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The Role of Good Corporate Governance in the Relationship between Family Ownership and Institutional Ownership with Related Party Transactions
(In Mining Companies Registered on the Idx 2017-2021)

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Abstract:*This study aims to analyze the role of good corporate governance in the relationship between family ownership and institutional ownership with related party transactions. The research population uses mining companies that issue their shares on the Indonesia Stock Exchange in the 2017-2021 period with purposive sampling. Based on data from 155 companies' annual financial reports using multiple regression analysis, it was found that family ownership, good corporate governance, and the interaction between family ownership and good corporate governance have an effect on related party transactions. Meanwhile, institutional ownership and the interaction between institutional ownership and good corporate governance have no effect on related party transactions. These results indicate that institutional ownership of companies in Indonesia has not been able to carry out the monitoring process effectively and tends to follow the wishes of the company's management.*

Keywords:*Good corporae governance, family ownership, institusional ownership, related party transaction.*

I. INTRODUCTION

Financial statements as accounting products provide useful information for investors to evaluate management in managing the company. On the one hand, financial reports are the company's main means of communicating financial information about management responsibilities, on the other hand external parties want reliable information about the assets invested in the company.

However, financial reporting can fail as a communication mechanism between management and shareholders. This failure is caused by several factors, namely: (1) managers have more information than investors (information asymmetry), (2) there are different interests between investors and managers, and (3) imperfect accounting and auditing roles (Healy and Palepu, 1993).

One of the information presented in the company's financial statements is information about related party transactions (RPT). The company's commitment to disclose RPT information is an important thing that allows investors and other users of financial statements to monitor and assess the impact of transactions on company performance (Gordon, et al, 2004).

According to PSAK No. 07, related parties or RPT is when one party has the ability to control another party or has significant influence over the other party in making financial and operational decisions. Meanwhile, a transaction between related parties is defined as a transfer of resources or obligations between related parties, regardless of whether a price is calculated.

Several factors that are predicted to influence RPT are family ownership and institutional ownership. In a survey conducted by PWC (2014), it was found that 95% of companies in Indonesia are family companies. The main characteristics of family companies are concentrated ownership and the presence of family members who dominate the composition of the board of directors and the board of commissioners which aims to maintain the existential ownership of the company and reflects control over managerial decision making which is still influenced by the interests of the company owner.

Several studies related to family ownership and institutional ownership of RPT have shown inconsistent results. In research on the effect of family ownership on RPT conducted by Dyanty, et al (2013); Azim, et al (2018); Abdullatif, et al (2019) which stated that family ownership had an effect on RPT. While different results were shown by Bansal and Thenmozhi's research (2020); Nuritomo (2020); Alhadab, et al (2020) which shows that family ownership has no effect on RPT. Alhadab, et al (2020) conducted research on the effect of institutional ownership on RPT, which stated that institutional ownership had an effect on RPT, while Supatmi, et al (2021) showed that institutional ownership had no effect on RPT.

Due to the inconsistency of the results of this study, the researchers included good corporate governance variables to moderate the relationship between family ownership and institutional ownership of RPT. Including good corporate governance as a moderating variable is what distinguishes it from other studies and the originality of this study. According to Monk and Minow (1996), corporate governance shows the relationship between various participants in determining the direction and performance of the company. Initially, corporate governance was understood as a relationship between shareholders, the board of commissioners and management, but in its development several other groups also have interests in the company so that the purpose of corporate governance is to ensure a balance of all these interests. Cadbury (1996) states that corporate governance is a system for managing and controlling companies. As a corporate governance system, it requires various components, namely: company laws, security laws, trading rules, listing rules, accounting standards, laws and regulations. bankruptcy and insolvency laws, competition or anti-trust laws, important court cases, for example on issues of judicial redress, market institutions and and practices (market institutions and practices), guidelines for good corporate management (codes of good giving), mechanisms that can direct the wishes of minority shareholders (mechanisms for addressing investors/minority shareholder expectations) (Lukviarman, 2004). Several studies on corporate governance of RPT have been conducted, including Dyanty, et al (2013); Pratista (2018); Pebri, et al (2020); Utama and Utama (2014) state that good corporate governance influences RPT.

