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Determinants of Sukuk Ratings in Indonesia: The Role of Financial Performance as a Moderator

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ABSTRACT

Purpose : The study examines the long-term influence of sukuk age, institutional ownership, and managerial ownership on sukuk ratings with financial performance as a moderating variable in sukuk issuing companies in Indonesia.
Method : The population comprises 30 sukuk issuers during 2021-2023, from which 18 companies met the criteria using purposive sampling. Data analysis used the PVMAR and PVMECM techniques.
Findings : The findings reveal that institutional ownership, managerial ownership, and financial performance have a long-term effect on sukuk ratings, while sukuk age does not. Moreover, financial performance strengthens the long-term effects of sukuk age, institutional ownership, and managerial ownership on sukuk ratings.
Novelty : The study offers a new perspective on the interaction between sukuk rating determinants and financial performance in Indonesia, which provides essential implications for sukuk issuing companies in Indonesia to improve their financial performance. It shows the importance of good corporate governance and support from institutional shareholders as long-term stability factors that positively affect Sukuk ratings.

INTRODUCTION

In global Islamic capital markets, sukuk ratings play a crucial role in maintaining investor confidence and ensuring financial system stability. Sukuk, or Sharia-compliant bonds, have become a key financing instrument for both sovereign and corporate issuers across various jurisdictions such as Malaysia, Bahrain, Brunei Darussalam, the United Arab Emirates, Qatar, Pakistan, and Germany (Aini & Luthfi, 2019). These instruments are utilized for both general funding and specific infrastructure projects, and in some cases, as short-term liquidity management or money market tools (Raimuna & Mutia, 2018). In Indonesia, sukuk are governed by the Fatwa of the Indonesian Ulema Council (DSN-MUI) No. 32/DSN-MUI/IX/2002 (DSN-MUI, 2020), defining them as Sharia-compliant securities representing joint ownership of underlying assets. This asset-based structure differentiates sukuk from conventional bonds that are primarily debt-based. Since the first issuance in 2002, sukuk in Indonesia have experienced consistent growth in both volume and value, signaling increasing investor trust in Islamic financial instruments.

Despite this positive development, several sukuk-issuing companies in Indonesia have experienced downgrades in their sukuk ratings. For example, PT Wijaya Karya's (WIKA) Continuous Sukuk Mudharabah I Phase I Year 2020 Series A was downgraded from idCCC(sy) to idD(sy), while PT Indosat's sukuk rating decreased from idAAA to idAA, and PT PP received a negative credit watch revision (Nityakanti, 2024; Malik, 2023). These cases highlight that sukuk ratings not only measure repayment capability but also reflect a company's governance quality and financial fundamentals. However, empirical findings on the determinants of sukuk ratings remain inconsistent. Some studies argue that sukuk maturity increases risk and uncertainty over time (Atiqah & Rahma, 2023), while others suggest that for well-managed and reputable firms, longer maturities may instead signal financial stability (Muhammad & Aisyah, 2021).

The same inconsistency is observed in the literature on corporate governance. Based on agency theory (Jensen & Meckling, 1976), ownership structures such as managerial and institutional ownership are expected to reduce agency conflicts by aligning managerial and shareholder interests. Nevertheless, excessive managerial ownership can lead to managerial entrenchment, weakening external oversight, while institutional ownership effectiveness

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depends heavily on monitoring intensity and relational independence (Endri, 2011). Moreover, companies with similar governance structures often receive different sukuk ratings, suggesting that additional factors may influence rating outcomes.

One such factor is financial performance, which plays a vital role in supporting the credibility of corporate governance signals. According to Signaling Theory (Spence, 1973), market participants interpret financial strength as a credible signal of managerial competence and repayment capacity. Firms with robust financial performance are perceived by rating agencies as better able to meet ijarah or profit-sharing obligations, thereby enhancing their sukuk rating (Ascarya, 2016; Hutagalung et al., 2025). Conversely, companies with strong governance but weak profitability may still face rating downgrades due to concerns about long-term solvency. Despite this theoretical relevance, empirical studies examining financial performance as a moderating variable rather than a direct determinant of sukuk ratings are still very limited in Indonesia (Ni'mah et al., 2020).

Accordingly, this study aims to investigate the long-term effects of sukuk age, institutional ownership, and managerial ownership on sukuk ratings in Indonesia, while assessing the moderating role of financial performance. By integrating governance mechanisms and financial indicators, this study extends previous sukuk rating frameworks and contributes to a deeper understanding of how internal corporate dynamics influence credit assessments in Islamic finance. Practically, the findings can guide issuers in strengthening their fundamentals before sukuk issuance, assist investors in evaluating sukuk risks, and support regulators in designing more comprehensive rating disclosure policies.

