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RELATIONSHIP OF BOARD ATTRIBUTES WITH SUKUK RANKING IN INDONESIA AND COMPANY CHARACTERISTICS AS CONTROL VARIABLES

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Abstract : The purpose of this study is to determine the effect of the board's attributes from the corporate governance mechanism on the rating of sukuk in Indonesia. This study was conducted to see whether companies that implement corporate governance correctly get higher ratings than companies with poor implementation of corporate governance. The method used is a quantitative research method with ordinal logistic regression test equipment. The research sample was obtained by using purposive sampling technique. The results showed that CEO tenure, board of commissioners size, firm size, and profitability had a significant positive effect on sukuk ratings. The size of the board of directors and leverage have a significant negative effect on sukuk ratings, while the proportion of independent commissioners has no significant effect on the sukuk rating. This study only covers the issuance of sukuk in Indonesia, and one rating agency. Nothing can compare to the issue of sukuk abroad.

***Keywords**:* *term of office of CEO, board of directors, board of commissioners, proportion of independent commissioners, sukuk ratings*

INTRODUCTION

Sukuk are Islamic financial instruments on the capital market that are traded by companies to obtain additional long-term capital. Sukuk is a certificate of a value, which is represented after the closing of registration, proof of receipt of the value of the certificate, and using it as planned (AAOIFI, 2008). Sukuk in Indonesia continued to grow from Rp. 26.39 trillion in 2017 to Rp. 57.56 trillion in April 2021 (ojk.go.id, 17 May 2021). The development of sukuk in Indonesia which continues to increase has resulted in investors being lured to invest in sukuk. Investors who will invest in sukuk should pay attention to the rating of the sukuk. Sukuk ratings can provide information to investors regarding the quality and level of risk of a sukuk issued by a company(Elhaj et al., 2016). Sukuk ratings issued by rating agencies are very useful for investors in determining investment policies.

The rating agency that is often used by issuers in Indonesia is the Indonesian Securities Rating Agency or often called Pefindo. According to Pefindo, good quality sukuk have a high rating. Bad sukuk are sukuk with low ratings. Sukuk that have a low rating indicate that the sukuk has a high risk of default. Pefindo as a rating agency reports that in 2017 - 2020 in Indonesia, there were 7 (seven) debt securities issuing companies including sukuk that experienced a downgrade to the idD (default) category. This condition shows that there are still sukuk issuing companies in Indonesia that are unable to meet the payment of yields on sukuk. So that the rating agency gives an assessment of companies that have failed to pay sukuk to become idD ratings. Companies that have failed to pay Sukuk will reduce the company's reputation. Companies with a bad reputation can trigger investors not to be interested in buying Sukuk in the company. Companies that experience default need to improve the company's performance so that the company's reputation improves and the company's sukuk rating increases. One way to improve company performance is to implement a good corporate governance system. Companies that implement good corporate governance will improve company performance and create healthy companies (Widuri and Paramita, 2008). Companies that experience default need to improve the company's performance so that the company's reputation improves and the company's sukuk rating increases. One way to improve company performance is to implement a good corporate governance system. Companies that implement good corporate governance will improve company performance and create healthy companies (Widuri and Paramita, 2008). Companies that experience default need to improve the company's performance so that the company's reputation improves and the company's sukuk rating increases. One way to improve company performance is to implement a good corporate governance system. Companies that implement good corporate governance will improve company performance and create healthy companies (Widuri and Paramita, 2008).

Companies that are healthy and have good performance are companies that can minimize problems that arise in the company. The problem that often occurs in the company is the agency problem. Based on agency theory, agency problems occur because when operating a company, both principal and management, both try to be selfish(Jensen & Meckling, 1976:8). Implementing a good corporate governance mechanism will reduce agency problems. Good corporate governance mechanisms are used to increase the trust of managers (agents) and shareholders (principals) so as not to commit fraud for their own interests (Kusmayadi, Dedi et al., 2015). Companies with a good corporate governance system will produce the best economy, which is focused on the welfare of shareholders (investors). According to Bradley and Chen (2011) the practice of good corporate governance can be used to explain the downgrade of corporate bonds/sukuk ratings that are not listed in the company's financial condition. This is evidenced by the results of researchBhojraj and Sengopta (2003) which states that the corporate governance mechanism is related to bond ratings. Bhojraj and Sengopta (2003)also said that corporate governance tools are very important for debt management. The implementation of corporate governance in each company must involve all attributes of the company. The attributes of the company, namely the CEO (Chief Executive Officer), the board of directors, the board of commissioners, and the independent commissioner must implement corporate governance in accordance with the functions of their respective sections in order to create good corporate governance so that the company's goals are achieved.

