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Bond Ratings and Company Value: Insights from Indonesia's Real Estate Sector

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Abstract

This study investigates the impact of bond ratings on company value, mediated by investment decisions, funding decisions, and corporate governance disclosure, focusing on property and real estate companies listed on the Indonesia Stock Exchange (IDX). Using data from 45 companies over a five-year period (2016-2020), this research employs WarpPLS, a variance-based structural equation modeling (SEM) technique, to analyze both direct and indirect effects between the variables. The findings reveal that while investment decisions have a significant positive effect on company value, funding decisions, bond ratings, and corporate governance disclosure do not show direct impacts. However, bond ratings significantly influence company value indirectly through investment decisions. These results highlight the critical role of strategic investment management in enhancing firm value within Indonesia's property and real estate sector, suggesting that companies should focus on improving bond ratings to facilitate more favorable investment opportunities. The practical implications of these findings suggest that firms should prioritize capital allocation decisions that align with long-term growth objectives to optimize market valuation.

Keywords: *Bond Ratings, Company Value, Investment Decisions, Corporate Governance, Property and Real Estate Sector.*

Introduction

The property and real estate sector is a crucial component of Indonesia's economic landscape, contributing 2.77% to national GDP in 2020, a figure significantly lower compared to other ASEAN countries such as Singapore and Malaysia, where the sector's contribution exceeds 8% (Gondokusumo, 2020). Despite this relatively small contribution, the sector has a substantial multiplier effect, influencing over 175 related industries. However, the sector has faced challenges in recent years, with the property and real estate stock price index on the Indonesia Stock Exchange (IDX) declining from 517.81 in 2016 to 351.54 in 2020 This decline reflects broader concerns about the stability and value of companies within the sector.

Table 1. Property Stock Index Development

Year	Property and real estate stock price index
2016	517.810
2017	495.510
2018	447.752
2019	453.807
2020	351.54

The volatility in stock prices highlights the need to examine both internal and external factors that impact company value in this sector. Internally, decisions related to investment, funding, and corporate governance play crucial roles. Externally, macroeconomic factors, such as national economic growth and policy changes, significantly influence sector performance. Previous research has identified investment decisions as a key determinant of company value, with effective capital allocation contributing to enhanced profitability (Cahyono & Sulistyawati, 2017). Similarly, studies in other emerging markets, such as India and

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Brazil, have shown that strategic investment management is critical to firm success in volatile industries like real estate (Mishra & Mohanty, 2014; Silveira & Barros, 2006).

Funding decisions, which determine how companies finance their operations, are another important factor. Modigliani and Miller (1963) argued that capital structure is irrelevant in a perfect market; however, in real-world scenarios, the use of debt can either enhance or diminish company value, depending on the balance between tax shields and financial distress costs. This is particularly relevant in emerging markets, where access to capital can be more volatile, and firms often face higher borrowing costs (Chowdhury & Chowdhury, 2010; Kodongo et al., 2015). In markets such as South Africa and China, research has shown that debt financing can be a double-edged sword, offering short-term gains but increasing long-term risks if not managed properly (Chen et al., 2011; Mokoaleli-Mokoteli & Maina, 2015).

Corporate governance practices are also critical in shaping company value. Good governance reduces agency conflicts, enhances transparency, and fosters better decision-making. Claessens et al. (2000) emphasize that strong governance structures are particularly important in markets with concentrated ownership, such as Indonesia, where controlling shareholders often have significant influence over management decisions. Studies in Saudi Arabia and India further support the idea that improved governance can enhance company performance and value (Fallatah, 2012; Mishra & Mohanty, 2014). However, the impact of governance practices on firm performance can vary widely depending on the market context and the specific governance mechanisms in place (Black et al., 2005).

