THE INFLUENCE OF REAL PROFIT AND CORPORATE GOVERNANCE MANAGEMENT AGAINST CREDIT RATING IN INDONESIA

Indra Kusumawardhani[1]
Windyastuti[2]
Anindyo Aji Susanto[3]
UPN Veteran Yogyakarta
Indra.kusumawardhani@upnyk.ac.id
Indrakoes74@gmail.com

A R T I C L E   I N F O

Article history:
Received : 12March 2019
Revised : 2 April 2019
Accepted : 29 May 2019

Key words:
Real earning management, corporate governance, credit rating, board size, independent board, audit committee

DOI:
https://doi.org/10.33508/rima.v2i1.2600

A B S T R A C T

This research investigated whether real earnings management and corporate governance affect the firm's credit rating in Indonesia. Specifically, investigation on whether real earning management components, represented by AbnCFO, AbnDisExp and AbnPROD, together with corporate governance components, which are represented by board size, independent board and audit committee affect the firm's credit rating. This research used several corporate governance mechanisms developed by Bursa Efek Indonesia and credit rating classification developed by PEFINDO. Multiple regression model is selected to test this research problem. This research found that AbnCFO and board size affected the firm's credit rating, while AbnPROD, independent board and audit committee did not affect credit rating.

INTRODUCTION

In financial and economic markets, rating agencies play an essential role, as was done during the 2008 crisis. Rating agencies use the information provided by the company's management that is ranked and the company's financial statements that are rated to produce a rating (rating)) regarding the company's overall creditworthiness and to issue particular debt. This ranking accurately represents the rating agency's opinion about a company's solvency, conditioning its ability to interpret the information presented in its financial statements correctly.

The theoretical relationship between the quality of accounting information with credit ratings can be determined by understanding or the purpose of credit ratings. Reputable rating agencies such as Standard and Poor's (rater/rating) define the domestic long-term issuer credit rating as an opinion of the overall rate (the company ranked) to meet its financial obligations. The ability of the ranked party to generate current and future cash flows is probably the most critical factor in assessing the strength of the ranking party to pay the loan principal and current and future debt interest. One of the primary sources of information from cash flow information is the company's financial statements. Standards and Poor's (S&P) states that they base on the company's financial statements ranked in determining rankings. The accounting literature identifies real earnings management as one of the methods employed by managers to be able to manipulate financial statement information. Zang (2012) states that practical earnings management has been seen as an act of substitution for accrual-based earnings management. Real earnings management is measured by abnormal cash flows from

operations, unexpected production costs, unusual discretionary expenditures (Roychowdhury, 2006; Cohen & Zarowin, 2010; Zang, 2012; Zhao, Chen, Zhang, & Davis, 2012; Siriviriyakul, 2013).

The quality of accounting information can also be influenced by good corporate governance. Corporate governance at the company level offers a general view of the environment where financial statements are prepared and where accounting choices are made. Companies with poor governance will be more willing to engage in unethical behavior or lack reasonable internal control to reduce earnings management in the form of accruals or real activities. As a result, rating agencies can see companies with poor governance as riskier and have less creditworthiness. Rating agencies can also consider the governance environment when assessing earnings management behavior (Geiszler, 2014)

The rating of a company is determined by the score of a rating agency that looks at the probability distribution of future cash flows. Credit is determined by assessing the likelihood that future cash flows will be sufficient to cover the cost of principal payments and repayment capacity. Then it can be seen that the average cash flow distribution of the company shifts downwards. The rating also experiences changes in each company, with the change in rank can be one of the factors that influence the direction of investment. The score is not a recommendation to sell, buy, or hold, nor is it a comment like the stock analysis. Ratings are formed based on information provided by rating agencies or information obtained from other reliable sources. The ratings may change, be withdrawn, or be delayed due to changes in the company's debt repayment capacity.

A credit rating agency or a credit rating agency (Credit Rating Agency), is a company that issues credit ratings for bond issuers. Rating agencies function as information intermediaries and play a role in improving capital market efficiency by increasing the transparency of securities and reducing information asymmetry between investors and bond issuers. Therefore rating agencies provide more efficient services (Beaver et al., 2006). The issuer of bonds that can be traded on the secondary market is usually a company, city, institution, non-profit, or government of a country: credit Rating measures creditworthiness and the ability to repay debts and affect the interest rates charged.

Several incidents raise the question of whether the ratings assessed by rating agencies in Indonesia are accurate. According to (Chan et al., 1995), one of the reasons why the grade issued by the rating agency is biased because the rating agency does not monitor the company's performance every day, and the rating agency only assesses the occurrence of an event. Besides, there is no further explanation from the rating agency how financial statements and non-financial factors can be used in determining ratings. According to Matthies (2013), determinants of credit ratings are three main categories. The first is financial ratios and financial data. These variables are proxy for company-specific factors such as leverage, liquidity, and company size (for example, Ederington (1985); Blume et al., (1998); Kamstra (2003); The second category is the corporate governance mechanism. Here, factors such as ownership structure and board of commissioners are measured (Bhojraj & Sengupta (2003); Ashbaugh-Skaife et al. (2009).