Research on the influence of corporate governance on bond ratings has been studied from various countries by Bhojraj and Sengopta (2003), Ashbaugh Skaife et al. (2006), Liu and Jiraporn, (2010), Alali et al. (2012), Aman and Nguyeen (2013), and Sari & Murtini (2007) and Zhang and Khurana (2015). Research on the application of corporate governance mechanisms to sukuk ratings has been conducted in Malaysia by Elhaj et al. (2017). Research resultsElhaj et al. (2017)shows that the CEO and the size of the board of directors have an effect on the sukuk rating, but the independent board has no effect on the sukuk rating. Research resultGusni et al. (2020) regarding the influence of corporate governance attributes on the Sukuk ranking conducted in Indonesia shows different results from Elhaj et al. (2017).

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Gusni et al. (2020) found that the size of the board of directors and CEO had no effect on the sukuk rating, while the board of commissioners had an effect on the sukuk rating.

Based on the phenomenon that has been described, there is a gap phenomenon, namely a decline in the rating of sukuk in Indonesia. In addition to the gap phenomenon, this research was conducted because there are differences in the results of research on the influence of corporate governance on the ratings of sukuk conducted in Indonesia and Malaysia.The purpose of this study is to analyze the significant relationship between corporate governance mechanisms (CEO tenure, size of the board of directors, board of commissioners, and proportion of independent commissioners) on sukuk ratings, with firm characteristics (firm size, profitability, and leverage) as control variables. . Other reasonThis research is conducted, namely research that discusses the influence of mechanisms on corporate governance with sukuk ratings is still rarely done. This research is inspired by research Elhaj et al. (2017) and Gusni et al. (2020)which examines the relationship of corporate governance to sukuk ratings. This study differs from previous research because researchElhaj et al. (2017) not using CEO tenure and research Gusni et al. (2020) does not use the proportion of independent commissioners as a determinant of sukuk ratings.

LITERATURE REVIEW AND RESEARCH HYPOTHESES

CEO Term with Sukuk Rating

Chief executive officer(CEO) is a person who is at the highest management level in the company. CEOs who have good leadership tend to have longer tenures(Liu & Jiraporn, 2010). CEOs with longer tenures will have more experience in managing the company and motivate the board of directors and management in managing the company (Kusmayadi, Dedi et al., 2015:67). CEOs who have more experience in managing the company can minimize problems that occur in the company. The existence of a CEO with a longer tenure can improve company performance. A longer CEO tenure allows the CEO to have better communication skills with rating agencies, thus being able to achieve the desired rating results(Listokin and Taibleson, 2010; Becker and Milbourn, 2011; Zhang and Khurana, 2015).

Research that discusses CEO tenure and bond ratings was conducted by Zhang and Khurana (2015)in the United States. Research resultZhang and Khurana (2015) shows that CEO tenure in firms affects bond ratings, thus, The longer the CEO tenure can have a positive effect on the sukuk rating. Based on the description above, the first hypothesis can be formulated as follows;

H1: CEO tenure has a positive effect on Sukuk ratings

Board of Directors with Sukuk Rating

The board of directors in the company functions to manage management activities on behalf of shareholders (Kusmayadi, Dedi et al., 2015:67). Gusni et al. (2020)said that if based on agency theory, limiting the number of the board of directors to a certain limit according to the company's needs is believed to be able to improve the company's financial performance. More members of the board of directors will play an important role in controlling the actions of managers in improving company performance, so that the existence of a board of directors is believed to be able to reduce agency problems and reduce the risk of default for bondholders.Gusni et al., 2020), which then the company will get a better Sukuk rating.