Finally, bond ratings serve as a key signal to investors regarding a company's creditworthiness and financial health. High bond ratings are associated with lower credit risk, which can reduce the cost of capital and, theoretically, enhance company value (Milidonis, 2013). However, changes in credit ratings can have asymmetric effects on a company's capital structure decisions, as companies may adjust their leverage in response to a downgrade, but may not significantly change their behavior after an upgrade (Huang & Shen, 2015). In markets such as the United States and the European Union, bond ratings have been shown to influence not only the cost of capital but also investor sentiment and market perceptions of firm stability (Hull, 2020).

In this study, we aim to analyze the impact of bond ratings on company value in the property and real estate sector in Indonesia, focusing on the mediating roles of investment decisions, funding decisions, and corporate governance disclosure. This research builds on existing literature by examining these relationships in the context of an emerging market, where access to capital and governance structures may differ significantly from those in developed economies. By exploring these dynamics, we hope to provide insights that are relevant not only for Indonesia but also for other emerging markets facing similar challenges in their property and real estate sectors.

Research Objectives

To examine the direct impact of investment decisions on company value.

To analyze the direct effect of funding decisions on company value.

To investigate the influence of corporate governance disclosure on company value.

To assess the direct effect of bond ratings on company value.

To explore the indirect effect of bond ratings on company value through investment decisions.

To explore the indirect effect of bond ratings on company value through funding decisions.

To investigate the indirect effect of bond ratings on company value through corporate governance disclosure.

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Literature Review

Bond Ratings and Company Value

Bond ratings, issued by agencies such as Pefindo and Moody's, serve as indicators of a company's financial health and creditworthiness. According to Milidonis (2013), bond ratings reflect a company's ability to meet its debt obligations, which in turn influences investor confidence and company value. Research by Huang and Shen (2015) supports this, suggesting that changes in credit ratings affect capital structure decisions and company valuation. In emerging markets, bond ratings are particularly important as they provide crucial signals to both local and international investors.

Investment Decisions

Investment decisions, which involve the allocation of resources to projects expected to yield future returns, are critical in determining company value. Gitman (2003) posits that well-made investment decisions enhance firm profitability and value, while poor decisions can erode value. Empirical studies, such as those by Cahyono & Sulistyawati (2017) and Afsar & Karacayir (2020), consistently show a positive relationship between investment decisions and company value.

Funding Decisions

Funding decisions relate to how a company finances its operations, whether through equity, debt, or a combination of both. Modigliani and Miller (1963) argue that, under certain conditions, the capital structure is irrelevant to company value. However, the trade-off theory suggests that debt can increase company value up to a point, after which the costs associated with debt, such as financial distress and bankruptcy risks, outweigh the benefits (Chowdhury & Chowdhury, 2010).

Corporate Governance and Company Value

Corporate governance practices are essential for ensuring transparency, accountability, and fairness in a company's operations. Good corporate governance can reduce agency conflicts and improve company performance and value (Claessens et al., 2000). However, the effectiveness of corporate governance in enhancing company value varies across different contexts. Research by Fallatah (2012) and Mishra & Mohanty (2014) highlights that corporate governance improvements positively influence company value in some emerging markets, though the impact may not always be significant.

Research Frameworks and Hypotheses Formulations

- *Theoretical Framework*

  The decline in stock prices in the property and real estate sector from 2016 to 2020 indicates a broader decrease in company value, a critical issue for stakeholders. This decline can be explained through several theoretical lenses, including Signaling Theory, Agency Theory, Trade-off Theory, and Pecking Order Theory.

  Signaling Theory (Ross, 1997) posits that companies use financial decisions, such as issuing debt, as signals to the market regarding their internal conditions. A high bond rating serves as a positive signal to investors about the company's stability and ability to meet its debt obligations, which should, theoretically, enhance company value.

  Agency Theory, developed by Jensen and Meckling (1976), suggests that conflicts of interest between shareholders (principals) and managers (agents) can negatively impact firm performance. Good corporate governance practices are expected to mitigate these conflicts by ensuring transparency and accountability, thereby enhancing company value (Claessens et al., 2000).

