The Effect of Accrual Quality, Real Earnings Management, and Corporate Governance on Credit Rating in Indonesia

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Keywords: Accrual Quality, Real Earnings Management, Corporate Governance, Credit Rating, The Board Size, Independent Board, Audit Committee

Abstract: This research examined whether accrual quality, real earnings management, and corporate governance affect the firm's credit rating in Indonesia. Specifically, investigation on whether real earnings 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 the research problem. This research found that accrual quality, ABnCFO, ABnPROD, and board size affected the firm's credit rating, while the independent board and audit committee did not affect credit rating.

1 INTRODUCTION

Rating agencies play an important role in financial and economic markets, as was done during the 2008 crisis. Rating agencies use the information provided by the management of companies that are ranked and the financial statements of companies that are ranked to produce ratings (ratings) concerning the company's creditworthiness as a whole and for the purpose of issuing certain debts. This ranking accurately represents the rating agency's opinion regarding a company's creditworthiness, conditioning their ability to interpret properly the information presented in the company's financial statements.

The theoretical relationship between the quality of accounting information with credit ratings can be determined by the understanding or 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 ability 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 likely the most important factor in assessing the ability of the ranking party to pay the loan principal and current and future debt interest. One of the main 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 that are ranked in determining ratings.

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 real 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, abnormal production costs, abnormal 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 in which financial statements are prepared and where accounting choices are made. Companies with poor governance will be more willing to engage in unethical behavior or may lack good internal control at the top 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 behaviour (Geiszler, 2014).

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The rating of a company is determined by the rating 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 shifted 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 rating 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 also called 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, so as to reduce 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 debt and affects the interest rates charged on the debt.

There are several incidents that 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 rating 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. In addition, 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 the company's 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 state of the company, especially regarding loan payments made by the company. The company's credit rating reflects the opinions held by the rating agency regarding the company's creditworthiness and the issuance of bonds. The rating agency uses the information provided by the company management that is ranked and the financial statements of the company that is ranked to produce a rating of the company's overall creditworthiness and for the purpose of issuing certain debts. This ranking accurately represents the rating agency's opinion of a company's creditworthiness, 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 results of the study 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 financial 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 elitian wants to test whether real earnings management and corporate governance influence credit rating in Indonesia?

2 LITERATURE REVIEW AND HYPOTHESES

2.1 Accrual Quality and Credit Rating

Research on accrual quality shows that investors cannot fully detect the existence of earnings management and cannot fully understand the implications of accrual accounting (Sloan, 1996). This study shows that investors tend to overestimate the importance of the accrual component of earnings and underestimate the cash flow component of earnings. Rating agencies are likely to be sophisticated users of financial statements compared to other market participants. Geiszler (2014) states that rating agencies are able to identify and assess the quality of a company's accruals and are presented in the ratings they make. Rating (rating) can interpret the income smoothing behavior and discretionary versus non-discretionary decisions with a GAAP construct that is profitable for companies with high ratings.

On the other hand, the rating agency as a potential sophisticated user of financial statements and is able to observe the company's financial condition that actually can punish earnings management made by managers and use discretionary accruals or ignore these problems in valuation relating to the ability to detect earnings management. This leads to the first hypothesis:

Hypothesis 1: Accrual quality influences credit ratings

2.2 Real Earnings 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 at the company level, accrual quality is a significant factor in influencing the rating received by the company. Companies with lower accrual quality also receive lower credit ratings. Real activity earnings management also affects credit ratings at the company level.

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 the Dodd-Frank Wall Street Reform Consumer Protection Act (Dodd-Frank). As expected, the results of the study indicate that fewer accrual-based earnings management strategies were used after SOx, and there was an increase in real-activity-based earnings management strategies in the period before the occurrence of a large corporate scandal.

