International Journal of The Newest Finance and Accounting (INFA)
ISSN: 2986-5239 (Electronic)
Open Access: https://journal.gpcpublisher.com/index.php/infa

The Effect of Good Corporate Governance, Company Size, Profitability, and Solvency on Bond Ratings (Study on Non-Financial Companies Listed on the Indonesia Stock Exchange for the Period 2018-2020)

Markus Lanang Wibisono[1], Harsono Yoewono[2]
[1, 2] Universitas Multimedia Nusantara, Banten, Indonesia

Corresponding Author: Markus Lanang Wibisono, E-mail: markus.lanang@student.umn.ac.id

Article Info

Article history:
Received 22/07/2024
Revised 25/07/2024
Accepted 08/08/2024

Keyword:
Good Corporate Governance, Profitability, Solvency, Company Size

ABSTRACT

This study was conducted to determine the effect of Good Corporate Governance (GCG), company size, profitability, and solvency on bond ratings. The object of this research is non-financial sector companies that issue bonds and have been rated by PT Pemeringkat Efek Indonesia (PEFINDO), and are listed on the Indonesia Stock Exchange (IDX). The sample selection used in this study was purposive sampling method and testing was carried out using the ordinal logistic regression method. The sample in this study was 18 non-financial companies that met the criteria. The results of this study are Good Corporate Governance (GCG) has a significant positive effect on bond ratings, Company size has a significant positive effect on bond ratings, Profitability has a significant positive effect on bond ratings, Solvency has an insignificant positive effect on bond ratings. Companies can increase their company size to get a high bond rating. This is because the greater the total assets owned by the company indicates that the company's operational activities will run more productively which will increase sales in obtaining profits and be used to pay interest obligations along with the principal which makes the bond rating high.

INTRODUCTION

A person's motivation to gain profit can be realized in doing activities such as investing. According to the Financial Services Authority (OJK), investment is defined as the investment of capital, usually in the long term for the procurement of complete assets or the purchase of shares and other securities with the aim of making a profit. One of the motivations of investors in investing is to earn interest income. Interest rates contained in investments can be a supporting factor for current profits. By utilizing interest rates in investments, many investors tend to make long-term investments due to the benefits of the compounding effect in increasing the valuation of their funds over time.

Based on Kontan's summary, of the top five investment instruments that managed to provide the biggest return in 2020, bond-based products dominated the ranking. In third place is government bonds or INDOBeX Goverment Total Return which rose as much as 14.77% year to date (ytd), followed by corporate bonds or INDOBeX Goverment Total Return which rose 11.09%. There is also the Infovesta 90 Fixed Income Fund Index or fixed income mutual funds which gave a return of 10.35% ytd. In addition, in 2019 investors tend to be risk averse or stay away from risks from problematic investment managers. So, non-risk assets such as bonds are considered to have better and safer prospects, especially when compared to stocks whose culture is ownership and risk to out perform (www.kontan.co.id).

`

Table 1 Recapitulation of Corporate Bond Trading (in millions Rupiah)

Periode	Outstanding	Volume (Million)	Freq
2015	249,879,900.00	187,655,445.10	22,279
2016	311,678,550.00	224,317,968.00	24,398
2017	387,329,515.00	322,133,270.00	30,176
2018	411,857,395.00	327,616,844.00	30,224
2019	445,101,358.89	388,435,483.00	36,769
2020	425,708,853.84	377,544,298.00	37,788

Based on table 1 corporate bonds show an increase every year. However, in 2020 there was a slight decrease in the amount outstanding of IDR 445.101 trillion, which decreased by -4.3% from 2019. President Director of PT Pemeringkat Efek Indonesia (PEFINDO) Salyadi Saputra said, the decrease in the total outstanding shows that the number of bonds maturing and the principal paid in full is greater than the number of bonds issued (www.bisnis.com). PEFINDO President Director Salyadi also mentioned that,In addition to the reduced funding needs of a number of companies, the low bond issuance in the first semester of 2020 was also triggered by high interest rates, the wait-and-see position of investors, and the conditions of the Covid-19 pandemic (www.bisnis.com). Financial sector companies in previous years dominated bond offerings compared to other sectors. However, in 2020 the financial sector experienced a decline in bond offerings. The downward trend in bond issuance in the financial sector is shown in the figure below.

