



Good Corporate Governance Modeling on Opportunistic Behavior - Related Party Transaction

Lia Ramadhani Fatchan¹, *Rina Trisnawati², Erma Setyawati³

^{1,2,3}Faculty of Economics and Business, Universitas Muhammadiyah Surakarta, Indonesia

email: liaramadhani41@gmail.com

Keywords:

Related Party Transaction, Family Ownership, Institutional Ownership, Political Connection

ABSTRACT

This study aims to examine the role of good corporate governance in influencing the relationship between family ownership, institutional ownership, and political connections with related party transactions (RPT). The research method uses a quantitative approach with secondary data. Samples using purposive sampling techniques were obtained from 36 mining companies listed on the Indonesia Stock Exchange in the 2017-2022 period. From this sampling technique, after removing incomplete data and outliers, 211 observable data were obtained. Moderated regression analysis was used for data analysis. The results of the study indicate that good corporate governance is able to moderate the relationship between institutional ownership and political connections with RPT but is unable to moderate between family ownership and RPT. The practical implications of this study can be used as a consideration for the government to make regulations so that the implementation of good corporate governance is more effective in companies whose shares are majority owned by families.

INTRODUCTION

Financial statements are accounting products that provide important information for investors to assess management performance when managing a company. On the one hand, these reports are the main tool for companies to convey financial information regarding management responsibilities, while on the other hand, external parties need reliable information about the assets they invest in within the company. In order for the information in financial statements to be useful for decision-making, it must be relevant and trustworthy.

The information contained in financial statements will be more beneficial if presented transparently, accurately, and on time, so that shareholders, creditors, and potential investors can assess the company's financial condition and business sustainability as a basis for decision-making. One of the key pieces of information presented in the financial statements is related to related party transactions (RPT). The company's commitment to disclosing RPT information in a comprehensive manner is crucial for investors and other users of financial statements to monitor and assess the impact of the transaction on the company's performance (Gordon et al., 2004) prompting Sarbanes-Oxley (SOX).

According to PSAK No. 07, a party with a special relationship (RPT) is when one party has the ability to control or exert significant influence on the other party in financial and operational decision-making. A transaction between parties with a special relationship is defined as the transfer of resources or obligations between them, regardless of whether the price is considered.

Some of the factors that are estimated to affect RPT include family ownership, institutional ownership, and political connections. However, research on the correlation between these variables and RPT yield inconclusive results. For instance, research by Azim, Mustapha, et al. (2018) and (Alhadab et al., 2020) indicates that family ownership affects RPT. In contrast, a study by (Nuritomo et al., 2020) and (Alhadab et al., 2020) shows that family ownership does not affect RPT.

On the other hand, research on the influence of institutional ownership on RPT by (Alhadab et al., 2020) shows the existence of an influence, while

a study by (Wijaya & Suprasto, 2015) and (Supatmi et al., 2019) our results demonstrate that account receivables-related RPTs have a positive effect on banks' profitability and its market performance (Tobin's Q shows that institutional ownership does not affect RPT).

Meanwhile, the research on the influence of political connections on RPT was carried out by Santosa and Nugrahanti (2022) who stated that political connections positively affect RPT. These results are supported by research conducted by Daresta and Suryani (2022) that political connections can detect fraud in financial statements. The results of the study (Kesaulya et al., (2023) stated that the board of directors and the board of commissioners, who are politically connected, do not affect RPT.

Due to the inconsistent study results, *the good corporate governance* variable is included to moderate the relationship between family ownership, institutional ownership, and political connections to RPT. RPT research, which includes *corporate governance* variables as moderation variables and political connection variables is still rarely carried out, so this is a novelty of this study.

According to Monks Robert A.G. & Minow Nell (2011), *Corporate Governance* describes the relationship between various parties in determining the direction and performance of the company. Initially, this concept was limited to the interaction between shareholders, the board of commissioners, and management. However, as time progresses, more groups show interest in the company, therefore *Corporate Governance* aims to balance all these interests. Cadbury (1992) defines *Corporate Governance* as a system that manages and controls the company. As a system, *Corporate Governance* requires a variety of components, including corporate law, securities law, trade regulations, accounting standards, bankruptcy law, competition law, and important court rulings related to indemnity. In addition, there are market institutions and their practices, good corporate management guidelines, and mechanisms to meet the expectations of minority shareholders (Lukviarman, 2004).

Several studies on the influence of corporate governance on RPT, such as those conducted by Azim et al., (2018), Diyanti et al. (2013), Pratista (2018), Pebri et al. (2020) show that *Corporate*

Governance affects RPT. Corporate governance mechanisms can reduce opportunistic behavior in management (Wiyadi et al., 2019). Ultimately, good governance will improve the company's performance (Trisnawati et al., 2019). This study aims to test the influence of *Corporate Governance* in moderating the relationship between family ownership, institutional ownership, and political connections to RPT.