Sukuk age refers to the term or tenor of the Sukuk from issuance to maturity. Each sukuk has a maturity date, which is the date (period) when the bond issuer must pay off the principal value of the sukuk (Muhammad & Aisyah, 2021) . Sukuk issuers have an absolute obligation to pay the nominal value of the Sukuk to the Sukuk holders at maturity (usually stated in a previously made agreement). This is emphasized by the signal theory by Spence (1973), which states that the sukuk age can be used by the issuing company to send signals to the market and rating agencies regarding financial stability, risk management, and the company's confidence in its future. A longer sukuk age can indicate a company's confidence in meeting its obligations in the future. In comparison, a shorter age can reduce risk and be more attractive to investors who avoid long-term uncertainty. Both age types can impact the sukuk rating, depending on how the rating agency receives and analyzes the signal. Muzalifah & Yulia (2021) research shows that sukuk age affects sukuk ratings in the short term.

H_1: This study suspects that sukuk age influences long-term sukuk ratings

Institutional ownership generally acts as a party that monitors the company. Supervision and monitoring by institutional investors can prevent company management from acting in their personal interests, thereby providing benefits to bondholders (Bushee, 1998). Institutional investors possess greater control compared to individual investors, allowing their monitoring activities to effectively reduce agency risk. Consequently, institutional ownership plays a crucial role in mitigating agency conflicts between management and shareholders (Wiyono & Purnama, 2021). As explained in the agency theory by Jensen & Meckling (1976), with strong institutional ownership, management supervision will increase, and the corporate governance system will be optimized to minimize existing risks. As a result, companies with significant institutional ownership tend to get higher sukuk ratings from rating agencies due to lower risk and better governance. Research conducted by Kurniawan & Latifah (2023) states that institutional ownership influences sukuk ratings in the short term.

H_2: This study suspects institutional ownership impacts on sukuk ratings in the long term

Managerial ownership is the level of shares owned by management, such as the board of directors and commissioners, who are active in decision-making within the company (Syofyan, 2021). In the context of sukuk, a Sharia financial instrument, a good rating reflects lower risk for investors. Significant managerial ownership can reduce conflicts of interest and increase oversight of managerial decisions, ultimately improving company performance. In the context of Jensen & Meckling (1976) about agency theory, managerial ownership helps reduce conflicts between managers and shareholders, improves corporate governance systems, minimizes business risks, and controls or supervises the company's operations. This improves the rating agency's perception of the quality of the sukuk issuing company, which can lead to better sukuk ratings. Research conducted by Yoshua & Asandimitra (2021) shows that managerial ownership influences sukuk ratings in the short term.

H_3: This study suspects managerial ownership impacts sukuk ratings in the long term

Companies with increasing or stable profits are considered to have professionalism in managing funds, assets, debts, and capital structures owned so that they are qualified to be entrusted with funds by investors in the form of sukuk (Wibisono & Yooewono, 2024) . Sukuk rating companies assess that companies with high and stable profit levels and minimizing losses will be smooth in paying sukuk installments according to the agreement set with investors to avoid payment delays (Borhan & Ahmad, 2018). Profit and net income are important aspects of financial reports that are often or frequently assessed by outside parties in analyzing a company's financial condition (Septanto, 2020) . This is reinforced by the signal theory by Spence (1973), where a company is considered successful in carrying out company performance if it achieves the most significant and highest possible profit, so that it has an impact on the amount of profit sharing on profits given to investors as buyers and owners of Sukuk, with the profits shared. The higher the sukuk rating, the signal that the company's financial performance is in a healthy condition, so that the risk of the company's failure to meet its obligations is lower. Research by Lestari & Ghani (2020) and Muhammad & Aisyah (2021) states that financial performance is proxied by profitability, which affects Sukuk ratings in the short term.

H_4: This study assumes that financial performance impacts sukuk ratings in the long term

Longer maturity sukuk are generally considered riskier because there is more uncertainty over a longer period (Nuridah et al., 2022). In other words, uncertainty increases over time. However, suppose the issuing company has good financial performance, such as strong cash flow, a healthy debt ratio, and stable profitability (Putri & Linda, 2023). In that case, the risk inherent in long-maturity sukuk can be tolerated by rating agencies. This is reinforced by the signaling theory by Spence (1973), which states that healthy financial performance can be a positive signal that the company can meet sukuk obligations. Long maturity sukuk can be risky, but if the company has stable financial performance, the positive signal sent can minimize risk perception and increase investor confidence in the sukuk issuing company.