EXHIBIT 14. NEW DEBT SECURITIES ISSUANCE BY INDUSTRY (IDR TRILLION)

Investor	2018	2019	2020*	Share (%)*
Multifinance	23,926	26,421	10,856	15.6%
Special financial institutions***	17,940	31,375	8,841	12.7%
Power and energy	7,518	11,020	8,542	12.3%
Financing**	7,970	6,794	6,447	9.3%
Banking	26,073	24,287	6,190	8.9%
Mining	2,076	2,239	5,362	7.7%
Pulp and paper	12,073	4,469	4,291	6.2%
Telecommunications	7,455	8,970	3,182	4.6%
Fertilizer	NA	NA	2,437	3.5%
Chemicals	1,660	1,250	2,344	3.4%
Plantations	1,739	2,921	2,326	3.4%
Airports	750	NA	2,250	3.2%
Other	300	2,000	2,006	2.9%
Total	**132,423**	**146,488**	**69,371**	**100.0%**

Figure 1 Bond Issuance Trend

When viewed from Figure 1 above, the conclusion that can be drawn is that financial sector companies in 2020 experienced a decrease in bond issuance. PEFINDO President Director Salyadi Saputra said, the decline in the value of debt issuance of banking companies is inseparable from very low credit growth so that banks are flooded with liquidity and have no problem with capital. The multifinance industry is also experiencing low financing growth this year which has an impact on low asset growth so that funding needs also shrink (www.bisnis.com). An investor needs to analyze the probability of the bond issuing company in paying its obligations. Information on how capable the bond issuing company is in paying its obligations can be seen through the bond rating of the company that issued the bond (issuer). According Wijaya (2019), A bond rating is a statement about the state of the debtor and the possibility of what can and will be done regarding the debt owned. There are various variables that affect bond ratings and which will be examined in this study, namely: good corporate governance, company size, profitability, and solvency which may affect bond ratings in non-financial sector companies.

According to the Indonesian Institute for Corporate Governance (IICG) (2019), good corporate governance is a mechanism that directs and controls the company to run according to the expectations of stakeholders. This study uses the proxy of institutional ownership, which is believed to increase oversight of company management, reduce earnings management, and minimize financial and business risks. External supervision through institutional ownership can also influence corporate policies, including the selection of directors, thereby increasing the control and accuracy of future financial

projections. Good GCG implementation through institutional ownership can affect bond ratings because institutional investors tend to have a large influence in overseeing company management. Stricter oversight will minimize financial and operational risks, and increase transparency and accountability. This is important for rating agencies in assessing company stability, so companies with strong GCG tend to get higher bond ratings because they are considered more reliable and less risky. The results of previous research conducted by Marfuah (2016) show that institutional ownership has a positive effect on bond ratings, while Mariana's research (2016) found that the institutional ownership proxy has no effect on bond ratings.

According to Brigham & Houston (2010), firm size is categorized based on its total assets, where the larger the assets, the larger the size of the company. Large assets, such as machinery, increase manufacturing and sales productivity, which can then reduce costs, increase profits, and improve the company's ability to repay debt. This reduces financial risk and improves the company's bond rating. Research on the effect of company size on bond ratings proxied by Ln Total Asset (TA) Pratiwi & Santi (2018) found that company size has no significant effect on bond ratings. However, the results of research by Felicia & Sufiyati (2020) state that firm size has a significant positive effect on bond ratings.

The next factor that can influence bond ratings is profitability. Kurniawan & Suwarti (2017) state that profitability is measured through the comparison of profit earned with the company's assets or capital. In this study, profitability is measured using Return on Asset (ROA), which reflects the company's efficiency in utilizing assets to generate profits. The higher the ROA, the lower the risk of company default, which has a positive impact on the bond rating. Research on the effect of profitability on bond ratings proxied by return on assets (ROA) by Reyssent & Kurnia (2016), results in that profitability proxied by Return on Assets (ROA) has no significant effect on bond ratings. While the results of Dewi & Yasa (2016), state that the profitability variable with ROA proxy shows positive and significant results on bond ratings.

The next factor that can influence bond ratings is solvency. According to Parrino et al. (2017), solvency is to measure the extent to which a company uses debt rather than capital to meet long-term financial obligations. This study uses cash flow from operating to total liabilities (CFOTL) as a proxy to assess the company's ability to pay its obligations using cash from operating activities. The higher the net profit and retained earnings, the higher the company's equity, which allows the company to use more of its own capital than debt, so solvency increases. With high solvency, the risk of default decreases, which can improve bond ratings. Dewi & Yasa (2016) found a positive effect of solvency on bond ratings, while Hengki & Eka (2015) stated that leverage has no significant effect.

This research is a replication of Dewi & Yasa (2016) study with several key differences. First, this study adds a new independent variable, company size, based on Suprapto & Aini (2019). Second, this study does not include the liquidity variable, which previously showed no influence on bond ratings and may worsen the research model. Third, instead of using the Corporate Governance Perception Index (CGPI) proxy from the Indonesia Institute of Corporate Governance (IICG) for the Good Corporate Governance (GCG) variable, this study uses the institutional ownership proxy to avoid constraints related to difficult data collection.