The company's ability to repay loans is a determining factor used by creditors to provide loans. Bankruptcy experienced by large companies triggers companies to pay more attention to their financial condition before issuing investment decisions. Credit Rating is one indicator that shows how well a company is managing economic problems experienced by the company. Company Credit Rating can provide information about the company's state, especially regarding loan payments made by the company. The company's credit rating reflects the ratings held by the rating agency regarding its creditworthiness and the issuance of bonds. The rating agency uses information provided

by the company's management that is ranked and the company's financial statements that are rated to produce a rating of the company's overall creditworthiness and to issue certain debts. This ranking accurately represents the rating agency's opinion about a company's solvency, conditioning their ability to interpret well the information presented in the company's financial statements.

Previous research has examined the relationship between corporate governance and the amount and quality of information disclosure made by companies (Eng & Mak, (2003); Ajinkya et al. (2005); Davidson et al. (2005); Karamanou and Vafeas (2005); Baxter and Cotter (2009); Wang and Hussainey (2013). The study results found that good corporate governance will lead to higher quality disclosures in mandatory and voluntary disclosures and lead to higher profit forecasting. Related to the lack of earnings management actions and lower fraud incidents (Beasley (1996); Peasnell et al. (2000); Klein (2002); Dechow et al. (2012), the effect of corporate governance on financial statement users. Such as business analysts (Byard et al., 2006) and agency credit ratings have also been tested (Ball et al. (2012); Bradley & Chen (2015); Kent and Stewart (2008)). This edition wants to test Does Real Profit Management, and Corporate Governance Affect Credit Rating in Indonesia?

LITERATURE REVIEW

Credit Rating

Rating is a standardized assessment of the ability of a country or company is paying its debts. The rank of a company can be compared with other companies to distinguish who has better and less expertise. Rating companies issue ratings, and usually, to become a rating company must obtain official permission from the government. According to Karyani and Manurung (2006), evaluation is one of the variables that is considered by investors when deciding to invest in a company. The information contained in the rating will indicate the extent of a company's ability to pay its obligations on funds invested by investors. Investors usually prefer companies that have high grades compared to companies that have deficient ratings. Therefore, for a company's bonds with a small enough rank to be sold in the market, investors will usually charge a higher premium as compensation for the risks borne by investors. The rating process's primary purpose is to provide accurate information about the financial performance and business position of the company's industry that issues bonds (bonds) in the form of ratings to potential investors (Rahardjo, 2004).

The Credit Rating Agency is a company that issues credit ratings for bond issuers. The Credit Rating measures creditworthiness, the ability to repay debt, and affects the interest rates charged on the mortgage. Companies can also use credit ratings as a tool to enhance the company's brand image or market image. Companies with good ratings enter the market with higher confidence. Also, the valid score can increase economic growth because it promotes public investment in the corporate sector. Therefore, any research model that can predict a company's credit rating will have a significant impact both for the general public (who are looking for investment opportunities) and the company itself (which strives to achieve company goals).

The general benefits of the credit rating process are (Rahardjo, 2004):

1. A transparent market openness information system that involves a variety of healthy and open bond products.
2. Cost efficiency. Good rating results usually provide benefits, namely avoiding financial requirement obligations that typically burden companies such as providing sinking funds, or guarantee assets.

a. Determine the amount of the coupon, the better the rating tends to the lower the coupon value and vice versa.

By analyzing its financial or management and business fundamentals, every investor will assess the business feasibility of the issuer's business. Also, investors will be able to evaluate the level of

risk arising from the investment.

In conducting the rating process, several things that must be considered in performing a rating analysis are (Rahardjo, 2004)

a. Industrial Performance.

Discussed aspects of industrial competition, prospects, and market share, the availability of raw materials, strong industrial structure, the influence of government policies, and other economic policies.

b. Financial performance.

Asset quality aspects are profitability ratios, asset management, and capital adequacy ratio liabilities, debt management levels, adequacy ratios of interest payments.

c. Non-Financial Performance.

The non-financial performance consists of Management aspects, company reputation, and identity agreements (including sinking funds, debt tests, dividend tests, mergers, and sale of assets).

In Indonesia, companies that get permits and become market leaders in granting ratings are PT. PEFINDO (Indonesian Securities Rating Agency). PT PEFINDO is working with an overseas rating company, Standard and Poor. This company must have a technical assistant from a rating company abroad. Lately, there are new companies that have similar business fields, namely Fitch Rating Indonesia and ICRA (Indonesia Credit Rating Indonesia).

Credit Rating is the opinion of rating agencies and an informative source for investors regarding the risk of traded securities (Based on the Decree of BAPEPAM and Kep-151 / BL / 2009). The ranking information is expected to help investors in making investment decisions. The primary function of a rating agency is to provide an objective, independent and credible rating on credit risk from debt securities (debt) published in general through rating activities. Rating agencies also produce and publish credit information relating to the loan capital market. This publication covers credit opinions on bond issuers and related sectors. The rating assessment process is carried out by considering everything about financial and non-financial information, including company operations, company management, company financial statements, and corporate planning.