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Trade-off Theory argues that companies must balance the benefits of debt, such as tax shields, against the costs of financial distress and bankruptcy. As debt increases, the company's value may initially rise, but beyond a certain point, the additional debt may reduce value due to increased risk (Modigliani & Miller, 1963).

Pecking Order Theory explains that companies prioritize their sources of financing based on the principle of least resistance, preferring internal financing over external options. When external financing is necessary, companies typically favor debt over equity, as debt is seen as less dilutive to existing shareholders (Myers & Majluf, 1984).

- *Research Hypotheses*

Based on the theoretical framework and literature review, the following hypotheses are proposed:

H1: Investment decisions have a significant positive effect on company value.

This hypothesis is grounded in the idea that efficient capital allocation (investment decisions) can enhance profitability and, subsequently, company value (Cahyono & Sulistyawati, 2017; Afsar & Karacayir, 2020).

H2: Funding decisions have a direct effect on company value.

This hypothesis builds on Trade-off Theory, which suggests that an optimal level of debt can increase firm value, although excessive debt may reduce it (Modigliani & Miller, 1963; Chowdhury & Chowdhury, 2010).

H3: Corporate governance disclosure has a positive impact on company value.

Corporate governance is expected to reduce agency conflicts and improve firm performance, as supported by studies like Claessens et al. (2000) and Fallatah (2012). Therefore, better governance practices should lead to higher company value.

H4: Bond ratings have a direct significant effect on company value.

Bond ratings are critical signals for investors, indicating the firm's creditworthiness and influencing its cost of capital. A positive bond rating is expected to enhance company value (Milidonis, 2013; Huang & Shen, 2015).

H5: Bond ratings have an indirect effect on company value through investment decisions.

High bond ratings may facilitate better investment decisions by reducing the cost of capital and signaling strong financial health, leading to improved company value (Ross, 1997; Hull, 2020).

H6: Bond ratings indirectly affect company value through funding decisions.

Companies with strong bond ratings are better able to secure favorable financing terms, potentially leading to improved company value (Modigliani & Miller, 1963; Kisgen, 2006).

H7: Bond ratings indirectly influence company value through corporate governance disclosure.

Better bond ratings may correlate with stronger governance practices, as companies with high creditworthiness are often more transparent and accountable, which can enhance company value (Claessens et al., 2000; Giroud & Mueller, 2011).

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Research Methodology

Research Design

This study employs a quantitative approach, utilizing secondary data obtained from the annual reports and financial statements of property and real estate companies listed on the Indonesia Stock Exchange (IDX). The study focuses on the period from 2016 to 2020, analyzing the direct and indirect effects of bond ratings, investment decisions, funding decisions, and corporate governance disclosure on company value. The data were analyzed using WarpPLS, a variance-based structural equation modeling (SEM) technique, which allows for the examination of complex relationships between variables and the testing of mediation effects.

Justification for the Study Period (2016-2020)

The period of 2016 to 2020 was selected for several reasons. First, this timeframe captures recent developments in the property and real estate sector, including the impacts of macroeconomic policies and market trends that have influenced the industry. This period also includes significant policy changes by the Indonesian government, such as the relaxation of foreign ownership regulations and loan-to-value (LTV) policies, which have directly impacted the property market. By focusing on this period, the study can examine how these changes have affected company value in the sector.

Additionally, the 2016-2020 period includes the lead-up to and initial impact of the COVID-19 pandemic, which began in 2020. The pandemic has had a profound effect on the global real estate market, and its inclusion in this study allows for an analysis of how companies in the sector responded to this unprecedented challenge. Analyzing data up to 2020 provides insights into how firms managed risks and leveraged financial strategies during a period of economic uncertainty.

Sample Selection and Rationale

The sample consists of 45 property and real estate companies listed on the IDX, selected based on specific criteria to ensure the relevance and reliability of the data. The companies included in the study meet the following criteria:

- *Listed Continuously*

  The companies must have been listed on the IDX continuously from 2016 to 2020. This criterion ensures that the companies have a consistent presence in the market, allowing for a reliable longitudinal analysis.