Based on the background that has been stated, the purpose of this study is to obtain empirical evidence regarding the positive effect of good corporate governance proxied by institutional ownership, company size proxied by Ln total assets, profitability proxied by return on asset ratio, and solvency proxied by cash flow from operating to total liability on bond ratings. This research is expected to provide guidance and be a consideration for investors in investing in bond instruments of non-financial sector companies so that investors have the right steps to make decisions and reduce the risk of loss. Then it is hoped that it can increase knowledge and broaden insights regarding the influence of good corporate governance, company size, profitability, and solvency, on bond ratings. Based on this description, the researcher intends to conduct research entitled “The Effect of Good Corporate Governance, Company Size, Profitability, and Solvency on Bond Ratings (Study on Non-Financial Companies Listed on the Indonesia Stock Exchange for the Period 2018-2020)”.

LITERATURE REVIEW

Bonds

According to the IDX, bonds, are one of the securities listed on the Exchange in addition to other securities such as stocks, sukuk, asset-backed securities and real estate investment funds. Bonds

`

can be classified as debt securities in addition to sukuk. Based on the IDX website, Bonds can be explained as transferable medium-term debt securities, which contain a promise from the issuing party to pay rewards in the form of interest at certain periods and pay off the principal at a predetermined time to the buyer of the bond (www.idx.co.id). According to the Financial Services Authority, Bonds are medium and long-term debt securities that can be traded (www.sikapiuangmu.ojk.go.id).

PT. PEFINDO

According to Dewi & Yasa (2016) Bond rating agencies are professional organizations that provide analytical services and operate with basic principles, namely independence, objectivity, credibility, and disclosure. There are 5 rating companies that have been recognized by OJK, 5 of them are: Fitch Ratings, Moody's Investor Service, Standard and Poor's, PT Fitch Ratings Indonesia, PT Pemeringkat Efek Indonesia (www.ojk.go.id). PEFINDO is the oldest rating company in Indonesia. As the oldest and most trusted rating company in Indonesia, PT Pemeringkat Efek Indonesia, widely known as PEFINDO, was established on December 21, 1993 based on the initiative of the Financial Services Authority (formerly known as the Capital Market Supervisory Agency) and Bank Indonesia (www.pefindo.com).

Bond Rating

According to Reyssent & Kurnia (2016), bond ratings are opinions from rating agencies as well as an informative source for investors on the risk of bonds being traded. According to Hartono (2010) in Felicia & Sufiyati (2020), The definition of bond rating is the character symbols given by securities rating agencies to indicate the risk of bonds issued by a company. The PEFINDO bond rating measurement scale uses an ordinal scale. According to Ghozali (2018), The ordinal scale not only categorizes variables into groups, but also ranks the categories. In this study, the assessment was carried out using a rating system categorized by the value given. The highest rating is IdAAA with a value of 18, followed by IdAA+ with a value of 17, and IdAA with a value of 16. Furthermore, the IdAA- rating is given a value of 15, while IdA+ obtained a value of 14 and IdA was given a value of 13. The IdA- rating has a value of 12, and IdBBB+ obtained a value of 11. IdBBB rating is identified with a value of 10, while IdBBB- is given a value of 9. IdBB+ is ranked 8th with a value of 8, followed by IdBB with a value of 7 and IdBB- with a value of 6. IdB+ rating is given a value of 5, IdB obtains a value of 4, and IdB- is given a value of 3. The lowest rankings are IdCCC with a value of 2, IdSD with a value of 1, and IdD which has a value of 0.

Good Corporate Governance

Good corporate governance (GCG) is, a mechanism used by shareholders and creditors of the company to control the actions of managers. This mechanism can be an internal mechanism and an external mechanism (Sari & Yasa, 2016). In this study, GCG is proxied using institutional ownership. In the process, good corporate governance cannot be separated from the ownership and number of shares owned by the institution. Institutional ownership is the percentage of shares owned by institutional investors, namely investors from the financial sector (banks, insurance, securities companies and non-bank financing institutions) (Mariana, 2016). The proxy used for institutional ownership uses the percentage of institutional ownership. The formula is (Mariana, 2016).

$$INST = \frac{Number\ of\ Institutional\ shares}{Number\ of\ shares\ outstanding}$$