H_5: This study assumes that financial performance can moderate the effect of sukuk age on sukuk ratings in the long term

Large financial institutions generally have the expertise and resources to monitor the company's performance (Alexandra et al., 2022). The presence of shareholders is often considered a positive signal by rating agencies because the presence of institutional shareholders is expected to enable them to monitor the company's management closely (Santoso et al., 2023). In this case, institutional ownership strengthens the rating agency's trust when the company has complex financial performance. Good financial performance shows that the company can provide stable returns (Melzatia et al., 2019). This makes rating agencies believe the company is in adequate financial condition and can fulfill its sukuk obligations.

H_6: This study assumes that financial performance can moderate the effect of institutional ownership on sukuk ratings in the long term

Management share ownership is often considered a positive signal that management is committed to improving the company's performance, as managerial shareholders have a direct financial incentive (Bhojraj & Sengupta, 2003). This can positively impact rating agencies' assessments of sukuk ratings. The company's encouragement of sound financial performance shows that the commitment to managerial ownership is more credible (Meianti et al., 2023). Rating agencies see this as an indication that management has the ability and incentive to maintain the company's financial condition.

H_7: This study assumes that financial performance can moderate the effect of managerial ownership on sukuk ratings in the long term

RESEARCH METHODS

This research uses a quantitative approach with a positivist paradigm, employing statistical analysis to test predetermined hypotheses. The population in this study is all sukuk-issuing companies listed on the Indonesia Stock Exchange and registered with PT Pefindo for the 2021-2023 period, totaling 30 companies issuing sukuk. The sampling technique used was purposive sampling, with criteria for companies issuing sukuk. Detailed sample criteria and variable measurements are presented in the Table 1.

Table 1 presents the criteria for the research sample used. The sample was selected using a purposive sampling method based on sukuk issuing companies listed on the Indonesia Stock Exchange and registered with PT Pefindo during the 2021-2023 period. Of the 30 companies, 12 did not issue sukuk during the study period and were therefore excluded from the sample. This table is intended to clarify the basis for sample selection and demonstrate transparency in the data selection process. Table 2 presents the measurement of the variables used in this study..

The data analysis techniques used are PVMAR and PVMECM. The stages of forming PVMAR/PVMECM can be carried out with stationarity tests, optimal lag tests, model stability tests, cointegration tests, PVMAR (Panel Vector Moderated Autoregressive)/PVMECM (Panel Vector Moderated Error Correction Model) estimation tests,

Table 1. Research Sample Criteria

No	Criteria	Number of Companies
1	Sukuk Issuing Companies Listed on the Indonesia Stock Exchange for the 2021-2023 Period	30
2	Companies that did not issue Sukuk during the 2021-2023 period	(12)
	Overall Sample × 3 Periods	54

Source: The Processed Primary Data (2024)

Table 2. Variable Measurement

Variable	Measurement		Reference
Sukuk Rating (Y)	Sukuk rating measurement uses a score-based assessment with the following indicators:		(Masykurah & Gunawan, 2019)
	idAAA(sy)	: 4	
	idAA(sy) $^{+}$ - idAA(sy) $^{-}$	: 3	
	idA(sy) $^{+}$ - idA(sy) $^{-}$	: 2	
	idBBB(sy) $^{+}$ - idBBB(sy) $^{-}$	: 1	
	idBB(sy) $^{-}$ - idD(sy)	: 0	
Sukuk Age (X_1)	Sukuk age measurement uses a score-based method with the following indicators:		(Wijaya, 2019)
	Sukuk age 1-2 years	: 5	
	Sukuk age 3-4 years	: 4	
	Sukuk age 5-6 years	: 3	
	Sukuk age 7-8 years	: 2	
	Sukuk age > 8 years	: 1	
Institutional Ownership (X_2)	IO = Number of institutional shares / Total number of outstanding shares		(Sofana & Asytuti, 2021)
Managerial Ownership (X_3)	MO = Number of managerial shares / Total number of outstanding shares		(Prafitri & Aryani, 2019)
Financial Performance (Z)	Tobin›s Q = (Market Value of Equity + Total Debt) / Total Asset		(Hertina et al., 2023)

determination coefficient tests, impulse response function tests, and variance decomposition tests (Winarno, 2017). The analysis tool used in this study is Eviews 12.