LITERATURE REVIEW AND HYPOTHESIS

Jensen and Meckling (1976) developed the theory of agency that separates the ownership and control of a company. The separation of ownership between the agent and the control (principal) in an organization has an impact on the agency conflict in the form of an agreement/contract between the owner (principal) and the manager (agent). Owners hire managers to carry out company management activities on their behalf by delegating decision-making to agents.

As the manager of the company, the manager knows more about the company's information and future prospects than the owner (shareholder). Therefore, it is the responsibility of the manager as the manager to signal the owner about the state of the company. The signal is in the form of the publication of accounting information, such as financial statements.

Structure Corporate ownership determines the nature of agency problems, which can occur between managers and shareholders or between controlling and minority shareholders. A family company typically has a majority of shares owned by the founder, the founding family, or an institution managed by a member of the founding family, known as a pyramidal ownership structure. This majority ownership creates a unique agency conflict dynamic within family companies, where more significant conflicts arise between majority and minority shareholders (Chen et al., 2005). "ISSN": "0927538X", "abstract": "We analyze a sample of 412 publicly listed Hong Kong firms during 1995-1998 in order to answer three questions. Does concentrated family ownership affect firm operating performance and value? Does it affect dividend policy? What is the impact of corporate governance on performance, value,

and dividend payouts? Our results do not show a positive relationship between family ownership and return on assets, return on equity or the market-to-book ratio. In addition, we find a negative relationship between CEO duality and performance (where CEO duality is much more likely in family-controlled firms).

According to Mohammed (2019), family companies more often face type II agency problems, conflicts between controlling and minority shareholders, compared to type I agency problems involving principals and agents. In this context, controlling shareholders tend to take advantage of related party transactions (RPTs) to transfer the company's profits and wealth for their interests, as they have a strong incentive to maximize their profits at the expense of minority shareholders, known as expropriation.

Hu et al. (2012) the size of CBRP transactions is positively associated with concentrated ownership, CEO (chief executive officer) stated that the existence of information widely owned by family ownership as a controlling shareholder becomes a means to exploit company resources that can harm minority shareholders due to *Tunneling* which is carried out by the controlling shareholder. Pound (1988) states that RPTs can degrade the company's performance, and those performed by family companies are more likely to be used opportunistically to take over minority shareholders. From the explanation above, the following hypothesis is formulated:

H1: Family ownership affects *related party transactions*.

Institutional ownership in a company can be owned by financial institutions (banks, insurance companies). Pound (1988) proposes two possibilities that arise due to institutional ownership. The first is the Efficient Monitoring Hypothesis. This hypothesis suggests that individual investors or insiders with low shareholding (minority shareholders) tend to leverage the voting power of majority institutional shareholders to oversee management performance. It reduces the likelihood of related party transactions occurring (*related party transactions*).

The second alternative is the Conflict of Interest Hypothesis, which contradicts the first hypothesis. In this case, the majority of institutional investors

tend to reduce conflicts by forging compromises and alliances with management, thereby increasing the likelihood of related-party transactions.

Based on the research conducted by Putri & Nasir (2006) institutional ownership, risk, debt policy and dividend policy which are included as strategic variables in company's policy making of Indonesian's model market. Identification is done to examine determined variabels which related to agency theory. Investment opportunity set, free cash flow, size, profit, fixed asset, investment and value of equity is used as determined variables (exogenous variables regarding institutional ownership and related party transactions, it was found that institutional ownership affects management behavior. The high debt policy makes the company supervised by debtholders. With stricter supervision, managers tend to act according to the interests of *debtholders* and *shareholders*. Therefore, the volume of related party transactions, including debts and receivables, is reduced due to the supervision carried out by the institution, because such transactions are often contrary to the interests of the institutional parties. Based on this explanation, the hypothesis can be formulated as follows.

H2: Institutional ownership affects *related party transactions*.

Political connections occur when there are members of the board of directors or commissioners who have or are currently serving in the government, military, or police (Wulandari, 2018). Political relations with the government give companies special treatment so they feel protected by the government, including in cases of adverse actions such as fraud. Political connections can also facilitate companies in conducting related party transactions more securely (Qian & Yeung, 2011). Companies involved in related party transactions with controlling shareholders tend to tunnel and take advantage of the transaction (Chen et al., 2005) "ISSN": "0927538X", "abstract": "We analyze a sample of 412 publicly listed Hong Kong firms during 1995-1998 in order to answer three questions. Does concentrated family ownership affect firm operating performance and value? Does it affect dividend policy? What is the impact of corporate governance on performance, value, and dividend payouts? Our results do not show a positive relationship between family ownership and

return on assets, return on equity or the market-to-book ratio. In addition, we find a negative relationship between CEO duality and performance (where CEO duality is much more likely in family-controlled firms.