Company Size

According to Parulian and Suprihatin (2020), firm size is the size of the company which can be indicated by total assets or the amount of company assets using the logarithmic value of total assets. Wijaya (2019) explains that company size describes the size of a company which is indicated by total assets, total sales, average total sales, and average assets. The proxy used for company size uses the natural logarithm of total assets. The formula is: (Felicia and Sufiyati, 2020) with the following formula:

$$Size = LN\ (Total\ Asset)$$

`

Profitability

According to Weygandt et al. (2019), Profitability ratios measure the earnings or operating success of a company for a given period of time. According Sari & Yasa (2016), the higher the profitability, the lower the default risk or risk of inability to pay a company, the better the bond rating. The proxy used in this study is return on assets (ROA). According to Wijaya (2019), ROA is the company's ability to earn profits with all the assets the company has. The formula used to calculate return on assets (ROA) is:

$$\text{ROA} = \frac{Net\ Income}{Average\ Total\ Assets}$$

Solvency

The use of debt in a company's capital structure is called financial leverage. The more debt a company has (as a percentage of assets), the greater its level of financial leverage (Ross et al., 2017). The solvency ratio measures the company's ability to survive over a long period of time. long-term creditors and shareholders are very interested in the company's ability to pay interest at maturity and repay the face value of the debt at maturity (Wegandt et al., 2019). The proxy used in this study is cash flow from operating to total liabilities (CFOTL). According to Reyssent & Kurnia (2016), The greater the ratio, the better the company's ability to pay its total liabilities. The formula used to calculate cash flow from operating to total liabilities (CFOTL) is as follows (Gibson, 2013).

$$Cash\ Flow\ From\ Operating\ to\ Total\ Liabilities = \frac{Cash\ Flow\ From\ Operating}{Total\ Liabilities}$$

From the description above, the framework used in this study can be described as follows:

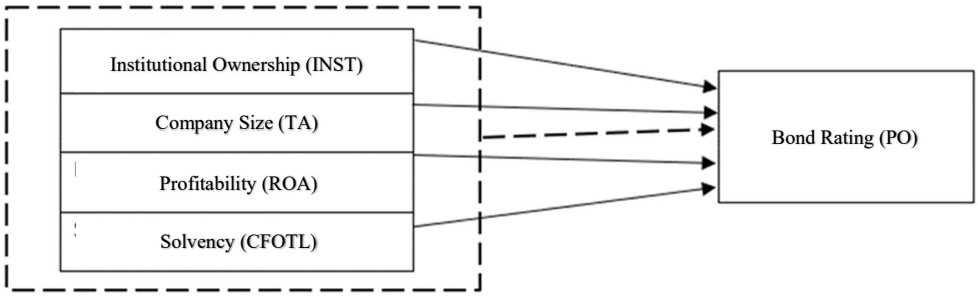

Figure 2 Research Framework

With reference to the framework above, the hypotheses proposed in this study are:

H1: Good Corporate Governance proxied by Institutional Ownership has a positive influence on Bond Rating
H2: Company size as proxied by Ln Total Asset has a positive influence on Bond Rating
H3: Profitability proxied by Return on asset (ROA) has a positive influence on Bond Rating
H4: Solvency proxied by Cash Flow from Operating to Total Liabilities (CFOTL) has a positive influence on Bond Rating

RESEARCH METHODS

The method used in this research is a causal study. Causal study is a study when researchers want to describe the various factors that cause a problem to occur. In this study using two variables studied, namely: dependent variable and independent variable the dependent variable used in this study is bond rating. While the independent variables in this study are good corporate governance proxy institutional ownership, company size, profitability, and solvency. This research uses secondary data. Secondary data is data obtained by researchers but previously processed by other parties (Sekaran & Bougie, 2016). The data needed in this study are financial statements of non-financial companies that have been audited

`

by independent auditors. This data is obtained from the official website of the Indonesia Stock Exchange, namely: www.idx.co.id. And also data on the list of bond ratings of related companies issued by PT. PEFINDO is obtained from the official website of PT. PEFINDO, namely: www.pefindo.com.

The population used in this study are all non-financial companies that have been listed on the IDX and rated by PT PEFINDO. The sample is part of the population. The sampling technique in this study is to use purposive sampling technique, which is a sampling technique based on specific criteria determined by the researcher (Sekaran & bougie, 2016). The criteria determined for sampling are as follows:

1. Non-financial companies that are rated by PT PEFINDO in the period 2018 to 2020 in a row.
2. Non-financial companies that have been listed on the Indonesia Stock Exchange from 2018 to 2020 consecutively.
3. The company publishes financial reports with the period ending on December 31 which have been audited by independent auditors from 2018 to 2020 in a row.
4. The company presents financial statements in Rupiah currency from 2018 to 2020 consecutively.
5. Companies that have consecutive positive profits in 2018-2020 consecutively.
6. Sample companies have institutional ownership based on the definition of Bhegawati & Mendra (2021) from 2018-2020 consecutively.

