Effect of Liquidity Ratio, Activity Ratio, CEO Power and Economic freedom on Bond Rating (Empirical Study on Non-Financial Companies Rated by PT. Pemeringkat Efek Indonesia 2016-2020)

Pascalina Sindi Nareswari
Student
Faculty of Economic and Business
Telkom University-Bandung, Indonesia
pascalinasindi@student.telkomuniversity.ac.id

Khairunnisa
Lectures
Faculty of Economic and Business
Telkom University-Bandung, Indonesia
khairunnisa@telkomuniversity.ac.id

Abstract

Bond ratings are an indicator of the rating agency's assessment of the relative performance of contract-based debt issuers in meeting their contractual obligations. Bond ratings describe the prospects for the reliability and viability of the bonds purchased. The purpose of this research to analyze and examine the effect of Liquidity Ratio, Activity Ratio, CEO POWER and Economic freedom on Bond Rating (Empirical Study on Non-Financial Companies Rated by PT. Pemeringkat Efek Indonesia 2016-2020). Population in this study are non-financial company listed in the Indonesia Bond Market Directory and rated by PT PEFINDO in 2016 – 2020. The sampling technique used was purposive sampling and obtained 7 companies in non-financial company listed in the Indonesia Bond Market Directory and rated by PT PEFINDO with an observation period of five years so that 35 samples were obtained in this study. The data analysis method in this study is logistic regression analysis with SPSS 25. The findings of this study are partially activity ratio has a significant negative effect on bond rating, while liquidity ratio, CEO power and economic freedom does not affect on bond rating. However, simultaneously show that liquidity ratio, activity ratio, CEO power and economic freedom on bond rating have a significant effect on bond rating. The conclusion of this study provides some support and consideration for company management to increase the total amount of assets.

Keywords
Bond rating, Liquidity ratio, Activity ratio, CEO Power and Economic Freedom.

1. Introduction

Bonds are securities that are sold to the public with various regulations governing the nominal value, interest rate, time period, name of the issuer, and other matters regulated in the law passed by the Fahmi and lavianti Institution, (2011:116). The advantage of bonds is to provide yields in the form of periodic coupons, the principal is paid on time with a specified maturity. Another benefit of a bondholder is that if the company is liquidated, it has priority over the assets owned by the company (Widiastuti and Rahyuda, 2016). Even though bonds are a safe investment, investors must be aware of the risk of not fulfilling the promise of the bond issuer, namely the risk of the bond issuer failing to pay and/or returning the bond principal at maturity (Sejati, 2010). Therefore, before deciding to invest in a company's bonds, investors need to have information to consider when deciding to invest.

Bond ratings indicate a measure of the risk or safety of the bonds issued and provide an informative statement and signal the likelihood of a company defaulting. The security of a bond is represented by the company's ability to pay interest and principal loans so that investors can obtain information about bond ratings using the services of bond

rating agencies(Fauziah,2014). Securities rating agencies can close the information gap between issuers and investors by providing standard information about the company's credit risk. (Tandelilin, 2017:255).

The phenomenon that occurs with PT. FKS Food Sejahtera Tbk (AISA) previously named PT. Tiga Pilar Sejahtera Food Tbk, which is dedicated to trading, production, plantation, agriculture, electricity, and services. PEFINDO has assigned PT Tiga Pilar Sejahtera Food Tbk's "idCCC" rating to "Negative Implication", reflecting PEFINDO's anticipation of AISA's liquidity risk to meet the coupon payments for Bonds I/2013, Sukuk I/2013, and Sukuk II/2016 in July 2018. The company's liquidity level is weak, cash worth Rp30 billion - Rp40 billion as of mid-May 2018 position and the expected accumulation of EBITDA potentially insufficient to pay coupons totaling Rp109.3 billion in July 2018. Finally, PEFINDO downgraded its Bond I/2013 and Sukuk Ijarah I ratings. /2013 PT Tiga Pilar Sejahtera Food Tbk (AISA) became "idD" from "idCCC" due to the Company's inability to pay the coupon bonds and sukuk which matured on July 5, 2018. At the same time, PEFINDO downgraded the Company's rating to "idSD" from "idCCC".

