JKAU: Islamic Econ., **Vol. 35** No. 2, pp: 97-114 (July 2022)

DOI:10.4197/Islec.35-2.6

Does Financial Performance Mediate the Effect of Good Corporate Governance on Indonesian Ṣukūk Rating?

Dwi Sulistiani

Doctoral Student, Faculty of Economics and Business, Universitas Airlangga, Indonesia

Bambang Tjahjadi

Professor, Faculty of Economics and Business, Universitas Airlangga, Indonesia

Received: 22 June 2021; Revised: 7 November 2021; Accepted: 27 December 2021

ABSTRACT. Ṣukūk is one of the products of Islamic financial institutions IFIS), so the rating of such instruments should be considered. This study aims to provide empirical evidence of the influence of Good Corporate Governance on Ṣukūk rating, with financial performance as a mediating variable. Multiple regression, ordinal logistic regression and Sobel test were used to test the Assumptions on 222 Ṣukūk, which were listed on the Indonesia Stock Exchange as of December 31st, 2020. The results show that the supervisory board's size, independence, experience, and the audit committee's size and experience directly affect the Ṣukūk rating. Financial performance has also been shown to have a direct influence on Ṣukūk rating, which in turn can mediate the effect of the three elements of the Good Corporate Governance supervisory function on Ṣukūk rating, namely: the size of supervisory boards, the independence and the number of Sharīʿah supervisory boards. It is therefore important for companies to pay due attention to the Good Corporate Governance, especially with regard to the supervisory function and financial performance to support Ṣukūk rating. This study confirms that the existence of a Sharīʿah supervisory board can support the achievement of financial performance and Ṣukūk rating in IFIs.

Keywords: Ṣukūk, Good Corporate Governance, financial performance, Ṣukūk rating, Indonesia Stock Exchange.

JEL CLASSIFICATION: C14, D25, G34, M41, N25

KAUJIE CLASSIFICATION: H33, H65, J32, K16, L34, T4

1. Introduction

Credit rating is an essential indicator of the credit quality of a company. Bond rating information is also essential in providing information and improving the efficiency of the capital market (Bradford et al., 2019). The publication of such bond rating information can increase the transparency of securities, which in turn can reduce the information asymmetry between management, shareholders and bondholders. The publication of bond ratings can also reduce the monitoring costs that need to be incurred by the company (Chiang et al., 2017). Companies that issue bonds must be monitored and evaluated by a government-appointed rating agency (Alam et al., 2018), such as PEFINDO in Indonesia. *Ṣukūk* ratings differ from other securities and are separate from the issuer (corporate) rating. *Ṣukūk* requires an underlying asset that guarantees the use of the asset per the Sharīʿah contract, and companies issuing *Ṣukūk* are supervised by a national religious supervisor. The implementation and effectiveness of religiosity through *Sharīʿah* guidance helps companies to better maintain ethics, which further reduces the problem of incentives and moral hazard behavior (Grassa, 2013). It is, therefore, interesting to examine *Ṣukūk* rating, which contains an aspect of religiosity in their issuance.

In Agency Theory, agency costs are the sum of the monitoring costs incurred by the owner, the bonding cost incurred by the agent, and the residual income (Jensen & Meckling, 1976). Empirical research proves that corporate governance attributes mitigate not only agency conflicts between owner and manager but also potential conflicts between bondholders and shareholders that may lead to wealth transfer effects between them (Jiraporn et al., 2014; Alkhawaldeh, 2012; Hong, 2019). Public debt cannot be separated from bond ratings, which are influenced by corporate governance (Alali et al., 2012; Aman & Nguyen, 2013). Corporate governance is reflected in several different dimensions and measures. Based on the guidelines of the Indonesian Stock Exchange, the structure of corporate governance is divided into an executive function performed by the CEO (Chief Executive Officer) and the board of directors, and an oversight function performed by the board of commissioners and its supporting committees (www.idx.co.id). At the same time, according to Law No. 21 of 2008, for companies that conduct business activities according to Sharīʿah principles, the existence of a Sharīʿah supervisory board is added to the supervisory function (Menkumham, 2008). Previous research has examined MCMs with a focus on the oversight function, including examining the role of the supervisory board (Ntim et al., 2017; Elhaj et al., 2018; Sahabbudin & Hadianto, 2020), the board of directors (Grassa, 2016), Sharīʿah board and the existence of an audit committee (Uhde et al., 2017; Putri & Prasetyo, 2020). However, previous research results provide inconsistent evidence on the effect of board size on bond ratings.

Several studies have found positive effects (Aman & Nguyen, 2013; Elhaj et al., 2018; Sahabbudin & Hadianto, 2020). Meanwhile, other researchers have found a negative impact (Altwijry, 2015; Zemzem & Zouari, 2016). There are even those who did not find any influence (Grassa, 2016; Mariana, 2016; Marfuah, 2016). Research on the impact of supervisory board independence on bonds rating also shows conflicting results. Some found a positive influence (Grassa, 2016; Sahabbudin & Hadianto, 2020), a negative influence (Marfuah, 2016; Mariana, 2016) and no effect (Altwijry, 2015; Zemzem & Zouari, 2016; Elhaj et al., 2018). Conflicting results also exist regarding the effect of audit committee's size on bond rating. Some studies show a positive influence (Marfuah, 2016; Sahabbudin & Hadianto, 2020) and others that show no effect (Mariana, 2016). The application of religious councils' authorizations is effective and efficient in monitoring management. The rating agency should also pay attention in the evaluation of *Ṣukūk* rating *(*Grassa, 2016). Research on the association of Sharīʿah board with bond rating also provides inconsistent results (Mseddi & Naifar, 2013; Grassa, 2016). For instance, OJK (Otoritas Jasa Keuangan) regulation number 34 of 2014 states that the remuneration committee is a committee formed to be able to provide suggestions regarding the remuneration of the board of directors and their ranking for their performance (OJK, 2015). Their existence will be able to improve the performance of directors and employees, which will impact the company's performance (Elmagrhi et al., 2020).

Therefore, this study uses an intervening variable, namely financial performance, which is supposed to mediate the effect of GCG on *Ṣukūk* rating. Previous studies have successfully provided evidence of the influence of GCG on financial performance (Mahrani & Soewarno, 2018; Chou & Buchdadi, 2018; Ghalib, 2018; Kurniati, 2019; Darwanto & Chariri, 2019). Other studies can also provide evidence of an influence between financial performance and credit ratings (Elhaj et al., 2018; Skousen et al., 2018; Qizam & Fong, 2019; Dewi & Utami, 2020). Based on the above evidence, it can be concluded that financial performance is appropriate to be used as an intervening variable in the influence between GCG and *Ṣukūk* rating.

This study differs from previous research in several ways. First, this study uses the financial performance variable as a mediating variable in the effect of GCG on *Ṣukūk* rating, and previous studies have never used this mediating variable. Second, most previous literature examines governance through shareholders' perceptions (Quttainah et al., 2013). This research focuses more on the perspective of bondholders with specific reference to Islamic bonds (*Ṣukūk*). Only a few papers have studied the effect of corporate governance on bond ratings (Alkhawaldeh, 2012; Alali et al., 2012; Aman & Nguyen, 2013; Sahabbudin & Hadianto, 2020) and credit in Islamic banking (Grassa, 2016). Meanwhile, few have conducted specific research on *Ṣukūk* in this area. Third, the corporate governance of a *Ṣukūk* issuer differs from that of bond or equity issuers, which lies in the existence of a Sharīʿah supervisory board that oversees the use of *Ṣukūk* funds to identify activities that do not violate the Sharīʿah contract.