II. LITERATURE

Jensen and Meckling (1976) developed an agency theory of the separation of ownership and control of firms. The separation of ownership between agents and control (principals) in an organization has an impact on agency conflicts in the form of agreements/contracts between owners (principals) and managers (agents). Ideally, an agreement can be made between the agent and the principal, where the agent as fund manager must fulfill its obligations and how profits will be distributed to shareholders in the form of dividends. However, this is difficult to implement in practice. Most managers have very strong control over how investments will be placed. Jensen (1986) states that a manager will choose a project that can benefit his own interests rather than the interests of investors.

Financial reports provided by agents are used by principals to provide compensation in order to reduce conflicts with agents. However, accrual accounting provides flexibility to management because of the flexibility provided by GAAP to encourage managers to change financial statements to produce income statements as they wish, which can result in misstatements in income reporting.

1. The Effect of Family Ownership on Related Party Transactions

The ownership structure will determine the nature of agency problems, namely whether the dominant conflict occurs between managers and shareholders or between controlling shareholders and minority shareholders. Family firms are characterized, among other things, by majority ownership by the founder or the founder's family or other institutions whose directors are the family of the company's founders, known as a pyramid ownership structure. It is this majority ownership by the family that raises the nuances of different agency conflicts in family companies. In family firms, greater agency conflicts occur between majority shareholders and minority shareholders (Chen, et al, 2005)

Mohammed (2019) states that family companies have type II agency problems (controlling vs minority shareholders) compared to type I agency problems (principals vs agents), in this case the controlling shareholders use RPT with the aim of transferring company profits and wealth for their personal interests. because they have strong incentives to maximize interests at the expense of minority shareholders or it is called expropriation.

Hu, et al (2012) stated that there is a lot of information owned by family owners as controlling shareholders so that it becomes a means of expropriating company resources which can harm minority shareholders due to tunneling carried out by controlling shareholders. Munir (2011) states that RPT can reduce company performance and RPT carried out by family companies is more likely to be used opportunistically to take over minority shareholders.

H1: Family ownership influences related party transactions

2. Effect of Institutional Ownership on Related Party Transactions

Institutional ownership in a company can be owned by financial institutions (banks, insurance companies). Pound (1988) reveals two possible alternatives due to institutional ownership. The first alternative is The Efficient Monitoring Hypothesis. This hypothesis reveals that individual and insider investors with a low level of share ownership (minority) have a tendency to utilize or borrow the voting power of the majority institutional shareholders to monitor management performance. This will have an impact on the possibility of related party transactions to occur. The second alternative is The Conflict of Interest Hypothesis. This hypothesis is contrary to the first hypothesis, which is the tendency of the

majority of institutional investors to reduce conflict by making compromises and alliances with management. Thus, the possibility of RPT becoming open.

Cruthley, et al (1999) in Putri and Nasir (2006) conducted research on institutional ownership with RPT. From this study, it was found that institutional ownership has an influence on management behavior. The high debt policy causes the company to be monitored by debtholders. Because monitoring within the company is getting tighter, this will cause managers to act in accordance with the interests of debtholders and shareholders. Thus the volume of RPT, including debt and receivable transactions, is becoming less and less a result of the monitoring carried out by this institutional party because the RPT itself is an action that is contrary to the interests of the institutional party.

H2: Institutional ownership affects related party transactions.

3. The Influence of Good Corporate Governance on Related Party Transactions

GCG practice is a mechanism implemented within the company to minimize agency problems. GCG practices are expected to reduce asymmetric information (Utama, 2015). According to the National Governance Policy Committee (KNKG), GCG has five principles or principles that must be adhered to, namely; Transparency, accountability, responsibility, independence and fairness. According to Rezaee (2009), corporate governance mechanisms consist of internal and external mechanisms. Internal mechanisms are designed to guide, direct and monitor the Company's operations to create sustainable value for stakeholders. Examples of internal mechanisms are boards of commissioners, directors, audit committees, management ownership and institutional ownership. At the same time, the purpose of the external mechanism is to monitor the company's operations and performance to ensure that the interests of parties within the company are aligned with those outside the company. Some examples of external mechanisms are the capital market and the labor market.

