

# The Effects of Family Ownership and Good Corporate Governance on Related Party Transactions

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## ABSTRACT

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This study investigates the impact of family ownership, independent commissioners, and ultimate beneficiary ownership (UBO) disclosure on non-business-related party transactions (RPTs) in Indonesian publicly listed firms. Using a sample of 351 firms from the Indonesian Stock Exchange between 2017 and 2022, we find that family-owned firms engage more extensively in non-business RPTs, suggesting potential expropriation risks. The presence of independent commissioners is found to be not significant in mitigating the non-business RPTs whilst UBO disclosure evidently mitigates such transactions, highlighting the governance role of transparency. Additionally, we explore whether economic crises—proxied by the COVID-19 pandemic—increase non-business RPTs. Our analysis reveals a decrease in significance related to the pandemic on the use of non-business RPTs by family-owned businesses through subsample tests. These findings contribute to the literature on corporate governance and RPTs, particularly in emerging markets with concentrated ownership structures.

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Penelitian ini menginvestigasi pengaruh kepemilikan keluarga, komisaris independen, dan pengungkapan *ultimate beneficiary ownership* (UBO) terhadap transaksi pihak berelasi (related party transactions/RPTs) non-bisnis pada perusahaan publik yang terdaftar di Bursa Efek Indonesia. Dengan menggunakan sampel 351 perusahaan dari Bursa Efek Indonesia pada periode 2017–2022, kami menemukan bahwa perusahaan dengan kepemilikan keluarga lebih banyak melakukan RPTs non-bisnis, yang mengindikasikan risiko ekspropriasi. Keberadaan komisaris independen ditemukan kurang signifikan dalam memitigasi RPTs non-bisnis sedangkan pengungkapan UBO dibuktikan dapat mengurangi transaksi semacam ini, menegaskan peran tata kelola perusahaan melalui transparansi. Selain itu, kami meneliti apakah krisis ekonomi—yang diproksikan dengan pandemi COVID-19—meningkatkan RPTs non-bisnis. Analisis kami menunjukkan dampak signifikan dari pandemi, dengan pengujian subsampel lebih lanjut mendukung temuan bahwa RPTs non-bisnis perusahaan keluarga cenderung menurun selama krisis. Temuan ini berkontribusi pada literatur mengenai tata kelola perusahaan dan RPTs, khususnya di pasar berkembang dengan struktur kepemilikan yang terkonsentrasi.

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## INTRODUCTION

We examine the effects of family ownership and good corporate governance on non-business-related party transactions (RPTs). We specifically investigate whether family ownership exacerbates the use of non-business RPTs, and the impact of ultimate beneficiary ownership (UBO) disclosure and independent commissioners in preventing and minimizing the occurrence of non-business RPTs. We also conduct additional testing to gain evidence whether our findings are consistent with the suggestions of (non-business) RPTs being more frequently used in the face of economic crises, as indicated with COVID-19 Pandemic. We focus mainly on the use of non-business RPTs due to its mostly detrimental and opportunistic nature in alignment with previous research's arguments (Kohlbeck and Mayhew, 2017; Jiang Lee, and Yue, 2010).

Related party transactions as regulated under IAS 24 (International Accounting Standards Board, 2009) are commonly used in businesses worldwide (Kohlbeck and Mayhew, 2017), as it serves as an efficient tool for resource allocation and cost reduction in business-related activities (Jian and Wong, 2010; Chen, Wang, and Li, 2012). However, even though RPTs may have legitimate business purposes, their non-arm's length nature raises governance concerns, particularly the principal-principal (PP) conflict—a Type II agency problem where controlling shareholders (majority) exploit RPTs at the expense of minority shareholders—as it may enable wealth transfers and/or be used to manipulate the financial statements (Young et al., 2008; Financial Accounting Standards Board, 1982; Kohlbeck and Mayhew, 2017). The Organisation for Economic Co-operation and Development (OECD) also addresses its concerns regarding the opportunistic potential of RPTs and its detrimental impacts particularly when conducted by controlling shareholders, as it may

pose as a form of expropriation of minority shareholders' interests (OECD, 2012).