The emergence of a vigorous *Sharīʿah-compliant* financial services sector concentrated in the Middle East and Asia represents an attempt to develop an independent financial system alongside the dominant one, and thus provides significant additional options for risk diversification (Sherif & Erkol, 2017). Much of the considerable asset growth in some countries has been fuelled by *Ṣukūk*, which are different from bonds or other debt instruments. *Ṣukuk*, like stocks, represent the ownership share of the assets of a project or a private investment activity; therefore, the rights of the *Ṣukūk* holder are determined in the assets of the project or company itself, while bonds are payable to the issuing company and are not linked to the specified assets (Aidi & Salama, 2019). As this difference is unique to *Ṣukūk*, it is worth exploring further.

This study aims to provide empirical evidence regarding the impact of supervisory function in GCG on *Ṣukūk* rating with financial performance as a mediating variable. This study makes a practical contribution to the prediction of *Ṣukūk* rating through governance, especially with the supervisory function performed by the *Ṣukūk* issuing company. This research is important in providing empirical evidence for corporate governance research related to *Ṣukūk* rating and financial performance, and it highlights the new developments in *Ṣukūk* including the role of the *Sharīʿah* board and the remuneration committee.

2. Literature Review and Assumptions

2.1. Agency Theory

The Agency Theory assumes that the CEO (agent) has more crucial information, as the principal cannot monitor the activities of the company on a continuous and periodic basis. Since the principal does not have sufficient information about the agent's performance, he can never be sure how the effort contributes to the company's actual results. This conflict is then referred to as agency costs. Jensen & Meckling (1976) divide agency costs into three types: 1) monitoring costs, costs designed for the activities carried out by the agent; 2) bonding costs, to ensure that the agent will not act in a way that may harm the principal, or to ensure that the principal will provide remuneration if the agent does indeed take the right action; 3) the residual cost, which is equivalent to a decrease in principal-based welfare due to differences in interests. According to Islamic principles, the agent is a fiduciary, so he does not need to be guaranteed unless he commits a breach through negligence or violation of instructions (Al-Masri, 2021: 204). The existence of the supervisory function in the MCM structure is one of the bonding costs that can ensure that the agent does not take actions detrimental to the principal. The board of commissioners (especially the independent ones), the Sharīʿah supervisory board, the audit committee and the remuneration committee under the board of commissioners are formed to supervise the managers (agents) to make the right decisions.

2.2. *Ṣukūk* (Islamic bonds)

Ṣukūk are securities of equivalent denominations representing ordinary shares in the ownership of property (*aʿyān*), returns, services or private investment activities. On the one hand, bonds depend on interest-based loans. On the other hand, *Ṣukūk rely* on the existence of legitimate assets that form the basis of the securitization process and generate income; investors own these assets based on their shares. It is not like a bond which is based on interest-based loans (Aidi & Salama, 2019). Also, unlike bonds, *Ṣukūk* issuers are not obliged to provide returns to investors if the investment performance is below expectations, so the risk of default is lower. In *Ṣukūk,* there should be no fixed payments to investors and the profit sharing is based on investment performance in the real economic sector (Aidi & Salama, 2019). Whether the *Ṣukūk is* equity-based (with similar characteristics to equities) or debt-based (with similar characteristics to convertible bonds in the conventional sense), the expected market reaction should not be the same as for bonds.

2.3. *Ṣukūk* rating

The credit rating agency (CRA) ranking indirectly affects income inequality, but also provides a better and broader understanding of income distribution, especially in developing countries (Biglaiser & McGauvran, 2021). Good Corporate Governance can affect the corporate bond rating. However, relative scale and audit fees have a negative effect on bond ratings. Bond specific attributes (collateral and credit size) are positively related to bond rating. Agency costs should be reduced with a reduction in shareholding, which in turn can benefit bondholders (Bradford et al., 2019). Shareholders who disagree with auditors have an impact on lowering yield spreads and bond ratings. Other test results also provide evidence that audit attributes (auditor seniority, auditor size, audit fees) and the auditor's characteristics affect the cost of debt based on perceived auditor's quality (Bao & Tanyi, 2020). Aman & Nguyen (2013) report that the better the company's governance, the higher its credit rating will be. Previous research has shown that credit rating has a negative effect on the size of the board of directors with 5% ownership, a positive effect on the rights of minority shareholders, and a positive effect on the quality of working capital accrual; and the speed of its acquisition is positively related to the independence of the board of directors and the ownership of the board of directors, while it is negatively related to the power of the CEO on the board of directors. Strong corporate governance will lead to a better credit rating, and the relationship is stronger for small companies than large ones (Alali et al., 2012). The credit rating estimation model is based on the financial information published by the company (Plakandaras et al., 2020). The structural MCM is divided into the executive functions, namely: CEO and oversight functions performed by the board of commissioners, remuneration committee and audit committee (Uribe-Teran & Mosquera, 2019). The above research results prove that there is an effect of corporate governance (CGM) on credit ratings. The better the corporate governance, the more reward the company will get by increasing its credit rating, including, in this case, its *Ṣukūk* rating.

2.4. Assumptions

Companies with good governance can guarantee their suppliers a return on the money invested in the form of dividends to shareholders, interest and principal to the bank, and coupons and principal to bondholders (Shleifer & Vishny, 1997). In implementing good governance, bond issuing companies must control the top management by appointing a supervisory board.

Indonesia adopts a two-tier system; as a result, there is a board of commissioners and directors in a company (Hartanto & Sulaksono, 2019). The resource-based view theory states that a large number of supervisory boards consisting of many experts are needed to provide advice to the board of directors to improve the performance of the company. Their existence will enable the company to achieve a high bond rating status (Aman & Nguyen, 2013; Elhaj et al., 2018). Directors are prohibited from investing the money from the issued bonds in dangerous projects favored by the controlling shareholders or distributing the money from the issued bonds as dividends to the company's shareholders. It is expected that the risk of outstanding bonds will decrease so that the rating status of the company's bonds will increase (Grassa, 2016).

Meanwhile, R. Khalil et al. (2020) found that independent directors with multiple directorships allocate their monitoring efforts unevenly depending on the relative prestige of the director. A bank loan from a company with a higher proportion of independent directors has a relatively higher bond rating. The attention of independent directors is associated with lower borrowing costs (Huang et al.,2018). The above research results prove the importance of having a board of independent commissioners to represent minority shareholders in a *Ṣukūk* issuing company.

Several studies have examined the different effects of the size of the Sharīʿah board. An Islamic board with a higher number of scholars will be an indirect incentive for the management's opportunistic behavior, which ensures better management decision-making and leads to better credit rating (Grassa, 2016). Previous research proves the importance of a Sharīʿah supervisory board, especially for *Ṣukūk* issuing companies whose mechanisms are regulated based on Islamic law, which is undoubtedly different from the rules for bonds in general. A Sharīʿah supervisory board also ensures that the company will apply Islamic rules accordingly (Menkumham, 2008). Islamic banks and bank management have the option to accept and follow their advice or not, which in turn can challenge the influential role played by the Sharīʿah board as a body to supervise Sharīʿah practices in Islamic banks (Grassa, 2013). The supervisory role of the Sharīʿah board will indirectly monitor and control the management activities to make better decisions to reduce the risk of default which in turn may affect its credit rating.

Accurate information must meet two principles, namely transparency and disclosure. Therefore, it is necessary to establish an audit committee that oversees the directors and ensures that these principles have been appropriately implemented (Grassa, 2016). If this committee can function properly, there will be a reduction in opportunistic board behavior. In addition, bond issuers will have a low risk of default and an increase in their rating status. The audit committee's effectiveness in performing this function depends on the number of individuals in the position; the more individuals in the audit committee, the better the rating status of the bonds (Marfuah, 2016). Based on previous research, it has been proven that the number of audit committees and their competence can affect a company's credit rating.