The first research factor is the Liquidity Ratio, the liquidity ratio is also known as a ratio that can be used to measure the extent to which a company can repay short-term debts that are due.(Hery, 2016:149) The higher the ratio of current assets to current liabilities, the greater the company's ability to meet its short-term obligations. The liquidity ratio used in this study is the current ratio, according to (Harahap, 2011:301) the current ratio shows the extent to which current assets cover current liabilities. The current ratio is used to find out how well a business uses its assets to convert into cash quickly to pay off its debts, so it can be interpreted that bonds are long-term debt which has an obligation to pay coupons in each period, smooth coupon payments indicate that the ability of the liquidity ratio is high. , the ability of a high liquidity ratio, the risk of default is low so that the bond rating increases.

The activity ratio is the second factor in this study. Activity ratio is a ratio used to measure the company's level of efficiency in using company resources or to assess its ability to carry out daily activities and to assess the effectiveness and strength of company assets in generating revenue (Sari, 2020:61). The activity ratio used in this study is total asset turnover. Total Assets Turnover is an index used by companies to be able to see the level of effectiveness of the total assets owned by the company in generating sales for profit (Sari, 2020:66), so it can be interpreted that the higher the level of activity affects the bond rating because the company tends to generate high income. and the ability to pay higher obligations.

The third factor that becomes a factor in this research is CEO Power. CEO dominance shows how much decision-making power is concentrated in the hands of the CEO (Liu and Jiraporn, 2010) . CEO power is measured using CEO pay slice or salary which can be defined as the total CEO compensation of compensation, including salary, bonuses, other payments, long-term incentive payments, total shares, value of stock options, and other compensation (Bedchuk et.al, 2009).), it can be interpreted that a strong CEO power tends to maintain an unclear information environment, because a strong CEO power allows the CEO to act in his own interests and ignore investors thereby increasing the risk of default and can lower bond ratings.

The fourth factor which is the last factor in this research is Economic freedom, Economic freedom means production and trade without undue government interference, including the right to own, use or not use property, the right to settle disputes and execute contracts quickly and accurately. , and the right to protect property for the sake of security in carrying out economic activities (Setiawan , 2013). Indicators of a country's economic freedom are very diverse, in this study using a country's unemployment rate, According to Sadono Sukirno in (Franita, 2016), unemployment is a condition where someone in the workforce wants a job but cannot. So that it can be interpreted that the higher the unemployment rate, the lower the economy of our country, the less the amount of investment money allocated, the lower the bond rating because the purchasing power of public bonds against bonds is decreasing.

This study aims to determine how much influence the liquidity ratio, activity ratio, CEO power and economic freedom have on bond ratings in non-financial companies rated by PT. Indonesian Securities Rating Agency (PEFINDO) for the period 2016-2020. This research is expected to provide empirical evidence regarding the effect of liquidity ratios, activity ratios, CEO power and economic freedom on bond ratings and is expected to provide additional insight, information and references for the academic environment, managers and regulators in making decisions.

1.1 Objectives

PT Pemeringkat Efek Indonesia or commonly referred to as PEFINDO is the oldest and most trusted rating agency in Indonesia, established on December 21, 1993, at the initiative of the Financial Services Authority (formerly known as the Capital Market Supervisory Agency) and Bank Indonesia. The advantage of PEFINDO compared to other rating agencies is that PEFINDO is one of the Indonesian companies that not only assesses quantitatively (financial ratios) but also assesses qualitatively, the only securities rating agency owned by domestic shareholders and has rated many listed companies and bonds. on the Indonesia Stock Exchange. By 2021 PEFINDO has found more than 1000 companies and local governments. PEFINDO parties also apply for debt securities including bonds (transferable medium-term securities in which the issuer pays to pay interest to the bond buyer for a certain period and repay the principal at a certain time). PEFINDO's main mission is to provide ratings to issue securities that are independent and can be considered when discussing them with the public.

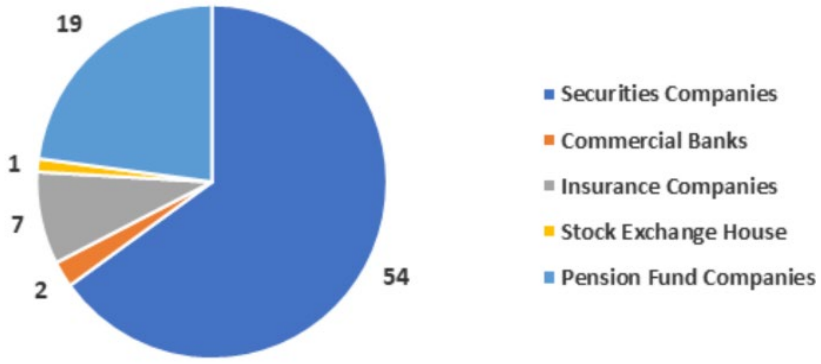

Figure 1. Shareholders composition

To maintain independence based on Figure 1, PEFINDO is owned by 83 entities representing the Indonesian capital market (as of June 23, 2021), shareholders who own more than 50% of the shares.