Several rating bonds issued by rating agencies, among others (Manurung, et al, 2008)

1. Standards & Poor's are: AAA, AA +, AA, AA-, A +, A, A-, BBB +, BBB, BBB-, BB +, BB, BB-, B +, B, B-, CCC +, CCC, CCC- , D
2. Moody's: Aaa, Aa1, Aa2, Aa3, A1, A2, A3, Baa1, Baa2, Baa3, Baa1, Ba2, Ba3, B1, B2, B3, Caa1, Caa2, Caa3, Ca, C
3. Fitch Ratings: AAA, AA +, AA, AA-, A +, A, A-, BBB +, BBB, BBB-, BB +, BB, BB-, B +, B, B-, CCC, DDD, DD, D.

Whereas for PEFINDO as a local rating agency that provides rating ratings for various types of debt securities companies in Indonesia have the following rating levels: AAA, AA, A, BBB, BB, B, CCC, D.

Credit Rating is an assessment that illustrates the default risk of companies that issue debt. The rating agencies usually provide the results of their studies to show the relationship of the rating to the possibility of default of the company. Blume et al. (1998) and Jorion (2009) gave different results about the credit rating environment from 1978 to 2002. Blume et al. (1998) found that companies' decline in the observed corporate debt rating was determined by rating agencies that apply strict credit standards, whereas Jorion (2009) found that after controlling the quality of accounting information, there was no tightening of credit standards.

Real Profit Management

Schipper (1989) states that earnings management is an intervention with a specific purpose in the external financial reporting process to obtain profits for its benefit. Whereas real earnings management is management actions that deviate from standard business practices carried out with the primary objective to achieve profit targets (Roychowdhury, 2006; Cohen and Zarowin, 2010). Real earnings management can be done in 3 (three) ways, namely:

a. Sales Manipulation
Sales manipulation is an attempt to temporarily increase sales in specific periods by offering excessive product price discounts or providing softer credit terms. This strategy can increase sales volume and profit for the current period, assuming a decisive margin. However, giving rebates and softer credit terms will reduce cash flow for the current period.
b. Decreased discretionary expenses (discretionary expenditures)
Companies can reduce discretionary expenditures such as research and development expenses, advertising, and sales, administration, and general, especially in periods where these expenses do not directly cause revenue and profit. This strategy can increase profit and cash flow for the current period and decrease future cash flow.
c. Overproduction
To increase profits, company managers can produce more than needed, assuming that a higher production level will cause fixed costs per unit of product to be lower. This strategy can reduce the cost of goods sold and increase operating profit.
Roychowdhury (2006) provides empirical evidence that companies carry out real earnings management to avoid reporting losses. Zang (2012) shows empirical proof that actual earnings management actions are carried out before accrual-based earnings management.

Corporate Governance

Corporate governance is a series of structured processes used to manage and direct or lead a business or corporate business venture to enhance the company's values and the business community. According to the OECD (The Organization for Economic Cooperation and Development) (2003), good corporate governance is a structure that by stakeholders, shareholders, commissioners, and managers sets company goals and means to achieve these goals and oversee performance.

Previous research has examined the relationship between corporate governance and the amount and quality of information disclosure made by companies (Eng and Mak 2003; Karamanou and Vafeas, 2005; Ajinkya et al., 2005; Davidson et al., 2005; Baxter and Cotter 2009; Wang and Hussainey 2013). The study results found that good corporate governance will lead to higher quality disclosures in mandatory and voluntary disclosures and lead to higher earnings forecasting. The more top quality of corporate governance is also related to the lack of earnings management actions and lower incidence of fraud (Beasley, 1996; Dechow et al., 1995; Klein, 2002; Peasnell et al., 2000). The influence of corporate governance on users of financial statements such as business analysts (Byard et al., 2006) and agency credit ratings have also been tested (Ball et al., 2012; Bradley & Chen, 2015; Kent & Stewart, 2008).

FCGI (Indonesian Corporate Governance Forum) states that the board of commissioners is the core of corporate governance. Its job is to ensure the implementation of the company's strategy, oversee management in managing the company, and require accountability. The board of commissioners' ability to monitor is a positive function of the portion and independence of the external board of commissioners. The board of commissioners is also responsible for the quality of the reports presented (Siallagan and Machfoedz, 2006). So it can be concluded that if the board of commissioners performs their duties properly and the quality of reports produced is getting better, then the risk of the company will be smaller. The company's bond rating will also have a good impact. An independent commissioner is a body within a company that usually consists of an independent board of commissioners from outside the company whose function is to assess the company's overall and overall performance (Susiana and Herawaty, 2007). The existence of an independent commissioner is intended to create a more objective and independent climate. The presence of objectivity, independence, and balance created by the

independent commissioners will positively impact the company's bond rating

Real Profit Management and Credit Rating

Geiszler (2014) examined the relationship between accrual quality, real activity earnings management, corporate governance, and credit ratings in the United States using three models to measure accrual quality, namely the modified Jones model, the cash flow model, and the revenue model. Real activity earnings management was tested using the Roychowdury model. Another thing tested is whether the Credit Rating Agency Reform Act of 2006 and the Dodd-Frank Act of 2010 affect the relationship between the quality of accounting information with credit ratings. The results indicate that accrual quality is a significant factor in influencing the grade received by the company at the company level. Companies with lower accrual quality also receive lower credit ratings. Real activity earnings management also affects credit ratings at the company level.