Zang (2012) found that managers use real activity earnings management as a substitute for accrual earnings management. Real activity earnings management is an effort to direct or present the company's financial condition better than the actual condition. 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 second hypothesis:

Hypothesis 2: Real earnings management influences credit ratings

2.3 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 independence 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, while 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, and financial information that is inherently unreliable will make decisions or assessments. Undertaken becomes riskier, companies with greater risk should get a lower credit rating than companies that are less risky, so it makes sense that corporate governance at the company level is a factor that influences the credit rating process. This leads to the third hypothesis:

Hypothesis 3: Corporate governance influences credit ratings

3 RESEARCH METHOD

3.1 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, so as to obtain 46 company samples with a total of 107 observations.

3.2 Variable Measurement

The independent variables in this study are:

3.2.1 Accrual Quality

Accrual earnings management is done by changing the accounting method or estimation used in companies in recording a transaction that will affect the income reported in the financial statements (Zang 2012). In this study, the accrual quality is measured using the modified Jones model (Dechow et al., 1995). To measure discretionary accruals, first calculate the total accruals by:

TAit= *Net Income – Cash Flow From Operation*

Note: TAit = Total Accrual in period t

With Jones's empirical model, discretionary accruals are done by first calculating the value of nondiscretionary accruals. With the formula:

$$NDA_{it} = \alpha_1 \frac{1}{A_{it-1}} + \alpha_2 \frac{\Delta REV_{it} - \Delta REC_{it}}{A_{it-1}} + \alpha_3 \frac{PPE_{it}}{A_{it-1}}$$

Note: ΔREVit = year t income minus period t-1 income ECRECit: company trade receivables i in period t reduced period T-1 accounts receivable PPEit: fixed assets (gross) of company i in period t At-1 = Total Assets of period t-1 α1α2α3 = Firm-specific parameters Estimates α1, α2, α3, are calculated during the estimation period using the following model:

$$\frac{TA_{it}}{A_{it-1}} = \alpha_1 \left(\frac{1}{A_{it-1}}\right) + \alpha_2 \left(\frac{\Delta REV_{it} - \Delta REC_{it}}{A_{it-1}}\right) + \alpha_3 \left(\frac{PPE_{it}}{A_{it-1}}\right) + \sum$$

Then calculate discretionary accruals, which is the difference between total accruals (TAit) and nondiscretionary accruals (NDA). Discretionary accruals are a proxy for earnings management.

DA = TAit – NDA

3.2.2 Real Earnings Management.

Real earnings management is management actions that deviate from normal business practices carried out with the main 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's operating cash flow i in year t
At-1 = total assets of the company i year t-1
St = total sales of the company I in ¬ ¬-1

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

b. Abnormal Discretionary Expenses

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

DISEXPt = 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

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

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

Discretionary costs are defined as the sum of advertising costs, research and development costs, and sales costs, and general and administrative costs. Abnormal discretionary costs (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 with the aim of enhancing the values of the company 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).

The dependent variables in this study are:

3.2.3 Credit Rating

Credit Rating is a standardized assessment of the ability of a country or company to pay its debts. Rating of a company can be compared with other companies so that it can be distinguished who has better and less ability. Ratings are issued by rating companies, and usually, to become a rating company must obtain official permission from the government. According to Karyani and Manurung (2008), rating 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 the funds invested by investors. In this study, credit ratings are measured by the ratings 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 with multiple linear regression techniques to determine whether the variables of accrual quality, real earnings management, and corporate governance affect the credir rating. Hypothesis testing uses multiple regression analysis with the following models:

$Y = \alpha + \beta 1DA + \beta 2ABNCFO + \beta 3ABNDISCEXP + \beta 4ABNPROD + \beta 5BSIZE + \beta 6IndB + \beta 7AC + \varepsilon$

Where:

Y = credit rating

α = intercept

DA=Discretionary Accruals

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 heteroscedasticity.

4 RESULTS

4.1 Descriptive Statistics and Classical Assumption Test

Descriptive statistics are statistical analyses that provide a picture of the distribution of data without generalizing or drawing conclusions on the data. The classic assumption test is a test conducted to obtain adequate confidence that the linearity assumption in the model used in this study is not disturbed by bias arising from the disruption of data distribution (normality), correlation between observational variables (autocorrelation), interference between observational periods (multicollinearity) and data characteristics (heteroscedasticity).