Prior studies conducted by Kohlbeck and Mayhew (2010; 2017) further highlight the dual nature of RPTs by separating it into 2 categories: business (sales and purchases associated with the core activities of the company) and non-business related party transactions.

Business RPTs are not always detrimental in nature, for example, as evidenced by Kohlbeck and Mayhew (2010) who found that Business RPTs do not correlate with a decline in firm value. However, Business RPTs may also be used opportunistically, as documented by Jian and Wong (2010) who found that abnormal sales RPTs are being used in Chinese listed firms to prop up earnings. In contrast, the use of non-business RPTs is mostly detrimental in nature, both to the company and minority shareholders. Kohlbeck and Mayhew (2017) found that Tone (non-business) RPTs are associated with financial restatements, indicating that such RPTs may serve as warning signs for a higher likelihood of material misstatements. A study by Jiang et al. (2010) found that inter-corporate loans typically reported as "Other Receivables" (OREC) are frequently used by controlling shareholders in Chinese listed firms to siphon assets out of the company.

This study will primarily focus on non-business RPTs, particularly inter-corporate related party loans, as they are often associated with detrimental and opportunistic behavior, consistent with the findings of Jiang et al. (2010). In our analysis, we focus on the association of family ownership, ultimate beneficiary ownership (UBO) disclosure and the proportion of independent commissioners in the board with how intensively non-business (loans) RPTs are used.

To provide evidence on this study, Indonesia is chosen due to its distinct characteristics that may make it susceptible to PP

conflict and expropriation of minority shareholders through non-business RPTs. Firstly, Indonesia's listed firms generally have a high concentrated ownership, where the presence of a dominant shareholder is common (Purkayastha, S., Veliyath, R., and George, R., 2022; Salim, Lioe, Harianto, and Adelina, 2022). Secondly, family-owned businesses dominate the economic landscape in Indonesia, accounting for a significant portion of the country's private sector (PwC, 2014). The prevalence of these businesses, combined with a regulatory environment that offers limited oversight and weak enforcement of RPT-related laws, creates a high-risk environment for opportunistic behaviour (OECD, 2013; Peraturan Otoritas Jasa Keuangan, 2014). Such as, the lack of stringent regulations and penalties for non-business-related RPTs allows controlling shareholders to engage in expropriation with minimal consequences (Djankov et al., 2008; Habib, Muhammadi, and Jiang, 2017). These attributes increase the susceptibility of minority shareholders to wealth expropriation via opportunistic non-business RPTs initiated by dominant shareholders.

While extensive research has examined controlling shareholders' opportunistic use of RPTs, the specific impact of family-dominated ownership structures remains underexplored. Prior study held by Kohlbeck, Lee, Mayhew, and Salas (2023) found evidence that founder-led family firms are more inclined to engage in RPTs, and their valuation premium diminishes when these firms report RPTs, particularly those deemed opportunistic (non-business RPTs). Liew, Arfan and Devi (2015) also found similar evidence, where expropriation through the use of RPTs are more significant in family-owned firms. It is essential to highlight that these prior studies have employed varying measures for RPTs, ranging from disclosed transaction values (Liew et al., 2015) to binary indicators of RPT existence (Kohlbeck et al., 2023). Given these

methodological differences, this study seeks to examine whether similar findings hold when using related party other receivables per total assets (RPORECTA) as an alternative proxy for non-business RPTs, replicating Jiang et al. (2010). This approach may provide further validation of prior results while addressing potential measurement inconsistencies in the literature. Thus, based on these prior studies, we predict that family-owned firms will engage in more non-business RPTs, posing as a tool by controlling families to abuse their rights and gain private benefits. This notion also aligns with OECD's concern that RPTs can be used opportunistically by controlling shareholders to expropriate minority interests, highlighting the need for strong corporate governance mechanisms (OECD, 2012).