Whereas John (2016) tests whether companies that lack earnings management strategies to achieve credit ratings are expected after the implementation of the Sarbanes-Oxley Act (SOx) and Dodd-Frank Wall Street Reform Consumer Protection Act (Dodd-Frank). As expected, the study results indicate that fewer accrual-based earnings management strategies were used after SOx and that there was an increase in real-activity-based earnings management strategies in the period before the occurrence of a major corporate scandal.

Zang (2012) found that managers use real activity earnings management as a substitute for accrual earnings management. Practical activity earnings management is an effort to better direct or present the company's financial condition than the actual situation. As a result, it is conditioned on the ability of the rating agency to detect real earnings management; it must be linked to credit ratings. This leads to the first hypothesis:

Hypothesis 1: Real earnings management influences credit ratings

Corporate Governance and Credit Rating

The results of testing corporate governance variables using a proxy for the size of the board of commissioners, the composition of the board of commissioners, the independence of the board of commissioners, the freedom of the audit committee and the Index based on the 24 provisions used by the Investor Responsibility Research Center by Geiszler (2014) show different results. The size of the board of commissioners and the independence of the board and the composition of the board of commissioners affect the credit rating. In contrast, the audit committee does not affect the credit rating. Corporate governance at the company level provides an in-depth look at the overall reporting environment (Gompers et al. (2003); Brown & Caylor (2006); Grinstein & Chhaochharia (2007). The results show that corporate governance has an indirect influence on information reported by the company. For example, companies with poor corporate governance may lack internal control over financial reporting or may employ managers with less binding ethical codes. Weak corporate governance can reduce the reliability of financial statement information. Financial information that is inherently unreliable will make decisions or assessments riskier. Firms with more significant risk should get a lower credit rating than less risky companies, so it makes sense that corporate governance at the company level is a factor that affects the credit rating process. This leads to the second hypothesis:

Hypothesis 2: Corporate governance influences credit ratings

RESEARCH METHOD

Population and Sample

The population in this study are all non-financial sector companies listed on the Indonesia Stock Exchange in 2015-2017. Determination of the sample using a purposive sampling method with criteria: companies that get credit ratings from PT PEFINDO and have complete real earnings management and corporate governance data, to obtain 46

company samples with a total of 107 observations.

Variable Measurement

The independent variables in this study are:

1. Real Profit Management.

Real earnings management is management actions that deviate from standard business practices carried out with the primary goal of achieving profit targets (Roychowdhury, 2006; Cohen and Zarowin, 2010). Real earnings management is calculated using the approach used by Roychowdhury (2006), which is as follows:

a. Abnormal CFO

$$CFO_t / A_{t-1} = \alpha_0 + \alpha_1 (1/A_{t-1}) + \alpha_2 (S_t / A_{t-1}) + \alpha_3 (\Delta S_t / A_{t-1}) + \varepsilon_t$$

CFOt = company operating cash flow i in year t

At-1 = total assets of a company i year t-1

St = total sales of the company I in ¬ ¬-1

For each year's observation, the abnormal operating cash flow (ABN_CFO) is the residual value of the estimated regression equation model above.

b. Abnormal Discretionary Expenses

$$DISEXP_t / A_{t-1} = \alpha_0 + \alpha_1 (1/A_{t-1}) + \alpha_2 (S_{t-1} / A_{t-1}) + \varepsilon_t$$

Disrupt = discretionary expenses, namely research and development costs plus advertising costs plus sales, administration, and general costs.

Abnormal production costs (ABN_PROD) are the residual values from the estimated regression equation model above.

c. Abnormal Production Costs

$$PROD_t / A_{t-1} = \alpha_0 + \alpha_1 (1/A_{t-1}) + \alpha_2 (S_t / A_{t-1}) + \alpha_3 (\Delta S_t / A_{t-1}) + \alpha_4 (\Delta S_{t-1} / A_{t-1}) + \varepsilon_t$$

PRODt = production cost, which is the cost of goods sold plus changes in inventory.

Discretionary costs are the sum of advertising costs, research and development costs, sales costs, and general and administrative costs. Abnormal discretionary expenses (ABN_DISEXP) are obtained from the residual value of the estimated regression equation model above.

2. Corporate Governance

Corporate governance is a series of structured processes used to manage and direct or lead a business or corporate business venture to enhance the company's values and the business community. In this study, corporate governance is proxied by the size of the board of commissioners, independent commissioners, and audit committees (Byard et al., 2006).

Dependent variables

Credit Rating

Credit Rating is a standardized assessment of the ability of a country or company to pay its debts. The rating of a company can be compared with other companies so that it can be distinguished who has better and less ability. Rating companies issue grades, and usually, to become a rating company must obtain official permission from the government. According to Karyani and Manurung (2008), a rating is one of the variables that is considered by investors when deciding to invest in a company. The information contained in the evaluation will indicate the extent of a company's ability to pay its obligations on funds invested by investors. In this study, the credit rating is measured by the scores made by PEFINDO, namely AAA, AA, A, BBB, BB, B, CCC, D on a nominal scale.