- *Availability of Complete Data*

  Only companies with complete financial reports and disclosures for the study period were included. This criterion ensures the accuracy of the analysis, as incomplete data could lead to biased results.

- *Representative of the Sector*

  The selected companies represent a significant portion of the property and real estate sector on the IDX. They include firms of various sizes and market capitalizations, ensuring that the sample reflects the diversity of the sector.

  The decision to include 45 companies was also influenced by the desire to balance data comprehensiveness with manageability. Including all property and real estate companies listed on the IDX could introduce issues related to data quality and availability, particularly for smaller firms or those with less comprehensive disclosures. By focusing on a sample of 45 well-established

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companies, the study ensures data accuracy while maintaining a representative analysis of the sector.

Data Collection Process

The data used in this study were collected from publicly available sources, primarily the IDX official website and company annual reports. The following steps were undertaken in the data collection process:

- *Identification of Companies*

  Companies were identified based on their sector classification on the IDX. Only those classified under the property and real estate sector were considered for inclusion in the sample.

- *Data Extraction*

  Financial data, including bond ratings, investment decisions (capital expenditure), funding decisions (debt ratios), corporate governance disclosures, and measures of company value (Tobin's Q, PER, and PBV), were extracted from the annual reports and financial statements of the selected companies. The bond ratings were obtained from credit rating agencies, such as Pefindo, which provide independent assessments of the companies' creditworthiness.

- *Data Verification*

  To ensure accuracy, the data were cross-verified with multiple sources, including fact books and financial databases. Any discrepancies were resolved through additional checks against original reports.

  By following this rigorous data collection process, the study ensures the reliability and validity of the results. The use of secondary data from publicly available sources also ensures that the analysis is transparent and replicable, allowing future researchers to build on the findings of this study.

Variables and Measurement

- *Company Value*

  Measured using the Price-to-Earnings Ratio (PER), Tobin's Q, and Price-to-Book Value (PBV). These metrics capture the market valuation of the firms in relation to their earnings, assets, and equity, respectively.

- *Investment Decisions*

  Assessed through the Capital Expenditure Ratio to Book Value of Assets (CAP/BVA), which reflects the level of investment in long-term assets relative to the firm's total assets.

- *Funding Decisions*

  Evaluated using the Long-term Debt to Asset Ratio and Debt to Equity Ratio, which measure the company's leverage and its reliance on debt financing.

- *Corporate Governance Disclosure*

  Measured by the extent of governance disclosure in the company's annual report, based on the standards set by the National Committee on Governance Policy (KNKG). This includes transparency, accountability, and adherence to good governance practices.

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- *Bond Ratings*

  Bond ratings are categorized as investment grade (coded as 1) or speculative grade (coded as 0), based on ratings from agencies like Pefindo and other credit rating institutions.

Data Analysis

The collected data were analyzed using WarpPLS, which is suitable for analyzing complex relationships and handling non-normal data distributions commonly found in financial datasets. WarpPLS allows for the examination of both direct and indirect effects, making it ideal for testing mediation models. The analysis focused on evaluating the strength and significance of the relationships between bond ratings, investment decisions, funding decisions, corporate governance disclosure, and company value, with particular emphasis on the mediating effects of investment and funding decisions.

Results and Discussion

Descriptive Statistics

The descriptive statistics reveal that the average bond rating for the sampled companies is 0.75, indicating that most firms are classified as investment grade. This suggests that these companies are perceived as having relatively low credit risk by rating agencies. The average Tobin's Q, a measure of company value, is 1.25, indicating that the majority of companies are valued above their replacement cost, which is consistent with expectations for firms with strong credit ratings. These findings highlight the importance of maintaining a favorable bond rating to ensure a positive perception among investors and the market.

