta coefficient means how much higher the coefficient contributes to the SR. The coefficient shown as follows:

Table 8. Partial Regression the Affecting Factors to SR based on Sectors

SECTORS	FDQ		GCG		ABRs		EM		FP	
	Mean/ Std. Dev.	Beta	Mean/ Std. Dev.	Beta	Mean/ Std. Dev.	Beta	Mean/Std. Dev.	Beta	Mean/ Std. Dev.	Beta
Manufacturing Industry	1.99/ 0.09	0.78	40.73/ 4.29	0.48	4.25/ 0.38	0.34	0.40/0.62	(0.41)	12.21/ 0.12	0.63
Technology	1.98 /0.07	0.48	31.40/ 4.35	0.62	5.35/ 0.37	0.55	0.68/0.99	(0.61)	10.98/0.9 9	0.80
Construction, Property, and Infrastructure	2.45/ 0.12	0.87	56.91/ 3.32	0.72	5.92/ 0.14	0.56	0.12/0.50	(0.17)	9.99/ 0.50	0.91
Health and Consumers Good	2.01/ 0.19	0.18	36.34/ 3.88	0.34	4.29/ 0.40	0.38	0.37/0.78	(0.57)	7.78/ 1.78	0.60
Finance and Trading	2.36/ 0.09	0.41	39.33/ 4.35	0.57	3.42/ 0.31	0.76	0.57/0.86	(0.62)	6.06/ 0.86	0.78
Transportation & Logistic	1.16/ 0.19	0.42	41.90/ 3.89	0.20	4.13/ 0.31	0.64	0.39/0.89	(0.34)	14.18/ 2.19	0.59

	0.08				0.33					
Others	1.46/ 0.13	0.09	38.67/ 3.34	0.09	2.65/ 0.34	0.25	0.21/0.78	(0.25)	4.43/ 0.17	0.58

Source: Output of SmartPLS 4.

From Table 8, it can be seen that the highest beta coefficient for the FDQ variable is the construction, property, and infrastructure sector. While the GCG variable is the same sector; namely the construction, property, and infrastructure sector. The highest coefficient ABRs variable is the finance and trading sector. Meanwhile, EM variable is the same variable, that is finance and trading. In addition, the highest beta in FP is the Construction, property and infrastructure sector.

The Effect of Good Corporate Governance (GCG) on SR and EM as Mediating Variable

The hypothesis (H1) result is accepted, it was demonstrated that the GCG had a favorable and considerable impact on the SR. This is in line with previous research by Bhojraj and Sengupta (2003) and Melzatia (2018). GCG affects SR indicated that the better of GCG, SR will be better, since good corporate governance typically involves a clear division of responsibilities between management, the board of directors, and shareholders. Independent oversight by the board and its committees ensures that management acts in the best interest of stakeholders. This accountability reduces the likelihood of mismanagement or fraudulent activities that could undermine the issuer's creditworthiness, thereby contributing to a higher sukuk rating. This means the existence of Audit Committee Size (AC) (Astuti, 2020; Melzatia et al, 2019), the Board of Institutional Meeting Frequency (BC), Institutional Ownership (IO) (Astuti, 2020), and Independent Commissioners proportion (IC) (Yoshua & Asandimitra, 2021) can increase the SR. Besides that, EM as an intervening variable is able to mediate GCG on SR as the existence of GCG elements; IO, BC, IC, and AC are very strong so that they can control, monitor, and supervise managers in reengineering EM, the negative effect of EM can be eliminated by the power of GCG, and SR's exposure to the effects of GCG can be mediated through EM.

Corporate governance often involves having an independent board of directors or audit committee that oversees financial reporting and management decisions. Independent oversight reduces the ability of management to engage in earnings management without proper scrutiny. Such oversight may uncover attempts to manipulate earnings and lead to corrective actions or disciplinary measures. In other words, GCG is able to prevent or at least control the moral hazard issues originated from EM from happening (Ilyas et al., 2018). This justifies why GCG has negative effect on EM.

The Effect of Financial Disclosure Quality (FDQ) on SR and EM as Mediating Variable

Based on the findings of the second hypothesis (H2) concluded that the FDQ has a positive and significant impact on the SR. The research hypothesis is FDQ influences positive significantly to SR has been validated or accepted. This conclusion is consistent with earlier research by Qizam & Fong (2019) and Jorion & Zhang (2007). Qizam & Fong, (2019) found that the impact of FDQ on the Indonesian bond market has the same result.