Data analysis technique

This research uses secondary data. Data were analyzed using multiple linear regression techniques to determine whether the variables of accrual quality, real earnings management, and corporate governance affect the credit rating. Hypothesis testing uses multiple regression analysis with the following models:

Y = α + β1ABNCFO + β2ABNDISCEXP + β3ABNPROD + β4DK + β5KI + β6KA + ε

Where:

Y = credit rating

α = intercept

ABNCFO = Abnormal Operating Cash Flow
ABNDISCEXP = Abnormal Discretionary Fees
ABNPROD = Abnormal Production Costs
DK = Board of Commissioners
KI = Independent Commissioner
KA = Audit Committee
Before conducting a regression test, the classical assumptions are tested, namely normality, multicollinearity, autocorrelation, and heterocedasticity.

RESULT

ANALYSIS OF RESULTS AND DISCUSSION

Descriptive Statistics and Classical Assumption Test

Descriptive statistics are statistical analyzes that provide an overview of the distribution of data without generalizing or drawing conclusions on the data. The classic assumption test is a test conducted to obtain sufficient confidence. The linearity assumption in the model is not disturbed by bias. The bias can start from the disruption of data distribution (normality) and the correlation between observed variables (autocorrelation). Interference between observational periods (multicollinearity) and data characteristics (heteroscedasticity) could also increase the bias. Descriptive statistics of this study are presented in Table 4.1 as follows:

Table 4.1 Descriptive statistics

	N	Minimum	Maximum	Mean	Std. Deviation
CR	107	1.00	10.00	5.710	2.014
ABN CFO	107	-0.33	0.24	-0.014	0.099
ABN PROD	107	-0.93	0.62	-0.038	0.241
DK	107	2.00	10.00	4.962	1.821
KI	107	1.00	4.00	1.831	0.679
KA	107	0.00	6.00	3.233	0.708
Valid N (listwise)	107				

This study fulfills the classic assumptions required in the use of multiple linear regression models after removing the Abnormal Discretionary Expenditure variable from the research model. Abnormal Discretionary Expenditure variables are excluded because they contain high multicollinearity symptoms with a Variance Inflation Factor value more significant than the allowed threshold value (VIF£10). Sample normality testing is carried out using the Kolmogorov-Smirnov One-Sample test. For autocorrelation testing with the Durbin Watson coefficient test. And multicollinearity testing the Variance Inflation Factor value. Besides that, heteroscedasticity testing using the Gleijser test.

Multiple Linear Regression Analysis

Multiple linear regression has several analytical models that can be used to get the best coefficient estimation based on the characteristics of the data used in the study. The data used in this study is panel data that combines cross-section data and time series data as observation units. A summary of the results of the multiple linear regression of this study is presented in table 4.2 as follows:

Table 4.2. Summary of Multiple Linear Regression Analysis

Model	Koefisien
Konstanta	2.387

Abn CFO	7.743**
Abn Prod	-0.112
DK	0.473**
KI	-0.078
KA	0.366
F	19.376**
R^2	0.490
Adj R^2	0.464

The results of the multiple linear regression analysis in table 4.2 show that the independent variable AbnCFO and the Board of Commissioners influence the Credit Rating variable. In contrast, the AbnPROD variable, Independent Commissioner (KI), and Audit Committee (KA) do not affect Credit Rating. The coefficient of determination (R-Square and Adjusted R-Square) is 0.490 and 0.464. This value indicates that the independent variable used in the model can explain the variation in the value of the dependent variable (Credit Rating) of 46.4%. F test results in the research model have significance below the specified threshold (5%). These results indicate the suitability of the model (Model Fit) used in this study.

Discussion

The Effect of Real Earnings Management on Credit Rating

The results of the linear regression analysis of this study indicate that the first hypothesis stating that real earnings management for the Abn CFO proxy affects statistically supported Credit Rating. In line with researchers' allegations that companies tend to shift from accrual earnings management to real earnings management, practical earnings management is a method that can be used by company management to show the company's performance to users of financial statements. Real earnings management is the concern of the credit rating agency (Credit Rating Agency), considering that the components used in practical earnings management directly affect the company's cash flow. Certainty about the nature, amount, and availability of cash flows in the future of a company is a determinant used by rating agencies to determine the company's debt rating. This result is also consistent with Geiszler (2014), John (2016), and Zang (2012), who state that real activity earnings management also affects credit ratings at the company level.

While the AbnPROD Real Profit Management proxy shows negative coefficient results and has no effect on Credit Rating, according to Geiszler (2014), this is related to overproduction or increased production to artificially reduce the cost of goods sold (COGS), which affects the lower credit rating. Gunny (2010) found that companies that did real earnings management to achieve their profit targets relatively displayed better company performance than companies that failed to attain predetermined profit targets. If bondholders assess that practical earnings management is a popular business activity by them, the relationship that will emerge between real earnings management and the costs of issuing corporate bonds is negative. The reason given is following the results of the study of Graham et al. (2005). Through real earnings management activities, managers are more difficult for investors to detect related to the earnings management strategy used. With the increasingly limited access and ability of investors and bond rating agencies, in providing an actual assessment of the bond's risk, they are judging that the company's operating activities are in reasonable condition.