The effect of a remuneration committee has not been studied much, especially in *Ṣukūk* issuing companies. The remuneration of an independent committee strengthens the link between top managers' salaries and company performance. The independent remuneration committee pays top managers more (Usman et al., 2020). High salaries affect the performance of CEOs, which is consistent with the managerial premise because top managers who work for companies with better governance receive less income than companies with poor governance. The quality of the internal governance structure affects the sensitivity of performance payments. These results are consistent with the optimal contract theory and the managerial power assumption (Elmagrhi et al., 2020). More independent boards and larger companies strengthen the association between pay and performance (Blanes et al., 2020). The results of this study indicate that the existence of a remuneration committee can improve GCG, which in turn, affects increasing the rating of *Ṣukūk*.

Based on the above explanation, the first assumption of this research is as follows:

H1: Each supervisory function in the GCG structure affects Ṣukūk rating.

The empirical results confirm that the Sharīʿah board has a significant and positive effect on the financial performance of Islamic banks in terms of return on assets (as an indicator of return rate) and capital adequacy ratio (as an indicator of capital level), and has a negative effect on non-financial performance (as an indicator of funding risk). At the same time, the board of directors significantly affects the financial performance of Islamic banks, following the three components of the Sharīʿah supervisory board (Darwanto & Chariri, 2019). GCG and CSR (corporate social responsibility) mechanisms have a positive effect on financial performance and earnings management (Mahrani & Soewarno, 2018). Good Corporate Governance has a significant effect on stock returns in a negative direction but has no significant effect on financial performance (Kurniati, 2019). Bank governance scores can directly affect the performance of banks as measured by ROA and ROE. The bank governance score is positive and significant for ROA (Return On Asset) and ROE (Return On Equity) models. Bank stability is also favourable for bank performance, which shows an indirect contribution of GCG rating to bank performance.

Institutional ownership, a number of meetings and commissions have a significant positive effect on net working capital turnover (NWCT); only the number of commissioners variable is not proven. NWCT has a significant positive effect on ROE, while the variables of number of meetings and number of commissioners are not proven. NWCT is proven to mediate the relationship between several meetings and ROE, while the other variables are not proven (Wijaya, Rohman & Zulaikah, 2018). GCG is the most significant determinant of bank profitability. GCG and the combination of better credit risk management and the right business strategy can increase banks' profitability (Ghalib, 2018). The remuneration and nomination committee (CNC) has a negative relationship with executive remuneration (EC). While the variable of beneficial ownership (BO), which is used as the dependent variable in this study, reveals the possibility of agency problems or inactive block holder conditions that make the role of corporate supervision ineffective, as the results show that the more BO, the more EC, and worse corporate performance (Chou & Buchdadi, 2018). Based on the previous research results, the following assumption can be derived:

H2: Each of the supervisory functions in the MCM structure affects financial performance.

The reliability of the financial disclosure quantity (FDQ) affects *Ṣukūk rating*, but not that of bonds. Leverage is considered the most influential factor in rating *Ṣukūk* and bonds. FDQ, to some extent, was found to influence the relationship between ABR-Arbor Realty (i.e. operating income, leverage and ROI) and *Ṣukūk* or bond rating. The distinction between *Ṣukūk* and bond issuers is not empirically proven. Furthermore, there is additional evidence that relevance stands out more than reliability, and bond ratings are more affected by financial size variability than *Ṣukūk*; further research is needed to confirm this. This is sufficient evidence of the extensive relevance of the value of financial disclosures in *Ṣukūk* and bond markets (Qizam & Fong, 2019). Thus, it can be concluded that there are performance differences between *Ṣukūk* and bonds in terms of corporate performance and rating. Meanwhile, based on the research results and data on the effect of profitability and liquidity on bond ratings and their effect on bond yields, it can be concluded that profitability has a significant effect on bond ratings, liquidity has no significant effect on bond ratings, and bond ratings have a significant effect on bond yields (Dewi & Utami, 2020). The above research provides evidence of the importance of financial performance in increasing a company's credit rating.

The results of other studies indicate that after controlling company characteristics, *Ṣukūk* rating is positively related to CEO-Chairman duality, board size and independence, and negatively correlated with leverage, while positively associated more with profitability and size. The results of this study also prove that having two positions in an organization, CEO and chairman, can increase the responsibility in corporate decision-making and provide better rating performance of *Ṣukūk*. Furthermore, the results show that the larger the board size, the better the *Ṣukūk* rating. In addition, greater board independence leads to better ratings (Elhaj et al., 2018). There is a significant positive relationship between CEO network centrality and bond rating, indicating that companies with better-connected CEOs receive better bond ratings. Companies with better-connected CEOs experience a lower cost of debt, which is measured by bond yield. The results are consistent with the notion in social science that well-connected CEOs can provide positive outcomes and benefit their companies (Skousen et al., 2018). Based on the above explanation, the third assumption is derived as follows:

H3: Financial performance affects Ṣukūk rating.

Previous studies have successfully provided evidence of the influence of GCG on financial performance (Mahrani & Soewarno, 2018; Chou & Buchdadi, 2018; Ghalib, 2018; Kurniati, 2019; Darwanto & Chariri, 2019). Other studies can also provide evidence of the influence of financial performance on credit ratings (Elhaj et al., 2018; Skousen et al., 2018; Qizam & Fong, 2019; Dewi & Utami, 2020). A better supervisory function will lead to better governance, so it can improve the company's performance, which in turn can increase the rating of *Ṣukūk* issued. Based on the above evidence, it can be concluded that financial performance is appropriate to be used as an intervening variable in influencing the GCG on *Ṣukūk* rating.

H4: Financial performance can mediate the effect of the supervisory function in the GCG structure on Ṣukūk rating.

2.5. Control variable

This study uses company characteristics namely: company size, age and leverage as control variables. Company size shows the resources and capabilities of a company. Large companies tend to be more leveraged, which exposes them to a greater risk of bankruptcy. Previous research has shown that company size has a positive effect on the company's credit rating (de Souza Murcia et al., 2014; Borhan & Ahmad, 2018). The age of the company shows its maturity in managing the business. Previous research has shown that the age of the company affects the credit rating of the company (Marshall et al., 2019; Lin et al., 2020). Leverage shows how companies use their debt. The higher the company's debt relative to its equity, the greater the risk of default it may face. Previous research has proven that there is a negative influence between leverage and credit rating (Ashbaugh-Skaife et al., 2006; Harper et al., 2019).

3. Research Methodology

3.1. Sample

This research examines *Ṣukūk* that were still outstanding as of December 31, 2020, which is 250 *Ṣukūk*. After using the purposive sampling method by eliminating 9 MTN (Medium Term Notes) *Ṣukūk*, 1 *Ṣukūk* whose company was already bankrupt, 3 *Ṣukūk* that did not pay until 2020 and 15 *Ṣukūk* with incomplete data, the final sample used was 222 *Ṣukūk*. *Ṣukūk* rating data was obtained from the Indonesia Bond Market Directory report on the official website of the Indonesia Stock Exchange. Data on the supervisory function of each *Ṣukūk* issuing company can be found in the annual report published one year before the issuance of each *Ṣukūk*. The supervisory function here is divided into the number of commissioners, percentage of independent boards of commissioners, number of Sharīʿah boards, length of experience of the Sharīʿah board, number of audit committees and length of experience of the audit committee, remuneration committee and length of experience of the remuneration committee exercising supervisory function in each *Ṣukūk* issuing company. These divisions perform supervisory functions according to their respective areas.