Research (Habib et al., 2017) found that there was a positive influence of political connections on related party transactions. Different results were obtained in the research (Nodeh & Gerayli, 2020), showing that political connections have a negative effect on the transactions of related parties. However, research (Abdullatif et al., 2019) in Jordan found that there was no influence between political connections and related party transactions. Based on the explanation above, the following hypothesis can be formulated:

H3: Political connections affect *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 policies to determine the direction of the company, causing a conflict of interest between controlling shareholders (majority) and non-controlling shareholders (minority).

(Diyanti et al., 2013) Researching Corporate governance with a CGI index that moderates family ownership with RPT has the result that corporate governance reduces the motive of controlling shareholder exploitation carried out through related party transactions. Agnihotri & Bhattacharya (2019) show that the concentration of ownership negatively moderates the impact of governance variables with RPT.

It was found by Azim et al. (2018) that corporate governance is weaker in Pakistani family companies, where major shareholders take over resources through RPTs and have a negative tendency for the takeover of resources of family-owned companies. (Malawat et al., 2018), which examine the influence of corporate governance moderation in conjunction with the *Pyramid of Structure* and the RPT concludes that the implementation of corporate governance has not been fully implemented by the company because corporate governance is more dominated by institutions and *legal-formal* by the family. It causes a strong incentive for the family members who serve as commissioners or directors

to influence the decisions of the independent board of commissioners in the company. Based on the explanation above, the formulation of the hypothesis in this study is as follows:

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

Institutional ownership can be seen from the percentage of share ownership from financial institutions in a company to the total outstanding shares (Putri & Nasir, 2006) institutional ownership, risk, debt policy and dividend policy which are included as strategic variables in company's policy making of Indonesian's model market. Identification is done to examine determined variabels which related to agency theory. Investment opportunity set, free cash flow, size, profit, fixed asset, investment and value of equity is used as determined variables (exogenous variables. Pound (1988) stated that the majority of institutional investors tend to reduce conflicts by making compromises and alliances with the management. Thus, the possibility of *Related Party Transaction* remains open. Several studies on the influence of institutional ownership on RPT show mixed results. Research (Pound, 1988; Alhadab et al., 2020) stated that institutional ownership affects temporary RPT (Wijaya & Suprasto, 2015); (Supatmi et al., 2019) our results demonstrate that account receivables-related RPTs have a positive effect on banks' profitability and its market performance (Tobin's Q institutional ownership has no effect on RPT.

Based on the inconsistency of the results of the above study, corporate governance variables are included in this study as moderation variables to see the influence of these variables in the relationship between shared ownership families and RPT. One way to mitigate agency problems is to implement a good and effective corporate governance system. Some studies related to the influence of *good corporate governance* on *Related Party Transaction* (Diyanti et al., 2013 Pebri et al., 2020) state that *good corporate governance* affects RPT. A company with institutional ownership and *good corporate governance* will have more effective monitoring so that the negative impact of RPT tends to be reduced.

Based on the explanation above, the following hypothesis can be formulated:

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

Political connections can be used by companies to carry out tunneling activities or opportunistic behavior. Tunneling activities refer to the transfer of assets and profits from a company to meet the interests of the majority shareholder (Johnson et al., 2000). This action is often detrimental to minority shareholders because majority shareholders tend to make decisions that benefit themselves without paying attention to the welfare of minority shareholders (Sukarmanto et al., 2020). Companies that have political connections have the potential to tunnel for the benefit of the majority shareholders with the support of their political connections. Some relevant research, such as those conducted by Habib et al. (2017) and Nodeh & Gerayli (2020), indicates that political connections affect transactions with related parties. Moreover, Wang et al. (2019) stated that political connections affect the ability to detect fraud in financial statements.

To prevent *tunneling* carried out by companies, a good GCG is needed. Therefore, this study includes GCG variables influencing the relationship between political connections and RPT. Companies with good GCG will be able to prevent management behavior that has political connections to conduct RPT transactions that can harm minority shareholders. Based on the explanation above, the following hypothesis can be formulated:



H6: *Good corporate governance* moderates the relationship between political connections and *related party transactions*.