Furthermore, the reasons for the differences in the results of this study with Ge and Kim (2014) can also be strengthened by the results of the survey of Bhojraj et al. (2009). Bhojraj et al.'s research (2009) indicates that the stock market has misjudged real earnings

management practices in the year of manipulation. In the short term, financial markets value companies that manage real earnings at prices higher than they are.

The Effect of Corporate Governance on Credit Rating

The results of this study indicate that corporate governance affects Credit Rating on the Board of Commissioners' Size component. While the two parts, such as Independent Commissioner and Audit Committee, did not modify the company's credit rating. Regression results for the first hypothesis in this study showed a board size coefficient of 0.473 and a significant effect at the level of 0.001, so the first hypothesis was supported. Previous literature states that the size of the board of commissioners is less effective. Still, the results of this study indicate that the size of the board of commissioners that it turns out is also associated with a higher credit rating. This study is consistent with Geiszler's (2014) research, which states that the board of commissioners' size is positively related to credit rating. This indicates that when corporate governance increases, the credit rating is also higher.

This study does not support the statement of the first hypothesis that the existence of an independent commissioner influences credit rating. Independent Commissioners have no effect on Credit Rating with a significance level of 0.834. This happens because of the possibility of the lack of dominant independent commissioners from the outside so that their existence is not enough to play a role as a balancing decision in the composition of the membership of the board of commissioners and to balance the strength of management, consistent with Utami's study (2012) which states that the minimum requirement of 30% of the total members the board of commissioners issued by Bapepam may not be high enough to make independent commissioners dominate in terms of policies taken by the board of commissioners. The composition of the commissioners' composition is still low so that collectively the independent commissioners do not have the power to influence all decisions made by the board of commissioners. If an independent commissioner has a majority of votes of more than 50%, an independent commissioner may be more effective in oversight activities within the company. Rasyid and Kostaman (2013) also stated that this could be caused by an independent commissioner's appointment by a company that might only be carried out to fulfill regulations but was not intended to uphold Good Corporate Governance. Maybe even the independent commissioners appointed by the company are not competent in accounting or finance.

The Audit Committee does not affect the Credit Rating with a significance level of 0.092. This can occur because a board of commissioners appoints members of the audit committee. This member, who is more dominant within the company, leads to a conflict of interest within the company. Sihotang (2011) and Utami (2012) explained that the existence of an audit committee by a company might only be done to fulfill regulations. Still, it was not intended to uphold good corporate governance within the company. According to Mariana (2016), this insignificant result was made possible because the audit committee formed by the board of commissioners could not play as it should. In general, this committee functions as the supervisor of the process of making financial reports and internal controls. The audit committee is expected to act more efficiently, but it can also have weaknesses. Namely, the lack of member experience in finance or the level of independence is still questionable. So the audit committee is not able to significantly influence bond ratings. The responsibility of the Audit Committee in the field of Corporate Governance is to ensure that the company has been run according to applicable laws and regulations, conducts its business ethically, carries out its supervision effectively against conflicts of interest and fraud committed by company employees. The role of the Audit Committee is to oversee and provide input to

the Board of Commissioners regarding the creation of a supervisory mechanism. But in reality, many members of the Audit Committee do not have sufficient knowledge in internal control matters, and not even a few who lack accounting background. (FCGI) It is stated in the FCGI that the Audit Committee must consist of individuals who are independent and not involved in the day-to-day tasks of management who manage the company, and who have the experience to perform the supervisory function effectively. This is so that integrity and views can be objective in the report and preparation of recommendations submitted by the Audit Committee to the Board of Commissioners. The number of members of the Audit Committee is adjusted to the extent of the organization and responsibilities. But usually, three to five members is a pretty ideal number. The Audit Committee often needs to hold meetings three to four times a year to carry out its obligations and responsibilities concerning the financial reporting system. (The Institute of Internal Auditors, Internal Auditing, and The Audit Committee in FCGI.

CONCLUSIONS AND SUGGESTIONS

Conclusion

This research was conducted to determine the effect of Real Profit Management and Corporate Governance on Credit Rating. This study's results indicate that Real Profit Management, which is proxied by ABnCFO, affects the supported Credit Rating. While the ABnPROD proxy does not affect Credit Rating. In the corporate governance variable, only the Board of Commissioners' proxy shows a significant influence on Credit Rating. Other Corporate Governance Proxies, namely Independent Commissioners and Audit Committees, have no impact on Credit Rating.

Suggestion

This research produces the following suggestions:

1. Advice for Companies

The results of this study can be used by company management to consider the content of accrual quality and earnings management actions that affect cash flow (real earnings management) in the company's financial statements. Both of these things will prove to be a consideration of debt rating agencies in determining the rating (Credit Rating) of a company. A good rating provides an opportunity for management to expand access to corporate finance and reduce the company's capital costs.

2. For Further Researchers

The results of this study can be used as a reference in subsequent studies. Future studies can add a more extended observation period to prove the theory's consistency, especially those related to the use of corporate governance components. Subsequent researchers can develop using the continued contribution of the corporate governance mechanism disclosed in the company's annual report as additional information that can be considered by a rating agency (Credit Rating Agency) in rating a company's debt.