Good corporate governance has an impact on monitoring effectiveness so that managers will not take actions that can harm minority shareholders. Research by Yeh, et al (2012) shows that good and effective corporate governance can limit the various sizes and types of RPT. Alhadab (2020) states the weakness of the corporate governance system or the limited separation between company ownership and management in Jordan, so that the effects of related party transactions are worse, compared to the context in more developed countries. Hamid, et al (2015) stated that corporate governance with proxies of audit committees and independent directors, with a higher number of audit committees and independent directors, will reduce the level of takeover of the interests of minority shareholders. Pratista (2018) states that corporate governance with audit committee proxies, institutional ownership, management ownership and independent commissioners simultaneously have a positive and significant effect on disclosure of RPT. Pebri, et al (2020) stated that corporate governance by proxy of the audit committee and board of commissioners has an effect on RPT. The more independent commissioners and audit committees the better the supervision will be so that it will improve financial performance and increase compliance with related transactions.

H3: Good Corporate Governance affects related party transactions

4. The Effect of Good Corporate Governance on the Relationship Between Family Ownership and Related Party Transactions

One of the reasons for the corporate governance mechanism that needs to be implemented is the existence of concentrated ownership, especially family ownership, which will have full policy to determine the direction of the company, causing conflicts of interest between controlling (majority) and non-controlling (minority) shareholders.

Dyanty, et al (2013) examined corporate governance with a CGI index that moderated family ownership with RPT, and found that corporate governance reduces the expropriation motives of controlling shareholders through related party transactions. Agnihotri and Bhattacharya (2019) show that ownership concentration negatively moderates the impact of governance variables on RPT.

Azim, et al (2018) found that corporate governance is weaker in Pakistan family companies where the main shareholder takes over resources through RPT and has a negative tendency for resource takeover of family owned companies. Malawat, et al (2018) who examined the moderating effect of corporate governance in relation to the pyramid of structure and RPT concluded that the implementation of corporate governance has not been fully implemented by companies because corporate governance is dominated by legal-formal institutions by families. This causes a strong incentive for family members who serve as commissioners or directors to influence the decisions of the board of commissioners who are independent of the company.

H4: Good corporate governance moderates the relationship between family ownership and related party transactions.

5. The Effect of Good Corporate Governance on the Relationship Between Institutional Ownership and Related Party Transactions

Institutional ownership can be seen from the percentage of share ownership of financial institutions in a company to the total outstanding shares (Putri and Nasir, 2006). Meanwhile Pound (1988) stated that the tendency of the majority of institutional investors to reduce conflict by making compromises and alliances with the management. Thus, the possibility of related party transactions becomes open. Several studies on the effect of institutional ownership on RPT have shown different results. Pound(1988) and Alhadab, et al (2020) stated that institutional ownership has an effect on RPT, while Wijaya (2011) and Supatmi, et al (2021) that institutional ownership has no effect on RPT.

Based on the inconsistency of the research results above, this study includes corporate governance variables as a moderating variable to see the effect of these variables on the relationship between family share ownership and RPT. Fan and Wong (2002) state that one way to mitigate agency problems is by implementing a good and effective corporate governance system. Several studies related to the effect of good corporate governance on RPT include research by Yeh, et al (2012); Hu, et al (2012); Dyanty, et al (2013) which states that good corporate governance influences RPT. Companies with institutional ownership and good corporate governance quality will have more effective monitoring so that the negative impact of RPT tends to be reduced.

H5: Good corporate governance moderates the relationship between institutional ownership and related party transactions.