RESEARCH METHODS

This type of research is quantitative research. The research data used is in the form of audited financial statements from mining companies listed on the IDX from 2017 to 2022. The data required comes from the official website of the Indonesia Stock Exchange, namely, *www.idx.co.id*. The research sample was taken using *purposive sampling* from 36 mining companies, and 211 financial report data were obtained. The sample criteria include:

1. A complete annual report of mining sector companies from 2017 to 2022 was obtained through the official website of each company and on the *official website* of the Indonesia Stock Exchange (*www.idx.co.id*.)
2. Companies that provide information related to research variables in their annual reports.

In this study, the *Related Party Transaction* (RPT) was used as the dependent variable. The RPT is calculated by adding up the sales RPT, the purchase RPT, the debt RPT, and the receivables RPT divided by total assets.

Meanwhile, the independent variables used were family ownership, institutional ownership, and political connections. Family ownership indicates the ownership of shares owned by the family, or the family has an important role in the management of the company. Family ownership in this study is measured by the percentage of shares owned by family members.

Institutional ownership is the ownership of shares by the government, companies or insurers, foreign investors, or banks with a primary interest in the investment made. Institutional ownership is measured by the percentage of shares owned by the institution.

In the variable of political connection, a company is considered to have political connections if there is at least one high-ranking official, such as a member of the board of directors, board of commissioners, company secretary, or majority shareholder, who has served as president, regent, minister, member of parliament, or member of a political party, or has a close family relationship with a politician or individual with a military background (Murhadi, 2021). Political connections are measured using a dummy variable, with a value of 1 if the company's commissioners, directors,

secretary, or majority shareholder has political connections and a value of 0 if not.

The moderation variable of this study is *good corporate governance*, which is measured using an index developed by Hermawan (2011) the quality of the monitoring function depends on how effective the board and the audit committee perform their duties. This study examines how the effectiveness of the board of commissioners and audit committee in a two-tier board structure influences the informativeness of earnings which is measured by Earnings Response Coefficient (ERC because it is more detailed and more suitable to be applied to companies in Indonesia. The Ancella Index not only measures the effectiveness of the board of commissioners and directors, consisting of 17 question items, but also measures how effective the audit committee function is as a supervisory function consisting of 11 question items. Each answer is given a score of 2, 1, and 0.

The research data used panel data processed with *Eviews* version 9 software. The data panel combines *cross-section* and *time series data* to make the number of observations used to estimate population parameters more significant. The more samples used in the study, the more accurate the research results will be. The regression model test uses the following equation:

$$RPT = \alpha + \beta_1 FO + \beta_2 IO + \beta_3 PC + e$$

$$RPT = \alpha + \beta_1 FO + \beta_2 IO + \beta_3 PC + \beta_4 GCG + \beta_5 FO * GCG + \beta_6 IO * GCG + \beta_7 PC * GCG + e$$

Information:

RPT	: <i>Related Party Transaction</i>
α	: Constant
$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5, \beta_6$	: Regression coefficient
FO	: <i>Family Ownership</i>
IO	: <i>Institutional Ownership</i>
PC	: <i>Political Connections</i>
GCG	: <i>Good Corporate Governance</i>
FO*GCG	: <i>The Interaction of Family Ownership with Good Corporate Governance</i>
IO*GCG	: <i>Institutional Ownership Interaction with Good Corporate Governance</i>
PC*GCG	: <i>The Interaction of Political Connections with Good Corporate Governance</i>
E	: <i>Error</i>

RESULTS AND DISCUSSION

The research data source used financial statements from 36 mining companies listed on the Indonesia Stock Exchange (IDX) for the 2017-2022 period and obtained an initial sample data of 216. Furthermore, by using *the purposive sampling* technique and disposing of *outlier data*, the final sample data of 211 was obtained. The following Table 1 shows the number of research sample data based on predetermined criteria.

Table 1. Research Sample Data

Population: Number of mining companies for the period 2017-2022		216
1	Sample Selection	
2	The number of mining companies for the 2017-2022 period that did not present complete financial statements (not found).	(0)
3	Companies that do not provide information related to research variables in their annual reports.	(0)
4	Data <i>outlier</i>	(5)
5	Number of final samples used	211

Table 2. Descriptive Statistics

Variable	Mean	Maximum	Minimum	Standard deviation
RPT	0.052	0.782	0.000	0.101
FO	0.334	0.910	0.000	0.276
IO	0.560	1.009	0.000	0.223
PC	0.455	1.000	0.000	0.499
GCG	72.076	83.000	55.000	6.959
FO*GCG	23.639	62.804	0.000	20.006
IO*GCG	40.582	79.925	0.000	16.633
PC*GCG	0.017	0.281	0.000	0.043

Table 2 presents descriptive statistics for the variables in the study. Related party transactions (RPT) showed an average of 0.052, with maximum and minimum values of 0.782 and 0, respectively. The average value of 0.052 indicates that the rate of related

party transactions that occur is quite low, around 5%.