OECD acknowledges that RPTs are a normal part of business operations and may serve legitimate business purposes, such as facilitating efficient resource allocation and cost reduction. However, OECD also highlights the potential for RPTs to be used opportunistically by controlling shareholders to expropriate minority shareholders, particularly in environments with weak regulatory oversight. While IAS 24 (Indonesia's PSAK 224) provides a framework for disclosing RPTs, OECD mentioned how it is not sufficient on its own to protect minority shareholders' interests or prevent opportunistic RPTs. Thus, accentuating the necessity of effective corporate governance mechanisms (OECD, 2012). Prior studies have investigated the impacts of various corporate governance mechanisms in the use of RPTs. Kohlbeck et al. (2023) found significant negative correlation between Board Independence and RPTs, and no significant correlation between compensation committee Independence with regards to RPTs. Balsam, Gifford, and Puthenpurackal (2017) found that CEO compensation in pre-2006 is positively correlated with outside director RPTs, suggesting

weak governance and its correlation with exploitation through outside director RPTs. Li (2021) investigates and found that a majority-of-minority shareholder mechanism helps in minimizing expropriation of minority shareholders through RPTs. Using corporate governance index (CGI), Yeh, Shu, and Su (2012) found that good corporate governance mechanisms are effective in constraining and minimising the use of RPTs, consistent in different types of RPTs (RPT Sales, RPT lending and guarantee, and RPT borrowings). Utama and Utama (2014) using CG scorecards also found significant negative correlation, however, only towards RPT Loans. In this study, we will test only two factors of corporate governance, consisted in the Corporate Governance Index based on OECD G20/2023, to contribute to existing literature with regards to its impacts towards non-business RPTs as proxied using ORECTA: proportion of independent commissioners in the board and ultimate beneficiary ownership (UBO) disclosure. In this study, we will test only two factors of corporate governance, consisted in the Corporate Governance Index based on OECD G20/2023, to contribute to existing literature with regards to its impacts towards non-business RPTs as proxied using ORECTA: proportion of independent commissioners in the board and ultimate beneficiary ownership (UBO) disclosure.

While prior research has extensively examined independent commissioners as a governance mechanism to oversee RPTs (Jiang et al., 2010; Yeh et al., 2012; Kohlbeck et al., 2023), their effectiveness remains questionable in weak institutional environments like Indonesia, where lax enforcement and familial dominance often undermine oversight (Jurdant, 2013). Crucially, another gap persists in the literature: the underexplored role of ultimate beneficiary ownership (UBO) disclosure—a component of the OECD G20/2023 Corporate Governance Principles—in deterring opportunistic (non-

business) RPTs. This oversight is particularly striking given Chernykh's (2008) seminal finding that opaque ownership disclosure enables ultimate shareholders to more easily siphon assets out of companies, effectively facilitating expropriation of minority shareholders. Her work empirically demonstrates how transparent UBO disclosure acts as a critical barrier against such abusive practices by making concealed asset transfers far more detectable. UBO disclosure thus complements traditional monitoring by piercing through complex ownership structures, enabling regulators and minority shareholders to scrutinize controlling parties more effectively. This study consequently addresses two key limitations: (1) the conditional efficacy of independent commissioners in weak governance settings, and (2) the neglected potential of UBO transparency as a preventive tool, despite both its formal recognition in global governance frameworks and Chernykh's compelling evidence of its effectiveness in curbing asset diversion. This investigation becomes relevant because while corporate governance mechanisms, like independent boards and UBO disclosures, aim to curb such practices (Salim, Lioe, Harianto, and Adelina, 2022), their effectiveness in family-owned firms—particularly in Indonesia's weak regulatory environment—remains uncertain. (Jurdant, 2013).

In our second analysis, we consider whether the use of non-business RPTs are more prevalent in the face of financial crisis (Covid-19 pandemic), mainly as a propping tool by controlling shareholders. The World Development Report 2022 documents how the pandemic created the most severe global economic contraction in a century, with 90% of countries experiencing GDP declines - surpassing even the Great Depression and 2008 financial crisis (World Bank, 2022). Emerging economies like Indonesia were particularly affected, where only 27% of middle-income countries had

recovered to pre-pandemic income levels by 2021, compared to 40% of advanced economies. This prolonged economic shock created strong incentives for controlling shareholders to engage in expropriation through RPTs as firms faced unprecedented financial pressures.