In connection with the enactment of the financial services authority circular letter 37/SEOJK.03/2016 concerning rating agencies and ratings recognized by the financial services authority, PEFINDO assigns a rating based on criteria AAA to D.

Table 1. PEFINDO Rating

category	rating code
Investment grade	AAA AA^{+},AA,AA^{-} A^{+},A,A^{-} BBB^{+},BBB,BBB^{-}
Non-Investment grade	BB^{+},BB,BB^{-} CCC^{+},CCC,CCC^{-} CC^{+},CC,CC^{-} C^{+},C,C^{-} Default

Based on Table 1. In general, bonds are divided into two grades, namely Investment grade, a category in which a company or country is considered to have sufficient ability to pay its debts. Investors who are looking for a safe investment usually choose investment grade. Non-investment grade is a category of companies that doubt their ability to fulfill their obligations and are generally considered to have difficulty in raising funds. The idAA to idC ratings can be changed by adding a plus (+) or minus (-) sign to indicate the relative strength of the debtor in a particular rating category. The outlook rating (outlook) assesses the potential for long-term changes in creditworthiness. Fundamental

changes in economic and/or business conditions are considered when determining prospects. Outlook ratings don't necessarily indicate an imminent rating change or CreditWatch. A positive outlook means the rating is likely to rise, a negative outlook means the rating is likely to go down, a stable outlook means the rating is unlikely to change, and a developing outlook means the rating has a high and low probability or may change continuously.

2. Literature Review

Both investors and business owners who have the same information about the company's prospects are stated as symmetrical information. But, information asymmetry, namely the inequality of information held by managers and investors, often occurs. Signal theory is a measure taken by company management to assess the company's future prospects (Brigham, 2014:184). Signal theory focuses on the impact of information on changing the behavior of those who use it. This information is an important factor for investors because it can signal whether the company's future prospects are good or bad and provide a complete picture of the company's viability in the past, present or future. The signal given by the company will be used by investors in the capital market as an analytical tool in making investment decisions (Rokhlinasari, 2015:8).

The information can be in the form of financial statements, company policy information, or other information provided voluntarily by management. Company management as the party that gives signals to rating agencies in the form of accounting and non-financial information of the company to enable the issuance of bond ratings. The resulting bond rating indicates the level of risk or safety of the bonds issued. This bond rating gives a signal about the company's potential default (Estiyanti and Yasa, 2012:5)

According to the Financial Services Authority (2015: 197), one of the investment instruments traded in the capital market is bonds. A bond is a legally binding contract between a borrower and a lender that determines the face value, coupon payment interest rate, yield to maturity, and maturity date, where yield to maturity is the required market interest rate(Prowanta & Herlianto, 2020:115).

If a company needs additional capital, the company prefers to issue bonds. Due to stricter bank lending procedures, companies that need capital prefer to issue financial products such as bonds to raise capital. In addition, the cost of issuing or issuing bonds is lower than the cost of issuing shares, so the principal cost of the bond issuance business is lower. Interest rates are not too high is also one of the reasons companies prefer bonds as a source of funding.

Investors who want to invest in bonds need to pay attention to bond ratings because bond ratings are an indicator of the rating agency's assessment of the relative performance of contract-based debt issuers to fulfill their contractual obligations. According to Fahmi (2014:321) bond ratings describe the prospects for the reliability and viability of the bonds purchased. Therefore, it is not possible to buy bonds haphazardly directly, but buying bonds must be based on a recommendation from a trusted and internationally accredited rating agency.

