

Related Party Transactions and Corporate Governance in Business Group: Evidence from Indonesia

Perdana Wahyu Santosa^{1*}, Sovi Ismawati Rahayu¹, Zainal Zawir Simon¹,
Martua Eliakim Tambunan²

¹Universitas YARSI, Jakarta Pusat, DKI Jakarta, Indonesia

²Program Master of Management Christian University of Indonesia, Jakarta Timur, DKI Jakarta, Indonesia

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ABSTRACT

This paper aims to offer new evidence as to how sub-related party transactions (RPTs) can be related to corporate governance for Indonesia's business group. We address an ongoing theoretical tension and some recent research in the RPTs literature by focusing on revenue, expenses, loans, and receivables. Business groups are classified by size or market capitalization. This paper examines whether RPTs in the business group relate with domestic/foreign shareholders, independent board/commissioner, and firm size as controlling factors. The business groups were selected through purposive sampling that met the analysis criteria with their typology in the population of business groups listed on IDX. We used panel data analysis for four models. This relationship is more pronounced than some recent research for business group firms and firms with more highly concentrated foreign ownership regarding the effect RPTs on revenue, expenses, loans, and receivables. Related to the controlling variable, firm size shows a significant effect on every sub RPTs. The results may imply that foreign ownership exploits Indonesia with expenses such as cross-border transactions of capital goods, intangible property (royalty), intra-firm services, and the cost of debt. Therefore, there is a need for a balanced interest for government and business in Indonesia via foreign direct investment with corporate governance implementation and adaptive regulation.

ABSTRAK

Makalah ini bertujuan untuk menawarkan bukti baru tentang bagaimana transaksi sub-pihak terkait (RPT) dapat dikaitkan dengan tata kelola perusahaan untuk kelompok bisnis di Indonesia. Kami membahas perdebatan teoretis yang ada dan beberapa penelitian terbaru dalam literatur RPT dengan berfokus pada pendapatan (penjualan), pengeluaran, pinjaman, dan piutang. Makalah ini mengkaji apakah RPT dalam kelompok bisnis berhubungan dengan pemegang saham domestik/asing, dewan/komisaris independen, dan ukuran perusahaan sebagai faktor pengendali. Kelompok usaha diklasifikasikan berdasarkan ukuran atau kapitalisasi pasar. Kelompok usaha dipilih secara purposive sampling yang memenuhi kriteria analisis dengan tipologinya pada populasi kelompok usaha yang terdaftar di BEI. Kami menggunakan analisis data panel untuk empat model. Hasil penelitian ini memperlihatkan adanya hubungan yang lebih nyata dari variabel yang diteliti dibandingkan dengan beberapa temuan penelitian sebelumnya mengenai perusahaan kelompok usaha dan perusahaan dengan kepemilikan asing yang terkonsentrasi terkait dengan pengaruh RPT pada pendapatan, biaya, pinjaman, dan piutang. Terkait dengan variabel kontrol, ukuran perusahaan menunjukkan pengaruh yang signifikan pada setiap sub RPT. Temuan penelitian ini bisa mengimplikasikan bahwa kepemilikan asing akan mengeksploitasi Indonesia dengan beberapa biaya seperti transaksi lintas batas barang modal, properti tidak berwujud (royalti), layanan intra-perusahaan, dan biaya utang. Untuk itu, perlu adanya keseimbangan kepentingan bagi pemerintah dan dunia usaha di Indonesia melalui penanaman modal asing langsung dengan penerapan tata kelola perusahaan dan regulasi yang adaptif.

1. INTRODUCTION

Globalization and economic growth have triggered some business groups and multinational companies (MNCs), both regionally and globally. The formation of business groups and investment entities proliferating increases the intensity of related party transactions (RPTs) or transfer pricing (Utama & Utama, 2014). National business group entities included in the group of emerging market firms (EMFs) significantly increase the value and volume of RPTs. In addition, globalization has increased trade and foreign direct investment (Agnihotri & Bhattacharya, 2019). Most of the increase occurred in transactions between companies in affiliated business groups (Santosa et al., 2021; Badenhorst et al., 2015; Sansing, 2014). However, the increase in RPTs sometimes causes fraud problems, especially wealth expropriation and tax avoidance. This problem creates challenges for investors, the market, and the government to improve reliable and relevant accounting information. It increases the implementation of quality corporate governance as the basis for decision-making or agency problems (Yoon & Jin, 2021; Černius & Birškytė, 2020; Liu et al., 2017).