RESULTS AND DISCUSSIONS

The discussion begins with descriptive statistics to provide an overview of the data distribution and the characteristics of each variable. Table 3 below presents the descriptive statistical results of the main variables examined in this study. Table 3 summarizes the descriptive statistical analysis of the research variables, including Sukuk Rating, Sukuk Age, Institutional Ownership, Managerial Ownership, and Financial Performance. The descriptive statistics displayed include the number of observations (N), minimum value, maximum value, average (mean), and standard deviation. This information serves to provide an overview of the data characteristics, so readers can understand the variation and distribution of each variable.

The purpose of the stationarity test is to see whether the average variance of the data is constant over time and whether the covariance between two or more time series data only depends on the lag between the two or more periods. In this study, the stationarity test used was the Philips Perron Test at the Level Order. If the results obtained were not yet stationary at Level Order 1(0), then the stationarity test was carried out at the next order degree: First Difference I (1) and Second Difference I (2). Data is said to be stationary if the variable's probability is not greater than $\alpha = 5\%$.

Based on Table 4, using the Philips Perron method, it shows that there is data containing unit roots or non-stationary data, namely in the sukuk rating variable (Y), where the p-value at the level is above 5%, which means that H_0 is rejected. After conducting the Philips-Perron differentiation test, the sukuk rating variable is found to have become stationary at the 1st-order level (first difference). This can be seen in the p-value obtained, which is less than 5%, which means that H_1 is accepted. While the data on the sukuk age variable (X_1), institutional ownership (X_2),

Table 3. Descriptive Statistics

	N	Minimum	Maximum	Mean	Standard Deviation
Sukuk Rating	54	.00	4.00	2.4259	1.10917
Sukuk Age	54	.00	5.00	3.9630	1.71523
Institutional Ownership	54	.36	.92	.6719	.15336
Managerial Ownership	54	.00	.49	.0386	.11249
Financial Performance	54	.68	673.68	39.8972	139.43643
Valid N (listwise)	54				

Source: Eviews 12 Output (2024)

Table 4. Philips-Perron Stationarity Test Results

Variables	Philips Perron P-Value Levels	Philips Perron P-Value Differentiation	Information
Sukuk Rating	0.1325	0.0000	Stationary level 1
Sukuk Age	0.0000	-	Stationary level 0
Institutional Ownership	0.0021	-	Stationary level 0
Managerial Ownership	0.0313	-	Stationary level 0
Financial Performance	0.0013	-	Stationary level 0

Source: Eviews 12 Output (2024)

managerial ownership (X_3), and financial performance (Z) have p-values below 5% which means that the data on these variables do not contain unit roots or the data is stationary.

The optimal lag test determines the appropriate number of intervals to observe. The goal is to determine the time required for one variable to respond to changes in another. Determination of the Optimum Lag is obtained from the minimum Akaike Information Criterion (AIC) value for all variables to be estimated. Based on Table 5, it can be seen that lag 3 shows the least negligible optimal AIC lag. This means that the influence of variables on other variables occurs within three past periods because lag three will be used for testing in the VMECM parameter estimation process.

A cointegration test is conducted to determine the basis of the equation, whether it has long-term equilibrium or not, and to describe the similarity of movement. Cointegration testing in this study uses the Johansen-Fisher Panel Cointegration method. Test with the requirement that the result of the probability value at Ar most is less than 0.05. The following is the cointegration test data using the intercept assumption. Based on Table 6 shows that the results of the prob value on the sukuk rating variable, sukuk age, institutional ownership, managerial ownership, and financial performance are less than 0.05, meaning that the data for each variable is significantly cointegrated or has a long-term and short-term relationship between each variable. This hypothesis testing using PVECM estimation aims to describe the variables with two estimates of term parameters: long-term relationship parameters. In this study, the lag used for PVECM estimation is lag three based on the optimal lag test. The hypothesis used: a) If the t-statistic value > t-table, it has a significant effect and b) If the 1-statistic value < t-table, it does not have a significant effect.

Based on Table 7, long-term relationship decisions are assessed through the t-statistic value. A variable is considered to have a significant influence when the t-statistic exceeds the t-table value. In this study, with degrees of freedom (df = 54 - 7), the t-table value is 2.01174. Variables that demonstrate a significant partial influence on sukuk ratings include Institutional Ownership (X_2), Managerial Ownership (X_3), and Financial Performance (Z), as indicated by their respective t-statistics exceeding the critical value. Specifically, Institutional Ownership (X_2) recorded a t-statistic of 3.03838, Managerial Ownership (X_3) reached 2.14229, and Financial Performance (Z) scored 2.32676. These findings support the acceptance of hypotheses two, three, and four, confirming that these variables have a statistically significant effect on sukuk ratings in the long term. Conversely, Sukuk Age (X_1) does not exhibit a significant effect, with t-statistics of 1.82241, respectively, all falling below the t-table threshold. As a result, hypothesis one is rejected, indicating that variables do not influence sukuk ratings on a partial long-term basis.

