

# Related Party Transactions Disclosure in Indonesian SOEs

Hastuti Widyaningsih<sup>1</sup>, Didi Achjari<sup>2</sup>, Rusdi Akbar<sup>2</sup>, Fuad Rakhman<sup>2</sup>

<sup>1</sup>Student of Doctoral Program, Faculty of Economics and Business, Universitas Gadjah Mada, Yogyakarta

<sup>2</sup>Accounting Department, Faculty of Economics and Business, Universitas Gadjah Mada, Yogyakarta

Corresponding Email addresses: [hastuti.w@mail.ugm.ac.id](mailto:hastuti.w@mail.ugm.ac.id)

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## Abstract

Government (hereafter BUMN) share ownership are types of share ownership other than family and foreign share ownership in Indonesian companies. This study aims to differentiate related party transactions (hereafter RPTs) size and RPTs disclosure between BUMN and non-BUMN companies. This study used the mean difference test. The result shows that there are differences in RPTs size and RPTs transparency between companies with government ownership and other types of ownership. Companies with government ownership tend to have larger RPTs sizes but smaller transparency compared to companies with other types of ownership.

Keywords: Related party transactions, BUMN, Indonesia

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## INTRODUCTION

PSAK No. 7 governs the disclosure of related party transactions (hereafter RPTs). RPTs are transactions between business entities and management, boards of directors, shareholders, connected firms, and subsidiaries. Group-oriented company characteristics in Indonesia enable companies to conduct RPTs through subsidiaries. Usually, complicated transactions involving businesses and related parties are used to carry out RPTs. Because of this, it can be very challenging for outside parties to identify transactions that might involve fraud. Due to the extremely low level of RPTs disclosures, businesses are unable to demonstrate RPTs clearly, which lead to propping-up and tunneling activities (Wulandari & Setiawan, 2021; Williams & Taylor, 2013). BUMN share ownership are types of share ownership other than family and foreign share ownership in Indonesian companies. This study aims to differentiate RPTs size and RPTs disclosure between BUMN and non-BUMN companies.

According to Wibisono (1985: 403), initially there were three types of family businesses in Indonesia that were managed hereditarily, namely herbal medicine, batik, and kretek companies. Examples are the Nyonya Meneer herbal medicine company; Cap Jago herbal medicine; Air Mancur herbal medicine; Batik Keris batik company; and Dji Sam Soe, Djarum, Bendoel, and Gudang Garam kretek companies. In the late 1970s and early 1980s, a new giant power emerged from private companies, namely the Salim Group. This group dominates the manufacturing sector (steel industry) with protected raw material supply rights, so that it has received attention from business actors in the downstream sector that are affected. Subsequent developments show several examples of group companies in Indonesia, namely Astra, Kramayudha, Soedono Salim Group, Probosutedjo Group, Imora Motor Group, Star Motors Group, and Hasyim Ning Group. In companies in the form of groups there are RPTs. This study aims to differentiate RPTs size and RPTs disclosure between BUMN and non-BUMN companies.

In Indonesia, companies with government share ownership are under the management of the Ministry of SOEs. There are five priorities set for state-owned companies, namely (1) business model innovation, (2) talent development, (3) technological leadership, (4) increasing investment, and (5) economic and social value for Indonesia. Some examples of companies with government

share ownership are Pertamina, which is used to build national economic structures and networks (Wibisono, 1985: 612). Other government-owned companies such as Telkom Indonesia have main activities in the telecommunications and informatics networks. Semen Indonesia is a government-owned company engaged in the cement and building materials processing industry. Several previous studies have examined the influence of family companies. According to Morck and Yeung (2004), family companies employ fewer professional managers, thus encouraging family companies to engage in political rent-seeking. Porta et al. (2000) stated that family companies need control over the company because the family's reputation is needed to increase capital. There is still little research examining the influence of government share ownership on TPB transparency. Cheung et al. (2010) found that differences in types of government share ownership, namely central government and local government share ownership, have different impacts on TPB benefits. Companies with central government share ownership have more benefits than companies with local government share ownership.