3.2. Research Model

A structure-based oversight function in the MCM consists of a particular structure. First, is the existence of a Board of Commissioners and an independent Board of Commissioners. In Indonesia, which implements a two-tier system, there is a separation between the Board of Directors and the Board of Commissioners. On the board of commissioners, some commissioners are also shareholders of the company and a board of independent commissioners. An independent commissioner means that he or she has no relationship with the company, either as a shareholder or by serving in the executive structure of the company. This independent auditor is responsible for representing the minority shareholders, so his presence is necessary for the supervisory function. The second supervisory function is for companies that issue financial instruments with Sharīʿah contracts; for these, the existence of a Sharīʿah supervisory board is essential in the supervisory function. The number of Sharīʿah supervisory boards and their experience in this field are essential to ensure the implementation of Sharīʿah provisions. Third, there is the audit committee whose task is to review the company's financial statements and check whether they comply with the applicable accounting standards. Their existence and experience are necessary to ensure accountability and financial transparency in this area. Fourth, the remuneration committee is responsible for overseeing the awarding of remuneration for the executive function (company officer), to determine whether it meets the principles of fairness and honesty for all parties. Therefore, it is expected that the existence of the remuneration committee and its experience can achieve the GCGs in the company. Based on the above research model image, the following is the research equation model:

*Ṣukūk Rating = α + β1 Board size + β2 Board Independent + β3 Sharīʿah Board Size + β4 Sharīʿah Board Experience + β5 Audit Committee Size + β6 Audit Committee Experience + β7 Remuneration Committee Size + β8 Remuneration Committee Experience + β9 Leverage + β10 Firm Size + β11 Firm Age + ε......................**(H1)***

*Financial Performance (ROA) = α + β1 Board size + β2 Board Independent + β3 Sharīʿah Board Size + β4 Sharīʿah Board Experience + β5 Audit Committee Size + β6 Audit Committee Experience + β7 Remuneration Committee Size + β8 Remuneration Committee Experience + β9 Leverage + β10 Firm Size + β11 Firm Age + ε..**(H2)***

*Ṣukūk Rating = α + β1 ROA + β2- β4 Control Variable + ε...**(H3)***

*Ṣukūk Rating = α + β1 Board size + β2 Board Independent + β3 Sharīʿah Board Size + β4 Sharīʿah Board Experience + β5 Audit Committee Size + β6 Audit Committee Experience + β7 Remuneration Committee Size + β8 Remuneration Committee Experience + β9 Financial Performance + β10 Leverage + β11 Firm Size - β12 Firm Age + ε ....**(H4)***

3.3. Measurement of variables

In order to better understand each variable, we describe below the definition, measurement and type of scale for each variable in this study, which is described in Table 1 on operational variables:

Table 1. Variable Measurement

Variable	Measurement	Scale
Dependent Variable		
Ṣukūk Rating $_{t-1}$ (y)	Ṣukūk rating by Pefindo AAA = 7, AA+ - AA- = 6, A+ - A- = 5, BBB+ - BBB- = 4, BB+ - BB- = 3, B+ - B- = 2, D-CCC+ = 1	Ordinal
Independent Variable		
Supervisory Board Size $_{t-1}$ (x1a)	Number of commissioners a year prior to the issuance of the ṣukūk	Ratio
Supervisory Board Independence $_{t-1}$(x1b)	The ratio of the independent board of commissioners to the board of commissioners a year before the issuance of the ṣukūk	Ratio
Sharīʿah Supervisory Board Size $_{t-1}$ (x2a)	Number of Sharīʿah supervisory boards a year before the issuance of the ṣukūk	Ratio
Sharīʿah Supervisory Board Experience $_{t-1}$ (x2b)	The average length of experience of the Sharīʿah board in this field is a year before the issuance of the ṣukūk	Ratio

Audit Committee Size $_{t-1}$ (x3a)	Number of audit committees a year prior to the issuance of the ṣukūk	Ratio
Audit Committee Experience $_{t-1}$ (x3b)	The average length of experience of the audit committee in this field is one year prior to the issuance of the ṣukūk	Ratio
Remuneration Committee Size $_{t-1}$ (x4a)	Number of remuneration committees a year before the issuance of the ṣukūk	Ratio
Remuneration Committee Experience $_{t-1}$ (x4b)	The average length of experience of the remuneration committee in this field is one year prior to the issuance of the ṣukūk	Ratio
Mediating Variable		
Financial Performance $_{t-1}$ (z)	ROA (return on assets) a year prior to the issuance of the ṣukūk	Ratio
Control Variable		
Leverage$_{t-1}$ (c1)	Ratio of long-term debt to the market value of total assets 1 year prior to the issuance of the ṣukūk	Ratio
Firm Size $_{t-1}$ (c2)	Natural log of total assets a year prior to the issuance of the ṣukūk	Ratio
Firm Age $_{t-1}$ (c3)	The natural log of the firm's age (in years). One year prior to the issuance of the ṣukūk	Ratio

Source: Authors' Own

3.4. Assumption Testing Methods

Descriptive statistics were used to provide an overview and distribution of the research data. At this stage, they were used to determine the mean, median, standard deviation, minimum and maximum values that can provide information about the data distribution. Once the descriptive statistics were determined, the next step was to test the feasibility of the research model. Next comes assumption testing. This study used the same methodology as that used by (Ashbaugh-Skaife et al., 2006). The results of the empirical tests based on the above model were aimed at examining the effect of GCG supervisory function on *Ṣukūk* rating. Since the dependent variable (*Ṣukūk* rating) is an ordinal scale, this study uses ordinal logistic regression to test the Assumptions, as the seven categories of *Ṣukūk* rating are on an ordinal scale. The effect of GCG supervisory function on financial performance was tested by multiple regression. At the same time, the indirect effect of GCG supervisory function on *Ṣukūk* rating was tested through the financial performance calculated using Sobel test. After testing the assumption, the next step was to interpret the results and finally draw the study's conclusions, limitations and implications.

Descriptive statistics describing the data distribution across all observations in this study are presented in Table 2.

Table 2. Basic Statistics

Variable	N	Mean	Median	StDev	Minimum	Maximum
Ṣukūk rating	222	6.3108	7.0000	1.1003	1.0000	7.0000
Supervisory Board Size	222	6.613	6.000	2.191	3.000	10.000
Supervisory Board Independence	222	0.3302	0.3333	0.1771	0.0000	1.0000
Sharīʿah Supervisory Board Size	222	0.8694	0.0000	1.2389	0.0000	3.0000
Sharīʿah Supervisory Board Experience	222	2.511	0.000	3.934	0.000	17.000
Audit Committee Size	222	3.5586	3.0000	1.4122	0.0000	7.0000
Audit Committee Experience	222	3.525	2.833	2.964	0.000	13.667
Remuneration Committee Size	222	2.968	4.000	1.939	0.000	6.000
Remuneration Committee Experience	222	1.6814	1.7500	1.3803	0.0000	5.6667
Financial Performance	222	0.0123	0.0092	0.0289	-0.0572	0.0769
Leverage	222	18.168	17.821	1.708	15.168	21.184
Firm Size	222	3.6585	3.9703	0.5822	2.3979	4.7791
Firm Age	222	0.4596	0.3766	0.2252	0.0873	0.8953

Notes: This table reports summary statistics for the variables include in our main regressions.

