

Identification of the Determinant Factors of Company Sukuk Rating in Indonesia: Using Profit Management as an Intervening Variable

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Abstract—As the country with the highest Moslem population, sukuk is one of the investment types that is quite a lot of interest in Indonesia. This study aimed to examine the significance, theory, and collecting empirical evidence of the determinant of sukuk rating in Indonesia with profit management as an intervening variable. The sampling technique used a purposive sampling method where the population was all corporate sukuk in Indonesia that has been rated by Pefindo so it was obtained 24 observations and 120 research samples from the period of 2014-2018. The type of study was explanatory research, with data analysis using multiple tests and EViews 8 software, which were used to find out the role of profit management as an intervening variable. The result of this study indicated that the firm size, growth, profitability, liquidity, and leverage variables respectively affected the sukuk rating, while the maturity variable did not affect sukuk rating. Firm size, profitability, and liquidity affected profit management, while maturity, growth, and leverage did not affect profit management. Hypothesis testing using the Sobel test showed that profit management proved unable to mediate the relationship between firm size, profitability, and liquidity with sukuk ratings indirectly.

Keywords—*sukuk rating, profit management, maturity, firm size, growth, profitability, liquidity, leverage*

I. INTRODUCTION

One of the sharia investment instruments. *Sukuk*, in Indonesia, was first issued by PT. Indosat Tbk in 2002 which followed by the issuance of sukuk by other issuers. The number of sukuk issuance from year to year is developing, both corporate sukuk and sukuk issued by the state. As the number of *sukuk* issuances grows, many investors have chosen to invest in *sukuk* [1].

Sukuk is one of the financial market instruments that is very potential for the development of the sharia financial industry. *Sukuk* contributes to national sharia financial assets. Meanwhile, according to Fatwa MUI DSN No.32/DSN-MUI/IX/2002, *sukuk* or sharia bonds are long-term securities based on sharia principles issued by the issuer to *sukuk* holders which require the issuer to pay income to *sukuk* holders in the form of profit distribution/margin/fee and repay the bond when it matures.[2]

However, before investors decide to invest in *sukuk*, investors need to consider several things, one of them is the *sukuk* rating. The *sukuk* rating is very important to know for corporate issuers and investors as a tool to measure the probability of debt default and risk of companies that are listed. Therefore, it can be concluded that to measure the level of risk and return of investment in a company, ranking is used. The better the *sukuk* rating is, the lower the risk of loss that an investor might face, and can also be interpreted if the better the *sukuk* rating indicates the issuer has a low default risk. It means that this will indirectly become a condition for investing in long-term capital market instruments. [3]

In Indonesia, the research on *sukuk* ratings, in general, is still very interesting, so this situation requires the researcher to make new breakthroughs. In reality, a company must also pay attention to the company's profit management, which can influence the issuance of bonds or *sukuk* of a company. If the company conducts profit management, the company's profits will increase or be safe, therefore, the company can issue *sukuk* or bonds with high capital. This high profit will be able to convince creditors or prospective creditors that the bonds or *sukuk* purchased will be safe. Additionally, the issuance of bonds or *sukuk* companies will clearly state the number of funds needed for the sale of bonds or *sukuk* so that in the end, the determination of the size of the number of issuance of *sukuk* will be able to influence the performance evaluation of a company.

The researcher is motivated in conducting this study to provide information about *sukuk* ratings and concreate evidence about the determinants for all parties interested in issuing *sukuk* or investing in *sukuk* by paying attention to the division of profit management of a company, because *sukuk* ratings are very important for investors to be able to make the right investment.