The property and real estate sector in Indonesia is characterized by significant variability in firm performance, as reflected in the range of bond ratings and company values. Firms with higher bond ratings are better positioned to attract investment and secure financing at lower costs, which may contribute to their higher market valuation. However, this sector also faces external challenges, such as fluctuations in economic conditions, which can influence both bond ratings and company value.

Hypothesis Testing

Table 2. Results of Hypothesis Testing in the Inner Model: Direct Effect

Connection	**Path Coefficient**	***p-value***	***Information***
Investment Decisions→Company Values	0.92	< 0.01	Significant
Funding Decisions→Company Values	0.06	0.31	Non Significant
Bond Rating→Company Values	0.01	0.45	Non Significant
Good Corporate Governance (GCG)→Company Values	0.05	0.35	Non Significant
Bond Rating→Investment Decisions	0.26	0.02	Significant
Bond Rating→Funding Decisions	0.25	0.02	Significant
Bond Rating→Good Corporate Governance (GCG)	0.02	0.43	Non Significant

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Table 3. Results of Hypothesis Testing in the Inner Model: Indirect Effect

Indirect Influence	Direct Influence Coefficient		Indirect influence coefficient
Bond Rating →Corporate Investment Decisions →Company Values	Bond Rating →Investment Decisions (0.26) s	Corporate Investment Decisions →Company (0.92) s	0.2392(s)
Bond Rating →Funding Decisions →Company Values	Bond Rating →Funding Decisions (0.25) s	Funding Decisions →Company Values (0.06) ts	0.015 (ts)
Bond Rating →Corporate governance →Company Values	Bond Rating →Corporate governance 0.02 (ts)	Corporate governance →Company Values (0.05) ts	0.001 (ts)

Direct Effects

- *Investment Decisions on Company Value*

The path analysis results indicate that investment decisions have a significant positive effect on company value ($\beta = 0.92$, $p < 0.01$). This finding aligns with existing literature, such as Cahyono and Sulistyawati (2017), which emphasizes that well-allocated investments contribute to enhanced profitability and firm value. In the context of Indonesia's property and real estate sector, effective investment decisions likely reflect prudent capital allocation towards high-return projects, such as property development or strategic land acquisitions. These investments are perceived by the market as indicators of future growth potential, thereby boosting the company's valuation. Additionally, the significance of investment decisions underscores the importance of internal resource management in driving firm value, particularly in sectors where external financing may be subject to market volatility.

- *Funding Decisions on Company Value*

Interestingly, the analysis shows that funding decisions do not have a significant direct effect on company value ($\beta = 0.06$, $p > 0.05$). While this may seem counterintuitive given the emphasis on capital structure in corporate finance theory, it can be explained by the nature of the property and real estate sector in Indonesia. Many companies in this sector rely heavily on internal financing methods, such as pre-sales or retained earnings, rather than external debt financing. This reduces the overall impact of funding decisions on firm value, as debt levels may not fluctuate significantly enough to influence investor perceptions. Furthermore, the findings may suggest that investors prioritize a company's growth potential and investment strategies over its funding methods, as long as the firm maintains a stable financial structure.

- *Bond Ratings on Company Value*

The study finds that bond ratings do not have a significant direct effect on company value ($\beta = 0.01$, $p > 0.05$). Although bond ratings are critical indicators of creditworthiness, their direct impact on market valuation appears limited in this context. One explanation for this result could be the relatively stable bond ratings among the sampled companies, with most firms classified as investment grade. This homogeneity in credit ratings may reduce the observable impact of bond

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ratings on company value. Additionally, external macroeconomic factors, such as government policies, interest rates, and consumer demand in the real estate market, may play a more dominant role in influencing firm value than bond ratings alone.

- *Corporate Governance Disclosure on Company Value*

Corporate governance disclosure also does not exhibit a significant direct effect on company value ($\beta = 0.05$, $p > 0.05$). While good governance practices are essential for reducing agency conflicts and ensuring transparency, their direct impact on firm value may be diluted in the property and real estate sector, where other factors, such as market conditions and asset quality, take precedence in investor evaluations. However, the positive coefficient suggests that enhanced governance practices could still contribute to long-term value creation, even if their immediate impact is not significant.