Research that discusses the board of directors with sukuk ratings was carried out by Elhaj et al. (2017)in Malaysia. Research resultElhaj et al. (2017) shows that the board of directors

has a positive influence on the sukuk rating, the statement proves that the sukuk rating can be increased with a larger number of the board of directors. Based on the description above, the second hypothesis can be formulated as follows;
H2: The size of the board of directors has a positive effect on the rating of Sukuk peringkat

Board of Commissioners with Sukuk Rating

The board of commissioners in the company functions as a party that oversees and controls internal parties or company management (Kusmayadi, Dedi et al., 2015:67). The existence of the board of commissioners is used to ensure that the company carries out good corporate managementGillan (2006). Melzatia et al., (2019)companies with many commissioners will have stricter and better supervision, so the role of the board of commissioners can reduce agency problems. Good supervision will create good performance, so the risk of default by the company will be small and the company will get a better sukuk rating peringkat(Sari, and Murtini, 2015).

Research that discusses the board of commissioners with a Sukuk rating was carried out by Sari and Murtini (2015)in Indonesia. Research resultSari and Murtini (2015) shows that the board of commissioners positively has an influence on the sukuk rating. Based on the description above, the third hypothesis can be formulated as follows;
H3: The size of the board of commissioners has a positive effect on the sukuk rating

Independent Commissioner with Sukuk Rating

The existence of an independent board of commissioners as a party that does not have kinship ties with other parties in the company has a role to play provide views with a higher degree of independence and accountability (Kusmayadi, Dedi et al., 2015:67). Tertius and Christiawan (2015) stated that the presence of a number of independent commissioners in the company can reduce fraud committed by company management. Another function of the independent commissioner in the company is to supervise and control the company's activities, so that the function of the independent commissioner will reduce agency problems between investors as shareholders and management.(Fama, 1980). Indriani & Widyarti (2013). The agency problem is resolved, creating a good and healthy company performance, so that this condition will increase the sukuk rating.

Research that discusses independent boards with Sukuk ratings is carried out by Elhaj et al. (2017)in Malaysia. Research resultElhaj et al. (2017) shows that the independent board positively has an influence on the sukuk rating. Based on the description above, the fourth hypothesis can be formulated as follows;
H4: The proportion of independent commissioners has a positive effect on the sukuk rating

Company Size with Sukuk Rating

Company size can show the number oflah totall owned assetsIby a company, so as to minimize financial problems and bankruptcy in a company (Gusni et al., 2020). Larger firms face lower default risk, and are thus expected to have higher sukuk ratings. Ashbaugh-Skaife et al (2006). Several studies have shown that firm size has a positive effect on Sukuk ratings (Elhaj et al, 2017; Aman and Nguyen, 2013).

Profitability with Sukuk Rating

The company's profitability can show the company's ability to make a profit. Companies that have a higher profitability ratio will be able to pay off the principal loan. This can increase the sukuk rating because the higher the profitability ratio, the lower the risk of the company experiencing default. Several studies have shown that profitability has a positive effect on bond/sukuk ratings (Liu & Jiraporn, 2010).

Leverage with Sukuk Rank

Leverage The company can show how much the company uses its debt to meet the company's funding needs (Gusni et al., 2020). Companies that have higher leverage ratios showthat the number of assets financed by debt is getting higher. The number of assets financed by capital is getting lower. This results inthere is uncertainty about the company's ability to carry out its obligations as they fall due. Therefore, high leverage can lower the sukuk rating because the higher the leverage ratio, the higher the risk of the company experiencing default. Several studies have shown that leverage has an effect on bond/sukuk ratings (Ashbaugh-Skaife, 2006 and Elhaj et al., 2017)

METHODOLOGY

Population and Sample

The population used in this study were all sukuk issuing companies ranked by Pefindo in 2017-2020. The sample of this research was obtained from purposive sampling technique. The first sampling criterion is Sukuk which have been rated by Pefindo totaling 84 data. The next sampling criteria are sukuk issuing companies that have complete financial statements. Of the 84 data, only 67 data meet the sample criteria.