## **LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT**

### **Literature Review and Hypothesis Development**

#### **Institutional Background**

Regulation of the Financial Services Authority of the Republic of Indonesia Number 42/POJK.04/2020 concerning Affiliate Transactions and Conflict of Interest Transactions stipulates that public companies are required to disclose affiliate transactions in their annual reports or annual financial statements. The information that must be disclosed by the company is the type of affiliate transaction, the parties to the transaction, the nature of the affiliate relationship, the transaction value, and the board of directors' statement that the affiliate transaction is carried out in accordance with generally accepted business practices. According to the regulation, public companies are required to retain documents related to the implementation of affiliate transactions in accordance with the document retention period stipulated in the provisions of laws and regulations. Public companies that conduct affiliate transactions are required to use an appraiser to determine the fair value of the object of the affiliate transaction and/or the fairness of the transaction and announce the disclosure of information on each affiliate transaction to the public. Law of the Republic of Indonesia Number 14 of 2008 concerning Public Information Disclosure stipulates that all public information is open and can be accessed by every user of public information. The information regulated in the regulation includes financial statements.

#### **Theoretical Background**

Disclosure theory suggests that firms will disclose more information voluntarily if there are capital market incentives and if there is a higher risk of litigation (Diamond and Verrecchia, 1991; Skinner, 1994). SOEs are a form of political connection (Preuss and Königsgruber, 2021). Firms with political connections tend to have a large amount of TPB, but are expected to have lower TPB disclosure. The negative relationship between political connections and TPB disclosure can be explained by political rent extraction, and this negative relationship can occur in countries with high levels of corruption.

Institutional theory, particularly coercive isomorphism, discusses how an organization faces legal and informal limitations from other organizations on which it relies, as well as cultural expectations in the society in which it operates. SOEs must comply with PSAK and POJK regulations in Indonesia to disclose RPTs. The Financial Services Authority of the Republic of Indonesia Regulation No. 42/POJK.04/2020 on Affiliate Transactions and Conflict of Interest Transactions requires public companies to disclose affiliate transactions in their annual reports or financial statements. The disclosure requirements include the type of affiliate transaction, the parties involved, the nature of the relationship, the transaction value, and a statement from the board of directors verifying that the affiliate transaction is consistent with established business practices.

### **Differences in the average number of RPTs size between BUMN companies and non-BUMN companies.**

Using corporate data in China, Lo et al. (2010) argued that the tunneling effect increases with increasing government shareholding. Shan (2013) tested the relationship between government shareholding and tunneling and presented evidence that government shareholding affects tunneling activity. The existence of government ties increases related party transactions in state-owned enterprises because state-owned enterprises have ties with other state-owned enterprises. It is assumed that state-owned enterprises will have a higher average size of related party transactions than non-state-owned enterprises.

H1: The average size of RPTs disclosed by BUMN is higher than that of non-BUMN

### **Differences in the average number of RPTs items between BUMN companies and non-BUMN companies.**

Companies with government share ownership are examples of companies with concentrated share ownership without rights to cash flow and corporate objectives that are detrimental to society. From this perspective, companies with government stock ownership can be viewed as inefficient companies (Shleifer & Vishny, 1997) and have worse performance than private companies (Boateng et al., 2017). Shan (2013) stated that in government companies, the public owns part of the company's share through state ownership of the company, but regulatory rights lie with the management ranks who have power.

The political connections held by state-owned companies are greater than those of private companies (Li et al., 2023). The government has the right to elect the board of commissioners and board of directors of all state-owned companies (Kato & Long, 2011), causing state-owned companies to have greater political connections than private companies (Li et al., 2023). It is suspected that state-owned companies will disclose a lower number of RPTs items compared to non-state-owned companies.