Indirect Effects

- *Bond Ratings and Company Value Mediated by Investment Decisions*

The analysis reveals that bond ratings have a significant indirect effect on company value through investment decisions ($\beta = 0.24$, $p < 0.05$). This suggests that companies with higher bond ratings are better able to secure favorable financing terms, which enables them to make more strategic and profitable investment decisions. As a result, these firms can enhance their market value indirectly through improved investment outcomes. This finding is consistent with signaling theory, which posits that bond ratings send important signals to investors about a company's financial health. By securing a high bond rating, companies can access capital at lower costs, allowing them to invest in growth opportunities that ultimately increase firm value.

- *Bond Ratings and Company Value Mediated by Funding Decisions*

Although bond ratings have a significant direct effect on funding decisions ($\beta = 0.25$, $p < 0.05$), the indirect effect of bond ratings on company value through funding decisions is not significant ($\beta = 0.015$, $p > 0.05$). This indicates that while higher bond ratings may facilitate better funding options, these funding decisions do not necessarily translate into higher company value. This could be attributed to the reliance on internal financing within the property and real estate sector, as previously mentioned. The limited use of external debt means that the potential benefits of favorable funding conditions may not be fully realized in terms of enhancing firm value.

- *Bond Ratings and Company Value Mediated by Corporate Governance Disclosure*

The study also finds that bond ratings do not have a significant indirect effect on company value through corporate governance disclosure ($\beta = 0.001$, $p > 0.05$). This suggests that while good corporate governance practices are important, they do not significantly amplify the positive effects of bond ratings on firm value in this context. One possible explanation is that corporate governance standards are already relatively well-established among the sampled companies, reducing the variation in governance practices and limiting their impact on company value. Additionally, the property and real estate sector in Indonesia may prioritize other factors, such as market conditions and development opportunities, over governance issues when it comes to driving firm value.

Discussion

The findings of this study provide valuable insights into the factors influencing company value in Indonesia's property and real estate sector. By examining the roles of bond ratings, investment decisions, funding decisions, and corporate governance disclosure, the study highlights the complexity of financial

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decision-making in this dynamic sector. The implications of these findings are discussed below in the context of relevant theories and prior research.

- *Investment Decisions as a Key Driver of Company Value*

  The significant positive effect of investment decisions on company value ($\beta = 0.92$, $p < 0.01$) underscores the importance of strategic capital allocation in driving firm performance. This result aligns with Trade-off Theory**,** which suggests that firms must balance the benefits of investment with the associated costs to maximize value (Modigliani & Miller, 1963). Companies that make well-informed investment decisions, such as allocating resources to high-return projects, are better positioned to enhance profitability and, consequently, firm value. This finding is consistent with prior studies in both emerging and developed markets, such as those by Cahyono and Sulistyawati (2017) in Indonesia and Mishra and Mohanty (2014) in India, which also found that strategic investments are crucial for firm growth and value creation.

  Furthermore, Signaling Theory (Ross, 1997) supports the idea that effective investment decisions send positive signals to the market, indicating that the company is on a growth trajectory. Investors respond favorably to such signals, leading to an increase in the company's market valuation. In the property and real estate sector, where long-term projects like property development require substantial upfront investment, the ability to make strategic investment decisions is critical for maintaining competitiveness and ensuring long-term sustainability.

- *The Limited Role of Funding Decisions*

  Contrary to expectations, funding decisions did not have a significant direct effect on company value ($\beta = 0.06$, $p > 0.05$). This result challenges some aspects of the Pecking Order Theory (Myers & Majluf, 1984), which posits that firms prioritize internal financing and use debt as a secondary option when internal funds are insufficient. While this theory suggests that funding decisions should impact firm value, particularly in capital-intensive sectors like real estate, the findings suggest that companies in this sector may rely less on external debt and more on internal financing mechanisms, such as pre-sales and retained earnings.