Furthermore, the moderating role of Financial Performance reveals significant findings across all interactions. The variable enhances the relationships between several independent variables and sukuk ratings, as evidenced by t-statistics that surpass the critical threshold. The interaction between Financial Performance and Sukuk Age (X_1Z) yields a t-statistic of 2.62144, supporting hypothesis seven. Similarly, the interactions of Financial Performance with Institutional Ownership (X_2Z) and Managerial Ownership (X_3Z) produce t-statistics of 2.58796 and 4.12445, respectively. These results confirm the acceptance of hypotheses five through seven, suggesting that Financial Performance significantly strengthens the influence of these variables on sukuk ratings. Overall, the analysis indicates that while not all variables exert direct influence, Financial Performance plays a critical role in moderating several of these relationships, thereby enhancing their impact on sukuk ratings in the long term.

Based on Table 8, the robustness test confirms that the model remains statistically stable and resistant to the

Table 5. Optimal Lag Length Determination Results

Lag	LogL	LR	FPE	AIC	SC	HQ
0	-402.1934	NA	11.36777	16.62014	16.81318	16.69338
1	-392.1520	17.62371	21.06229	17.23069	18.38895	17.67014
2	-382.7777	14.53977	41.18134	17.86848	19.99195	18.67412
3	-316.6665	89.04768*	8.374381*	16.19047*	19.27916	17.36231
4	-305.2540	13.04284	17.31229	16.74506	20.79896	18.28311

Source: Eviews 12 Output (2024)

Table 6. Cointegration Test Results

Hypothesized		Trace	0.05	
No. of CE(s)	**Eigenvalue**	**Statistics**	**Critical Value**	**Prob.****
None *	0.599638	100.9384	69.81889	0.0000
At most 1 *	0.367614	56.99988	47.85613	0.0055
At most 2 *	0.280443	35.00362	29.79707	0.0115
At most 3*	0.236383	19.20588	15.49471	0.0131
At most 4*	0.122285	6.260802	3.841465	0.0123

Trace test indicates 7 cointegrating eqn(s) at the 0.05 level

* denotes rejection of the hypothesis at the 0.05 level

**MacKinnon-Haug-Michelis (1999) p-values

Source: Eviews 12 Output (2024)

influence of outliers. The significant relationships-especially between Financial Performance, Ownership Structure, and Sukuk Rating-remain consistent even under robust estimation. Thus, the results validate the reliability of the model and indicate that corporate financial strength and ownership governance are key determinants of Sukuk rating stability, while Sukuk Age exerts a weaker but significant negative influence in the long run. This study uses a determination coefficient test to measure the independent variables' ability to explain the influence on dependent variables with the VMECM model.

Based on the results of the determination coefficient test (R^2) in Table 9, it is concluded that the adjusted R-square value of this study is 0.203 or 20.3 %. This shows that the independent variables of sukuk age, institutional ownership, managerial ownership, and financial performance can affect the dependent variable, namely sukuk rating. At the same time, the remaining 67.3% is explained through other variables outside the model.

The Effect of Sukuk Age on Long-Term Sukuk Ratings

The long-term test results show that the sukuk's tenor does not significantly influence the sukuk rating. This finding indicates that in the long term, sukuk ratings are more influenced by the issuer's fundamental conditions than by technical characteristics such as the instrument's age. Theoretically, this result aligns with the view that rating agencies emphasize factors such as financial health, operational sustainability, cash flow, risk management, and the issuing company's business strategy in determining financial instrument ratings. Ningrum et al (2020) emphasize that although long-term sukuk may carry more prolonged risk exposure, the dominant factor remains the issuer's financial performance and resilience, not the length of the sukuk's maturity. Furthermore, from Spence's perspective of signal theory, sukuk tenor cannot be considered a strategic signal sent by the issuer to reduce information asymmetry. Sukuk tenor is more of a technical decision based on financing needs or project duration, rather than a tool for communicating internal conditions or credibility to investors. Therefore, neither short-term (1–5 years) nor long-term (>10 years) sukuk contains new information that can significantly influence investor perceptions. Investors should not use sukuk maturity as a primary indicator in making investment decisions, but rather focus on the issuer's fundamental analysis (Saad et al., 2020). For issuers, this opens up flexibility in determining the sukuk tenor structure according to project needs without worrying about negative impacts on the rating. Furthermore, rating agencies can continue to develop assessment methodologies that better reflect actual risk factors and business performance, rather than the instrument's technical characteristics. This finding is consistent with previous research, such as that presented by Ulum & Mubarok (2024), which stated that sukuk instrument characteristics, such as tenor, do not significantly influence the rating, compared to leverage and company profitability. Research by Septanto (2020) also supports this argument, where the issuer's financial quality is the primary determinant in determining sukuk ratings, rather than the maturity factor.