Source: Authors' Own

Based on Table 2 above. we see that the average *Ṣukūk* rating is 6.3, meaning it has an AA-. AA or AA+ rating. The average number on the board of commissioners is 6.6. or rounded to 7 people in each company. The average percentage of independent commissioners is 33% of the full board of commissioners. The number of Sharīʿah supervisory boards is 0.86 or rounded to 1. This proves that not all *Ṣukūk* have a Sharīʿah supervisory board in their company. The experience of the Sharīʿah supervisory board is an average of 2.5 years having served in the same position in the company concerned and in other companies. The average number of audit committees is 3.55 or rounded to 4 people with an average experience of 3.5 years. The average number of remuneration committees is 2.9 or rounded to 3 people with an average experience of 1.68 or rounded to 2 years. The intervening variable in this study is financial performance as measured by ROA with an average of 0.01232, meaning that the net profit of the *Ṣukūk* issuing company to its total assets is 1.23%. This is because several *Ṣukūk* issuing companies suffered losses the year before issuing the *Ṣukūk*. The structure of the supervision function in GCG coupled with the company's financial performance and three control variables greatly influence the Ṣukūk rating, with an adjusted square value of 95.3%. Therefore, a company issuing *Ṣukūk* must pay attention to the structure of the supervision function within the company to increase its *Ṣukūk* rating.

4. Findings

4.1. The effect of the supervisory function in the GCG structure on Ṣukūk rating

The first assumption of this study examines the effect of each supervisory function of the GCG on *Ṣukūk* rating. The supervisory function of GCG greatly influences *Ṣukūk* rating, as shown by the concordance value of 95.3%. This means that 95.3% of the *Ṣukūk* rating is influenced by the structure of the GCG supervisory function, while other factors influence the rest, and it shows that the existence of a supervisory function in a company is essential, especially to increase the rating of the *Ṣukūk* it issues. The results of the first assumption test can be described as follows:

Table 3. First Assumptions Test

Variable	Coef	SE Coef	p-Value
Constant			
Supervisory Board Size	-0.5385***	0.1695	0.001***
Supervisory Board Independent	7.9743***	1.6691	0.000***
Sharīʿah Supervisory Board Size	-0.2903	0.3393	0.392
Sharīʿah Supervisory Board Experience	-0.4697***	0.1163	0.000***
Audit Committee Size	0.7063**	0.2790	0.011**
Audit Committee Experience	-0.2171**	0.1080	0.044**
Remuneration Committee Size	-0.1150	0.2069	0.578
Remuneration Committee Experience	-0.3419	0.3448	0.321
Leverage	-1.4247***	0.3087	0.000***
Firm Size	1.1346**	0.4626	0.014**
Firm Age	6.4484***	1.6466	0.000***

Source: Authors' Own

The results of the direct effect test of supervisory function on *Ṣukūk* rating in Table 3 prove that all the elements can exert influence, except the size of Sharīʿah supervisory board, the size of the remuneration committee and their experiences. The number of supervisory boards, the experience of the Sharīʿah supervisory board, the experience of the audit committee and the leverage have a negative effect on the rating of *Ṣukūk*. This means that the more boards and the more experience, the lower the *Ṣukūk* rating. On the other hand, the increase in the number of audit committees, the independence of the supervisory board, the size and age of the company have a positive effect, which means that the *Ṣukūk* rating results are higher. This result proves that an experienced supervisory function has indeed lowered *Ṣukūk* rating. This indicates that a *Ṣukūk with* a low rating requires staff in more supervisory functions and involves people with longer experience than *Ṣukūk* with a high rating.

4.2. The effect of the supervisory function in the GCG structure on financial performance

The GCG supervisory function model, which consists of nine financial performance variables, has an R-squared value of 46.26%. This means that 46.26% of financial performance is influenced by the supervisory function in the GCG structure, while other factors influence the rest.

Table 4. Test of the second assumption

Variable	Coef	SE Coef	p-Value	VIF
Constant	0.0129	0.0219	0.558	
Size of the Supervisory Board	-0.0061***	0.0010	0.000***	2.17
Supervisory Board Independent	0.0478***	0.0100	0.000***	1.44
Size of the Sharīʿah Supervisory Board	0.0131***	0.0022	0.000***	3.57
Experience of the Sharīʿah Supervisory Board	-0.0011	0.0009	0.215	5.50
Size of the Audit Committee	-0.0025	0.0015	0.111	2.21
Audit committee experience	-0.0011*	0.0006	0.077*	1.63
Size of the Remuneration committee	0.0035***	0.0013	0.008***	2.97
Remuneration committee Experience	-0.0011	0.0019	0.542	3.03
Leverage effect	0.0012	0.0013	0.360	2.13
Company size	0.0047	0.0030	0.123	1.41
Age of the company	-0.0401***	0.0125	0.002***	3.63

Source: Multiple regression results

Source: Authors' Own

The results of the statistical output in Table 4 show that there are 5 structures of the supervisory function in the GCG that affect financial performance, namely: the size of the supervisory board, and the size of independent supervisory boards. The size of the Sharīʿah supervisory boards, the experience of the audit committee and the size of the remuneration committee in *Ṣukūk* issuing companies. On the other hand, the experience of the Shari'ah supervisory board, the audit committee's size and the remuneration committee's experience do not affect the financial performance. As far as the control variables are concerned, only company size has an impact on *Ṣukūk* rating. This shows that the size of the company is taken into account by PEFINDO in determining the rating of *Ṣukūk*. The number of supervisory board and audit committee experiences has a negative effect, while the number of independent auditors, the number of Sharīʿah supervisory boards and the number of remuneration committees have a positive effect on financial performance. This proves that a company's financial performance is influenced not only by the number of people involved in the supervisory function or their experience, but also by other factors.

4.3. The effect of financial performance on *Ṣukūk* ratings

The feasibility of this model, which is indicated by the concordant value, is 89%. This means that 89% of *Ṣukūk* rating is influenced by the company's performance, while other factors influence the rest. After the model was declared fit, it could continue to test the Assumptions. The research results regarding the effect of financial performance as represented by ROA on *Ṣukūk* rating can be proved in the following table:

Table 5. Test of the Third Assumption

Variable	Coef	SE Coef	p-value
Const-Ṣukūk Rating C & D	22.3852***	4.3535	0.000***
Const-Ṣukūk Rating BBB	23.1120***	4.3291	0.000***
Const-Ṣukūk Rating A	23.5288***	4.3238	0.000***

Const-Ṣukūk Rating AA	27.2645***	4.4625	0.000***
Const-Ṣukūk Rating AAA	27.3919***	4.4678	0.000***
Financial performance	11.2015*	5.9060	0.058*
Leverage effect	-1.6878***	0.2434	0.000***
Company size	0.1804	0.3348	0.590
Age of the company	1.0734	0.8451	0.204

Source: Authors' Own

Table 5 provides the results of the test on the effect of financial performance (ROA) on *Ṣukūk* rating. This study proves its effect positively. This shows that profitability is one of the elements that determine the rating of *Ṣukūk* issued by a company; the higher the company's performance, the higher the *Ṣukūk* rating. At the same time, the only control variable that affects this model is the company's leverage, while the other variables have no effect. This proves that the leverage of the company is important enough to determine the *Ṣukūk* rating of the company.

4.4. The indirect effect of the supervisory function in the GCG structure on Ṣukūk rating through financial performance.

The last assumption tested the ability of financial performance to mediate the association between GCG supervisory function and *Ṣukūk* rating. This indirect effect was tested using the online Sobel test. The results of the study are presented in Table 6 below:

Table 6. Fourth Assumption Test

Note	Test statistics	p-value
x1a to y through z	-1.8125*	0.0699*
x1b to y through z	1.7629*	0.0779*
x2a to y by z	1.8966*	0.0579*
x2b to y by z	-1.0397	0.2985
x3a to y through z	-1.2258	0.2203
x3b to y through z	-1.2977	0.1944
x4a to y through z	1.5510	0.1209
x4b to y through z	-0.5832	0.5598

Source: http://quantpsy.org/sobel/sobel.htm

From Table 6, it can be concluded that financial performance, as measured by ROA, can influence the association between the supervisory function, including the number of supervisory boards, the percentage of independent supervisory boards, the number of Sharīʿah supervisory boards, and *Ṣukūk* rating. However, the financial performance failed to mediate the association of other supervisory function structures to *Ṣukūk* rating. The results of this study prove that the existence of a supervisory board, independent supervisory board and Sharīʿah supervisory board is necessary to increase the *Ṣukūk* rating of a company.