  The lack of a significant effect may also reflect the particularities of the Indonesian market, where access to affordable debt financing is more constrained than in developed markets. As a result, the impact of funding decisions on firm value may be less pronounced compared to markets where firms have more flexibility in adjusting their capital structures. This finding is consistent with research from Kodongo et al. (2015), which highlights the variability in the relationship between debt financing and firm value in emerging markets. In these markets, firms often face higher borrowing costs and greater risks associated with financial distress, which can mitigate the positive effects of debt financing.

- *Bond Ratings and Their Indirect Influence*

  Although bond ratings did not have a significant direct effect on company value ($\beta = 0.01$, $p > 0.05$), they exerted a significant indirect effect through investment decisions ($\beta = 0.24$, $p < 0.05$). This finding suggests that bond ratings play a crucial enabling role in facilitating better investment decisions, which in turn enhance firm value. Companies with higher bond ratings are likely able to access capital at lower costs, allowing them to make strategic investments that drive growth. This supports the Signaling Theory (Ross, 1997), which posits that bond ratings serve as signals of a company's financial health and creditworthiness to investors and other stakeholders.

  The indirect effect of bond ratings through investment decisions is consistent with research by Huang and Shen (2015), who found that changes in bond ratings influence firms' capital structure decisions and their ability to make strategic investments. In the context of the Indonesian property

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and real estate sector, this finding highlights the importance of maintaining strong bond ratings to ensure access to affordable financing for long-term projects. Given the capital-intensive nature of the sector, where projects often require substantial upfront investment, the ability to secure favorable financing terms is crucial for sustaining growth and improving company value.

- *The Marginal Role of Corporate Governance Disclosure*

Corporate governance disclosure did not have a significant direct effect on company value ($\beta = 0.05$, $p > 0.05$), which may seem surprising given the extensive literature highlighting the importance of governance in enhancing firm performance and value. However, this result can be interpreted in light of Agency Theory (Jensen & Meckling, 1976), which suggests that governance practices are most impactful in environments where there are significant conflicts of interest between shareholders and managers. In the context of Indonesia's property and real estate sector, many of the sampled companies may already have relatively established governance practices, reducing the variation in governance quality and, consequently, its observable impact on firm value.

This finding aligns with studies in other emerging markets, such as Saudi Arabia and Korea, where the effects of corporate governance on firm performance were found to be contingent on the specific governance mechanisms in place and the broader market context (Fallatah, 2012; Black et al., 2005). In markets where governance standards are still evolving, the impact of governance practices on firm value may be more pronounced. However, in more mature markets or sectors where governance practices are already well-embedded, other factors such as market conditions and investment strategies may take precedence in determining firm value.

Conclusion and Suggestions

Conclusion

This study contributes to the literature by exploring the role of bond ratings in influencing company value in the property and real estate sector in Indonesia. The findings highlight the importance of investment decisions as a key determinant of firm value, with bond ratings playing a supportive but indirect role. Funding decisions and corporate governance disclosure, while important, do not appear to have a significant impact on company value in this context.

- *Implications for Practice*

For practitioners, these findings suggest that improving bond ratings can indirectly enhance firm value by facilitating better investment decisions. Companies should prioritize strategic investments that maximize returns, while also maintaining sound financial and governance practices to support long-term growth. The findings of this study have several practical implications for companies in the property and real estate sector. First, firms should prioritize strategic investment management as a key driver of firm value. Given the significant impact of investment decisions on company value, management teams should focus on identifying and capitalizing on high-return projects that align with the company's long-term growth objectives. Second, companies should continue to maintain and improve their bond ratings, as this will enable them to access financing at more favorable terms, which can indirectly enhance firm value through better investment outcomes.