Data Types and Sources

In this study using secondary data types that are quantitative. The data used in this study were obtained from the official website of the Indonesia Stock Exchange (www.idx.co.id), the Indonesian Securities Rating website, quarterly financial reports of sukuk issuing companies, and company financial ratio data obtained from the Bloomberg Laboratory.

Method of collecting data

Data collection is done by combining time series data and cross-sectional data or referred to as poo*iing* data or data panel. The collection of data on the sukuk rating variable was obtained from the Indonesian Securities rating agency. The sukuk rating issued by Pefindo is in the form of letters, so it is necessary to convert the ratings. ExplanationFurther sukuk ranking variables can be seen in Table 1 as follows;

Table 1. Sukuk Rating Code

Sukuk Category	Rating Conversion
idAAA	8
idAA	7
idA	6
idBBB	5
idBB	4
idB	3
idCCC	2
idD (failed to pay	1

Source: processed by researchers (2021)

Collecting data on the variable tenure of the CEO, board of directors, board of commissioners, and the proportion of independent commissioners obtained from the company's quarterly financial statements. Data collection of control variables (company size, profitability, and leverage) was obtained from the Bloomberg Laboratory. Explanationindependent variables and further control variables can be seen in Table 2 as follows;

Table 2. Definition and Measurement of Independent Variables and Control Variables

Research variable	Variable Abbreviation	Measurement
Sukuk Rating	SUKUKP	Sukuk rating conversion, can be seen in Table 1
CEO Term	MJCEO	CEO Term (in months)
Board of Directors Size	UDD	Number of Board of Directors (person)
Board of Commissioners Size	UDK	Number of Board of Commissioners (person)
Proportion of Independent Commissioners	PKI	(Σ independent board of commissioners/ commissioner) x 100%
Company Size	SIZE	Natural logarithm of total assets
Profitability	PRF	Total fixed income divided by total assets
Leverage	LEV	Total long-term debt divided by total assets

Source: processed by researchers (2021)

Data analysis technique

The analytical technique in this study is quantitative data using probability statistics. Hypothesis testing using ordinal logistic regression analysis technique. The ordinal regression model was carried out because the dependent variable was a category variable with different sukuk ratings. Ordinal logistic regression is an extension of logistic regression for the dichotomous dependent variable. This analytical technique is used whenever the dependent variable has several values that can be ranked from low to high such as sukuk ratings. Data analysis in this study used the SPSS 25 analysis tool.

Empirical testing comes from a general model that represents the tenure of the CEO, board of directors, board of commissioners, proportion of independent commissioners, firm size, profitability and leverage. The ordinal regression model in this study can be written as follows;

Sukukpit = 0+ msjceo + udd + udk + pki + size + prf + lev

RESULTS AND DISCUSSION

DESCRIPTIVE STATISTICS

In this section, we will discuss a summary of descriptive statistics of the variables used in this study. Descriptive statistics in this study will use the average, maximum, minimum, and standard deviation values. The results of descriptive statistical tests can be seen in Table 3 as follows;

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Table 3. Summary of Descriptive Statistics Test Results

	Minimum	Maximum	Average	Standard Deviation
Independent variable				
Sukuk Rating	2	8	7.03	1.348
Dependent variable				
CEO Term	2	61	24.58	16.86
Board of Directors Size	2	12	5.09	2,832
Board of Commissioners Size	2	10	6.09	2,379
Proportion of Independent Commissioners	0	1	0.382	0.1669
Control Variable				
Company Size	34,367	142,964	10,54489	18.58633
Profitability	-112,088	266.589	1,73557	52.29897
Leverage	-0.9576	45,133	3.553016	0.819659

Source: processed by researchers using SPSS 25 (2021)

Table 3 shows that the average sample company has a CEO tenure of 24.58 months, with a standard deviation of 16.86 months. The minimum term of office is 2 months and the longest term of office is 64 months. The sample company has an average number of boards of directors of 5 people, with a standard deviation of 2.832. The number of the board of directors is at least 2 people, and the maximum number of the board of directors is 12 people.