We analyze this by dividing our sample into pre-pandemic (2017-2019) and pandemic (2020-2022) periods. The World Bank report highlights how the crisis disproportionately impacted vulnerable firms - micro and small enterprises could cover expenses for just 50-53 days compared to 65 days for large firms, while informal sector workers (representing over 80% of employment in comparable emerging markets) faced severe income shocks. These conditions likely exacerbated principal-principal conflicts, as controlling shareholders may have used non-business RPTs to preserve family wealth at minority shareholders' expense (Jian and Wong, 2010; Peng, Wei, and Yang, 2011). The analysis will reveal whether the pandemic's financial stresses intensified tunneling behaviors through RPT channels.

We manually compiled a sample of non-financial firms listed on the Indonesia Stock Exchange (IDX) spanning 2017 to 2022. The final dataset consists of 2,106 firm-year observations across 351 companies. Following the methodology of Jiang et al. (2010), we analyze the data using ordinary least squares (OLS) regression.

In our sample of 351 non-financial public listed firms in Indonesia, we observed that related party "other receivables" often lacked basic financial safeguards—such as guarantees, interest charges, or clear repayment terms—mirroring the findings of Jiang et al. (2010). These characteristics make such transactions particularly susceptible to abuse, as the absence of formal terms allows controlling shareholders to extract value without immediate scrutiny. For instance, firms in our dataset (e.g. MDIA, ENRG, AALI, etc) reported sizable, recurring receivables

to a family-linked entity with no stated due date or collateral, effectively functioning with no obligation for timely repayment and some being interest-free loan. This pattern aligns with the expropriation hypothesis, where non-business RPTs serve as a discreet channel for tunneling (Jiang et al., 2010). The lack of contractual safeguards in these transactions not only facilitates wealth transfer but also provides a clearer empirical measure of expropriation risk, as their economic rationale is often indefensible from a governance perspective. Such anecdotal evidence reinforces the need for stricter disclosure requirements and independent oversight to curb opportunistic related-party lending practices.

Four key findings emerge from our analysis. First, our results corroborate existing literature (Jiang et al., 2010; Young et al., 2008) by demonstrating that family-controlled firms exhibit significantly greater engagement in non-business related party transactions (RPTs), consistent with the expropriation hypothesis. While this pattern remains robust in the pre-pandemic period, we observe attenuated effects post-COVID, potentially reflecting either heightened financial constraints during the pandemic or increased regulatory interventions temporarily limiting tunneling opportunities. Second, in alignment to established findings in developed markets (Kohlbeck et al., 2023; Yeh et al., 2012), we document insignificant governance effects from independent commissioners on non-business RPT practices across both periods. Thus, suggesting that the existence of independent oversight is not enough to mitigate self-dealing by scrutinizing transactions that unduly favor controlling shareholders. It supports the view that independent oversight is subjected to institutional governance settings in a country. Third, Ultimate Beneficiary Ownership (UBO) disclosure maintains a statistically significant negative association with non-business RPTs across both periods, supporting the monitoring benefits of

ownership transparency. Although the economic significance of this relationship moderates post-COVID—possibly due to pandemic-related disruptions weakening governance mechanisms—the persistent negative coefficient underscores UBO disclosure's value in mitigating information asymmetry, even in jurisdictions with weaker enforcement regimes like Indonesia. Finally, our results reveal that larger and older firms engage in fewer non-operational RPTs, likely due to enhanced governance and scrutiny. In contrast, firms with higher leverage and younger firms are more prone to such transactions, possibly for liquidity management. Profitability, however, does not significantly influence RPTs, suggesting that governance and ownership structures play a more decisive role than operational performance. Our findings contribute to the corporate governance literature in three key ways. First, we confirm that family-controlled firms are more prone to engaging in non-business RPTs, supporting the expropriation hypothesis (Kohlbeck et al., 2023; Jiang et al., 2010; Young et al., 2008). However, the weakening of this effect post-COVID suggests that external shocks—such as financial constraints or regulatory interventions—can temporarily curb tunneling incentives. This insight extends prior research by demonstrating how crisis conditions may alter controlling shareholders' expropriation strategies. Second, we reinforce existing evidence from developed markets (Kohlbeck et al., 2023; Yeh et al., 2012) by showing that independent commissioners play an insignificant and limited role in reducing non-business RPTs, as power diminishes when concentrated ownership plays a bigger role. Finally, our study underscores the importance of ownership transparency, as Ultimate Beneficiary Ownership (UBO) disclosure consistently deters non-business RPTs. While the economic significance of this relationship moderated post-COVID—likely due to pandemic-induced governance disruptions—the persistent