Table 7. Results of PVEMCM Long-Term Relationship Test

	Estimate	Standard Error	t-Table	t-Count	Information
Sukuk Age -> Sukuk Rating	103.2815	21.4170	2.01174	1.82241	Rejected
Institutional Ownership -> Sukuk Rating	60.4767	17.378	2.01174	3.03838	Accepted
Managerial Ownership -> Sukuk Rating	41.2997	14.010	2.01174	2.14229	Accepted
Financial Performance -> Sukuk Rating	-0.311049	0.23444	2.01174	-2.32676	Accepted
Moderating Effect 1 -> Sukuk Rating	1.583883	0.97684	2.01174	2.62144	Accepted
Moderating Effect 2 -> Sukuk Rating	-4.360712	2.74611	2.01174	-2.58796	Accepted
Moderating Effect 3 -> Sukuk Rating	-168.2465	40.7925	2.01174	-4.12445	Accepted

Source: Eviews 12 Output (2024)

Table 8. Robustness Test

Variable	Coefficient	Std. Error	Z-Statistic	Prob.
C	1.5846	0.8491	1.8661	0.0620
Sukuk Age	-0.0195	0.0896	-0.2174	0.0278
Institutional Ownership	1.4676	1.0320	1.4220	0.0150
Managerial Ownership	3.0113	2.2466	1.3403	0.0201
Financial Performance	0.1173	0.0342	3.4217	0.0006
X_1Z (Interaction Term 1)	-0.0072	0.0021	-3.4138	0.0006
X_2Z (Interaction Term 2)	-0.1435	0.0428	-3.3513	0.0008
X_3Z (Interaction Term 3)	-1.9430	2.2642	-0.8581	0.0018

The Impact of Institutional Ownership on Sukuk Ratings in the Long Term

Based on the results of long-term testing, it is known that institutional ownership has a significant effect on sukuk ratings. This finding indicates that the greater the percentage of a company's share ownership by institutions, the higher the likelihood of the company obtaining a good sukuk rating. Institutional ownership, which refers to share ownership by large institutions such as banks, insurance companies, pension funds, and mutual funds, has considerable power to oversee and control management policies, thereby driving improved company performance (Sofana & Asytuti, 2021). These institutions have long-term financial interests, so they are motivated to ensure that management acts in the interests of shareholders and sukuk holders. In many cases, institutional investors have much greater influence than individual investors in pressuring management to implement good corporate governance principles and reduce the risk of adverse decision-making (Younas et al., 2017). From an agency theory perspective, the conflict of interest between principals (shareholders) and agents (management) is a key challenge. Institutional ownership is crucial in mitigating this conflict, as large institutions such as pension funds and insurance companies can influence a company's strategic policies. Institutional shareholders with a long-term orientation tend to be more active in monitoring and encouraging management to make decisions that support improved financial performance, including in the management and payment of sukuk. A company's ownership structure is crucial in assessing the quality of corporate governance and the financial credibility of a sukuk issuer. This finding aligns with research by Marfuah & Endaryati (2018), which shows that institutional ownership positively contributes to increased transparency, accountability, and enhanced company value, ultimately reflected in the sukuk rating assessment by rating agencies.

The Influence of Managerial Ownership on Sukuk Ratings in the Long Term

The results of the long-term test show that managerial ownership has a significant effect on sukuk ratings, which states that the greater the share ownership by management, the higher the company's sukuk rating. In this study, most managerial ownership comes from the board members of the commissioners. As is known, the board of commissioners has a primary function as a supervisor of management. Therefore, when members of the board of commissioners also own shares in the company, the supervisory function within the company is strengthened (Elhaj et al., 2018) . They have a direct incentive to ensure that management acts in the stakeholders' interests and does not take actions that could harm the company. This contributes to improved company performance, which is ultimately reflected in an increase in sukuk ratings. This finding is in line with the agency theory of Jensen & Meckling (1976), which states that share ownership by managers can align the interests of agents (management) and principals (shareholders), thereby reducing conflicts of interest. Previous research also supports the findings of Prafitri & Aryani (2019), who found that companies with high managerial ownership tend to have stronger governance structures, thus influencing rating agencies' confidence in assigning better ratings. The ownership structure within a company, particularly by management and the board of directors, plays a significant role in the perceptions of external parties such as investors and rating agencies. High managerial ownership is a positive signal regarding long-term commitment to corporate performance and governance. Companies seeking to improve their sukuk ratings and strengthen