One of the main goals of corporate governance is to control management based on accounting information that helps rational economic decisions (Maigoshi et al., 2018). RPTs information is believed to be one of the investors and other users of financial statements (Badenhorst et al., 2015). These results are because even though such transactions may be legitimate, investors can analyze and identify RPTs that could lead to conflicts of interest, potentially leading to wealth expropriation of controlling shareholders (Yoon & Jin, 2021; Černius & Birškytė, 2020; Liu et al., 2017). This problem often occurs in companies or business groups with concentrated ownership or the influence of foreign investors, which triggers a conflict of interest between controlling shareholders and minority shareholders (Maigoshi et al., 2018; Wong et al., 2015).

In general, the key instrument used by MNCs and business groups is to manipulate RPTs (transfer mispricing) and shift revenue between business entities within the group (Sansing, 2014). Liu et al. (2017) and Amzaleg & Barak (2021) found that the motivation for business groups to carry out often "transfer mispricing" was in wealth expropriation and tax avoidance through the transfer of profits from business entities and between countries. The method commonly used is shifting revenue between

entities through RPTs and cross borders (Tambunan et al., 2017). The technique increases RPTs intensity in revenue, expenses, loans, receivables, and R&D. Since business groups in Indonesia interact with MNCs more intensively, they are actively involved in cross-border RPTs (Santosa et al., 2021). They have incentives to transfer internal mispricing for the interests of specific groups, such as majority shareholders and taxes (Agnihotri & Bhattacharya, 2019). Implementing corporate governance from manipulating RPTs in business groups in Indonesia is one of the best alternatives to increase the transparency of accounting information in business groups (Sikka, 2018; Sunarsih & Oktaviani, 2016).

This paper analyzes the research gap of the specific association between RPTs components and GCG in an integrative and comprehensive model in business groups in Indonesia. Therefore, this study provides new insights into the integrative model of Indonesian business groups. The RPTs variables in this paper are divided into four types, namely RPTs revenue, RPTs expense, RPTs loan, and RPTs receivable. For corporate governance proxies, several proxies are used, namely ownership structure: domestic and foreign, Independent: board of directors, board of commissioners). In addition, the controlling variable firm size is used to represent the size of affiliated business units in business groups in Indonesia as something new in this field.

2. THEORETICAL FRAMEWORK AND HYPOTHESES

RPTs involve companies and other related entities, such as controlling shareholders, directors, managers, etc. It also includes a transaction between two companies with the same director or two companies that covers all transactions like this, both large and small (Fooladi & Farhadi, 2019; Santosa, 2020). Previous studies have shown that good corporate serves as an effective mechanism to reduce management's opportunistic behavior, improve the quality of corporate reporting, and increase firm value (Yoon & Jin, 2021; Richardson et al., 2013). For this reason, the implementation of corporate governance in a business group that practices RPTs is both necessary and risky.

Tambunan et al. (2017) stated that the ownership structure tends to be concentrated in emerging markets with controlling shareholders consisting of families or the state. The concentrated structure provides an opportunity for transfer prices to be used to maximize firm value and the welfare of the majority shareholder (Amzaleg & Barak, 2021).

* Corresponding author, email address: pwsantosa@gmail.com

In companies with weak and ineffective corporate governance, controlling shareholders can take over minority shareholders in many ways through RPTs. Previous studies found a relationship between poor governance and poor financial reporting quality, including earnings manipulation, financial restatements, and fraud (Hasnan et al., 2016). Based on the description above, it is known that affiliated transactions can be positive as a means of efficient market internalization but can also be damaging as a tool that allows the expropriation of majority shareholders to minority shareholders. This empirical evidence depends on the effectiveness of the implementation and quality of corporate governance in the business group (Yoon & Jin, 2021; Utama & Utama, 2014).