5. Discussion and Implications

A growing body of research focuses on the attributes of corporate governance from the perspective of bondholders (Alali et al. 2012; Alkhawaldeh. 2012; Aman & Nguyen. 2013; Jiraporn et al. 2014). Empirical research proves that corporate governance attributes mitigate not only agency conflicts between owners and managers but also potential conflicts between bondholders and shareholders that may lead to wealth transfer effects between them (Alali et al.. 2012; Aman & Nguyen. 2013; Jiraporn et al.. 2014). Therefore. GCG is needed which can help to reduce these conflicts. One of the most important functions of GCG is the supervisory function to create responsibility, accountability, transparency, independence and fairness between the parties with interest in the *Ṣukūk* issuing company.

The results of this study prove that the supervisory function is very important in GCG, as it can affect the company's performance and *Ṣukūk* rating. It has also been shown that the independence of the supervisory board affects the financial performance and *Ṣukūk* rating of a company. Companies with a high percentage of independent boards have relatively higher credit ratings and better financial performance (R. Khalil et al., 2020; Huang et al., 2018). An independent supervisory board is necessary to represent minority shareholders in a *Ṣukūk* issuing company. In addition, the existence of the Sharīʿah supervisory board in a *Ṣukūk* issuing company has also been proven to *have* a significant influence on both improving the financial performance and rating of its *Ṣukūk*. The Sharīʿah board is essential to ensure the implementation of transactions in accordance with Islamic rules so that it can increase the confidence of *Ṣukūk* investors and *Ṣukūk* rating agencies, which in turn leads to an increase in the rating of a company (Grassa. 2013; Grassa. 2016). The supervisory role of the Sharīʿah board is indirectly able to monitor and control the management activities to ensure better decisions.

The existence of an audit committee and a remuneration committee can meet two principles of financial reporting, namely transparency and disclosure. They are responsible for overseeing the board of directors, ensuring that the above principles have been appropriately implemented and providing remuneration incentives based on the actual performance of directors (Grassa, 2016; Usman et al., 2020). If executed properly, the audit and remuneration committees would reduce the risk of default and increase the rating of *Ṣukūk* (Marfuah. 2016). One of the qualities of corporate governance is influenced by the remuneration system so that it can improve the company's performance (Elmagrhi et al., 2020; Blanes et al. , 2020). The results of this study indicate that the existence of an audit committee and remuneration committee can improve financial performance.

It has been proven that company performance, both directly and as a mediator, can influence *Ṣukūk* ranking. Company profitability shows the ability of the company to generate profits, so this information is vital for *Ṣukūk* ranking (Qizam & Fong, 2019; Elhaj et al., 2018; Skousen et al., 2018; Dewi & Utami, 2020). The results of this study provide new evidence that financial performance can mediate the effect of GCG supervision function on *Ṣukūk* ranking. A better supervisory function will lead to better governance so that it can improve the performance of the company, which in turn can increase the rating of the issued *Ṣukūk*. The supervisory function can reduce the binding cost in the Agency Theory, to ensure that the agent (manager) does not harm the principal. In addition, it can also reduce the monitoring costs in the case of *Ṣukūk* issuance, which involves not only the usual monitoring function but also a Sharīʿah supervisory board that oversees compliance with Islamic rules in corporate transactions. The more the parties supervise the managers, the more the companies will stay on track.

6. Conclusion and Limitations

This study aims to provide empirical evidence of financial performance in mediating the association between supervisory function and *Ṣukūk* rating. A total of 222 *Ṣukūk* that were still circulating on the IDX (Indonesian index) as of December 31st 2020, were tested, in order to show the results of the effect of the entire structure of the supervisory function of the GCG on *Ṣukūk* rating. The supervisory board's independence and the audit committee's size are the variables that influence *Ṣukūk* rating the most. In addition, ṣukūk rating is also influenced by the size of the supervisory board, experience of the Sharīʿah supervisory board, and experience of the audit committee. It has also been proved that the supervisory function of GCG affects the financial performance, especially in the 5 supervisory functions, namely: the number of supervisory boards, the percentage of independent supervisory boards, the number of Sharīʿah supervisory boards, the experience of audit committees and the number of remuneration committees. Independent supervisory board and number of Sharīʿah supervisory boards are the most influential variables in the association. Financial performance as an intervening variable has also been shown to have a direct effect on *Ṣukūk* rating. The results of this direct effect were determined by entering three control variables, namely: company age, company size and leverage. At the same time, the indirect effect of GCG monitoring function on *Ṣukūk* rating through financial performance provides positive evidence. Financial performance has successfully mediated the influence of some supervisory functions (the number of supervisory boards, the number of independent supervisory boards, and the number of Sharīʿah supervisory boards) on *Ṣukūk* rating. On the other hand, there is no evidence that other elements of the supervisory function of GCGs are mediated by financial performance.

This study attempted to provide empirical evidence that the supervisory function of the GCG in *ṣukūk* issuance is different from that of conventional bonds, especially with the existence of a Sharīʿah supervisory board which is necessary to supervise the compliance of activities with Sharīʿah. This research may be a reference for Ṣukūk issuing companies in terms of its GCG structure and promoting Ṣukūk rating. As for the regulators, the results of this study can be used as a basis in setting rules for GCG in Islamic companies. In addition to being both a practical and theoretical contribution, this research also has some limitations; first, it uses a small sample, of only 222 *Ṣukūk* circulating on the IDX; second, the indirect effect on ordinal scale-independent variables cannot be tested directly with some statistical software, but by a calculation based on the Sobel test which can be performed online. Future studies could involve a larger number of *Ṣukūk* and compare them across different countries. The differences in rules and culture that exist in a country may lead to different results. In addition, future research can also use *Ṣukūk* ratings with different measures, for example, on a ratio scale, so that the effects can be tested using path analysis.

References

Aidi. A. bin H.. & Salama. M. (2019). Guarantees in Sukūk between Sharī'ah objectives and contract conditions. *Journal of King Abdulaziz University. Islamic Economics*. *32*(1). 127–144. https://doi.org/10.4197/Islec.32-1.10

Alali. F.. Anandarajan. A. & Jiang. W. (2012). The effect of corporate governance on the Firm's credit ratings: Further evidence using governance score in the United States. *Accounting and Finance*. *52*(2). 291–312. https://doi.org/10.1111/j.1467-629X.2010.00396.x

Alam. N.. Bhatti. M.. & Wong. J. T. F. (2018). Assessing Ṣukūk defaults using value-at-risk techniques. *Managerial Finance*. *44*(6). 665–687. https://doi.org/10.1108/MF-05-2018-0218

Alkhawaldeh. A. A. (2012). Effects of family and foreign ownership structure on Jordanian credit risk assessments. *International Research Journal of Finance and Economics*. *90*(90). 92–113.