Statements of companies are generally regarded as excellent if they have high relevance and lightness. Two of the most crucial factors that can be taken into account when assessing an organization's financial performance are market value and intrinsic value. If the market price exceeds the book value, then the policy is favorable. Rather than having a book value and intrinsic value, a company's market value is derived from its intrinsic value. This means that a company's financial reporting can be highly regarded by the capital market. If the financial reports of a company are not complete, the market may undervalue the stock price of the company, which could result in a negative rating on its *Sukuk*.

The findings are in line with the rating methodology established by the Indonesia *Sukuk* Rating Agency, which is based on the availability of comprehensive information and

financial reports. In the event that the issuer or *Sukuk* firm fails to provide these details, PE-FINDO can withdraw its rating. Financial reports' reliability is an indication of a company's financial health, and the more that the company reports are prepared, the higher its rating. This finding is in line with Qizam & Fong (2019), which found that the level of explanation of a company's financial statements has more influence on the SR rather than the relevance of financial statements. The study expected that EM as intervening variable to cover the research gap) to mediate the relationship between the exogenous financial disclosure quality (FDQ) and SR. The results are presented in Table 6 indicates that EM can mediate FDQ to SR as VAF coefficient > 0.2 . It means that reengineering EM by managers using multi complex decisions in financial reporting for changing positive transactions (accruals) to strengthens the quality of financial reports with high earnings affects to profit quality in the company, in turn, the company's financial performance will affect to SR. In this case, the manager in the EM reengineering still uses the financial reporting norms and still produces a reasonable profit. The expected EM variable can help resolve the various inconsistencies in previous studies regarding the link between SR and FDQ.

The Effect of Accounting-Based Risks (ABRs) on Sukuk Rating (SR) and Earnings. Management (EM) as Mediating Variable

The hypothesis is in accordance with the findings Elhaj et al. (2015), Arundina et.al (2015), and Ashbaugh et al. (2004) which is, there is a negative and significant effect of leverage on the SR. They stated that financial leverage can have a negative impact on SR. However, the finding contradicts the research of Purwaningsih (2013), Nurakhiroh et al. (2014), Qizam and Fong (2019), Homsy et al. (2017) that financial leverage does not affect the *Sukuk* rating. The leverage ratio is used to measures the firm's debt level, Vassalou & Xing (2004) as cited in Elhaj et al. (2017). The Financial Leverage Ratio is a measure of how much a company can borrow by calculating by comparing its DER. Having a high debt level is more possible to be bankruptcy. Hence, this research supports the idea that a company's debt level is linked to its SR.

EM fail to mediate the relationship between ABRs to SR. It implies that the relationship EM in the ABRs and SR were not driven by manager's decision to adjust EM. This result is consistent with studies by Nurakhiroh et al. (2014) and Ulfa (2019). according to Watts & Zimmerman (1986) in the positive accounting theory, EM is a firm's moral hazard conduct in falsifying financial statements to increase management's revenue by politicizing expenses and income, EM is reengineering financial reporting to get more profit and maintaining a positive business performance. Furthermore, due to the heterogeneity of the data, which means that the data was only gathered over a three-year period during static economic development, the EM cannot moderate the association between ABRs and SR.

The Effect of EM on SR and FP as Mediating Variable

The eighth (H8) hypothesis, which is regarded as a negative relation between EM and SR, does not support the results as the result is positive. This finding is in line with Ulfa (2019) According to this hypothesis, the management of earnings can have a negative impact on the bond rating. This is also in line with the research findings of Ningrum et al. (2019) related the influence of financial ratios on the SR with regard to earnings management is an issue that needs to be studied.

According to Ruiz (2016) there are various motives that encourage managers to carry out earnings management, such as contract motives, compensation, loans, capital markets, and tax savings. Watts and Zimmerman (1986), in positive accounting theory, explain

that the background of EM by increasing the income and reduce the costs is to obtain good firm performance.

In the previous theory in manipulating financial statements to their advantage EM is considered as a deviance behavior, so, EM drive the down of SR because the detrimental behavior. This study found that the average sample companies perform EM by increasing profits (within reasonable limits) do not affect significantly to FP. Although, this research can prove that EM has positive effect to SR, but EM do not affect SR through FP. This finding is consistent to Kim et al. (2013), there's a correlation between EM and SR and EM do not affect FP, but contradict by Yofrizal (2013) research, stated that EM does not affect SR.