Many previous studies explain the relationship between RPTs and corporate governance. The results show that corporate governance reduces RPTs (El-Helaly, 2018). Daie & Hasnan (2012) argue that transfer pricing creates benefits or losses for companies in the business group (dual effect). Furthermore, Santosa et al. (2020) stated that it is necessary to disclose symmetrical information to stakeholders, especially shareholders. Maigoshi et al. (2018) and Badenhorst et al. (2015) consider that in this case, the role of corporate governance is needed to monitor the correct and reliable disclosure of financial information.

The view is that RPTs are considered an efficient contracting mechanism in the setting of incomplete information (Ryngaert & Thomas, 2012). According to this view, RPTs play an essential role in a market economy, contributing to meeting the basic needs of companies, reducing transaction costs, and facilitating the fulfillment of fundamental property rights and contracts for companies (Bona-Sánchez et al., 2017). In general, this often occurs in emerging market firms. Thus, with external markets developing slowly in emerging markets, that creates high transaction costs. RPTs are expected to increase efficiency, promote better business relationships, long-term profitability, and reduce the uncertainty of the economic environment and, consequently, corporate business risks (Bona-Sánchez et al., 2017).

Bena & Ortiz-Molina (2013) stated that the shareholding structure of business groups in emerging markets tends to be concentrated with controlling shareholders consisting of family, domestic, foreign, or even the state. Firm value with concentrated shares provides an opportunity to maximize majority shareholder wealth through RPTs (Bona-Sánchez et al., 2017; Amzaleg & Barak, 2021). Based on this, RPTs can be used as an efficient

market internalization tool. Still, on the other hand, it can also be a tool that allows the expropriation of majority shareholders to minority shareholders through earning management (Tambunan et al., 2017; Merle et al., 2019).

The opposite understanding considers RPTs as a vehicle to transfer resources from the company to related parties. In this sense, owner-managers in business groups have strong incentives to siphon resources from member firms for their gain, and as such, they use investment and funding decisions to achieve this goal (Downs et al., 2016; Bona-Sánchez et al., 2017). In terms of tunneling activities, Juliarto et al. (2013) show that tunneling behavior tends to occur in several emerging market countries such as ASEAN countries which support the positive association hypothesis between managerial ownership and the expansion of the RPTs, which is detrimental.

The business group is growing in many emerging market countries. This business organizational structure, of course, accompanies crucial issues such as the occurrence of ultimate shareholder and ownership control. Ownership also includes domestic and foreign shareholders' supervision that affects the intensity of RPTs (Hendratama & Barokah, 2020; Yoon & Jin, 2021). Thus, ownership structure and RPTs are among the most prominent issues. In addition, RPTs appear in various forms such as RPTs revenue, RPTs expenses, RPTs loans, and RPTs receivables (Tambunan et al., 2017). RPTs related to managerial are excessive executive compensation, loan guarantees, takeover of company opportunities, and goods and services transactions. Such RPTs often involve the objective or result of a gross transfer of assets or profits of affiliated companies to the controlling shareholder (CSH) of the group company (Yoon & Jin, 2021; Juliarto et al., 2013).

The ownership pyramid allows CSH to maintain close corporate oversight while making low equity investments, creating a separation of ownership (cash flow) and control (voting rights). This ownership structure and the ability to control shareholders to recruit and nominate directors who will serve their interests can increase the potential for abuse through RPTs (Santosa et al., 2021). Controlling domestic and foreign shareholder owners can take over wealth from minority shareholders through various means, such as self-dealing transactions, preferential loans, asset transfers, and acquiring additional shares at the desired price (Yeh et al., 2012). Agency conflicts between controlling and minority shareholders

often occur in emerging markets where controlling shareholders take over minority shareholders through various means, for example, RPTs.

Several previous studies stated the relationship between RPTs and corporate governance. First, the quality of corporate governance was negatively correlated with the level of RPTs with a continuous negative relationship across various intensities and types of RPTs, in particular. In addition, at different RPTs levels, the propping up and the internal capital market hypothesis. Third, corporate governance moderates the relationship between these conditions and RPTs (Yeh et al., 2012). There is also a negative relationship between corporate governance and RPTs, which is not focused on board structure and transfer pricing—still, investigations of corporate governance and RPTs from a broader perspective. Corporate governance can be broken down into sub-items or integrated into a composite index. RPTs can be analyzed, itemization into related sales, related borrowing, and related lending and guarantees (Ryngaert & Thomas, 2012; Yeh et al., 2012).