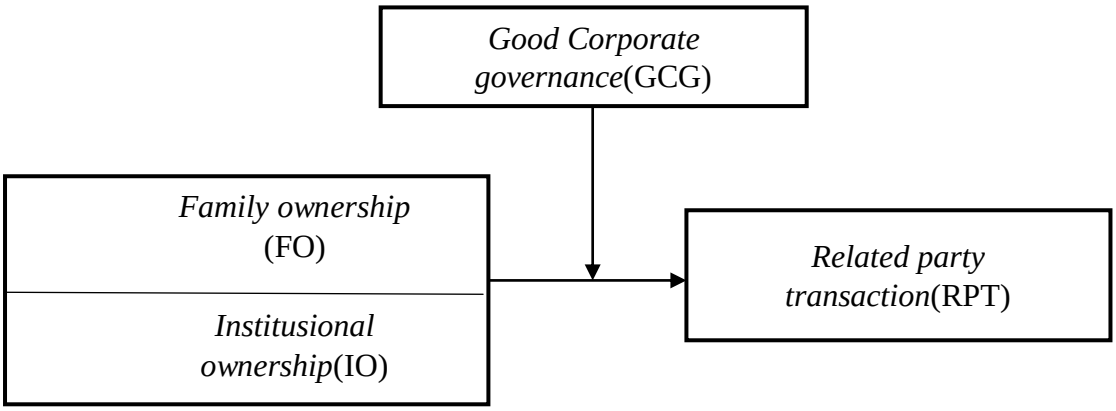

Figure: research framework

III. METHOD

The population used in this study are Mining Sector Companies that have been listed on the Indonesia Stock Exchange in the period 2017-2021. There are 37 companies engaged in the mining sector listed on the IDX. In this study, 155 financial statement data samples were obtained using purposive sampling. The data source used in this study comes from the official website of the Indonesia Stock Exchange www.idx.co.id, and the official websites of the companies concerned.

1. Dependent Variable

The dependent variable or dependent variable is the main variable that is the focus of a study. In this study, the dependent variable used is related party transactions (RPT) as seen from the sum of RPT sales, RPT purchases, RPT payables and RPT receivables divided by total assets. The use of these transactions has contributed significantly to the business operations of companies in Indonesia.

This measurement was chosen because in Indonesia, related party transactions have been regulated in PSAK 7 and OJK regulations through Regulation number VIII.G.7 concerning guidelines for presenting financial statements, one of which has points, namely (a) The company provides details of total assets, liabilities, sales , and purchase of RPT; (b) The company assigns a percentage value in point (1) to total assets, liabilities, sales and purchases; (c) The company provides the value of debts/receivables from RPT that are not related to the company's main business activities.

$$RPT = \frac{\text{RPT Selling} + \text{RPT Purchasing} + \text{RPT Acc. Payable} + \text{RPT Acc. Receivable}}{\text{Total Assets}}$$

2. Independent Variable

Independent variables or independent variables are variables that affect the dependent variable either positively or negatively. In this study the independent variables used are family ownership and institutional ownership which are part of the ownership structure in a company.

a. Family Ownership (FO)

The family ownership structure is defined as share ownership owned by the family, or the family has an important role in company management.

A family owned company is a company that is owned and managed by members of the founding family. Family involvement in ownership is usually measured by the percentage of share ownership in the company. Family firms are characterized by concentrated ownership, control and the presence of one or several family members occupying executive positions. Family ownership in this study is measured by the percentage of shares owned by family members.

b. Institutional Ownership (IO)

Institutional ownership is shared between the government, insurance companies, foreign investors or banks with a primary interest in the investments made, including stock investments. As a result, organizations often assign responsibility for managing the companies in which they invest to specific departments. The reason is, share ownership in a company requires information about developments related to the investment. Supervision will be stricter if investments are made in companies that are developing (Ngadiman and Puspitasari, 2014 in Oktaviany and Munandar, 2017). The formula for measuring institutional ownership is:

$$KL = \frac{Totalsharesownedbytheinstitution}{Totaloutstandingshares}$$

3. Moderating Variables

Moderating variable is one type of variable that has the ability to strengthen and weaken a direct relationship that occurs between the independent variables and the variables.