Liquidity Ratio or commonly known as working capital ratio is a ratio used to measure a company's liquidity by comparing the components of the balance sheet, namely total assets of current assets with total short-term debt so that the liquidity ratio can show the company's ability to pay short-term obligations on time. The liquidity of a company is indicated by the size of its current assets. Assets that can be easily converted into cash, such as cash, stock, accounts receivable, and inventory. Almilia and Devi in (Sari and Badjra 2016) state that a company that can fulfill its financial obligations on time means that the company is liquid and has more current assets than current liabilities. The more liquid a company is, the more capable it is of meeting its obligations, both short-term and long-term. A high level of liquidity indicates a company's financial position and has an impact on bond ratings. Bonds are long-term debt which has an obligation to pay coupons in each period, smooth coupon payments indicate that the ability of the liquidity ratio is high, the ability of the liquidity ratio is high, the risk of default is low so that the bond rating increases.

H1: Liquidity ratio has a positive effect on bond ratings

The activity ratio is the ratio used to measure how efficiently the company's assets are used or it can be said that this ratio is used to measure the efficiency (effectiveness) of the use of company resources. (Kasmir, 2019:174). The level of effectiveness in the use of company assets can reduce costs and increase the profits generated by the company. Ultimately, this capability will enable the company to meet its obligations, including bonds. The company's ability to meet its commitments helps improve the company's credit rating. This ratio shows the utilization of an asset or

investment owned by the company, the higher the activity ratio with the total asset turnover (TAT) proxy, the more efficient the total assets are used to generate income. On the other hand, a low ratio requires management to evaluate strategy, marketing, and investment. Total Asset Turnover is important for business management because it shows how efficiently all assets are used in a company. The level of effectiveness in the use of company assets can reduce costs and increase the profits generated by the company. Ultimately, this capability will enable the company to meet its obligations, including bonds. This can reduce the risk of default so as to improve the company's bond rating.

H2 : Activity ratio has a positive effect on bond ratings

CEO dominance shows how much decision-making power is in the hands of the CEO. There are four sources of CEO power: (1) structural power, (2) ownership power, (3) professional power, and (4) fame power [9]. Structural forces are most frequently cited in the literature and are based on formal organizational structure and authority. In this study, it focuses on structural strength, namely the power of the CEO who is included in the top executive. The main aspect of management characteristics is the distribution of power in decision making. When the company's decision-making activities become more focused in the hands of the CEO, the CEO has more freedom in decision-making and his opinion is directly reflected in the company's performance [17]. Strong CEO dominance is associated with lower firm value and lower accounting earnings (Bebchuk et al., 2009). A strong CEO may not compromise with other executives, and decisions are more likely to be made if the CEO is dominant, so company performance will fluctuate depending on the level of influence of the CEO [17] . The higher the CEO power proxied by CEO salary (CEO pay slice can be defined as the CEO's compensation amount from the total compensation, including salary, bonuses, other payments, long-term incentive payments, total shares, value of stock options, and other compensation), the more likely to maintain information environment is not clear, because strong CEO power allows CEOs to act in their own interests and ignore investors thereby increasing the risk of default and can lower bond ratings. So, it is suspected that CEO Power has a negative influence on bond ratings.

H3 : CEO Power has a negative effect on bond ratings

The Importance of Government and Corporate Bond Credit Ratings in Encouraging Domestic and International Capital Flows. It provides convincing empirical evidence that a country's creditworthiness reflects that country's macroeconomic situation. According to Calcagno & Benefield (2013) there are several indices/factors of Economic freedom 1) income per capita, 2) unemployment, 3) the ratio of tax revenue to income, 4) state debt as a percentage of government revenue, 5) Corruption. In this study, economic freedom is proxied by the unemployment rate where unemployment is a condition where someone in the workforce wants a job but cannot. So that it can be interpreted that the higher the unemployment rate, the lower the economy of our country, the less the amount of investment money allocated, so that the bond rating will decrease because the purchasing power of public bonds against bonds is decreasing. So, it is assumed that Economic freedom has a negative effect on bond ratings.

H4 : Economic Freedom has a negative effect on bond ratings

3. Methods

The approach used in this research is quantitative. This research was conducted in non-financial companies listed in the Indonesia Bond Market Directory and rated by PT. Pemeringkat Efek Indonesia (PEFINDO) for the 2016-2020 period. The sample companies are non-financial companies in Indonesia that issue bonds and are listed in the Indonesia Bond Market Directory and rated by PT PEFINDO in 2016-2020, have published financial statements and annual reports consistently during the observation period through the website www.idx.co.id. The data taken from the company's annual report is quantitative data. The sample used purposive sampling method, where the sample selection was carried out by fulfilling certain criteria. Of the 118 non-financial companies in Indonesia that issue bonds and are listed in the Indonesia Bond Market Directory and rated by PT PEFINDO, only 7 companies meet the criteria so that the sample taken is 35.