Descriptive statistics of this study are presented in table 4.1 as follows:

Results of multiple regression analysis in this study are summarized in the following table:

Table 4.1: Descriptive Statistic

	N	Min	Max	Mean	St.Dev
CR	107	1.00	10.00	5.710	2.014
DA	107	-0.13	0.33	0.051	0.076
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

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 greater than the allowed threshold value (VIF£10). Sample normality testing is done using the Kolmogorov-Smirnov One-Sample test, autocorrelation testing with the Durbin Watson coefficient test, multicollinearity testing by testing the Variance Inflation Factor, and heteroscedasticity testing using the Gleijser test.

4.2 Multiple Linear Regression Analysis

Multiple linear regression has several types of 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: Result Summary of Multiple Regression Analysis

Model	Coefficient
Constanta	2.306
DA	7.119**
Abn CFO	11.014**
Abn Prod	-1.488*
B size	0.506**
IndBoard	-0.097

AC	0.247
F	18.769**
R^2	0.529
Adj R^2	0.501

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, while the AbnPROD variable, Independent Commissioner (KI) and Audit Committee (KA) have no effect on Credit Rating. The coefficient of determination (R-Square and Adjusted R-Square) are 0.490 and 0.464. This value indicates that the independent variable used in the model is able to 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.

5 DISCUSSION

5.1 The Effect of Accrual Quality on Credit Rating

The results of this study indicate that the first hypothesis of the study, which states that the quality of accruals affects the Credit Rating is supported statistically. These results indicate that the rating agency (Credit Rating Agency) pays attention to the quality of the company's accruals. Accrual quality as measured by the content of discretionary accruals is a concern in rating a company's debt because accrual quality provides an adequate predictive picture of the certainty of future cash flows used as the basis for a Credit Rating Agency in determining a company's debt rating

5.2 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, real 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 a concern of credit rating agencies (Credit Rating Agency), considering that the components used in real 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 in determining the debt rating of a company. 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 compared to companies that failed to achieve predetermined profit targets. If bondholders assess that real earnings management is a desirable business activity by them, the relationship that will emerge between real earnings management and the costs of issuing corporate bonds is a negative relationship. The reason given is in accordance with the results of the study of Graham et al. (2005) That 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 risk of the bonds, they are judging that the operating activities carried out by the company are in normal 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 study of Bhojraj et al. (2009). Bhojraj et al.'s research (2009) indicates that the stock market has misjudged the practice of real earnings management in the year of manipulation. In the short term, financial markets value companies that manage real earnings at prices higher than they really are.

5.3 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 other components (Independent Commissioner and Audit Committee) do not affect 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, but the results of this study indicate that the size of the board of commissioners is apparently also associated with a higher credit rating. This study is consistent with Geiszler's (2014) study, which states that board 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 has an influence on 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 board of commissioners and 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 board of commissioners 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%, it is possible that an independent commissioner will be more effective in oversight activities within the company. Rasyid and Kostaman (2013) also stated that this could be caused by the appointment of an independent commissioner by a company that might only be done to fulfill regulations but not intended to uphold Good Corporate Governance. Maybe even the independent commissioners appointed by the company are not competent in the field of accounting or finance.

The Audit Committee does not affect the Credit Rating with a significance level of 0.092. This can occur because members of the audit committee are 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.

appointed by a board of commissioners who are more dominated from within the company, resulting in 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 carried out to fulfill regulations but 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 was not able to 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 supervise 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 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 usually needs to hold

6 CONCLUSION

This research was conducted to determine the effect of Earnings Quality, Real Earnings Management, and Corporate Governance on Credit Rating. The results of this study indicate that that Real Profit Management, which is proxied by ABnCFO, affects the supported Credit Rating. While the ABnPROD proxy did not have an impact on 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, did not affect Credit Rating.

7 SUGGESTION

This research produces the following suggestions:

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 are proven to be considered by 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.

For Further Researchers. The results of this study can be used as a reference in subsequent studies. Future studies can add a longer observation period to prove the consistency of the theory, especially those related to the use of corporate governance components. Subsequent researchers can develop using the continued contribution of the corporate governance mechanism that is 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.

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