Juliarto et al. (2013) found a positive relationship between managerial ownership and the deviation rate of RPTs. Another important finding is that the business environment, ownership structure, independent directors and commissioners, and audit quality are governance mechanisms that are not fully effective for controlling propping or tunneling behavior (Yoon & Jin, 2021; Saleh, 2021). Several previous studies explain the relationship between affiliated transactions with corporate governance-related variables, including firm size and tax avoidance (Sikka, 2018; Tambunan et al., 2017; Lo et al., 2010). In general, their findings support good corporate governance because it can reduce RPTs, which tend to be abusive. In addition, the result of good GCG also encourages an increase in company value through reasonable RPTs (Hendratama & Barokah, 2020; Santosa et al., 2020).

The entire RPTs process is categorized into four more specific types, namely (1) RPTs revenue; (2) RPTs expense; (3) RPTs loan, and RPTs receivable. RPTs revenue is a transfer pricing process recorded as revenue between affiliated units, then RPTs expense is a transfer pricing value related to expenses incurred between affiliated Business units. Furthermore, RPTs loan is the value of affiliated transactions associated with the value of loans between related business units. RPTs receivable is a related transaction that explains the value of receivables between affiliated units within a business group. An in-depth study of these four types of RPTs is needed to see the effect or

association between RPTs and corporate governance.

Shareholders in a business group can use RPTs in Indonesia to generate and reduce company value if corporate governance is not appropriately implemented. Therefore, the direction of the relationship between RPTs and corporate governance is still an empirical question, so the hypothesis of this paper is as follows (Hendratama & Barokah, 2020; Santosa et al., 2021; Ryngaert & Thomas, 2012; Yeh et al., 2012; Juliarto et al., 2013):

H₁: There is an association between corporate governance and RPTs revenue in the business group

H₂: There is an association between corporate governance and RPTs expense in the business group

H₃: There is an association between corporate governance and RPTs loan in the business group

H₄: There is an association between corporate governance and RPTs receivables in the business group

The corporate governance proxy includes domestic and foreign ownership structures, independent management and commissioners, and firm size as controlling variables.

3. RESEARCH METHOD

Sample and Sampling Technique

The business groups for this paper were selected through purposive sampling that met the analysis criteria with their typology in the population of business groups listed on the Indonesia Stock Exchange (IDX). Business groups are classified by size or market capitalization (Santosa et al., 2020). The business groups are divided into three categories, namely 1) large-capitalization (above IDR300 trillion), (2) medium-capitalization (IDR150-IDR300 trillion), and (3) small capitalization (below IDR150 trillion) (Tambunan et al., 2017). Research data was obtained from various sources such as IDX (<https://www.idx.co.id/>), Bank Indonesia (<https://www.bi.go.id/id/default.aspx>), ICaMEL and the business group website. Astra International, Tbk as a proxy for a large business group of seven companies (<https://www.astra.co.id/>); Lippo Group, Tbk (<https://lippogroup.com/>) with nine companies (medium group) and Bakrie Brothers,

Tbk (<https://bakrie-brothers.com/>) with six companies. The research period is the 2013-2019 period. The number of research data in the form of panels is about 4,928 observations.

Research variables and measurement scale

The dependent variable in this study is RPTs

Revenue, RPTs Expenses, RPTs Loan dan RPTs Receivables. The independent variables are domestic shareholder, foreign shareholder, independent director, independent commissioner, and auditor quality, while the controlling variable is the firm size. The measurement of variables is presented in Table 1.