4. Data Collection

Table 2. Descriptive Statistic

Descriptive Statistics						
	N	Minimum	Maximum	Median	Mean	Std. Deviation
Bond rating	35	0	1	1	.69	.471
Liquidity ratio	35	.28	2.56	1.148	1.1813	.49725
Activity ratio	35	.09	1.08	0.422	.4412	.22581
CEO Power	35	21.43	23.93	21.949	22.3085	.74635
Economic freedom	35	7000855	8224746	7018206	7255408.20	491840.730
Valid N (listwise)	35					

Based on Table 2. The liquidity ratio variable for 2016-2020 which is projected using the current ratio shows an average value (mean) of 1.1813 and a standard deviation of 0.4975. The distribution of the liquidity ratio data using the mean and standard deviation obtained 27 samples located between the interval 0.68405 (μ-1.sd) and 1.67855 (μ+1.sd), while there were 8 samples that were outside the interval. This shows that the ratio of liquidity data for 2016-2020 is between a value of 0.68405 to a value of 1.67855. The median value is 1.148, meaning that if the sample data set is sorted from the sample with the smallest to the largest ratio value, the middle value will appear in that number. For the minimum value of the current ratio is 0.28 which is owned by PT Jasa Marga Tbk in 2019, the decrease in the current ratio occurred because the current assets owned by the company decreased while liabilities increased from the previous year. In 2018 the company's current assets amounted to Rp. 11,813,856,472,000 and in 2019 there was a decrease in current assets to Rp. 11,612,566,000,000, this shows that PT Jasa Marga experienced a decrease in the value of current assets from the previous year. The company's current liabilities continue to increase, namely Rp. 31,081,475,143,000 in 2018 to Rp. 41,526.417 million in 2019. This shows that the company has not been able to pay its debts because the company has a higher liability value than the value of its current assets. For the maximum current ratio value of 2,561 owned by PT Angkasa Pura II in 2016 for the asset value of 8,081,134,208,499 in 2016 and the lower current liability value of 3,155,875,540,428. The increase in the value of current assets shows that the company can pay its debts.

The activity ratio variable for 2016-2020 which is projected using total asset turnover shows an average value (mean) of 0.4412 and a standard deviation of 0.22581. the distribution of activity ratio data using the mean and standard deviation obtained 27 samples located between the interval 0.21539 (μ-1.sd) and 0.66701 (μ+1.sd), while there were 8 samples that were outside the interval. This shows that the 2016-2020 activity ratio data is grouped between the value of 0.21539 to the value of 0.66701. The median value is 0.422, meaning that if the sample data set is sorted from the sample with the smallest to the largest activity ratio value, the median value will appear at that number. For the minimum value of total asset turnover is 0.85 which is owned by PT Angkasa Pura I in 2020, the decrease in total asset turnover occurred because the net sales value owned by the company was smaller than the company's total assets. In 2019 the company's net sales value was Rp. 8,631,545,602,000 and in 2020 there was a decrease in the company's net sales value to Rp. 3,619,109,485,000, this shows that PT Angkasa Pura I experienced a decrease in net sales value from the previous year due to disruption of flight activities due to covid 19. The company's total assets in 2020 amounted to 42,576,844,851,000 compared to 2019 which experienced a slight decrease, namely 42,786,551,099,000. This shows that the company is less efficient in using assets to generate net income. For the maximum value of total asset turnover of 1,084 owned by PT Antam Tbk in 2019 due to an increase in net sales value in 2019 of Rp. 32,718,542,699,000 when compared to the net sales value in 2018 which was Rp. 25,275,245,970,000. And there was a decrease in the total value of the company's assets in 2019 of Rp. 30,194,907,730,000 when compared to the total value of the company's assets in 2018 which was Rp. 32.195,350,845,000. This increase shows that the company is more efficient in using its assets to generate net sales of the company.