Al-Masri. R. Y. (2021). *Islamic Jurisprudence Of Financial Transactions*. https://iei.kau.edu.sa/Files/121/Files/152672_Al-Masri-Book.pdf

Altwijry. O. I. (2015). The Role of Corporate Governance and Ownership in Unconventional Bond Rating : Empirical Evidence from Companies Listed on Bursa Malaysia. *Journal of Islamic Economics Banking and Finance*. *11*(2). 105–117. https://doi.org/10.12816/0024917

Aman. H.. & Nguyen. P. (2013). Does good governance matter to debtholders? Evidence from the credit ratings of Japanese firms. *Research in International Business and Finance*. *29*(1). 14–34. https://doi.org/10.1016/j.ribaf.2013.02.002

Ashbaugh-Skaife. H.. Collins. D. W.. & LaFond. R. (2006). The effects of corporate governance on firms' credit ratings. *Journal of Accounting and Economics*. *42*(1–2). 203–243. https://doi.org/10.1016/j.jacceco.2006.02.003

Bao. M. X.. & Tanyi. P. (2020). Does auditor ratification matter to bondholders? Evidence from new bond issues. *Journal of Accounting and Public Policy*. *39*(4). 106765. https://doi.org/10.1016/j.jaccpubpol.2020.106765

Biglaiser. G.. & McGauvran. R. (2021). The effects of bond ratings on income inequality in the developing world. *Business and Politics*. *23*(1). 36–66. https://doi.org/10.1017/bap.2020.1

Blanes. F.. de Fuentes. C.. & Porcuna. R. (2020). Executive remuneration determinants: New evidence from meta-analysis. *Economic Research-Ekonomska Istrazivanja* . *33*(1). 2844–2866. https://doi.org/10.1080/1331677X.2019.1678503

Borhan, N. A., & Ahmad, N. (2018). Identifying the determinants of Malaysian corporate Ṣukūk rating. *International Journal of Islamic and Middle Eastern Finance and Management*, *11*(3), 432–448. https://doi.org/10.1108/IMEFM-02-2017-0045

Bradford. W.. Chen. C.. & Zhao. Y. (2019). The effect of corporate governance on credit ratings: Evidence from China's bond market. *Journal of International Financial Management and Accounting*. *30*(2). 113–144. https://doi.org/10.1111/jifm.12094

Chiang. W. C.. Shang. J.. & Sun. L. (2017). Broad bond rating change and irresponsible corporate social responsibility activities. *Advances in Accounting*. *39*(May). 32–46. https://doi.org/10.1016/j.adiac.2017.09.002

Chou. T. K.. & Buchdadi. A. D. (2018). Executive's remuneration, good corporate governance, ownership structure, and firm performance: A study of listed banks in Indonesia. *Journal of Business and Retail Management Research*. *12*(3). 79–91. https://doi.org/10.24052/jbrmr/v12is03/art-07

Darwanto. & Chariri. A. (2019). Corporate governance and financial performance in Islamic banks: The role of the Sharīʿah supervisory board in multiple-layer management. *Banks and Bank Systems*. *14*(4). 183–191. https://doi.org/10.21511/bbs.14(4).2019.17

de Souza Murcia, F. C., Murcia, F. D. R., Rover, S., & Borba, J. A. (2014). The determinants of credit rating: Brazilian evidence. *BAR - Brazilian Administration Review*, *11*(2), 188–209. https://doi.org/10.1590/S1807-7692201400020005

Dewi. M. S.. & Utami. E. M. (2020). The influence of profitability and liquidity to bonds rating and the impact on the bond yield. *International Journal of Research in Business and Social Science (2147-4478)*. *9*(4). 214–219. https://doi.org/10.20525/ijrbs.v9i4.729

Elhaj. M. A.. Muhamed. N. A.. & Ramli. N. M. (2018). The effects of board attributes on Ṣukūk rating. *International Journal of Islamic and Middle Eastern Finance and Management*. *11*(2). 312–330. https://doi.org/10.1108/IMEFM-03-2017-0057

Elmagrhi. M. H.. Ntim. C. G.. Wang. Y.. Abdou. H. A.. & Zalata. A. M. (2020). Corporate Governance Disclosure Index–Executive Pay Nexus: The Moderating Effect of Governance Mechanisms. *European Management Review*. *17*(1). 121–152. https://doi.org/10.1111/emre.12329

Ghalib. S. (2018). Good corporate governance rating and bank profitability in Indonesia: Evidence from panel data. *International Journal of Business and Society*. *19*(3). 570–586.

Grassa. R. (2013). *Sharīʿah supervisory system in Islamic financial institutions New issues and challenges : a comparative and GCC models*. *29*(4). 333–348. https://doi.org/10.1108/H-01-2013-0001

Grassa. R. (2016). Corporate governance and credit rating in Islamic banks: Does Sharīʿah governance matters? In *Journal of Management and Governance* (Vol. 20. Issue 4). Springer US. https://doi.org/10.1007/s10997-015-9322-4

Harper, J., Kemper, K. J., & Sun, L. (2019). Managerial ability and bond rating changes. *Financial Markets, Institutions and Instruments*, *28*(5), 381–401. https://doi.org/10.1111/fmii.12123

Hartanto. J. A.. & Sulaksono. (2019). Applications of good corporate governance relating to shareholders. Commissioners, and directors of limited liability companies in Indonesia. *Problems and Perspectives in Management*. *17*(3). 410–420. https://doi.org/10.21511/ppm.17(3).2019.33

Hong. S. (2019). Corporate governance and agency problems. *International Journal of Economics and Business Research*. *17*(1). 70–86. https://doi.org/10.1504/IJEBR.2019.096586

Huang. H. H. Lobo. G. J. Wang. C. & Zhou. J. (2018). Do Banks Price Independent Directors' Attention? *Journal of Financial and Quantitative Analysis*. *53*(4). 1755–1780. https://doi.org/10.1017/S0022109018000157

Jensen M. Meckling W (1976) Theory of the firm: managerial behavior, agency costs, and ownership structure. Journal of Financial Economics 3: 305-360. https://doi.org/10.1016/0304- 405X(76)90026-X

Jiraporn. P.. Jiraporn. N.. Boeprasert. A.. & Chang. K. (2014). Does corporate social responsibility

(CSR) improve credit ratings? Evidence from geographic identification. *Financial Management*. *43*(3). 505–531. https://doi.org/10.1111/fima.12044

Khalil. R.. Shuib. M. S. Bin. & Shahzad. A. (2020). Corporate governance indicators and firm value: Evidence of Sharīʿah compliant firms from Pakistan. *International Journal of Psychosocial Rehabilitation*. *24*(9). 2434–2451. https://doi.org/10.37200/IJPR/V24I9/PR290275

Kurniati. S. (2019). Stock returns and financial performance as mediation variables in the influence of good corporate governance on corporate value. *Corporate Governance (Bingley)*. *19*(6). 1289–1309. https://doi.org/10.1108/CG-10-2018-0308

Lin, C. M., Chen, C. C. S., Yang, S. Y., & Wang, W. R. (2020). The Effects of Corporate Governance on Credit Ratings: The Role of Corporate Social Responsibility. *Emerging Markets Finance and Trade*, *56*(5), 1093–1112. https://doi.org/10.1080/1540496X.2018.1512486

Mahrani. M.. & Soewarno. N. (2018). The effect of good corporate governance mechanism and corporate social responsibility on financial performance with earnings management as mediating variable. *Asian Journal of Accounting Research*. *3*(1). 41–60. https://doi.org/10.1108/ajar-06-2018-0008

Marfuah. M. (2016). Pengaruh Good Corporate Governance Dan Debt Maturity Terhadap Prediksi Bond Rating. *EKUITAS (Jurnal Ekonomi Dan Keuangan)*. *20*(4). 434.https://doi.org/10.24034/j25485024.y2016.v20.i4.2079

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. https://doi.org/10.26740/jaj.v7n2.p102-119

Marshall, A., McCann, L., & McColgan, P. (2019). The market reaction to debt announcements: UK evidence surrounding the global financial crisis. *British Accounting Review*, *51*(1), 92–109. https://doi.org/10.1016/j.bar.2018.04.001

Menkumham. (2008). No Title Undang Undang No. 21 Tahun 2008 Tentang Perbankan Syariah. *UU No. 21 Tahun 2008*. *21*.