In this study, data analysis was conducted using SPSS software, with techniques that included model fit assessment done by comparing the hypothesized model with the data using the -2LogL statistic and X2 distribution. Cox & Snell's and Nagelkerke's R square were used to measure model fit, with Nagelkerke's R^2 being easier to interpret. Goodness of Fit Test with Hosmer and Lemeshow tested the fit of the model to the observed data, where a value greater than 0.05 indicates a good fit. Hypothesis testing uses Ordinal Logistic Regression because the dependent variable is ordinal. Parameter estimates were measured with a 2X2 classification table to check for correct predictions and observations, and the test of parallel lines assessed model fit based on categorical parameters, with a p value > 0.05 indicating a good model.

RESULTS AND DISCUSSION

The research objects in this study are all non-financial companies whose obligations have been rated by PT Pemeringkat Efek Indonesia (PEFINDO) consecutively in 2018-2020 and listed on the Indonesia Stock Exchange (IDX) in 2018-2020 consecutively. The following is a detailed table of research sampling:

Table 2 Sampling Criteria

No.	Criteria	Population
1	Non-financial companies that are rated by PT PEFINDO in the period 2018 to 2020 in a row.	70
2	Non-financial companies that have been listed on the Indonesia Stock Exchange from 2018 to 2020 consecutively.	35
3	The company publishes financial statements with periods ending on December 31 that have been audited by independent auditors from 2018 to 2020 consecutively.	35
4	The Company presents its financial statements in Rupiah from 2018 to 2020 consecutively.	32
5	Companies that have consecutive positive profits in 2018-2020 in a row.	21
6	The sample companies have institutional ownership based on the definition of Mariana (2016) and Sofiana et al (2018) in Bhegawati and Mendra (2021) from 2018-2020 respectively.	18
	Number of companies sampled	**18**

Source: Results of Researchers (2024)

`

Model Fit Test

The following are the results of the data fit model test using -2 log likelihood, namely:

Table 3 Model Fit Test Results

Model	-2 *log likelihood*	Chi. Square	df	Sig.
Intercept Only	227.150			
Final	165.376	61.774	4	0.000

Source: Results of Data Processing with SPSS

The fit model test in Table 3 shows that the -2 log likelihood value (intercept only) is 227.150. Meanwhile, if the independent variables (INST, TA, ROA, and CFOTL) are included in the model, the -2 log likelihood value (final) will decrease to 165.376 or there is a decrease in Chi-Square by 61.774 and significant at p = 0.00 (< 0.05) which means that the model with independent variables is better than the intercept model alone. so it can be concluded that the model fits.

Goodness of Fit Test

The following are the results of the regression model feasibility test with goodness of fit:

Table 4 Regression Model Fit Test Results

Model	Chi. Square	df	Sig.
Pearson	1114.090	473	0.000
Deviance	165.376	473	1.000

Source: Results of Data Processing with SPSS

Table 4 shows that the goodness of fit test based on Deviance shows the Chi-Square value is 165.376 with a significance level of 1 (> 0.05), which indicates that the model is able to predict the observation value, so the model is said to be feasible.

Pseudo R-square Test

The following are the results of the Pseudo R-square test:

Table 5 Pseudo R-square Test Results

Pesuedo R-square	
Cox and Snell	0.681
Nagelkerke	0.692
McFadden	0.272

Source: Results of Data Processing with SPSS

Table 5 shows that the Pseudo R-square value on McFadden is 0.272, this value explains that the good corporate governance variable proxied by institutional ownership (INST), company size proxied by total assets (TA), profitability proxied by return on assets (ROA) and solvency proxied by cash flow from operating activities to total liabilities (CFOTL) can explain the bond rating (PO) by 27.2% and 72.8% can be explained by other variables not tested in this study.

Parallel Lines Test

The following are the results of the Parallel Lines Test:

Table 6 Parallel Lines Test Results

Model	-2 *log likelihood*	Chi. Square	df	Sig.
Nul Hipothesis	165.376			
General	72.381[b]	92.995[c]	32	0.000

Source: Results of Data Processing with SPSS

The desired value is insignificant, namely p > 0.05. In Table 6, the parallel lines test results show a value of p < 0.000, which means that the model does not fit. This model mismatch can be caused

`

by an error in choosing a link function or an error in ranking categories. For this reason, modeling can be done again by choosing another link function, for example, complementary log-log. Tables 7, 8, and 9 are the results after remodeling by changing the link function from logit to complementary log-log.

Table 7 Pseudo R-square Test Results

Pesuedo R-square	
Cox and Snell	0.985
Nagelkerke	1.000
McFadden	1.000

Source: Results of Data Processing with SPSS

After modeling again by selecting the complementary log-log link function, the McFadden value has increased to 1.