II. METHOD

The type of study was quantitative research and used a quantitative descriptive method, i.e. research intended to find out the relationship/effect of one or more independent variables with one or more quantitative variables and analyzed the data through statistical procedures, which were usually known as explanatory research [4]. In this study, the

researcher sought the effect of several independent variables (maturity, firm size, growth, profitability/ROE, liquidity, and leverage/DER) on the dependent variable rating of corporate *sukuk* in Indonesia, and using profit management as intervening variables. The data used in the study were secondary data obtained from the financial statements of sample companies, obtained from the Indonesia Stock Exchange's website as well as from the official websites of related companies and the Indonesian Credit Rating data published by Pefindo during the observation period, namely 5 years (2014-2018). The sampling used a purposive sampling method [5] with 24 observations and 120 samples. The testing model used was a path analysis model because.

III. RESULT AND DISCUSSION

A. Descriptive Statistics

The dependent variable with several variables affected each other. In the implementation, the data was processed using the EViews 8 program.

TABLE 1. DESCRIPTIVE STATISTIC

	Mean	Median	Maximum	Minimum	Std.Dev
Rating	1.941667	1.000000	5.000000	1.000000	1.063495
Maturity	0.625000	1.000000	1.000000	0.000000	0.486153
Firm Size	1.975000	2.000000	3.000000	1.000000	0.526004
Growth	0.095732	0.049348	1.163758	-0.209244	0.196105
Profitability	0.034078	0.035313	0.259361	-0.130709	0.060427
Liquidity	1.436176	1.342765	5.866607	0.241411	0.974122
Leverage	2.091060	1.803607	5.915104	-4.496694	1.564024

Source: Secondary Data Processed 2019, with EViews8

The first step was based on the descriptive statistical test results in table 1. Therefore, it can be concluded that the average *sukuk* rating in 2014-2018 showed the movement of variable maturity, firm size, growth, profitability, liquidity, and leverage that is quite volatile to the *sukuk* rating. This can be said if the *sukuk* rating can help investors to consider the decision to invest in *sukuk*, which can be determined and predicted through the six components in this study to estimate the right decision-makers in the right investment.

B. Results of Regression Analysis

The second step was to find out the regression results based on table 2, the regression model, its reliability as an estimation tool was largely determined by the significance of the parameters in the model, namely the regression coefficient. The regression results in this study based on table 2 showed that the firm size affected the *sukuk* rating, so in this study, the researcher assumed that large companies with large asset values were able to provide a sense of security to investors because large assets indicating the company was able to manage larger assets so that they were better able to

Fulfill their obligations on time, both short-term and long-term obligations. However, the results of this study were based on the results of the study by [3]. Borhan stated that the absence of a firm size effect on the *sukuk* rating caused by the company sample used was not classified based on the industry in which the company was engaged.

Based on the results in table 2, the growth variable shows the effect on the *sukuk* rating, therefore, the researcher assumed that if the greater the company's growth rate, then the possibility to get a better *sukuk* rating was also higher, because companies with large growth rates illustrated the prospect of a more firm well, so the risk of failure to fulfill its obligations was relatively smaller. These results were not consistent with the results of the study conducted by [6] which explained that the growth did not affect the *sukuk* rating.

The result in table 2 shows that ROE affects the *sukuk* rating so it can be said, if the profit generated by the company is high, it will produce a high rating as well. [7]

TABLE II. REGRESSION RESULTS

Model I	Coefficient	Std. Error	t-Statistic	Prob.	Model II	Coefficient	Std. Error	t-Statistic	Prob.
Sub Struktural	(X1, X2, X3, X4, X5, X6, ke Z)				Sub Struktural	(X1, X2, X3, X4, X5, X6, Z, ke Y)			
Maturity (P7)	0.040337	0.197227	0.204519	0.8389	Maturity (P1)	-0.061517	0.166560	-0.369336	0.712600
Firm Size (P8)	-0.013662	0.189575	-0.072066	0.0429	Firm Size (P2)	1.094219	0.155600	7.032274	0.000000
Growth (P9)	0.171779	0.554203	0.309957	0.7580	Growth (P3)	0.861593	0.391921	2.198385	0.030000
Profitability (P10)	1.576027	1.588695	0.992026	0.0325	Profitability (P4)	-4.093921	1.291212	-3.170602	0.002000
Liquidity (P11)	0.146161	0.18986	0.769834	0.0444	Liquidity (P5)	0.182600	0.088041	2.074037	0.040400
Leverage (P12)	0.071147	0.110124	0.646059	0.5215	Leverage (P6)	-0.185519	0.048299	-3.841023	0.000200
R-squared	0.441216				Earning Management (Z)	0.434433	0.181641	2.391716	0.018400
Adjusted R-squared	0.408238				R-squared	0.488598			
Prob(F-statistic)	0.000000				Adjusted R-squared	0.456633			
					Prob(F-statistic)	0.000000			