Family ownership (FO) has an average of 0.334, with maximum and minimum values of 0.910 and 0, respectively, considering that there are companies that do not have family ownership. The average family ownership of 33% is relatively high, in accordance with PSAK No. 15, which states that majority ownership occurs if the shares owned exceed 20%, while minority ownership occurs if it is less than 20%. With an average share ownership of 33%, this indicates that the family or founder of the company still holds a dominance in the percentage of share ownership in Indonesia.

Institutional ownership (IO) has an average value of 0.560 with a maximum and minimum value of 1.009 and 0, respectively. Institutional ownership with an average value of 56% is high; this indicates that the companies in the sample are 56% owned by other institutions.

Political connections (PC) have an average score of 0.455 with maximum and minimum values of 1,000 and 0, respectively. The average political connection of mining companies of 50% indicates that half of the company's board of commissioners, board of directors, and shareholders have political relations in both the government and political parties.

Corporate governance (GCG) has an average score of 72,076, with a maximum and minimum score of 83 and 55, respectively. This indicates that the average corporate governance in the mining sector in Indonesia is 72%, which indicates that the company's governance practices are in the good category.

Before hypothesis testing, classical assumption tests were carried out, including normality tests, autocorrelation tests, multicollinearity tests, and heteroscedasticity tests. The results of the classical assumption test found that the research data passed all tests of normality, autocorrelation, multicollinearity, and heteroscedasticity. Furthermore, hypothesis testing using *Moderated Regression Analysis* is presented in Table 3 as follows:

Table 3. *Moderated Regression Analysis*

Variable	RPT	
	Model 1	Model 2
C	0.0000	0.0025
FO	0.0110**	0.1468
IO	0.0000*	0.0000*
PC	0.9778	0.0138**
FO*GCG		0.1355
IO*GCG		0.0000*
PC*GCG		0.0000*
Adjusted R Squared	0.109100	0.289905
F statistic	9.572.256	13.247.860
Probability	0.000006	0.000000
N (Observations)	211	211

Remarks: * and ** show significance of 1% and 5% respectively; RPT = Transactions of debt-related parties, receivables, sales and purchases; FO = Percentage of family share ownership; IO = Percentage of institutional shareholding; PC = Board of directors, board of commissioners, and shareholders who have political connections; GCG = Ancella Index (2011)

Table 3 shows the results of panel data regression testing using a research model with *random effect*. The first hypothesis (H1) that family ownership affects related party transactions is accepted. The results of this study are consistent with the research conducted by Azim et al. (2018) and Ernawati & Aryani (2019).

Family ownership has been proven to increase the volume of related party transactions. When the controlling shareholder comes from the family, the motivation to carry out related party transactions is stronger. This is understandable because if several companies (groups of companies) are under the control of one family, the family's wealth is distributed across various companies. This situation allows expropriation to occur through related party transactions (Diyanti et al., 2013). Family-run companies tend to have low motivation to disclose related party transactions. These findings indicate that families as controlling shareholders utilize related party transactions for their benefit (Ernawati & Aryani, 2019).

The results of the study support the second hypothesis (H2), which states that institutional ownership affects related party transactions (RPT). It indicates that companies with shares owned by institutions tend to be more effective in preventing

management from conducting unnatural transactions. The presence of institutional investors serves as a good supervisory mechanism in strategic decision-making, so that managers are not easily influenced by profit manipulation and the use of company assets becomes more efficient. Institutional ownership creates a system of control and oversight that encourages managers to focus more on the company's performance, thereby reducing selfish behavior. As expressed by Zahro (2018), the percentage of institutional ownership in the company impacts the preparation of annual financial statements that are more accrual, in line with management objectives.

The results of this study support the research conducted by Alhadab et al. (2020) that indicates that institutional ownership affects *Related Party Transaction*. The results of different studies by Wijaya & Suprasto (2015) and Supatmi et al. (2019) our results demonstrate that account receivables-related RPTs have a positive effect on banks' profitability and its market performance (Tobin's Q found that institutional ownership did not affect *related party transaction*).

The results of the study indicate that the third hypothesis (H3) is accepted and that political connections affect RPT. The results of this test support the research conducted by Habib et al. (2017) and Rahman & Nugrahanti (2021) who found that political connections have an effect on RPT. Habib et al. (2017) stated that the existence of political connections can be used to carry out tunneling practices through related party transactions carried out by majority shareholders against minority shareholders. Rahman & Nugrahanti (2021) state that companies with political connections can take over through related party transactions because they have legal protection from these political connections.