Table 8 Parallel Lines Test Results

Model	-2 *log likelihood*	Chi. Square	df	Sig.
Nul Hipothesis	0.000			
General	0.000[b]	0.000	32	1.000

Source: Results of Data Processing with SPSS

After selecting the complementary log-log link function, the McFadden value has increased to 1. indicating that the value that p > 0.05, the model is appropriate.

Parameter Estimation and Interpretation

The following are the results of the parameter estimation test:

Table 9 Parameter Estimation Test Results

		Estimate	Std.Error	Wald	df	Sig.	95% Confidence Interval	
							Lower Bound	Upper Bound
Thersgold	[Y = 9.00]	28.128	5.294	28.235	1	.000	17.753	38.503
	[Y = 10.00]	30.494	5.334	32.681	1	.000	20.039	40.949
	[Y = 11.00]	31.063	5.356	33.636	1	.000	20.565	41.560
	[Y = 12.00]	32.111	5.407	35.266	1	.000	21.513	42.710
	[Y = 13.00]	32.822	5.461	36.123	1	.000	22.118	43.525
	[Y = 14.00]	33.065	5.484	36.357	1	.000	22.317	43.812
	[Y = 15.00]	34.312	5.632	37.114	1	.000	23.273	45.351
	[Y = 16.00]	34.809	5.677	37.597	1	.000	23.682	45.936
	[Y = 17.00]	35.461	5.742	38.139	1	.000	24.207	46.716
Location	X1	2.921	.888	10.817	1	.001	1.180	4.662
	X2	1.004	.170	34.749	1	.000	.670	1.338
	X3	14.943	4.820	9.612	1	.002	5.496	24.390
	X4	1.285	.812	2.502	1	.114	-.307	2.877

Source: Results of Data Processing with SPSS

Based on the parameter estimation test results from Table 9, the following regression equation is obtained:

Logit (p0 + p1 + p2 +…+ p8) = 35,461 + 2.921INST + 1.004*LnTA* + 14.943ROA + 1.285*CFOTL*

The solvency variable (CFOTL) has an estimated value of 1.285, indicating that every 1% increase in CFOTL will reduce the odd ratio (e1,285) = 3.61467 for companies to obtain a AAA bond rating. However, in this study, the solvency variable proxied by CFOTL has an insignificant positive effect on bond ratings. In this study, the average value of CFOTL for sample companies is 16.67%. This low average value explains that the data tends to approach the minimum value. means that

companies that have CFOTL use more cash in operating activities compared to cash received or cash generated from operating activities.

A total of 39 out of 54 observations (72%) experienced an increase in sales with an average increase of 17%. A total of 35 out of 39 observations (90%) recorded an increase in cost of goods sold with an average increase of 19%, 30 out of 39 observations (77%) recorded an increase in general and administrative expenses with an average increase of 20%, out of 39 observations 27 of them (69%) experienced an increase in profit for the year, with an average increase of 82%. The average increase in profit for the year of 82% is due to 1 of the 27 observations, namely PT Aneka Tambang (ANTM) in 2018, having an increase in profit for the year of 1099%, this is because in 2018 the company made an acquisition and recognized a gain on the acquisition process (CALK note 5). so that the profit for the year increased in 2018 from Rp136,503,269,000 to Rp1,636,002,591,000 so this can affect the overall average increase in profit for the year. A total of 34 out of 39 observations (87%) recorded an increase in Retained Earning with an average increase of 27%, then 35 out of 39 observations (90%) recorded an increase in equity with an average increase of 15%. With an increase in equity in 35 observations out of 39 observations, in 35 observations if examined there are 18 observations in the increase in equity that have increased long-term debt in this case long-term bank debt and bond debt then if averaged, 18 observations in increasing equity that have increased long-term liabilities (bank debt and bonds) will be found to be 175% of the average observation that has increased long-term liabilities (bank debt and bonds). A total of 29 out of 39 observations (74%) recorded an increase in liabilities with an average increase of 30%. A total of 22 out of 39 observations (56%) experienced an increase in cash flow from operating activities to total liabilities (CFOTL), accompanied by an average increase in CFOTL of 264%.

In 22 observations, 1 observation received a rating of AAA, then 1 observation received a rating of AA+, 1 observation received a rating of AA, 3 observations received a rating of AA-, 2 observations received a rating of A+, 3 observations received a rating of A, 6 observations received a rating of A-, then 3 observations received a rating of BBB+, and 2 observations received a rating of BBB. So it can be concluded that the majority of the 22 observations received a single A rating, which means that the obligor has a strong capacity to fulfill long-term financial obligations for bonds issued compared to other obligors in Indonesia. However, the obligor is somewhat more vulnerable to adverse changes in economic conditions and circumstances compared to higher-rated obligors.