While funding decisions and corporate governance disclosure did not show significant direct effects on firm value, they remain important elements of a company's overall financial and operational strategy. Companies should maintain a balanced capital structure and adhere to strong governance practices to ensure long-term stability and resilience, particularly in the face of external challenges such as economic downturns or regulatory changes.

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- *Limitations and Future Research*

  This study is limited to property and real estate companies listed on the IDX. Future research should consider other sectors and include macroeconomic variables to provide a more comprehensive understanding of the factors influencing firm value. Additionally, exploring the role of corporate social responsibility (CSR) and its interaction with corporate governance may yield further insights into firm valuation in emerging markets.

Suggestions

Practical Implications

- *Strengthening Bond Ratings*

  Companies in the property and real estate sector should focus on maintaining and improving their bond ratings. A higher bond rating can serve as a positive signal to investors and help reduce the cost of capital, facilitating more favorable investment opportunities. This can be achieved through prudent financial management, reducing debt levels, and ensuring timely debt repayments to improve creditworthiness.

- *Enhancing Corporate Governance Practices*

  The study underscores the importance of good corporate governance practices in improving company value. Property and real estate companies should prioritize transparency, accountability, and fairness in their operations. Implementing these practices can help reduce agency conflicts and build investor trust, which is crucial for long-term value creation. Regular disclosures and adherence to governance standards can also positively influence bond ratings.

- *Optimizing Investment and Funding Decisions*

  Companies should adopt strategic approaches to investment and funding decisions to maximize their impact on firm value. Effective investment strategies that align with the company's long-term goals can enhance profitability and drive growth. Similarly, maintaining an optimal balance between debt and equity financing can minimize financial distress and enhance company value. The use of financial models to evaluate investment options and funding sources is recommended to ensure that decisions contribute positively to the firm's overall value.

- *Sector-Specific Policies*

  Policymakers should consider developing sector-specific policies that support the growth of the property and real estate sector. Given the sector's significant multiplier effect on the economy, policies that promote investment, reduce regulatory hurdles, and provide incentives for sustainable development can help improve the overall performance of companies in this sector. This, in turn, can enhance the sector's contribution to national economic growth.

- *Contribution to the Literature*

  This study contributes to the existing literature by providing empirical evidence on the relationship between bond ratings, financial decisions, and company value in an emerging market context. The findings offer insights into how companies in the Indonesian property and real estate sector can leverage their bond ratings to improve investment outcomes and enhance firm value. By demonstrating the indirect effects of bond ratings on firm value, this study highlights the importance of considering the mediating roles of investment and financial strategies in understanding the full impact of credit ratings on corporate performance. The study also adds to

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the growing body of research that explores the nuanced effects of corporate governance practices in emerging markets. While governance remains an important factor for firm performance, its impact may be context-dependent, varying according to the maturity of governance practices and the specific challenges faced by companies in different markets.

Recommendations for Future Research

- *Incorporating Macroeconomic Variables*

  Future research should consider the impact of macroeconomic factors such as inflation, interest rates, and economic growth on the relationship between bond ratings, corporate governance, and company value. Including these variables in the analysis can provide a more comprehensive understanding of the factors influencing firm performance in the property and real estate sector.

- *Expanding the Sample Size*

  This study is limited to property and real estate companies listed on the IDX. Future research could expand the sample size to include companies from other sectors, as well as non-listed firms, to determine whether the findings are generalizable across different industries.

- *Exploring Corporate Social Responsibility (CSR)*

  As CSR becomes an increasingly important aspect of corporate governance, future studies could examine the impact of CSR practices on company value, particularly in the property and real estate sector. CSR initiatives may serve as additional signals to investors about a company's commitment to ethical practices and sustainable development, which could enhance its reputation and value.

- *Comparative Studies Across Countries*

  Given the global nature of the property and real estate market, comparative studies across different countries could provide insights into how varying regulatory environments and market conditions influence the relationship between bond ratings, corporate governance, and company value. Such studies could help identify best practices that can be applied in different contexts to improve firm performance.

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