The CEO Power variable for 2016-2020 which is projected using the natural logarithm of CEO Pay Slice shows an average value (mean) of 22.3085 and a standard deviation of 0.74635. The distribution of CEO power data using the

average value and standard deviation obtained 27 samples located between the intervals 21.5622 (μ-1.sd) and 23.0548 (μ+1.sd), while there were 8 samples that were outside the interval. This shows that CEO power data for 2016-2020 is grouped between a value of 21.5622 to a value of 23.0548. The median value is 21,949, meaning that if the sample data set is sorted from the sample with the smallest to the largest CEO Power value, the median value will appear at that number. For the minimum value of Ceo pay slice is 21,433 which is owned by PT Antam Tbk in 2016, the maximum value of Ceo pay slice is 23,930 owned by PT Telkom Indonesia which occurred in 2018.

The economic freedom variable in 2016-2020 which is projected using the unemployment rate as measured by the number of unemployment that occurred in that year shows an average value (mean) of 7255408.20 and a standard deviation of 491840.73. the distribution of the economic freedom ratio data using the average value and standard deviation obtained 28 samples located between the intervals 6,763,567.47 (μ-1.sd) and 7,747,248.93 (μ+1.sd), while there were 7 samples outside that interval. This shows that the economic freedom data for 2016-2020 is grouped between the values of 6,763,567.47 to 7,747,248.93. The median value is 7,018,206, meaning that if the sample data set is sorted from the sample with the smallest to the largest economic freedom value, it will show the middle value that is in that number. The minimum unemployment rate is 7,000,855 which occurred in 2019. The maximum unemployment rate is 8,224,746 which occurred in 2020.

5. Results and Discussion

5.1 Logistics Regression Analysis

a. Regression Model Feasibility Test

The following table describes the feasibility test of the regression model using the Hosmer and Lemeshow Test from a sample of corporate bonds listed at PT PEFINDO from 2016 to 2020. If the probability of sig is greater than 0.05 then Ha is rejected and H0 is accepted, so the model can be used because it is not there is a significant difference between the predicted classification and the observed classification.

Table 3. Hosmer and Lemeshow Test

Hosmer and Lemeshow Test			
Step	Chi-square	df	Sig.
1	4.281	7	.747

Based on Table 3. It is shown that the results of hypothesis testing with logistic regression show the value of the Hosmer and Lemeshow test of 4.281 with a probability of sig 0.747, where 0.747 > 0.05. Thus, the null hypothesis cannot be rejected. This result means that the regression model used in this study is suitable for further analysis, because there is no significant difference between the observed classifications.

b. Fit Model Test

This test will examine the effect of each independent variable, namely the liquidity ratio (CR), Activity Ratio (TATO), CEO Power, Economic freedom (unemployment) on bond ratings. The first analysis conducted is to test the entire model. This test is done by comparing the value between – 2 initial log likelihood with – 2 log likelihood in the final model. The existence of a reduction in the value between – 2 initial log likelihood with a value of -2 log likelihood in the final model shows that the model fits the data.

Table 4. Overal Model Fit

Iteration	-2 Log Likelihood
Step 0	43.574
Step 1	32.183

Based on Table 4. Shows the feasibility test by comparing the numbers in the initial -2 Log Likelihood (Block 0) of 43,574 and in the -2 Log Final Likelihood (block 1) of 32,183. this shows that the decrease in the value of -2 initial log likelihood and -2 final log likelihood of 11,391 means that overall, the logistic regression model used is a good

model because there is a reduction in the value between - 2 initial Likelihood Logs with - 2 final Likelihood Logs and it can be concluded that H0 is accepted because the model is hypothesized to fit the data.

c. Coefficient of Determination

The analysis of the coefficient of determination is used to determine how much the variability of the dependent variable is explained by the variability of the independent variable.

Table 5. Coefficient of Determination

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	32.183[a]	.278	.390

Based Table 5. The Nagelkerle R Square value is 0.390 which means that the variability of the dependent variable is explained by the variability of the independent variable by 39% while the remaining 61% is explained by other factors outside the variables studied.