Table 1. Description of operational variables

Variables	Description/Formula	Code
RPTs Revenue	<i>Revenue to related entities/Total Revenue</i>	RPTs-INC
RPTs Expense	<i>Expenses to related entities/Total expenses</i>	RPTs-EXP
RPTs Loan	<i>Loan to related entities/Total Loan</i>	RPTs-LON
RPTs Receivable	<i>Receivables to related entities/Total receivables</i>	RPTs-REC
Domestic shareholder	$\frac{\text{Domestic ownership}}{\text{Total shareholder}} \times 100\%$	DomSH
Foreign shareholder	$\frac{\text{Foreign ownership}}{\text{Total shareholder}} \times 100\%$	ForSH
Independent director	$\frac{\text{Amount of independent director}}{\text{Total director}}$	InDIR
Independent commissioner	$\frac{\text{Amount of independent commissioner}}{\text{Total commissioner}}$	InCOM
Firm size	$\text{Log natural of Total Assets}$	Size

Empirical Model

This paper uses the panel data regression technique to combine both time series data with cross data (Baltagi, 2013). There are three models in panel data, namely the common effect model (CEM), fixed-effect model (FEM), and random-effect model (REM). The best model selection is determined 1 using the Likelihood test, Chow test, and Hausman test. The specification model in estimating the parameters in this study is based on several previous studies on the relationship and correlation of corporate governance, RPTs, and business group size. (Claessens et al., 2006; Merle et al., 2019; Lastiati et al., 2020; Hasnan et al., 2016; Yeh et al., 2012; Santosa et al., 2021). The models to analyze the effect of corporate governance on RPTs revenue, RPTs expenses, RPTs loan, and RPTs receivables are as follow.

$$RPT - INC_{it} = \alpha_{it} + \alpha_1 DomSH_{it} + \alpha_2 ForSH_{it} + \alpha_3 InDIR_{it} + \alpha_4 InCOM_{it} + \alpha_5 Size_{it} + e_{it} \quad (1)$$

$$RPT - EXP_{it} = \beta_{it} + \beta_1 DomSH_{it} + \beta_2 ForSH_{it} + \beta_3 InDIR_{it} + \beta_4 InCOM_{it} + \beta_5 Size_{it} + e_{it} \quad (2)$$

$$RPT - LON_{it} = \theta_{it} + \theta_1 DomSH_{it} + \theta_2 ForSH_{it} + \theta_3 InDIR_{it} + \theta_4 InCOM_{it} + \theta_5 Size_{it} + e_{it} \quad (3)$$

$$RPT - REC_{it} = \delta_{it} + \delta_1 DomSH_{it} + \delta_2 ForSH_{it} + \delta_3 InDIR_{it} + \delta_4 InCOM_{it} + \delta_5 Size_{it} + e_{it} \quad (4)$$

where α : RPTs (as known); intercept; $\alpha_1, \dots, \alpha_5$; β_1, β_5 ; $\theta_1, \dots, \theta_5$; $\delta_1, \dots, \delta_5$ = coefficients of the interaction variables; DomSH= domestic shareholder; ForSH=foreign shareholder; InDIR= independent director; InCOM=independent commissioner; and Size: firm size (log natural) and controlling variable; i=firm-i; t= period-t and e= Error term.

4. DATA ANALYSIS AND DISCUSSION

Descriptive analysis

Table 2 shows the descriptive statistics (mean, median, standard deviation) for this study's dependent and independent variables. When evaluating differences in RPTs ratios, the average RPTs-INC, RPTs-EXP, RPTs-LON, and RPTs-REC for firms in the business group are 0.1098, 0.1133 0.0158, and 0.244, respectively. These results clearly show that transfer pricing is a significant part of the business group financing in sales, expenses, loans, and accounts receivable. The highest RPTs value was recorded in receivables, while the lowest was in loan transactions. On the other hand, RPTs are a moderate part of the structure of affiliated transactions between affiliated business units in a structured manner, as shown in Table 2. The mean and median firm size for companies in the business group is 30.0629 and 30.2493, respectively, with a relatively mild standard deviation of 1.6524. The domestic shareholders dominate foreign shareholders with a mean of 0.8165 and 0.1836. Other corporate governance variables, such as independent directors and independent

commissioners, show a mean of 0.1298 and 0.4384, respectively. These findings indicate a moderate role of the two variables.