REFERENCES

Ajinkya, B., Bhojraj, S., & Sengupta, P. (2005). The association between outside directors, institutional investors and the properties of management earnings forecasts. *Journal of Accounting Research*, *43*(3), 343–376. https://doi.org/10.1111/j.1475-679x.2005.00174.x

Ashbaugh-Skaife, H., Collins, D. W., Kinney, W. R., & Lafond, R. (2009). The effect of SOX internal control deficiencies on firm risk and cost of equity. *Journal of Accounting Research*, *47*(1), 1–43. https://doi.org/10.1111/j.1475-679X.2008.00315.x

Ball, R., Shivakumar, L., Tsalavoutas, I., André, P., Evans, L., Dechow, P., … Hail, L. (2012). the Influence of Institutional Factors on the Value Relevance of Accounting Information : Evidence From Jordan Dhiaa Shamki Jabar Doctor of

Philosophy Universiti Utara Malaysia. *Journal of Accounting and Economics*, *21*(1), 85–108. https://doi.org/10.1016/S0031-9422(00)89647-8

Baxter, P., & Cotter, J. (2009). Audit Committees and Earnings Expectations Management. *Accounting and Finance*, *49*(225), 267–290.

Beasley, M. S. (1996). *Beasley 1996.pdf*. 443–465.

Beaver, W. H., Shakespeare, C., & Soliman, M. T. (2006). Differential properties in the ratings of certified versus non-certified bond-rating agencies. In *Journal of Accounting and Economics* (Vol. 42). https://doi.org/10.1016/j.jacceco.2006.06.002

Bhojraj, S., Hribar, P., Picconi, M., & Mcinnis, J. (2009). *Making Sense of Cents.An Examination of Firms.pdf*. *LXIV*(5).

Bhojraj, S., & Sengupta, P. (2003). Effect of Corporate Governance on Bond Ratings and Yields: The Role of Institutional Investors and Outside Directors. *Journal of Business*, *76*(3), 455–475. https://doi.org/10.1086/344114

Blume, M. E., Lim, F., & Mackinlay, A. C. (1998). The declining credit quality of U.S. corporate debt: Myth or reality? *Journal of Finance*, *53*(4), 1389–1413. https://doi.org/10.1111/0022-1082.00057

Bradley, M., & Chen, D. (2015). Does board independence reduce the cost of debt? *Financial Management*, *44*(1), 15–47. https://doi.org/10.1111/fima.12068

Brown, L. D., & Caylor, M. L. (2006). Corporate governance and firm valuation. *Journal of Accounting and Public Policy*, *25*(4), 409–434. https://doi.org/10.1016/j.jaccpubpol.2006.05.005

Byard, D., Li, Y., & Weintrop, J. (2006). Corporate governance and the quality of financial analysts' information. *Journal of Accounting and Public Policy*, *25*(5), 609–625. https://doi.org/10.1016/j.jaccpubpol.2006.07.003

Chan, L; Jegadeesh, N; Lakonishok, J. (1995). Mometum Strategies. In *National Bureau of Economic Reserach*.

Cohen, D. A., & Zarowin, P. (2010). Accrual-based and real earnings management activities around seasoned equity offerings. *Journal of Accounting and Economics*, *50*(1), 2–19. https://doi.org/10.1016/j.jacceco.2010.01.002

Davidson, R., Goodwin-Stewart, J., & Kent, P. (2005). Internal governance structures and earnings management. *Accounting and Finance*, *45*(2), 241–267. https://doi.org/10.1111/j.1467-629x.2004.00132.x

Dechow, P. M., Sloan, R. G., Sweeney, A. P., Sloan, R. G., & Sweeney, A. P. (1995). *Detecting Earnings Management*. *70*(2), 193–225.

Ederington, L. H. (1985). Classification Models and Bond Ratings. *Financial Review*, *20*(4), 237–262. https://doi.org/10.1111/j.1540-6288.1985.tb00306.x

Eng, L. L., & Mak, Y. T. (2003). Corporate governance and voluntary disclosure. *Journal of Accounting and Public Policy*, *22*(4), 325–345. https://doi.org/10.1016/S0278-4254(03)00037-1

Ge, W., & Kim, J. B. (2014). Real earnings management and the cost of new corporate bonds. *Journal of Business Research*, *67*(4), 641–647. https://doi.org/10.1016/j.jbusres.2013.01.021

Geiszler, M. (2014). The Effect of Accrual Quality, Real Activities Earnings Management and Corporate Governance on Credit Ratings. *Kent State University*, (July).

Gompers, P. A., Ishii, J. L., & Metrick, A. (2003). Financial Institutions Corporate Governance and Equity Prices. *Quarterly Journal of Economics, Forthcoming*.