This study measures corporate governance using the index proposed by Ancella (2011) because it is more detailed and more suitable for implementation in companies in Indonesia. The Ancella Index not only measures the effectiveness of the function of the board of commissioners and directors, but also measures how effectively the audit committee functions as a supervisory function. It is hoped that with a better effectiveness function of the board of commissioners, board of directors and audit committee, financial statement misuse can be minimized, so that the information generated in the financial statements can be more reliable for users of financial statements, especially shareholders.

4. RESULTS AND DISCUSSION

The data used for hypothesis testing consists of 4 variables. The following are descriptive measures of the four variables.

Table 1
Descriptive Statistic

Variable	N	Mean	Dev. Standart	Minimum	Maximum
RPT	155	0,0649	0,13570	0,00	0,93
FO	155	0,3488	0,28775	0,00	0,93
IO	155	0,5281	0,23644	0,00	1,00
GCG	155	0,7129	0,07821	0,51	0,83

Based on table 1 it is known that the RPT variable data has the lowest score of 0.00, the highest score of 0.93, the average is 0.0649 and the standard deviation is 0.13570. This shows that the RPT of the sample companies, namely transactions between related companies, is high. The family ownership (FO) variable data has the lowest score of 0.00, the highest score of 0.93, the average is 0.3488 and the standard deviation is 0.28775. This shows that most of the family ownership in the sample is below 50%. Institusional ownership (IO) variable data has the lowest score of 0.00, the highest score of 1.00, the average is 0.5281 and the standard deviation is 0.23644. This shows that the institutional ownership of the sample companies is mostly above 50%. While the GCG variable data has the lowest score of 0.51, the highest score of

0.83, the average is 0.7129 and the standard deviation is 0.07821. This shows that the sample companies in carrying out GCG activities are high.

Table 2
t Test Results

Variable	Regression Coef.	t-value	Sig.	Conclusion
Constant	12,243	2.618	0,010	
FO	-13,778	-2,606	0,010	H1 Accepted
IO	-11,009	-1,876	0,063	H2 Rejected
GCG	-0,203	-3,163	0,002	H3 Accepted
GCG*FO	0,167	2,350	0,020	H4 Accepted
GCG*IO	0,139	1,653	0,100	H5 Rejected
Adjusted R Square	: 0,172			
F-Value	: 6,206			
Sig.	: 0,000			

Based on the table above, the regression equation is obtained as follows:
RPT = -12,243–13,778FO–11,009IO – 0,203 GCG + 0,167 GCG*FO + 0,139 GCG*IO

1. The Effect of Family Ownership on Related Party Transactions

The results showed that hypothesis 1 (H1) was accepted that family ownership had an effect on RPT. This indicates that companies whose shares are owned by the family tend to carry out related party transactions. The results of this study are consistent with research conducted by Azim et al (2018), Amzaleg & Barak (2011), Mohammed (2019), Chee Yoong et al (2015), Kohlbeck et al (2018), Munir (2011), Abdullatif et al. al (2019).

Family ownership has proven to be more encouraging to the RPT size. Family ownership of the controlling shareholder has proven to strengthen motivation to carry out RPT. This is very reasonable because if there are several companies (company groups) in the hands of one family controller, the family's wealth is spread over many companies. These conditions will allow for expropriation through related party transactions (Dyanty et al, 2012). Family controlled companies have low motivation to disclose related party transactions. This result can be an indication that the family as the controlling shareholder makes use of related party transactions (Ernawati and Aryani, 2019).

2. Effect of Institutional Ownership on Related Party Transactions

The results of the study show that hypothesis 2 (H2) is rejected, that institutional ownership has no effect on RPT. This shows that companies whose shares are owned by institutions tend to be unable to prevent management from conducting related party transactions. The results of this study support the research of Wijaya (2011), Putri (2015), and Supatmi, et al (2021). While the results of this study do not support the research of Pound (1988), Cruthley, et al (1999), and Alhadab, et al (2020) that institutional ownership has an effect on RPT.