This EM is a financial performance deception as EM shows the reengineering of financial reporting. EM is earnings manipulations used by the managements to convey financial information in order for reaching good firm performance. The higher capability to manipulate of firm earnings has an impact on financial performance but not significant, hence, FP cannot be able to mediate the relationship between EM to SR.

The Effect Financial Performance to Sukuk Rating

The ninth hypothesis (H9) also shows that FP has a positive impact on the SR, it is because by achieving a high level of financial success, a company able to increase net profit, and boosting SR. The finding concordance with Afiani (2013), Elhaj et al. (2015), Arundina et.al (2015), they used ROA as proxy FP and affect positively to SR. ROA is important element in business performance, hence, the higher of ROA, the higher value of the SR.

The Final Proposed Model

Total direct effect GCG to SR, FDQ to SR, and ABRs to SR is $0.105+0.190+0.065=0.360$. While total indirect effect (mediating effect) GCG-EM to SR, FDQ-EM to SR, and ABRs-EM to SR is $0.132+0.102+0.014= 0.248$. The meaning total direct effect greater than total indirect effect, hence, to increase SR do not need through EM variable, but direct by increasing/manage properly of GCG, FDQ and ABRs.

The Final Proposed Model

Figure 5 shows a new empirical model generated after it was found that there were several insignificant relationship variables. This model was created to reflect the new findings and replace the previous models that are no longer relevant. The new model, proposed to elaborate in detail in the next research, as the FP variable changed its status from intervening to exogenous variable, therefore, it is proposed that FP remains as an intervening variable e.g. FP mediates the relationship between GCG, FDQ, and ABRs to SR.

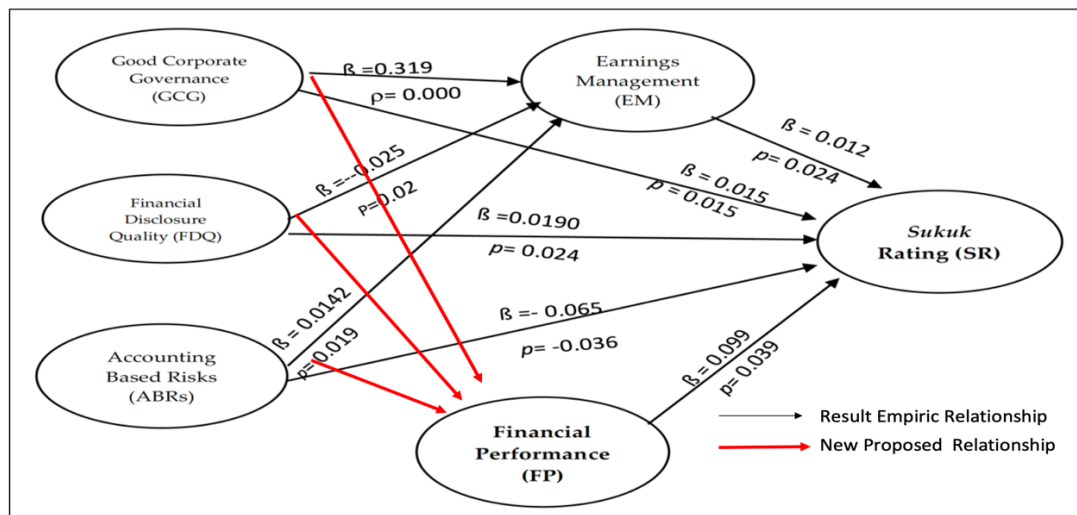


Figure 5. The Final Proposed Model

Theoretical Implications

The theoretical scientific contributions of the study are: *Firstly*, the significant and positive effect between GCG and SR is essential scientific contribution, GCG contributes affect to SR. The finding improve the contribution of stakeholder's theory in SR. *It means that*, if indicators; institutional ownership, the board of institutional, independent commissioners' proportion, and audit committee size are maintained properly then it will increase the SR.

Secondly; the significant and positive effect between FDQ and SR considered as crucial research contribution, FDQ (represent by CMH and VMH indicators) which is derived from asymmetry theory strengthens SR research. *Thirdly*; the ABRs and SR negative significant relationship, it means that agency theory has scientific contribution to SR study. ABRs is measured by leverage, that mean the company should maintain the appropriate level of debt in order increasing SR.