An example is PT Impack Pratama Industri Tbk (IMPC), in 2020 IMPC has an increase in revenue of Rp. 301,755,175,980, an increase of 20% from 2019 (Rp1,495,759,701,262). on the expense side IMPC recorded an increase in cost of revenue in 2020 of Rp. 145,285,854,789 or 15% from 2019. On the general and administrative expenses side, there was an increase in 2020 of Rp. 46,681,969,615 or 30% from 2019. In 2020, IMPC recorded an increase in net profit for the year of Rp 22,660,124,323 or 24% from 2019. IMPC Retained Earning increased in 2020 by Rp.64,614,246,925 or 7% from 2019. Then in the equity section IMPC also experienced an increase in 2020 of Rp.57,619,995,978 or 4% from 2019. Total liabilities increased in 2020 by Rp. 138,347,210,559 or 13% from 2019. Then there was an increase in the value of cash flow from operating to total liabilities at PT Impack by 0.06 which was accompanied by an increase of 48% in 2020 from 2019 and PT Impack obtained an A- bond rating from PEFINDO in 2020.

Discussion

Good corporate governance proxied by institutional ownership (INST) has a significant positive effect on bond ratings with a significance level of 0.001 (< 0.05). Based on the research results, it can be concluded that Ha1 is accepted, which means that good corporate governance proxied by institutional ownership (INST) has a positive influence on bond ratings. The results of this study are in line with Marfuah (2016) research which found that institutional ownership has a positive influence on bond ratings.

Company size proxied by total assets (TA) has a significant positive effect on bond ratings with a significance level of 0.000 (< 0.05). Based on the research results, it can be concluded that Ha2 is accepted, which means that company size proxied by total assets (TA) has a positive influence on bond ratings. The results of this study are in line with the research of Felicia & Sufiyati (2020) which states that firm size has a significant positive effect on bond ratings.

`

Profitability proxied by return on assets (ROA) has a significant positive effect on bond ratings with a significance level of 0.002 (< 0.05). Based on the research results, it can be concluded that Ha3 is accepted, which means that profitability proxied by return on assets (ROA) has a positive influence on bond ratings. The results of this study are in line with Dewi & Yasa (2016) which states that the profitability variable with ROA proxy shows positive and significant results on bond ratings.

Solvency proxied by cash flow from operating to total liabilities (CFOTL) has no influence on bond ratings with a significance value of 0.114 (> 0.05). Based on the research results, it can be concluded that Ha4 is rejected, which means that solvency proxied by cash flow from operating to total liabilities (CFOTL) has no influence on bond ratings. The results of this study are in line with research. (Rusfika & Wahidahwati, 2017).

CONCLUSIONS AND SUGGESTIONS

Conclusion

Based on the test results above, it can be concluded that good corporate governance proxied by institutional ownership (INST) has a positive influence on bond ratings. Company size proxied by total assets (TA) has a positive influence on bond ratings. Profitability proxied by return on assets (ROA) has a positive influence on bond ratings. Solvency proxied by cash flow from operating to total liabilities (CFOTL) has no influence on bond ratings. The coefficient of determination test results show that the good corporate governance variable proxied by institutional ownership (INST), company size proxied by total assets (TA), profitability proxied by return on assets (ROA), and solvency proxied by cash flow from operating to total liabilities (CFOTL) can explain the bond rating (PO) by 100% and 0% can be explained by other variables not tested in this study. Based on the results of the parallel lines test, it shows that this research model is a good model because it does not have category differences between variables.

Suggestion

Based on the conclusions and limitations in this study, there are several suggestions that can be given to future researchers, namely further researchers can change the solvency proxy from CFOTL to debt to equity ratio (DER). Future researchers can use research objects in other sectors such as the financial sector that issues bonds and is rated by PT PEFINDO, and is listed on the Indonesia Stock Exchange. Future researchers can conduct research on other recognized rating agencies in Indonesia besides PEFINDO. For example: PT Fitch Rating Indonesia. The objects in this study are only non-financial companies that issue bonds and are rated by PT PEFINDO, and are listed on the Indonesia Stock Exchange, so the results of the research conducted allow for differences in conclusions in other sectors.

The implications of this study indicate that companies can improve their bond ratings with several strategic steps. First, increasing institutional ownership can help reduce earnings management, lower default risk, and improve bond ratings. Second, increasing the size of the company through an increase in total assets will make operations more productive, allowing the company to pay off its obligations and obtain a better bond rating. Third, increasing Return on Assets (ROA) helps companies become more efficient in using assets to generate profits, reduce industry risk, and ensure timely bond payments.

REFERENCE

Brigham, E. F., Dan Houston, J. F. (2010). *Dasar-Dasar Manajemen Keuangan*. Edisi 11. Jakarta: Salemba Empat.