The results of the study indicate that the fourth hypothesis (H4) is rejected, which is that *good corporate governance* does not moderate the relationship between family ownership and RPT. This may be due to the fact that companies in Indonesia are only limited to following the applicable rules related to the existence of GCG. However, their implementation is still not effective because the role of the family is still massive. Companies should need to implement good governance because it will prevent the occurrence

of exploitation from companies whose shares are concentrated in the family in the form of related transactions. Good corporate governance will have an effective monitoring process so that minority shareholders will be protected from unfavorable actions from majority shareholders.

The results of the research are in line with the research conducted by Malawat et al. (2018), which examines the influence of corporate governance moderation in relation to the *Pyramid of Structure* and RPT. The *ASEAN corporate governance scorecard*, developed by the OECD, concluded that the application of *Corporate Governance* has not been fully implemented by the company because corporate governance is more dominated by *legal-formal* institutions by the family. This causes a strong incentive for the family who serves as commissioners or directors to influence the decisions of the independent board of commissioners in the company.

The results of this study are not in accordance with the research (Dyanty et al., 2019), which states that corporate governance can reduce the motive of expropriation of controlling shareholders carried out through related party transactions. Similarly, they differ from the results of the study conducted by Agnihotri & Bhattacharya (2019) which suggest that corporate governance moderates family ownership with RPT.

The results of the study show that the fifth hypothesis (H5) is accepted that *good corporate governance* moderates the relationship between institutional ownership and RPT. These results show that the governance implemented by the company can prevent opportunistic behavior carried out by management to minority shareholders through related transactions. In this case, the interests of the majority institutional shareholders are different from those of the management. Institutional shareholders are more effective in supervising the management because they have good institutional tools.

The results of this study support the research (Alhadab et al. 2020) that institutional ownership affects RPT. Meanwhile, the research (Diyanti et al., 2013) states that *good corporate governance* affects RPT. Companies with institutional ownership and good GCG quality will have more effective monitoring so that they will be able to reduce the negative impact of RPT.

The results of the study show that the sixth hypothesis (H6) is accepted that good corporate governance mediates the relationship between political connections and RPT. These results are in accordance with the research (Ismail et al., 2022), which shows that companies in Egypt are strongly influenced by boards of directors that have political ties to governance practices in reducing the effects of RPT. Furthermore, (Sari & Putri, 2014) and (Maharti & Nugrahanti, 2022) indicate that a company with good governance can be seen from an independent board of commissioners that can reduce the positive relationship between political connections and profit management practices. This proves that opportunistic behavior in companies with political connections can be minimized with the existence of an independent board of commissioners.

CONCLUSION

This study is aimed at examining the relationship between family ownership, institutional ownership, and political connections to related party transactions, with good corporate governance (GCG) as moderation, in mining companies during the 2017-2022 period. Data analysis shows that the average family ownership in Indonesian mining companies reaches 33.4%. In accordance with PSAK No. 15, investors are considered to have significant influence if they own 20% or more of the voting rights, either directly or indirectly. Thus, it can be concluded that the majority of mining companies in Indonesia are owned by families.

Furthermore, the results of the study indicate that GCG in mining companies in Indonesia cannot affect the relationship between family ownership and related party transactions. *Corporate governance* has not been fully implemented by the company because corporate governance is dominated by *legal-formal* institutions by the family. This causes a strong incentive for family members who serve as commissioners or directors to carry out opportunistic behavior by prioritizing the interests of majority shareholders over minority shareholders.

The results of the study also show that GCG affects the relationship between institutional ownership and political connections to related party transactions. The implementation of GCG will be

more effective in companies whose share ownership is owned by other institutions or companies. This is understandable because institutions usually have the ability to conduct better supervision than individual shareholders. Similarly, GCG can influence companies to prevent opportunistic behavior caused by political connections with the government.

This research has several limitations. First, the focus of this research is only on mining companies in Indonesia. Therefore, further research should explore other corporate sectors in Indonesia to gain broader insights.

Second, future research is expected to use newer and more detailed corporate governance measurements and follow the latest regulations

related to governance, especially in more complex mining companies.

Third, in subsequent studies, it is recommended to conduct an ownership analysis by considering the portion of family ownership, for example, by distinguishing between ownership below 20% and above 20%.

ACKNOWLEDGMENT

This research is funded by DRPTM for the 2024 fiscal year with the Master's Thesis Research scheme. No. SK 007/LL6/PB/AL.04/2024 and Contract No. 196.116/A,3-III/LRI/VI/2024 dated June 14, 2024.