Table 2. Descriptive statistics

	RPTs-INC	RPTs-EXP	RPTs-LON	RPTs-REC	DomSH	ForSH	InDIR	InCom	Size
Mean	0.1098	0.1133	0.0158	0.2444	0.8165	0.1836	0.1298	0.4384	30.0629
Median	0.0087	0.0250	0.0000	0.1422	0.8959	0.1041	0.1000	0.4000	30.2493
Max	1.4059	0.9106	1.0000	1.0000	1.0403	0.9871	0.7500	1.0000	33.4945
Min	0.0000	0.0008	0.0000	0.0000	0.0129	0.0000	0.0000	0.0000	21.9068
Std. Dev.	0.2085	0.1670	0.1013	0.2742	0.2177	0.2175	0.1599	0.1410	1.6524

Correlation analysis

Table 3 presents the correlation analysis of criteria and predictor variables for business groups in Indonesia. The dependent variables RPTs-INC, RPTs-EXP, RPTs-LON, and RPTs-REC, are related, with positive

and negative correlation coefficients. RPTs-LON has negatively correlated with RPTs-INC and RPTs-REC the same as RPTs-REC relationship with RPTs-EXP. These are interesting preliminary findings and are in line with theoretical predictions.

Table 3. Correlation analysis results

	RPTs-INC	RPTs-EXP	RPTs-LON	RPTs-REC	DomSH	ForSH	InDIR	InCom	Size
RPTs-INC	1.0000								
RPTs-EXP	0.0318	1.0000							
RPTs-LON	-0.0666	0.2180	1.0000						
RPTs-REC	0.2715	-0.1617	-0.1101	1.0000					
DomSH	0.2327	-0.1729	-0.0767	-0.0405	1.0000				
ForSH	-0.2333	0.1726	0.0766	0.0400	-0.9999	1.0000			
InDir	0.1129	-0.0099	-0.0603	0.2488	0.0757	-0.0751	1.0000		
InCom	-0.0282	-0.1014	0.0412	0.1355	0.0050	-0.0052	0.1573	1.0000	
Size	-0.2864	0.1672	0.1863	-0.1645	-0.2170	0.2168	-0.2113	-0.0060	1.0000

In general, independent variables such as DomSH, ForSH, InDIR, InCom, and firm size are correlated with other alternative RPTs measures where DomSH shows a negative relationship with all dependent variables. The opposite result is demonstrated by ForSH, which means an increase in foreign shares in the business group will encourage more massive RPTs where most of the independent variables are positively correlated outside the dependent variable RPTs-INC. Furthermore, InDir and InCom correlations showed the same negative result as RPTs-EXP but different from RPTs-INC and RPTs-LON. RPTs-REC showed a positive correlation with InDir and InCom, respectively. There is a strong and negative correlation between DomSH and ForSH due to the "zero-sum game" effect between the two proportionally. Thus the two variables have the opposite effect on the RPTs.

Panel analysis

The results of Model 1 clearly show the importance of the influence of ForSH and Size in determining RPTs Revenue between companies in business groups. Table 4 shows that for Model 1 (RPTs-INC), the ForSH and Size ratios are -2.372 and 0.234 significant at the 10% and 1% levels, respectively. Other variables DomSH, InDIR, and InCom show insignificant results. The results of the panel analysis Model 2 where RPTs-Expense as the dependent variable shows a significant effect on the independent variable similar to Model 1 with the addition of InCom, where the predictor coefficients ForSH, InCom, and size are 2,497, 0.500, and 0.267, but the effect of ForSH changes to positive and significant at 10%. Thus the increase in ForSH and Size will increase RPTs Expense transactions. Still, DomSH, InDIR, and InCom are significant at 10% of RPTs-Expense in the Indonesian business group.