Dewi, K. K., & Yasa, G. W. (2016). Pengaruh good corporate governance, profitabilitas, likuiditas dan solvabilitas terhadap peringkat obligasi. *E-Jurnal Akuntansi Universitas Udayana*, *16*(2), 1063-1090.

Felicia dan Sufiyati, 2020 Faktor-Faktor Yang Mempengaruhi Peringkat Obligasi Lembaga Keuangan Yang Terdaftar di BEI. *Jurnal Multiparadigma Akuntansi Tarumanagara*, 2(1), 136 – 145.

`

Ghozali, I. (2018). *Aplikasi Analisis Multivariate Dengan Program IBM SPSS 25 Edisi 9*. Semarang: Badan Penerbit Universitas Dipenogoro.

Gibson. (2013). *Manajemen Sumber Daya Manusia*, Edisi Keempat. Jakarta: Erlangga.

Hengki, J. S. dan Eka R. Nuraini. (2015). Faktor-Faktor yang Mempengaruhi Peringkat Obligasi pada Perusahaan yang Terdaftar di Bursa Efek Indonesia. *Jurnal Ekonomi, Manajemen dan Akuntansi*, 24(1): 95-116.

Kurniawan, A. T., & Suwarti, T. (2017). Pengaruh profitabilitas, leverage, likuiditas dan produktifitas terhadap peringkat obligasi. Prosiding Seminar Nasional Multi Disiplin Ilmu & *Call For Papers* Unisbank Ke-3(Sendi_U 3) 2017 Isbn: 9-789-7936-499-93 435.

Marfuah, M. (2016). Pengaruh Good Corporate Governance Dan Debt Maturity Terhadap Prediksi Bond Rating. *EKUITAS (Jurnal Ekonomi dan Keuangan)*, *20*(4), 434-454.

Mariana, M. (2016). Pengaruh Mekanisme Corporate Governance Terhadap Peringkat Obligasi Yang Tercatat Di Bursa Efek Indonesia Periode Tahun 2008 2010. *AKRUAL: Jurnal Akuntansi*, *7*(2), 104-132.

Parrino, Robert, David S. Kidwell, Thomas W. Bates. (2017). *Fundamental of Corporate Finance Third Edition*.United States: John Wiley & Sons, Inc.

Parulian dan Suprihatin, N. (2020). The Effect of Company Profitability, Leverage, and Firm Size on Bond Ranking of Banking Companies Registered on The Indonesian Stock Exchange (IDX) for The Period 2015-2019. *Journal of Research in Business, Economics, and Education*, *2*(4), 852-862.

Pratiwi, R., & Paramita, V. S. (2018). Pengaruh Current Ratio, Return On Assets, Dan Firm Size Terhadap Peringkat Obligasi Pada Perusahaan Non Keuangan Di Bursa Efek Indonesia Periode 2012-2016. *Prosiding Working Papers Series In Management*, *10*(1).

Reyssent, D., & Kurnia, R. (2016). Analisis Faktor-Faktor Yang Mempengaruhi Peringkat Obligasi Pada Perusahaan Keuangan Yang Terdaftar Di BEI Tahun 2012-2014. *Ultimaccounting Jurnal Ilmu Akuntansi*, *8*(2), 1-23.

Ross, S., Westerfield, R., & Jordan, B. (2017). *Essentials of Corporate Finance Ninth Edition*. New York: Mc Graw Hill Education.

Sari, N. N. M. P., & Yasa, N. N. K. (2016). Peran Keunggulan Kompetitif Memediasi Orientasi Pasar Dengan Internasionalisasi Ukm Mebel Di Kabupaten Badung. *E-Jurnal Ekonomi Dan Bisnis Universitas Udayana*, *5*(6), 1651-1678.

Sekaran, U. and Bougie, R. (2016). *Research Methods for Business: A Skill-Building Approach*. 7th Edition, Wiley & Sons, West Sussex.

Suprapto, R. A. (2019). Prediksi Peringkat Obligasi: Profitabilitas, Leverage, Likuiditas Dan Ukuran Perusahaan Pada Perusahaan Non Keuangan Yang Terdaftar Di Pefindo Tahun 2013-2017. *Dinamika Akuntansi Keuangan dan Perbankan*, *8*(1), 79-89.

Weygandt, Jerry J., Paul D. Kimmel, dan Donald E. Kieso. (2019). *Financial Accounting IFRS Edition*. United States: John Wiley & Sons, Inc. 4th edition.

Wijaya, R. (2019). Pengaruh Karakteristik Perusahaan, Karakteristik Obligasi, Reputasi Auditor Terhadap Peringkat Obligasi. *Jurnal Akuntansi Bisnis*, *17*(2), 114-130.