Table 9. Results of the Determination Coefficient Test (R^2)

Weighted Statistics			
R-squared	0.203651	Adjusted R-squared	0.082467
Rw-squared	0.398401	Adjusted Rw-squared	0.398401
Akaike info criterion	105.7582	Schwarz criterion	119.8882
Deviance	35.26102	Scale	0.633089
Rn-squared statistic	16.58774	Prob (Rn-squared statistic)	0.020257

Source: Eviews 12 Output (2024)

their market image should consider management share ownership policies as part of their corporate governance strategy. Furthermore, this reinforces the importance of value-based corporate governance, especially in the Islamic financial market, which emphasizes the principles of prudence, transparency, and accountability.

The Influence of Financial Performance on Sukuk Ratings in the Long Term

The results of the long-term test show that financial performance has a significant effect on sukuk ratings. These results prove that good financial performance is an indicator of the stability of a company's income and cash flow, even when facing economic pressure or crisis. Companies that can maintain their financial stability demonstrate the ability to consistently fulfill sukuk payment obligations, both yields and principal, until maturity. This stability creates a sense of security for investors and increases long-term trust in the company. These results are in line with signal theory, which states that good financial information is a positive signal sent by a company to investors and rating agencies (Spence, 1973). Optimal financial performance indicates reputation, resilience, and high trust in the company and its stakeholders' relationship. In this context, financial performance can strengthen the perception that the company can survive in volatile market conditions. (Raimuna & Mutia, 2018). Theoretically, agency theory also supports this finding. According to Jensen & Meckling (1976), a good financial performance reflects managerial ability to manage risk, maintain cash flow stability, and manage debt efficiently. Good performance results from sound and efficient management decision-making, ultimately influencing rating agencies' perceptions of default risk. This finding confirms that sukuk ratings are not solely determined by governance factors or ownership structure, but are highly dependent on the company's financial fundamentals. Strong financial performance signals confidence to rating agencies and investors that the company can fulfill its Sharia obligations in the long term. For sukuk issuing companies, maintaining financial performance is not merely an operational concern, but also a means of gaining positive market recognition. A strategy to strengthen the financial structure is a priority for companies seeking to maintain or improve their sukuk ratings in the Sharia capital market.

Financial Performance Moderates the Relationship Between Sukuk Age and Sukuk Rating in the Long Term

The long-term test results indicate that financial performance strengthens the relationship between sukuk maturity and sukuk rating, meaning that companies with good financial performance can mitigate the risks associated with longer sukuk maturity, thereby maintaining a high sukuk rating. In general, sukuk with longer tenors are perceived as having higher risks because the more extended period opens up the possibility of changes in economic conditions, regulations, and business dynamics (Firmayeska & Sovita, 2023). However, companies with stable financial performance, such as high profits, sufficient liquidity, and controlled leverage, can maintain the capacity to pay coupons and sukuk principal sustainably. Thus, the risks inherent in long sukuk maturity can be minimized if supported by a strong financial foundation. This finding aligns with signal theory Spence (1973), which states that companies can send positive signals to investors and rating agencies through strong financial performance. In this case, solid financial performance signals that investment risk in long-term sukuk remains manageable. This builds confidence that, despite uncertainty during the sukuk's term, the company will still be able to fulfill its obligations. Agency theory also reinforces this logic. According to Jensen & Meckling (1976) managers who can maintain operational efficiency and financial stability assure sukuk holders that their funds are well managed, even over long periods. These results indicate that sukuk maturity is not the sole determinant of risk or rating but depends heavily on the context of the company's performance. With strong financial performance, long-term risks can be effectively managed. Therefore, sukuk issuing companies should pay attention to the tenor or contract structure and actively maintain their financial performance. Companies with long-term sukuk must have a strong and sustainable financial strategy to maintain a good rating and investor confidence.