Graham, J. R., Harvey, C. R., Rajgopal, S., Balachandran, S., Berger, P., Bowen, R., … Ronen, J. (2005). *Shivakumar and seminar participants at the 2005 ASSA annual conference*. https://doi.org/10.1016/j.jacceco.2005.01.002

Grinstein, Y., & Chhaochharia, V. (2007). Corporate Governance and Firm Value: The Impact of the 2002 Governance Rules. *Journal of Finance*, *62*(4), 1789–1825. https://doi.org/10.1007/s10551-011-0869-y

Gunny, K. A. (2010). The relation between earnings management using real activities manipulation and future performance: Evidence from meeting earnings benchmarks. *Contemporary Accounting Research*, *27*(3), 855–888. https://doi.org/10.1111/j.1911-3846.2010.01029.x

John, R. J. (2016). Corporate Credit Ratings , Earnings Management and the passage of SOx and. *Erasmus School of Economics*, (299775).

Jorion, P. (2009). Risk management lessons from the credit crisis. *European Financial Management*, *15*(5), 923–933. https://doi.org/10.1111/j.1468-036X.2009.00507.x

Kamstra, M. (2003). Pricing firms on the Basis of Fundamentals. *Economic Review Federal Reserve Bank of Atlanta*, *88*(1), 49–70. Retrieved from http://www.frbatlanta.org/filelegacydocs/erq103_kamstra.pdf

Karamanou, I., & Vafeas, N. (2005). The association between corporate boards, audit committees, and management earnings forecasts: An empirical analysis. *Journal of Accounting Research*, *43*(3), 453–486. https://doi.org/10.1111/j.1475-679X.2005.00177.x

Karyani, Etikah; Manurung, A. H. (n.d.). *Pengaruh Pengumuman Perubahan Bond Rating Thd Return Saham Perusahaan.pdf*.

Kent, P., & Stewart, J. (2008). Corporate governance and disclosures on the transition to International Financial Reporting Standards. *Accounting and Finance*, *48*(4), 649–671. https://doi.org/10.1111/j.1467-629X.2007.00257.x

Klein, J. (2002). Beyond competitive advantage. *Strategic Change*, *11*(6), 317–327. https://doi.org/10.1002/jsc.606

Manurung, A; Silitonga; Tobing, W. (n.d.). *Hubungan rasio-rasio keuangan dengan rating obligasi*. 1–12.

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

Matthies, A. B. (2013). *Empirical research on corporate credit ratings: A literature review*. 1–26. Retrieved from http://sfb649.wiwi.hu-berlin.de/papers/pdf/SFB649DP2013-003.pdf

Peasnell, K. V., Pope, P. F., & Young, S. (2000).

Detecting earnings management using cross-sectional abnormal accruals models. In *Accounting and Business Research* (Vol. 30). https://doi.org/10.1080/00014788.2000.9728949

Rahardjo, Sapto (2004). Panduan Investasi Obligasi. PT.Gramedia Pustaka Utama.Jakarta

Rasyid, Rosmita; Kostaman, E. J. (2013). ANALISIS PENGARUH MEKANISME GOOD CORPORATE GOVERNANCE DAN PROFITABILITAS PERUSAHAAN TERHADAP PERINGKAT OBLIGASI. *Jurnal Akuntansi UKRIDA*, *No.1*(April 2013), 1–25.

Roychowdhury, S. (2006). Earnings management through real activities manipulation. *Journal of Accounting and Economics*, *42*(3), 335–370. https://doi.org/10.1016/j.jacceco.2006.01.002

Siallagan, H., & Machfoedz, M. (2006). Mekanisme Corporate Governance, Kualitas Laba dan Nilai Perusahaan. *ProsidingSIMPOSIUM NASIONAL AKUNTANSI 9 PADANG*, (061), 23–26.

Sihotang, D. T. (2011). Pengaruh Corporate Governance Terhadap Peringkat Obligasi Dan Yield Obligasi. *Jurnal Riset Manajemen Dan Bisnis (JRMB) UNIAT*, *6*(1), 11–30.

Siriviriyakul, S. (2013). A Detailed Analysis of Empirical Measures for Real Activities Manipulation. *Ssrn*. https://doi.org/10.2139/ssrn.2359813

Susiana; Herawaty, A. (n.d.). ANALISIS PENGARUH INDEPENDENSI, MEKANISME CORPORATE GOVERNANCE, DAN KUALITAS AUDIT TERHADAP INTEGRITAS LAPORAN KEUANGAN. *Prosiding SNA X*, *2007*, 1–31.

Utami, A. G. (2012). MEKANISME CORPORATE GOVERNANCE TERHADAP. *Accounting Analysis Journal*, *1*(2).

Wang, M., & Hussainey, K. (2013). Voluntary forward-looking statements driven by corporate governance and their value relevance. *Journal of Accounting and Public Policy*, *32*(3), 26–49. https://doi.org/10.1016/j.jaccpubpol.2013.02.009

Zang, A. Y. (2012). Evidence on the trade-off between real activities manipulation and accrual-based earnings management. *Accounting Review*, *87*(2), 675–703. https://doi.org/10.2308/accr-10196

Zhao, Y., Chen, K. H., Zhang, Y., & Davis, M. (2012). Takeover protection and managerial myopia: Evidence from real earnings management. *Journal of Accounting and Public Policy*, *31*(1), 109–135. https://doi.org/10.1016/j.jaccpubpol.2011.08.004