Table 4. Results of Panel Analysis

	Model 1		Model 2		Model 3		Model 4	
Model selection	Fixed Effect		Fixed Effect		Fixed Effect		Fixed Effect	
Dependent	RPTs-INC		RPTs-EXP		RPTs-LON		RPTs-REC	
Constant	4.335	0.021	4.352	0.024	4.504	0.021	4.480	0.017
DomSH	2.279	0.226	-2.349	0.226	-2.392	0.215	-2.199	0.204
ForSH	-2.372	0.086*	2.497	0.053*	2.559	0.093*	2.421	0.081*
InDIR	0.231	0.571	0.371	0.369	0.366	0.385	0.153	0.700
InCom	0.570	0.201	0.500	0.069*	0.529	0.251	0.576	0.086*
Size	0.234	0.002	0.267	0.000	0.243	0.002	0.237	0.001

The first column of each model indicates B coefficients, and the second column represents the corresponding p-value * indicates significance at 90% confidence level)

The results of the panel analysis for Model 3 with RPTs-Loan as the dependent variable showed similar results to Model 2, where the predictor coefficients of ForSH and Size were 2.559 and 0.243, and significant at 10% and 1%. Thus, the increase in ForSH and Size will increase RPTs Loan transactions, but DomSH, InDIR, and InCom do not affect RPTs Loans in Indonesian business groups. Finally, the Model 4 panel analysis results where RPTs-Receivable as the dependent variable show similar results to the previous Model 2 and Model 3, where the predictor coefficients ForSH, InCom, and size are 2.421, 0.576, and 0.237, and significant at 10% and 1%. This finding shows that the increase in ForSH, InCom, and Size will increase RPTs Receivable transactions. Still, DomSH and InDIR have no effect on receivable affiliate transactions in Indonesian business groups.

Effect of Ownership Structure on RPTs

According to Santosa et al. (2021) and Bansal & Thenmozhi (2020), the ownership structure represented by ultimate shareholders affects affiliate transactions. In line with this, Model 1 shows that a decrease in ultimate foreign shareholders (ForSH) will increase revenue affiliate transactions. Meanwhile, Model 2, Model 3, and Model 4 show that the estimated increase in ultimate foreign shareholders (ForSH) has a significant effect on RPTs expenses, RPTs loans, and RPTs receivables. These findings suggest that increasing foreign shareholding will reduce sales/revenue transactions. However, on the contrary, an increase in foreign shareholding will increase transaction costs, debts, and receivables. Agnihotri & Bhattacharya (2019) explain that share ownership in a business group will strengthen the negative relationship between affiliated transactions and internationalization, where foreign shareholders will weaken the relationship.

Thus, the presence of shareholders will strengthen the internationalization of the business group. Therefore, it can be further analyzed that an

increase in foreign shareholding will encourage cross-border transactions by reducing revenue affiliation transactions but increasing affiliated transactions costs, payables, and receivables. The next question is how much does the percentage of foreign shareholders affect the related transaction? Tambunan et al. (2016) found that share ownership below 25% will cause the intensity of affiliated transactions to expropriate other shareholders, while share ownership above 25% tends to have owners not sabotage the company's value. Thus, foreign ownership below 25% due to a reduction in revenue affiliation transactions and increased transaction costs, payables, and receivables, has become an entry point for expropriation of foreign shareholders against domestic shareholders and other shareholders.

Effect of corporate governance on RPTs

Corporate governance must reflect the principles of transparency, accountability, responsibility, independence, and equality. This study uses a corporate governance approach proxied through independent directors and independent commissioners, reflecting the principle of autonomy, one of the five principles of corporate governance mentioned above. The use of independent board members can effectively increase the company's implementation and supervision capacity (Manzoor et al., 2019). The results showed that independent directors (InDir) did not affect affiliated transactions of revenue, expenses, payables, and receivables. Furthermore, the study results show that the increase in independent commissioners has no significant effect on revenue affiliate transactions in Model 1.

An exciting finding in other models states that increased independent commissioners (InCom) significantly increase affiliated transactions costs, payables, and receivables in Models 2, 3, and 4. These results align with Tambunan et al. (2016), which shows that independent commissioners have a

significant positive effect on the intensity of affiliated transactions. However, this result is different from Richardson et al. (2013), stating that the presence of an independent commissioner should suppress affiliated transactions. The difference may be due to the previous study being conducted in Australia while this study was conducted in emerging markets such as Indonesia. The context of independence in emerging markets can still be questioned when referring to the research of Nekhili & Cherif (2021), which states that independent management will be affected and collude if there is a personal advantage in the affiliate transaction.