5.2 Simultaneous and Partial Test

a. Logistics Regression Analysis Results (Simultaneous Testing)

Hypothesis testing using the enter method logistic regression model with a significance level of (α) 5%. Logistic regression is used to test whether the influence of liquidity ratios, activity ratios, CEO Power, Economic freedom. If the Omnibus Tests of Model Coefficients test (simultaneous testing) shows significant results, then overall independent variables are included in the model or in other words no independent variables are excluded from the model. The results of the Omnibus Tests of Model Coefficients test are shown in Table 6

Table 6. Omnibus Test of Model Coefficients

		Chi-square	df	Sig.
Step 1	Step	11.391	4	.023
	Block	11.391	4	.023
	Model	11.391	4	.023

Based on the Omnibus Tests of Model Coefficients table 6, it can be seen that the Chi-square value is 11,391 with a sig level of 0.023 where 0.023 < 0.05, then Ho 1 is rejected, and Ha 1 is accepted. This means that the liquidity ratio, activity ratio, CEO power, and economic freedom together have a significant effect on bond ratings. The results of simultaneous hypothesis testing are H0 1 is rejected, and Ha 1 is accepted

b. Effect of Liquidity Ratio, Activity Ratio, CEO Power, and Unemployment on Bond Rating (Partial Test)

Partial testing is used to partially test the hypothesis in order to show the influence of each independent variable individually with the enter method with a significance level of (α) 5%. H0 is accepted if the independent variable has a significant effect on the dependent variable, and conversely Ha is accepted if the independent variable has no significant effect on bond ratings.

Table 7. Variables in the Equation

		B	S.E.	Wald	df	Sig.
Step 1	Liquidity ratio	-1.37063227	1.16042608	1.39510517	1.00000000	.23754485
	Activity ratio	-5.12812967	2.45105045	4.37737240	1.00000000	.03641910
	Ceo_Power	1.03919257	.85596496	1.47394098	1.00000000	.22472492
	Economic freedom	-.00000195	.00000112	3.03395537	1.00000000	.08153902
	Constant	-4.09123768	20.41396594	.04016564	1.00000000	.84115707

Based on Table 7 the test results of the logistic regression model, the following equation can be made:
RATING: -4.091237 -1.370632 X1 –5.128129 X2 + 1.039192 X3 + 0.000002 X4 + e

Discussion

The results of the logistic regression equation above can be interpreted as follows:

1. The constant value from the regression equation is -4.091237 which states that if the liquidity ratio, activity ratio, CEO Power and Economic freedom variables are considered zero, then the predicted bond rating is -4.091237, the bond rating will decrease by -4.091237 units.
2. The regression coefficient for the liquidity ratio variable is -1.370632, the bond liquidity ratio is negative, meaning that every one unit increase in the company's liquidity ratio variable assuming the other variables are constant, the bond rating will decrease by 1.370632 units.
3. The regression coefficient for the Activity ratio variable is -5.128129, the bond activity ratio is negative, meaning that every one unit increase in the company's activity ratio variable assuming other variables are constant, the bond rating will decrease by 5.128129 one unit.
4. The regression coefficient for the CEO Power variable is 1.039192, the value of the CEO Power variable is positive, meaning that for every one unit increase in the company's CEO Power variable assuming the other variables are constant, the bond rating will increase by 1.039192 one unit.
5. The regression coefficient of the Economic freedom variable is 0.000002, the value of the Economic freedom variable is negative, meaning that for every one unit decrease in the company's CEO Power variable assuming other variables are constant, the bond rating will decrease by 0.000002 units.

5.3 Proposed Improvements

Based on the results of this study, researchers provide suggestions for practitioners and other users, namely:
1. For the management of the company is expected to pay more attention to and increase the total amount of assets.
2. For investors and potential investors who wish to invest their capital through bond investment instruments, it is expected to pay attention to the activity ratio factor because this factor has been proven to significantly affect the rating of bonds that have large total assets. Investors should choose bonds that are included in the high investment category, so the company's risk of default is lower than bonds with the low investment category.

5.4 Validation

Effect of Liquidity Ratio on Rating Bond

The higher the liquidity ratio, the bond rating will increase, conversely, the lower the liquidity ratio value, the bond rating will be lower or lower. However, the results of the regression analysis prove that the increase or decrease in the value of the liquidity ratio has no effect on the company's bond rating. This is based on the results of statistical tests known that there are 18 samples that have a liquidity ratio value below the average. Of the 18 samples, there are 16 samples (40%) that have a high investment bond rating. The sample company has a liquidity ratio value below the average due to the increase in current liabilities including bonds payable, bank loans, other debts, and accrued expenses. This increase in debt is needed to provide working capital so that the company will improve its performance and still have a good investment rating. This can be seen in APIA's 2019 and 2020 financial statements as well as 2018 and 2019 JSMR. Therefore, the liquidity ratio has no effect on bond ratings.