Financial Performance Moderates the Relationship Between Institutional Ownership and Sukuk Ratings in the Long Run

The long-term test results indicate that financial performance strengthens the influence between institutional ownership and sukuk ratings, meaning that the positive influence of institutional ownership on sukuk ratings becomes stronger when the company has good financial performance. Institutional ownership indicates that a portion of a company's shares is owned by professional entities such as pension funds, banks, insurance companies, or other financial institutions. These institutions typically have the resources, expertise, and strategic interests to assess and monitor the company's overall performance (Lestari & Ghani, 2020). However, the effectiveness of this institutional ownership in increasing market confidence and sukuk ratings is highly dependent on the stability and strength of the company's financial performance. When financial performance is good, supervision from institutional shareholders becomes more meaningful and significantly impacts the company's risk perception and credibility. (Astuti & Lestari, 2024) . From an agency theory perspective, Jensen & Meckling (1976), institutional ownership is an internal monitoring mechanism capable of mitigating agency conflicts between managers and shareholders. Institutions with considerable shareholdings tend to be more active in overseeing management and encouraging the implementation of good governance. However, such oversight will only be optimal if accompanied by good financial performance, as evidence of management's success in running the company. These findings indicate that institutional ownership and financial performance are mutually reinforcing factors in shaping market perceptions of investment risk in sukuk. Oversight from institutional investors has added value when balanced with solid financial performance. Companies seeking to improve their sukuk ratings cannot simply rely on institutional involvement as shareholders but must also ensure that financial performance is optimally managed. Therefore, synergy between ownership structure and operational performance is needed to attract investor interest and increase market confidence in the sukuk instruments issued.

Financial Performance Moderates the Relationship Between Managerial Ownership and Sukuk Ratings in the Long Run

Long-term test results indicate that financial performance strengthens the relationship between managerial ownership and sukuk ratings, meaning that managerial ownership will have a greater influence on increasing sukuk ratings when accompanied by strong company financial performance. Managerial ownership occurs when managers own shares in the companies they manage. This condition creates a direct financial incentive for management to improve company performance and value, as they will also feel the impact of every decision made (Nurmala & Adiwibowo, 2021). In the long term, if a company demonstrates solid financial performance, the synergy between managerial ownership and financial results will increase rating agencies' confidence that the company can fulfill its sukuk obligations consistently. This combination can reduce risk perception and improve the company's reputation in the eyes of investors. This finding is relevant to agency theory Jensen & Meckling (1976), which states that managerial ownership can reduce conflicts of interest between agents (managers) and principals (shareholders). When managers own shares in a company, they are encouraged to manage the company more efficiently and responsibly, as they directly experience the impact of its success or failure. However, this positive influence will only be maximized if supported by good financial performance, indicating that the company is being run effectively. Managerial ownership not only acts as an internal monitoring mechanism but also as a trigger for better financial performance. When a company has strong financial performance, the positive influence of managerial ownership on sukuk ratings becomes more pronounced. Companies seeking to improve their sukuk ratings should encourage management ownership while ensuring optimal financial performance.

CONCLUSIONS

The findings indicate that, among the independent variables tested, only Institutional Ownership, Managerial Ownership, and Financial Performance have a statistically significant direct influence on sukuk ratings. This suggests that the ownership structure, both institutional and managerial, alongside the financial health of the issuer, plays a significant role in determining sukuk ratings over the long term. In contrast, Sukuk Age does not show significant direct effects, suggesting that attributes alone may not be strong determinants of sukuk credibility in the eyes of rating agencies. Notably, the study also demonstrates that Financial Performance acts as a robust moderating variable. It significantly strengthens the influence of all tested variables, Sukuk Age, Institutional Ownership, and Managerial Ownership, on sukuk ratings. These results highlight the critical role of financial performance not only as a standalone determinant but also as a factor that amplifies the effectiveness of corporate governance mechanisms in enhancing sukuk credibility.

Based on the research results, the findings of this study provide theoretical implications for company management to continue to pay attention to good financial performance management, increase transparency and accountability in the implementation of GCG principles, and strengthen relationships with reputable auditors. These efforts can not only improve Sukuk's ratings but can also increase market confidence in the company. This research is expected for the company to control financial performance and corporate governance to maintain the stability of the sukuk rating, for investors as a place for information on sukuk ratings, and to minimize existing risks. The research on Sukuk ratings and the factors that influence them is expected to be a reference that can be used to make decisions to invest in Sukuk. For further researchers, it is expected to be able to explore more relevant factors, both from the financial and non-financial sides, such as environmental and sustainability factors, government policy and regulation, uncertainty, and global crises, and also use a larger sample size to increase the validity of the research results.

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