Based on the previous discussion, the structure of foreign share ownership will increase affiliated transactions costs, payables, and receivables showing foreign interest in the business group through corporate governance. Foreign shareholders certainly know that the management, both directors and commissioners, in Indonesian business groups were initially dominated by local shareholders who were the founders of the company. Thus, foreign shareholders use an independent party to monitor the company's running for their benefit. Larcker & Tayan (2016) stated that independence might be compromised by individual factors such as management background, education, values, and personal relationship with management.

Furthermore, Larcker & Tayan (2016) state that the standard of independence is not necessarily correlated with true independence because, in many cases, independent management will have their independence disturbed. This is the case when there is dependence on revenue from the owner, and there is an "information gap" with directors who are not independent. This information gap means bad decision-making from independent management because the factual information is much more known to non-independent management (Santosa et al., 2021).

Effect of firm size on RPTs

Model 1, 2, 3, and 4 show that firm size affects increasing affiliate transactions. This empirical means that the larger the firm size, the more affiliated transactions of revenue/sales, costs, payables, and receivables will be increased. Company size is a factor that determines the increase in related transactions, which is understandable if it is associated with increasing foreign shareholder ownership which will encourage cross-border transactions in the context of internationalization (Agnihotri and Bhattacharya, 2019). Such cross-border transactions will tend to be affiliated with foreign parties who invest their shares

in business groups in Indonesia. The OECD (2017) states that small and medium-sized enterprises (SMEs) carrying out cross-border transactions can be exempted from making transfer pricing documentation. In other words, implicitly, the OECD also recognizes the firm size; large companies are the determinants in cross-border transactions that cause transfer pricing.

The firm size is very decisive in affiliated transactions because the more significant the company, the better the ability to cope with financial pressure. Furthermore, the results of this study are also in line with (Santosa et al., 2021), which states that firm size is an essential variable in the everyday activities of affiliate transactions. However, it is necessary to pay attention to the company's size against its value. Tambunan et al. (2017) stated that the larger the firm size, which increasingly encourages an increase in affiliated transactions, it will cause financial distress. In other words, the results of this study explain that an increase in company size through an increase in the proportion of foreign ownership will encourage an increase in affiliated transactions of revenue, expenses, payables, and receivables. However, good governance, namely good control and monitoring functions through independent commissioners, will lead to future financial difficulties. Good governance is a balance so that affiliate transactions do not lead to financial problems.

5. CONCLUSION, IMPLICATION, SUGGESTION, AND LIMITATIONS

Transactions between companies can occur on the revenue side, expenses, payables, and receivables. This study concludes that affiliated transactions are influenced by ownership structure, governance, and company size. The foreign ownership structure, which is the controlling ownership structure of the business group, influences affiliated transactions of revenue, expenses, payables, and receivables. The results of Model 1 show that an increase in foreign ownership in a business group will reduce revenue affiliate transactions. This fact can be interpreted that Indonesia, as an importing country, will be in a non-dominant position in increasing revenue because the increase in foreign share ownership is through the exporting country. These results are evidenced by the rise in foreign shareholding in models 2, 3, and 4 causing an increase in affiliated transactions costs, payables, and receivables. So, foreign shareholders as exporting countries will exploit Indonesia by charging cross-border transactions in the form of imports of capital goods,

payments for intangible properties such as royalties, services between companies within the group, and interest costs on loans.

There are some implications of this study. The condition of exploitation of business groups in Indonesia through the ownership of foreign shareholders, if not properly supervised, will cause financial difficulties in the future for the business group concerned. In addition, another impact is that the tax base for the Indonesian government will be affected because of the tendency for cross-border transactions carried out by foreign shareholders to be more profitable to them. It increases affiliated transactions costs, loans, and receivables and reduces revenue transactions. Thus, it is necessary to balance the needs of the state and companies in Indonesia through foreign direct investment with reasonable internal control from business groups and regulations conducive to interested parties.

There are two limitations to this research. First, analytical models should add RPTs total as dependent variables and corporate governance such as controlling shareholder, auditor quality, and firm size for moderating variables. Second, this study used a static model of panel data. Using the GMM method may be more appropriate because it relates to every business group or industry.

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