Effect of Activity Ratio on Rating Bond

The higher the activity ratio, the bond rating will increase, conversely, the lower the activity ratio value, the lower or lower bond rating will be. But the results of the regression analysis prove that the lower the value of the activity ratio, the bond rating will increase. This is explained by the descriptive results of the activity ratio with a proxy for total asset turnover which shows that there are 18 samples that have an activity ratio value below the average. Of the 18 samples, there are 13 samples (37%) that have a high investment bond rating. The sample company that has an activity ratio value below the average is PT. Angkasa Pura I, PT Angkasa Pura II, PT Jasa Marga Tbk and PT Kereta Api Indonesia. From the sample companies, there was a decrease in their main revenue or core business, but they had other income such as non-aeronautical operating income, cargo, toll revenue, other operating income and construction income. (PPKM policy during the research period,) so that even though there is a PPKM policy but there are other income components, the company's income is still quite high. Even though the company's income has decreased, the company still has other income which causes its bond rating to remain high.

Effect of CEO Power on Rating Bond

The higher the Ceo Power, the lower the bond rating, conversely, the lower the Ceo Power value, the higher the bond rating. But the results of the regression analysis prove that high or low CEO power does not affect bond ratings. This is explained by the descriptive results of CEO Power with the CEO Pay Slice proxy which shows that there are 24 samples that have CEO Power values below the average. Of the 24 samples, there are 15 samples (42%) that have a high investment bond rating. The sample company that has a CEO Power value below the average is PT. Angkasa Pura I, PT Angkasa Pura II, PT Jasa Marga Tbk and PT Kereta Api Indonesia. The sample company has a CEO pay slice which is relatively the same at every level, because the sample company that has CEO Power below the average is a BUMN company that goes public, one of its goals is and according to the UUD No. 19 of 2003 article 2 BUMN in the form of a limited liability company that its capital is divided into shares which are wholly or at least 51% (fifty one percent) of the shares are owned by the Republic of Indonesia whose main purpose is to pursue profit, so that it is required to continue to achieve its strategic goals. So the slice pay has no effect, because the CEO with a larger salary does not affect the company's good performance in achieving the company's target so that the CEO's salary does not affect the company in increasing the bond rating.

Effect of Economic Freedom on Rating Bond

The higher the economic freedom, the lower the bond rating will be, conversely, the lower the economic freedom value, the higher the bond rating will be. However, the results of the regression analysis prove that high or low economic freedom has no effect on bond ratings. This is explained by the descriptive results of economic freedom with the unemployment rate proxy which shows that there are 28 samples that have below average unemployment values. Of the 28 samples, there are 20 samples (57%) that have a high investment bond rating. This is because of covid 19, there will be more open unemployment and some companies have terminated employment with employees, which resulted in a decrease in people's income, but the increase or decrease in income does not affect people's investment habits, this can be seen from the average increase in the number of investors. from 2018 to 2021 by 42% with the lowest increase in 2020 to 2021 this shows that investor interest in the capital market is still high. The results of this study show that economic freedom has no effect because high and low unemployment cannot project bond ratings.

6. Conclusion

The findings of this study are partially activity ratio has a significant negative effect on bond rating, while liquidity ratio, CEO power and economic freedom does not affect on bond rating. However, simultaneously show that liquidity ratio, activity ratio, CEO power and economic freedom on bond rating have a significant effect on bond rating. The conclusion of this study provides some support and consideration for company management to increase the total amount of assets

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Biography

Pascalina Sindi Nareswari is a final semester student of the accounting study program from the economics and business faculty of Telkom University Bandung, Indonesia. Born on 24 December 2000 in Surakarta, Central Java. Lives in Surakarta and studied elementary to high school in Sukoharjo, to be precise at Senior High School 3 Surakarta majoring in science. Then he continued, college to Telkom University majoring in accounting.

Khairunnisa is a lecturer in the accounting study program at the Faculty of Economics and Business, Bandung (Indonesia) since 2011-present. She studied at Padjadjaran University and earned a Bachelor of Economics and a Master of Management. From 2001-2004 she worked as a customer service officer at Danamon Bank. Then, in 2005-2005 he worked at centra asia bank as a management development program and in 2007-2008 he became Head of Operation in Kendari Branch Office at Centra Asia Bank. Later, from 2008-2009 he worked as a relation manager for inclusive banking at Mandiri Bank Bandung and in 2017-present as a senior consultant at shangring addicted training & consultant.