Table 3 shows that the average sample company has a board of commissioners 6 people, with a standard deviation of 2,379 people. The number of the board of commissioners is at least 2 people and the maximum number of the board of commissioners is 10 people. The sample companies have an average proportion of independent commissioners 38.2%, with a standard deviation of 16.69%. The total proportion of independent commissioners is at least 0% and the largest proportion of independent commissioners is 100%.

Table 3 shows that the average company sample has a company size of 10,54489 with a standard deviation of 18,58633. The smallest company size is 34,367. The largest company size is 142,964. The sample company has an average profitability of 1.73557, with a standard deviation of 52.29897. The smallest sample company profitability is -112,088 and the largest sample company profitability is 266,589.

Table 3 shows that the average sample company has a leverage of 3.553016, with a standard deviation of 0.819659. The smallest sample company leverage is -0.9576. The largest sample company leverage is 45.133. Based on the table, it can be seen that the average sukuk rating of the sample companies is 7 (idAA), with a standard deviation of 1.348. The rating of the smallest sample company's sukuk is 2 (idCCC) and the rating of the largest sample company's sukuk is 8 (idAAA).

ORDINAL LOGISTIC REGRESSION

In this section, we will discuss the results of the logistic ordinal regression test for CEO tenure, size of the board of directors, size of the board of commissioners, proportion of independent commissioners, with control variables of firm size, profitability, and leverage.

Table 4. Ordinal Logistics Regression Test Results

Variable	Estimated Coefficient Value	Value Significance
Independent variable		
MSJCEO	0.085	0.042**
UDD	-1,971	0.003**
UDK	1,597	0.012**
PKI	-0.51	0.828
Control Variable		
Size	3.108	0.001**
PRF	0.687	0.002**
LEV	-2.293	0.017**

Note: The estimated coefficient values are the estimated coefficients of the logit model in the following order: Model: RANK= f (MSJCEO, UDD, UDK, PKI, SIZE, PRF, LEV); ** Significant at $p < 0.05$ (2-tailed).

Source: processed by researchers with SPSS 25 (2021)

The results of the ordinal regression test in Table 4 show that CEO tenure has a significant positive effect on sukuk ratings. Companies with longer CEO tenure, will get better sukuk ratings. The results imply that CEOs with longer tenures will have more experience managing the company. CEOs who have long tenures can motivate the board of directors and management in managing the company (Kusmayadi, Dedi et al., 2015:67). A longer CEO tenure allows the CEO to have better communication skills with rating agencies(Listokin and Taibleson, 2010; Becker and Milbourn, 2011; Zhang and Khurana, 2015). Based on agency theory, the agent as the party appointed by the principal to manage the company must act according to the rules so that there is no agency conflict(Jensen & Meckling, 1976). The CEO is one part of the agent in the company, because the CEO holds the highest position in the company in managing the company. So when the company has a CEO with a longer term of office, the CEO will be experienced to improve the company's operational performance, so that the shareholders (principals) will feel safe. Based on this, agency problems can be minimized and can increase the sukuk rating. The results of this study are supported byZhang and Khurana (2015) who found that CEO tenure can affect bond/sukuk ratings.

Table 4 shows that the board of directors has a significant negative effect on the sukuk rating. A negative coefficient value means that a company with a small board of directors will result in the company getting a better sukuk rating. The result implies thatcompanies with a high number of boards of directors cannot upgrade the sukuk rating. Too many boards of directors in the company but not adjusted to the size of the company, resulting in poor communication between the board of directors. When communication between directors is poor, it causes the directors to have difficulty in making decisions. Based on these conditions, the company's management becomes ineffective and can affect the company's performance, including the sukuk rating.The results of this study are supported by Elhaj et al. (2017), Altwijry (2015), Aman and Nguyeen (2013) and Ashbaugh Skaife et al. (2006) who found that the board of directors can influence bond/sukuk ratings.