Mseddi. S.. & Naifar. N. (2013). Rating methodology and evaluating the issuer of ṣukūk. *International Journal of Management Science and Engineering Management*. *8*(4). 262–275. https://doi.org/10.1080/17509653.2013.829629

Ntim. C. G.. Soobaroyen. T.. & Broad. M. J. (2017). Governance structures. voluntary disclosures and public accountability: The case of UK higher education institutions. *Accounting. Auditing and Accountability Journal*. *30*(1). 65–118. https://doi.org/10.1108/AAAJ-10-2014-1842

Plakandaras. V.. Gogas. P.. Papadimitriou. T. Doumpa. E.. & Stefanidou. M. (2020). Forecasting credit ratings of eu banks. *International Journal of Financial Studies*. *8*(3). 1–15. https://doi.org/10.3390/ijfs8030049

Putri. A. V.. & Prasetyo. K. (2020). The Effect of Good Corporate Governance Mechanism on Earnings Management in Lq-45 Companies. *The Indonesian Accounting Review*. *14*(4). 11. https://doi.org/10.5709/ce.1897-9254.425

Qizam. I.. & Fong. M. (2019). Developing financial disclosure quality in ṣukūk and bond market: Evidence from Indonesia. Malaysia. and Australia. *Borsa Istanbul Review*. *19*(3). 228–248. https://doi.org/10.1016/j.bir.2019.05.002

Quttainah. M. A.. Song. L. & Wu. Q. (2013). Do Islamic banks employ less earnings management? *Journal of International Financial Management and Accounting*. *24*(3). 203–233. https://doi.org/10.1111/jifm.12011

Sahabbudin. Z. A.. & Hadianto. B. (2020). The impact of the supervisory board on bond ratings of non-financial companies. *Investment Management and Financial Innovations*. *17*(1). 15–23.

Sherif. M.. & Erkol. C. T. (2017). Ṣukūk and conventional bonds: shareholder wealth perspective. *Journal of Islamic Accounting and Business Research*. *8*(4). 347–374. https://doi.org/10.1108/JIABR-09-2016-0105

Shleifer. A.. & Vishny. R. W. (2007). A survey of corporate governance. *Corporate Governance and Corporate Finance: A European Perspective*. *52*(2). 52–90. https://doi.org/10.4324/9780203940136

Skousen. C. J.. Song. X. (Jason). & Sun. L. (2018). CEO network centrality and bond ratings. *Advances in Accounting*. *40*(July 2017). 42–60. https://doi.org/10.1016/j.adiac.2017.12.003

Uhde. D. A.. Klarner. P.. & Tuschke. A. (2017).

Board monitoring by the chief financial officer: A review and research agenda. *Corporate Governance: An International Review*. *25*(2). 116–133. https://doi.org/10.1111/corg.12188

Uribe-Teran. C.. & Mosquera. S. (2019). Structural factors, global shocks and sovereign debt credit ratings. *Journal of Economics and Finance*. *43*(1). 104–126. https://doi.org/10.1007/s12197-018-9435-0

Usman. M.. Siddique. M. A.. Makki. M. A. M.. Gull. A. A.. Dardour. A.. & Yin. J. (2020). Executives' pay–performance link in China: evidence from independent and gender-diverse remuneration committees. *International Journal of Emerging Markets*. https://doi.org/10.1108/IJOEM-09-2019-0701

Wijaya, R. Z., Rohman, A., & ., Zulaikha, Z. (2018). The effect of good corporate governance on financial performance and net working capital turnover as a mediation variable: evidence from Indonesia Stock Exchange (IDX). *Journal of Business & Retail Management Research*, *13*(01), 70–81. https://doi.org/10.24052/jbrmr/v13is01/art-07

Zemzem. A.. & Zouari. S. (2016). Japan's Corporate Governance Structures and Credit Rating. *Asian Journal of Finance & Accounting*. *8* (1). 195. https://doi.org/10.5296/ajfa.v8i1.929

Dwi Sulistiani is a lecturer in Accounting at the Faculty of Education at the State Islamic University of Maulana Malik Ibrahim Malang who is currently taking doctoral studies in the doctoral program in accounting at the Airlangga University. Her research explores the factors affecting organizational performance. He is particularly interested in Shariah accounting, sustainability, shariah supervisory board, Islamic higher education, Islamic economic and Public Sector Accounting. His work has appeared several international journals. E-mail: dwi.sulistiani-2020@feb.unair.ac.id or dwisulistiani@pips.uin-malang.ac.id.

Prof. Dr. Bambang Tjahjadi is a Professor at the Faculty of Economics and Business, Universitas Airlangga for more than 30 years. His research explores the factors affecting organizational performance. He is particularly interested in diverse strategic management issues influencing firm value and performance, management accounting research, sustainability, green innovation, and MSMEs. His work has appeared several international journals. Email: bambang.tjahjadi@feb.unair.ac.id.

هل يُعد الأداء المالي للشركات وسيطًا مؤثرًا في الحوكمة الجيدة لتصنيف الصكوك الإندونيسية؟

داوي سولستياني

طالب دكتوراه، كلية الاقتصاد والإدارة،

جامعة إيرلانجا، إندونيسيا

بمبانج جهيادي

أستاذ، كلية الاقتصاد والإدارة،

جامعة إيرلانجا، إندونيسيا

المستخلص. تُعد الصكوك الإسلامية واحدة من منتجات المالية الإسلامية، لذلك ينبغي العناية بتصنيفها الائتماني . هَدَفت هذه الدراسة إلى تقديم دليل تجريبي عن تأثير حوكمة الشركات الجيدة على التصنيف الائتماني للصكوك الإندونيسية، حيث تم استخدام الانحدار المتعدد، والانحدار اللوجستي الترتيبي واختبار سوبل لاختبار الفرضيات في ٢٢٢ صكًا مدرجة في بورصة إندونيسيا في ٣١ ديسمبر ٢٠٢٠. أظهرت نتائج البحث أن عدد عضوية مجلس الرقابة واستقلاليته وخبرته، وعدد أفراد لجنة التدقيق وخبرتها تؤثران بشكل مباشر على تصنيف الصكوك الإندونيسية وإدراجها. كما أظهرت النتائج أن للأداء المالي تأثيرًا مباشرًا على تصنيف هذه الصكوك مما يؤثر بشكل رئيس في العناصر الثلاثة المهمة في وظيفة مراقبة الحوكمة الجيدة للشركات وهي: معيار المجالس الإشرافية، والاستقلالية، وعدد أعضاء مجالس الإشراف الشرعي. لذلك من المهم للشركات أن تهتم بالحوكمة الجيدة، لاسيما المتعلق منها بالوظيفة الاشرافية والأداء المالي لدعم تصنيف هذه الصكوك. أكدت الدراسة كذلك أن وجود مجلس للإشراف الشرعي يدعم تحقيق الأداء المالي في الشركات الإندونيسية يساعد على تصنيف الصكوك في المؤسسات المالية الإسلامية.

الكلمات الدَّالة: الصكوك، الحوكمة الجيدة للشركات، الأداء المالي، التصنيف الائتماني للصكوك، سوق المال الإندونيسي

تصنيف JEL : C14, D25, G34, M41, N25

تصنيف KAUJIE: H33, H65, J32, K16, L34, T4