Source: Secondary Data Processed 2019, With EViews8

Explained that if the company's high profitability will affect the company's ability to generate profits, it will, therefore, have an impact on the better ranking to be obtained. Likewise for the CR variable which showed the same thing, so the researcher assumed that a company that had high liquidity makes it possible to pay short-term financial obligations right at maturity, which of course usually the company had a current asset that was greater than its liability. For this reason, a high level of liquidity can show the strong financial position of a company, which would affect the rating of bonds or *sukuk*. This condition would ultimately make it easier for companies to attract investors to invest in their companies [8].

This study also explained that if the DER affected the *sukuk* rating, so the researcher assumed that if the company that had a lower leverage ratio illustrated the proportion of debt to capital distribution in the proportion of the company's liabilities was lower, so the risk of companies failing to meet obligations was also smaller. Therefore, the lower the DER ratio, the more likely it was to get a good *sukuk* rating. These conditions would ultimately make it easier for companies to attract investors to invest in their companies [9].

The next step was to find out the results of regression in the model I based on table 2. It showed that firm size affected profit management. Based on the results of this study, the researcher concluded that the higher the firm size, the higher the level of profit management in a company, it happened because of the longer the company's life, the greater the opportunity for profit management. The age of the company showed how long a company can compete and survive to run its business. The long-established company had experience in managing and making trends from previous periods so that it

can develop strategies that can advance the company by increasing profits to compete against companies that were long-standing or newly established, the results were in line with the study by [10].

profit management. Therefore, the researcher assumed that profitability was an indicator of management performance in managing wealth. The higher the level of profit obtained, the higher the desire of management to conduct profit management. Profit management can be done by leveling profits to be stable, a stable level of profitability would provide confidence to investors that the company had a good performance in generating profits. This was in line with the study by [7] and the result of subsequent studies based on table 2 showed the results of liquidity affected profit management, according to agency theory, if the liquidity ratio was low then managers tended to do profit management so that the company was considered good because it can return its debt with current assets that were owned, and vice versa. The result of this study was in line with the study by [7], which found that there was an effect of liquidity on profit management. For this reason, the researcher assumed that if the CR was getting higher, the company would have many insights that can be obtained regarding the company's financial competence to survive when problems occur. As for the regression results from the maturity, growth, and DER variables based on table 2 shows if each of the three does not affect profit management.

C. Path Analysis

TABLE III. RESULTS OF PATH ANALYSIS

	Casual Influence		Effect Total	Sobel test	T-count affects intervening
	Direct Effect	Indirect Effect			
Firm Size	1.094219	-0.004300	-0.0043	1.802000	-0.0024
Profitability	-4.093921	0.675100	0.6751	0.788000	0.8567
Liquidity	0.182600	0.064500	0.0645	0.095000	0.6789
T-table	0.05				
T-hitting	2.109				