The results of hypothesis testing in Table 4 show that the board of commissioners has a significant positive effect on sukuk ratings. This means that a large number of commissioners can make the company have a better sukuk rating. The board of commissioners is in charge of supervising and advising managers in managing the company. When the company has a large number of commissioners, it will make managers work well, and produce good performance. Based on agency theory, the agent as the party appointed by the principal to manage the company must act according to the rules so that there is no agency conflict(Jensen & Meckling, 1976). The function of the board of commissioners in the company can reduce fraudulent actions by managers in managing the company, so that agency problems can be resolved. So it can be concluded that the existence of the board of commissioners in the company provides good supervision. Good supervision will create good performance as well, so that the risk of default by the company will be small and the company will get a better sukuk rating. The results of this study are supported bySari, and Murtini (2015) who found that the board of commissioners can influence bond/sukuk ratings.

Based on Table 4, it can be seen that the proportion of independent commissioners has a significant value of more than 0.05. This shows that the proportion of independent commissioners has no effect on the sukuk rating. This can happen because the number of independent commissioners of 30% stipulated in the law is still not fully implemented by several companies, this can be proven by the fact that there are sample companies that have independent commissioners below 30% and there are even companies that do not have independent commissioners. Therefore, the role of the independent commissioner as a party that provides independent supervision has not been able to maximally reduce fraudulent actions by managers. So these conditions result in a decrease in the quality of the company's financial statements. The quality of the report decreases, the company's performance also decreases. This means that the proportion of independent commissioners has no effect on the sukuk rating. The results of this study are supported bySari, and Murtini (2015) who found that the proportion of independent commissioners could not affect bond/sukuk ratings.

The test results of the control variable with the sukuk rating in Table 4 show that the firm size control variable has an effect on the sukuk rating. This meansThe larger the size of the company, the smaller the risk of the company experiencing default so that the sukuk rating owned will be better. Large companies usually tend to have less risk than smaller companies.The results of this study are supported by Aman and Nguyeen (2013) and Elhaj et al. (2017) who found that firm size had an effect on bond/Sukuk ratings.

The profitability control variable has an effect on the sukuk rating. The level of profitability describes how effectively the company usesassets in operating activities for profit. The higher the level of company profitability, the morethe better the company's performance in generating net income. This can increase the sukuk rating because the higher the profitability ratio, the lower the risk of the company experiencing default. So this condition will increase the confidence of the rating agencies so as to increase the sukuk rating.The results of this study are supported by Liu & Jiraporn (2010) and Elhaj et al. (2017) who found that firm size had an effect on bond/Sukuk ratings.

The leverage control variable has a negative effect on the sukuk rating. The negative coefficient value indicates thatthe lower the leverage proxied by DAR ina company, it indicates the number of assets financed by debt is getting smaller. The number of assets financed by capital is getting bigger. The company's risk to settle long-term obligations means that it is getting lower.This can increase the sukuk rating because the lower the leverage ratio, the lower the risk of the company experiencing default so This condition will increase the confidence of the rating agencies so as to increase the sukuk rating. The results of this study are supported by ashbaugh-skaife (2006) and elhaj et al. (2017).

CONCLUSION

This study was conducted with the aim of knowing the effect of tenure of the CEO, board of directors, board of commissioners and the proportion of independent commissioners on sukuk ratings. The results of this study provide evidence that explains the relationship between the attributes of the corporate governance mechanism and the sukuk rating, by adding a control variable, namely the characteristics of the company. Based on previous research, company characteristics have a strong relationship with sukuk ratings. The results showed that the tenure of the CEO and the board of commissioners had a positive effect on the sukuk rating. The board of directors has a negative effect on the sukuk rating, but the proportion of independent commissioners has no effect on the sukuk rating.

This study also examines the relationship between company characteristics as a control variable on sukuk ratings. The results show that firm size and profitability have a positive effect on the sukuk rating, but leverage has a negative effect on the sukuk rating.

The results presented have implications for sukuk issuing companies and investors. Companies should implement good corporate governance mechanisms according to company needs. Implementing good corporate governance results in the company's performance running effectively, so that the company gets a quality sukuk rating. The implication for investors is that investors should buy sukuk in companies that have implemented good corporate governance. Investors should choose sukuk with a high rating. Companies with good corporate governance and have high sukuk ratings, indicate that the company has good performance, therefore the company has a low risk of default. Future research can examine with a longer observation period.

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