Fourthly, EM has positive and significant effect to SR, is crucial scientific contribution, namely signaling theory strengthens to SR. EM which is derived by Jones' model strengthens the SR. EM is allowed done by the management (manager) in the range of reasonable area in order increasing reporting of financial performance. *Fifthly*, EM succeeds to mediate GCG, FDQ on SR means contributing scientifically to the research that signaling theory contribute to mediate asymmetry and stakeholder theory to strengthens the SR study.

Sixthly, EM failed to mediate the association between ABRs and SR, it needs to carry out further research by collecting data (time series) and considering the grouping of companies by clustering of the sectors. Besides that, the number of data should be added at least in 5 years. This inconsistency results can be a source of researcher to do build new model of research on SR. *Seventhly*, Total direct effect greater than total indirect effect means that the best way to increase SR is that by direct to improving GCG, FDQ and ABRs. The consequences of the finding is stakeholders, agency and asymmetry theory more appropriate to manage Sukuk ratings. *Eighthly*, this study uses four grand theories, stakeholder, signaling, asymmetry, and agency theory combining together by synthesizing procedure then produce five variables through a deduction and synthesizing process. The variables are: GCG, FDQ, ABRs, EM and FP and all these variables significant in affecting SR. Therefore, these four theories can be applied in a new approach in the study of Sukuk rating research.

Managerial Implications

The managerial implications of the study expected to contribute to the management of the firms that issued corporate Sukuk. They need to pay more attention to the GCG, information/reporting quality, the quality of financial reports/statements released to the public.

Beside that, leverage and the practiced moral hazard in earnings management also should be paid attention. Meanwhile, for investors, this study expects to provide the importance knowledge for investor as agents in the investment. Beside GCG, FDQ, ABRs, and EM, the investor should focus to financial performance, the completeness and clear of financial statements is crucial issue to avoid *Sukuk* default (default risk). In addition, earnings management and debt level of the firm also need to be considered by investors.

CONCLUSIONS

This research begins by facing several problems, theoretical gap which is not many studies on *SR* involving stakeholder theory to provide a stable result. In addition, this study aims to cover the inconsistency of the results of previous research and the phenomenon of the gap where corporate *Sukuk* has increased in recent years. To overcome this problem, this study employed four theories namely stakeholder, agency, asymmetry, and signaling theories. Besides that, this also involved five latent variables; namely GCG, FDQ, ABRs, EM, and FP. The novelty of the research derived from synthesizing process to develop new concept variables as above mention as described on Figure 2.

In general, results of this study, the theories used stakeholder, asymmetry, signaling, and agency theories are strengthen and support to *SR*. The stakeholder theory used in this research assumes that all stakeholders, especially the management of the firm as principals and investors as agents are expected to pay more their attention on the company in order to improve the implementation of GCG principles in order to achieve better performance and improve *SR*.

This study concludes that GCG, ABRs, FDQ, and EM have a significant influence on *SR*. Meanwhile, EM or moral hazard have a negative impact on *SR*, this is indicated that, the company should aware on bad practice of financial report adjustment. Moreover, the results of this study provide a signal to company's management to manage and increase transparent, trust, credibility, and accountability as a culture within their company. Besides that, the study revealed that the firm should maintain the leverage in the appropriate level.

In terms of investing in *Sukuk* as an Islamic bond instrument, investors can pay attention to the quality and completeness of the financial statements/information disclosed by the company to the public as an alternative to examining the company's earnings management and leverage practices. In addition, there is a positive and significant influence from the FDQ as represented by the reliability and relevance proxies of the financial statements on the *SR*.

The leverage ratio, which is calculated using the debt-to-equity formula, is a proxy for ABRs and has a strong and significant effect on the *SR*. EM measured by the modified Jones model, also affects the *SR*, FDQ which is a proxy for the relevance and reliability of financial statements, has a significant negative effect on EM. ABRs affects EM, but EM cannot mediate the relationship between ABRs and *SR*. However, EM may mediate the relationship between GCG, and FDQ to *SR*. In addition, FP did not succeed to mediate the influence EM to *SR*, it indicate that FP can't eliminate the bad effect of EM especially in the moral hazard value in manipulating financial reports. However, FP has a significant positively effect to *SR*, it means to increase *SR* enable to use ROA as FP indicator.

The relationship theories used in this study are stakeholder, agency, asymmetry, and signaling theories, which have a crucial and significant role for developing *SR*, while all variables derive from the theories by using synthesizing process and resulted the significant influence to the *SR*. Furthermore, the future research can add other theories/approaches related to investors/agents and principals relationship in *Sukuk* investment issues.

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