REFERENCE

- Abdullatif, M., Alhadab, M., & Mansour, I. (2019). Determinants of Related Party Transactions in Jordan: Financial and Governance Factors. *AABFJ*, 13(1), 45–75. www.ase.com
- Agnihotri, A., & Bhattacharya, S. (2019). Internationalization, related party transactions, and firm ownership structure: Empirical evidence from an emerging market. *Research in International Business and Finance*, 48, 340–352. <https://doi.org/10.1016/j.ribaf.2019.02.004>
- Alhadab, M., Abdullatif, M., & Mansour, I. (2020). Related party transactions and earnings management in Jordan: The role of ownership structure. *Journal of Financial Reporting and Accounting*, 18(3), 505–531. <https://doi.org/10.1108/JFRA-01-2019-0014>
- Azim, F., Mustapha, M. Z., & Zainir, F. (2018). Impact of Corporate Governance on Related Party Transactions in Family-Owned Firms in Pakistan. *Institutions and Economies*, 10(2), 22–61.
- Cadbury, A. (1992). *Report of the Committee on the Financial Aspects of Corporate Governance*. The Committee and Gee.
- Chen, Z., Cheung, Y. L., Stouraitis, A., & Wong, A. W. S. (2005). Ownership concentration, firm performance, and dividend policy in Hong Kong. *Pacific Basin Finance Journal*, 13(4), 431–449. <https://doi.org/10.1016/j.pacfin.2004.12.001>
- Daresta, T., & Suryani, E. (2022). Pengaruh Faktor-Faktor Kolusi Terhadap Kecurangan Laporan Keuangan. *Journal of Management & Business*, 5(2), 342–351. <https://doi.org/10.37531/sejaman.v5i2.2893>
- Diyanti, V., Utama, S., Rossietta, H., & Veronica, S. (2013). Pengaruh Kepemilikan Pengendali Akhir, Kepemilikan Keluarga serta Praktek Corporate Governance Terhadap Transaksi Pihak Berelasi dan Kualitas Laba. *Simposium Nasional Akuntansi XVI*, I(September), 213–247.
- Dyanty, V., Utama, S., Rossietta, H., & Veronica, S. (2019). *Pengaruh Kepemilikan Pengendalian Akhir Terhadap Transaksi Pihak Berelasi*. 1–26.
- Ernawati, D., & Aryani, Y. A. (2019). Controlling shareholders, audit committee characteristics, and related party transaction disclosure: Evidence from Indonesia. *Jurnal Keuangan dan Perbankan*, 23(1). <https://doi.org/10.26905/jkdp.v23i1.2701>
- Gordon, E. A., Henry, E., & Palia, D. (2004). *Related Party Transactions: Associations with Corporate Governance and Firm Value*. www.sec.gov.
- Habib, A., Muhammadi, A. H., & Jiang, H. (2017). Political Connections and Related Party Transactions: Evidence from Indonesia. *International Journal of Accounting*, 52(1), 45–63. <https://doi.org/10.1016/j.intacc.2017.01.004>
- Hermawan, A. A. (2011). The Influence Of Effective Board Of Commissioners And Audit. In *Asia Pacific Journal of Accounting and Finance* (Vol. 2, Issue 1).
- Hu, S. H., Li, G., Xu, Y. H., & Fan, X. A. (2012). Effects of internal governance factors on cross-border-related party transactions of chinese companies. *Emerging Markets Finance and Trade*, 48(SUPPL. 1), 58–73. <https://doi.org/10.2753/REE1540-496X4801S105>
- Ismail, T. H., El-Deeb, M., & Halim, Y. T. (2022). Do related party transactions affect the relationship between political connections and firm value? Evidence from Egypt. *Future Business Journal*, 8(1). <https://doi.org/10.1186/s43093-022-00123-x>
- Johnson, S., Porta, R. La, Lopez-De-Silanes, F., & Shleifer, A. (2000). *Tunneling*. 90, 22–27.
- Kesaulya, F. A., Putri, W., & Khairunnisa, K. (2023). Pengaruh Koneksi Politik terhadap Tingkat Real Earnings Management di Indonesia. *Perspektif Akuntansi*, 6(1), 1–14. <https://doi.org/10.24246/persi.v6i1.p1-14>
- Lukviarman, N. (2004). Etika Bisnis Tak Berjalan di Indonesia: Ada Apa Dalam Corporate Governance? *Jurnal Siasat Bisnis*, 2(9), 139–156. <https://doi.org/10.20885/jsb.vol2.iss9.art2>