Source: Secondary Data Processed 2019, with EViews8

Based on the calculation results shown in table 3, the firm has a t-value of -0.0024 smaller than t-table with a significant level of 0.05 of 2.109, it can be concluded that the intervening coefficient (firm size) of -0.0043 was not significant or it can be said that there was no intervening effect. This showed that large companies would limit profit management practices more than small companies. Larger companies had little motivation to manage earnings because shareholders and outsiders in large companies were considered more critical than small companies. A larger investor base was found in large companies so that large companies would have stronger pressure to present reliable financial reports. Therefore, because of the large number of assets in the company apparently unable to show the company's ability to meet its obligations so that the *sukuk* rating was good, the above description was in line with the study by [9], but basically contrary to the signal theory that explained if the company should be able to give signals to the party's interest, in the

form of a company's financial statements and non-financial information signals to the rating party which can later be used to make decisions in issuing *sukuk* or bonds and can assist investors in taking action. It means that this study showed the profit management was not able to mediate profitability on *sukuk* ratings, because it turned out that companies that did profit management apparently were not necessarily able to increase company profits or seek corporate profits in a safe condition, which was expected to have the ability to issue bonds with high-profit capital, which turned out in this study, the researcher assumed that the existence of profit management was not able to optimize the company's profits to convince creditors or prospective creditors that the *sukuk* or bonds purchased would be safe.

Then, the calculation result of SP10P13 path analysis shows that the ROE variable has a calculated value of 0.8567 smaller than t-table with a significant level of 0.05 of 2.109, it can be concluded that the intervening coefficient (ROE) of

0.788 was not significant or there was no intervening effect. This study showed that if a company's profits were not able to influence the company's profit management, or it can be said that the company was unable to issue bonds or *sukuk* because it was unable to manage profit well, this was because Pefindo was also assessing the *sukuk* rating of the company. It can be seen that several other factors, one of them was the company's cash flow. Companies that had a good profitability ratio did not necessarily have a good cash flow. Therefore, the researcher assumed that companies with this cause would not be able to convince creditors or prospective creditors that the investment they would choose was in good or safe condition, this was confirmed by a study by [8] and [11], which explained that profitability was not one of the factors that can influence rating *sukuk* in a company.

The next was seeing the results of the SP11P13 path analysis calculation, which is based on table 3 shows that the liquidity variable has a t-value of 0.6789 smaller than t-table with a significant level of 0.05 of 2.109, it can be concluded that the intervening coefficient (CR) of 0.096 was not significant or there was no intervening effect. For this reason, the researcher concluded that there was an opposite relationship between liquidity and profit management. High current ratio showed the company's ability to pay off short-term liabilities using its current assets, so the higher the current ratio would reduce profit management, based on the results of this study, the researcher also concluded that high company liquidity may not necessarily be able to show the strength of the company's financial condition so that financially it would affect the prediction of *sukuk* or bond ratings, which, of course, would give an unfavorable signal to creditors or prospective creditors to make safe *sukuk* investment decisions in the company, because the *sukuk* rating showed a decline, the results of this study were in line with the study by [9]. Therefore, it can be said that this study contradicted the explanatory signal theory if the company should be able to give signals to interested parties, in the form of corporate financial statements and non-financial information signals to the rating party which can later be used to make decisions in issuing *sukuk* or bonds.

In this study, the maturity, growth, and leverage variables were not accounted for using path analysis to find out the effect of intervening profit management on *sukuk* ratings because the three variables in table 2 showed the results which state that each of them did not influence profit management.

IV. CONCLUSION

Based on the results of testing and analysis in this study, it can be concluded that if basically in choosing investment instruments in the capital market, investors were not only seeing the amount of return they would get, but also seeing several other considerations, one of them was the element of risk they faced when going to buy securities, one of the simple indicators that can be used as a reference to determine the level of investment risk was to know the rating or rating of the security.

In this study, it turned out that only firm size, growth, liquidity, profitability and leverage can affect a company's *sukuk* rating, while maturity in this study did not affect a company's *sukuk* rating. Based on the regression results in this study, the evidence also showed that there was only a variable size, ROE, and liquidity that can influence profit management (as an intervening variable), while maturity, growth, and DER were not some of the factors underlying the company to make profit management. Based on the results of the Sobet test analysis of corporate financial factors such as firm size, profitability and liquidity using profit management as an intervening variable, it turned out that it was not able to influence a company in determining the rating/ranking of its company *sukuk*.

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