H2: The average RPTs disclosed by BUMN is higher than that of non-BUMN

## **METHODS**

### **Difference Testing**

To test Hypothesis 1 and Hypothesis 2, the independent sample t-test method is used to differentiate disclosure items and RPTs sizes between companies with government share ownership and other types of share ownership. With a variable significance value  $<0.01$ , the hypothesis is accepted at a significance level of 0.01. With a variable significance value  $<0.05$ , the hypothesis is accepted at a significance level of 0.05. With a variable significance  $<0.10$ , the hypothesis is accepted at a significance level of 0.10. Before conducting a difference test, a normality test and a homogeneity test are first carried out on the data.

### **Sample Selection and Data Collection**

The sample includes 11 BUMN companies and 195 non-BUMN companies listed on the Indonesian Stock Exchange from 2017 to 2021 that disclosed RPTs in the financial statement. This data was resulting in a final sample of 206 firms with 1,030 observation. The sample used in this study is consistent with previous studies, focused on non-financial institutions (Habib et al., 2017; Bansal & Thenmozhi, 2020; Bona-Sánchez et al., 2017; Chen et al., 2020; Fooladi & Farhadi, 2019). Table 1 explains firm-year observation.

Financial data was collected from the Osiris database. The data on the RPTs size and RPTs disclosure are collected from audited financial reports, which are taken from the Indonesia Stock Exchange website. This research uses Ms Excel to process the data.

**Table 1.** Summary of firm-year observation

BUMN companies listed in BEI for the year 2017-2021	11
Non-BUMN companies listed in BEI for the year 2017-2021	195
Firms with complete data	206
Total data used (206 x 5 years)	1,030

## RESULT AND DISCUSSION

### A Difference Test between BUMN and non-BUMN companies in RPTs size

Table 2 shows the results of the mean difference tests conducted on two groups in the sample: State Owned Enterprises (SOEs) and non-SOEs. The tests were performed for two indicators: RPTs size and RPTs disclosure. The results indicate significant differences between SOEs and non-SOEs (p-value < 0.001) in terms of RPTs size. Additionally, there are significant differences between SOEs and non-SOEs (p-value < 0.001) in terms of RPTs disclosure. The result shows that:

- The finding provides evidence that SOEs have more RPTs size than non-SOEs.
- Despite having larger RPTs size, SOEs tend to disclose fewer points of RPTs compared to non-SOEs.
- The practice of reflecting RPTs through higher levels of RPTs disclosure is important for all companies, regardless they are SOEs or non-SOEs.

**Table 2.** Difference of mean test – RPTs size and RPTs disclosure

	Means		Statistics		
	BUMN (N= 55)	non-BUMN (N= 975)	t Stat.	t Critical	p. Value
RPTs Size	0.955	0.278	-5.033	2	0.000
RPTs Disclosure	0.454	0.527	5.220	1.999	0.000

### A Difference Test between BUMN and non-BUMN companies in RPTs Disclosure

Table 3 shows the results of the mean difference tests conducted on two groups in the sample: State Owned Enterprises (SOEs) and non-SOEs. The tests were performed for one indicator: political connection. The results indicate significant differences between SOEs and non-SOEs (p-value < 0.001) in terms of political connection. The result shows that:

- The finding provides evidence that SOEs have more political connection in the position of supervisory board than non-SOEs.
- The practice of reflecting that it is important for all companies to have a board of commissioner with political connection, regardless they are SOEs or non-SOEs.

**Table 3.** Difference of mean test – political connection

	Means		Statistics		
	SOEs (N= 55)	Non-SOEs (N= 975)	t Stat.	t Critical	p. Value
Political connection	0.706	0.164	-16.172	1.671	0.000

## CONCLUSION

The mean difference test shows that there are differences in RPTs size and RPTs transparency between companies with government ownership and other types of ownership. Companies with government ownership tend to have larger RPTs sizes but smaller transparency compared to companies with other types of ownership.

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