- Maharti, W., & Nugrahanti, Y. W. (2022). Peran Moderasi Corporate Governance dalam Hubungan Koneksi Politik, Kompensasi Bonus dan Manajemen Laba. *E-Jurnal Akuntansi*, 32, 1893–1911. <https://doi.org/10.24843/EJA.2022.v>
- Malawat, F. F., Sutrisno, S., & Subekti, I. (2018). Pyramid of Structure, Pengungkapan Transaksi Pihak Berelasi, dan Tata Kelola Perusahaan : Indikasi Ekspropriasi. *Jurnal Ekonomi Modernisasi*, 14(1), 1–15. <https://doi.org/10.21067/jem.v14i1.2377>
- Mohammed, N. H. (2019). Accounting Analysis Journal Related Party Transactions, Family Firms and Firm Performance Empirical Evidence From Turkey. *Accounting Analysis Journal*, 8(3), 179–183. <https://doi.org/10.15294/aaj.v8i3.36665>
- Monks Robert A.G, & Minow Nell. (2011). *Corporate Governance*.
- Murhadi, W. R. (2021). The influence of corporate governance on firm value: a case study in Indonesian manufacturing industries. *BISMA (Bisnis Dan Manajemen)*, 14(1), 15–26. <https://doi.org/10.26740/bisma.v14n1.p15-26>
- Nodeh, A. J., & Gerayli, M. S. (2020). Political Connections and Related-Party Transactions: Evidence from Iranian Firms. *Advances in Mathematical Finance & Applications*, 5(3), 319–330. <https://doi.org/10.22034/amfa.2019.581375.1154>
- Nuritomo, Utama, S., & Hermawan, A. A. (2020). Family ownership and tax avoidance: An analysis of foreign related party transactions and dividend payments. *International Journal of Business and Society*, 21(2), 643–659. <https://doi.org/10.33736/ijbs.3280.2020>
- Pebri, I. K., Diana, N., & Junaidi. (2020). Pengaruh Good Corporate Governance dan Struktur Kepemilikan Terhadap Tingkat Kepatuhan Pengungkapan Transaksi Berelasi Berdasarkan PSAK No.7 Tentang Pengungkapan Pihak-pihak Berelasi. *E-JRA*, 09(04), 1–17.
- Pound, J. (1988). PROXY CONTESTS AND THE EFFICIENCY OF SHAREHOLDER OVERSIGHT. In *Journal of Financial Economics* (Vol. 20).
- Putri, I. F., & Nasir, M. (2006). Analisis Persamaan Simultan Kepemilikan Manajerial, Kepemilikan Institusional, Risiko, Kebijakan Hutang dan Kebijakan Dividen dalam Perspektif Teori Keagenan. *SNA 9 Padang*, 1–25.
- Qian, M., & Yeung, B. (2011). *Electronic copy available*. <http://ssrn.com/abstract=1719335>at:<https://ssrn.com/abstract=1719335>Electroniccopyavailableat:<http://ssrn.com/abstract=1719335>
- Rahman, A. F., & Nugrahanti, Y. W. (2021). The Influence of Related Party Transaction and Corporate Governance on Firm Value: An Empirical Study in Indonesia*. *Journal of Asian Finance*, 8(6), 223–0233. <https://doi.org/10.13106/jafeb.2021.vol8.no6.0223>
- Santosa, W. A., & Nugrahanti, Y. W. (2022). Apakah Koneksi Politik Meningkatkan Related Party Transaction. *Jurnal Studi Akuntansi Dan Keuangan*, 5(1), 29–48.
- Management. *E-Journal of Accounting, Udayana University*, 94–104.
- Supatmi, Sutrisno, T., Saraswati, E., & Purnomosidhi, B. (2019). The effect of related party transactions on firm performance: The moderating role of political connection in Indonesian banking. *Business: Theory and Practice*, 20, 81–92. <https://doi.org/10.3846/BTP.2019.08>
- Trisnawati, R., Sasongko, N., Wiyadi, & Indrawati, L. (2019). Good Corporate Governance, Corporate Social Responsibility Disclosure, and Firm Value. *International Summit on Science, Technology and Humanity*, 479–489.
- Wang, H. Da, Cho, C. C., & Lin, C. J. (2019). Related party transactions, business relatedness, and firm performance. *Journal of Business Research*, 101, 411–425. <https://doi.org/10.1016/j.jbusres.2019.01.066>
- Wijaya, P. C., & Suprasto, B. (2015). The Effect of the Distribution of Two Tier Boards (Combined Councils) on the Value of Financial Sector Companies. *E-Journal of Accounting*, 12(3), 722–734.

- Wiyadi, W., Trisnawati, R., & Sulistyowati, E. (2019). Corporate Governance and Profit Management Mechanism of the Long Term Discretionary Accrual Model in Public Companies in Indonesia. *Journal of Dayasaing Management*, 21(1), 55–69. <https://doi.org/10.23917/dayasaing.v21i1.7400>
- Zahro, H. (2018). *The Effect of Institutional Ownership on Company Value and Financial Performance as an Intervening Variable*. 1–20.