The results of this study indicate that institutional shareholders have not been able to supervise management in conducting related party transactions. The existence of institutional investors should be an effective oversight mechanism for the decisions chosen by managers because institutional investors become part of strategic decisions so that they do not easily believe in profit manipulation and the use of company assets becomes more efficient. Institutional ownership creates control and monitoring mechanisms that encourage managers to focus more attention on company performance so as to reduce self-serving behavior. The percentage of company ownership by institutional parties has an impact on the preparation of annual financial reports on an accrual basis so that it is in line with management's wishes (Zahro, 2019).

3. The Influence of Good Corporate Governance on Related Party Transactions

The results of the study show that hypothesis 3 (H3) is accepted that good corporate governance has an effect on RPT. This shows that good corporate governance is able to prevent companies from conducting related party transactions that can harm minority shareholders. The results of this study support the research of Kohlbeck and Mayhew (2004), Hwang (2010), Yeh et al. (2012), Utama and Utama (2014), Pratista (2018), Pebri et al (2020) which state that corporate governance has an effect on RPT. Meanwhile, research by Utama (2015) and Apriyani (2016) states that corporate governance has no significant effect on the extent of RPT disclosure.

These results indicate that the governance implemented in Indonesia has been able to prevent management from engaging in related party transactions that could be detrimental to shareholders. The implementation of good and effective governance can limit various sizes and types of related party transactions (Yeh, et al, 2012). Meanwhile, Alhadab (2020) stated that the weakness of the corporate governance system or the limited separation between company ownership and management in Jordan, resulted in the effect of related party transactions being worse, compared to the context in more developed countries. Hamid, et al (2015) stated that corporate governance with proxies of audit committees and independent directors, with a higher number of audit committees and independent directors, will reduce the level of takeover of the interests of minority shareholders.

4. The influence of Good Corporate Governance in moderating the relationship between family ownership and Related Party Transactions

The results show that hypothesis 4 (H4) is accepted that good corporate governance moderates the relationship between family ownership and RPT. The results of this study are consistent with research by Dyanty, et al (2013) that corporate governance reduces the expropriation motives of controlling shareholders through related party transactions. Likewise Agnihotri and Bhattacharya (2019) show that corporate governance moderates family ownership with RPT.

Companies with good governance will prevent expropriation from companies whose shares are concentrated in the family in the form of related transactions. Good corporate governance has an effective monitoring process so that minority shareholders will be protected from unfavorable actions from majority shareholders.

5. The influence of Good Corporate Governance in moderating the relationship between institutional ownership and Related Party Transactions

The results of the study show that hypothesis 5 (H5) is rejected, that good corporate governance moderates the relationship between institutional ownership and RPT. These results indicate that the implemented governance has not been able to prevent expropriation by the majority institutional shareholders to minority shareholders through related transactions. In this case the interests of the majority institutional shareholders are the same as those of management. Pound (1988) states that the tendency of the majority of institutional investors to reduce conflict by making compromises and alliances with management. Thus, the possibility of RPT becoming open.

6. CONCLUSION

The results of the study show that family ownership and good corporate governance have an effect on RPT. Likewise the interaction between good corporate governance and family ownership also influences the RPT. This means that the application of good corporate governance will increase effective oversight so as to prevent companies whose shares are owned by families from carrying out practices that can harm minority shareholders in the form of related party transactions.

Meanwhile, institutional ownership has no effect on RPT. Likewise, the interaction between good corporate governance and institutional ownership has no effect on RPT. These results indicate that the practice of good corporate governance in companies in Indonesia whose shares are institutionally owned has not been able to prevent RPT practices by management, which can harm minority shareholders. In this case institutional shareholders prefer to compromise with management to carry out RPT rather than prioritizing the interests of other shareholders.

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