negative association affirms UBO disclosure as a valuable tool in mitigating information asymmetry, even in weak enforcement environments. This finding has important policy implications, suggesting that regulators in emerging markets should prioritize ownership transparency to protect minority investors.

## **Theoretical Framework and Hypothesis Development**

### *2.1 AGENCY THEORY TYPE II (PRINCIPAL-PRINCIPAL CONFLICT)*

The study is anchored in Agency Theory, with particular emphasis on the principal-principal (PP) conflict (Type II agency problem) as the grand theoretical framework. The PP conflict refers to the inherent tensions that arise when controlling shareholders (majority owners) exploit their dominant position to extract private benefits at the expense of minority investors (Young et al., 2008). While traditional agency theory (Type I) examines conflicts between shareholders (principals) and managers (agents), the PP conflict paradigm focuses on power asymmetries among shareholders themselves, particularly in firms with concentrated ownership structures.

This theoretical lens is especially relevant in the context of family-owned firms, where the confluence of ownership and control creates conditions ripe for expropriation of minority interests. In emerging markets like Indonesia, where institutional safeguards are weak, family-controlled firms may exploit their dominant ownership positions to extract private benefits through contribution in aiding institutional voids. Known as the act of self-dealing (Djankov et al., 2008), controlling shareholders prioritize personal wealth at the cost of minority shareholders since they hold most control in the firm. Non-business related party transactions (RPTs) emerge as particularly potent instruments

for such expropriation (Kohlbeck and Mayhew, 2017), enabling controlling shareholders to engage in tunneling behaviors through intercorporate loans (Jiang et al., 2010), asset transfers, and other self-dealing arrangements. The Principal-Principal Conflict framework thus provides critical insights into why family ownership structures may systematically increase the use of opportunistic RPTs, while simultaneously highlighting the need for effective governance mechanisms to mitigate these agency costs.

## 2.2 TUNNELING, SELF-DEALING, AND EXPROPRIATION

The concepts of tunneling, self-dealing, and expropriation form the third critical component of our theoretical framework, providing detailed explanations of how and why controlling shareholders misuse corporate resources through RPTs. These interrelated yet distinct concepts help illuminate the mechanisms of wealth extraction in family-controlled firms.

Tunneling refers to the systematic transfer of resources from a company to its controlling shareholders through non-arm's length transactions (Johnson et al., 2000). This typically occurs through mechanisms like intercorporate loans, asset sales at below-market prices, or excessive compensation arrangements. In family firms, tunneling risks are particularly acute due to concentrated ownership structures that allow dominant shareholders to override minority interests (Young et al., 2008). The practice is especially prevalent in emerging markets where regulatory oversight is weak and enforcement mechanisms are inadequate (Morck et al., 2005).

Self-dealing represents a specific form of tunneling where controlling shareholders engage in transactions that benefit themselves at the expense of the company and minority investors (Djankov et al., 2008). This includes situations

where family members approve favorable contracts with entities they control, or where they use company assets for personal benefit. Non-business RPTs, such as uncollateralized loans to insiders with family-owned entities, are classic examples of self-dealing behavior.

Expropriation encompasses both tunneling and self-dealing, referring more broadly to any actions where controlling shareholders extract private benefits from the company (Jiang et al., 2010). This concept helps explain why family firms in emerging markets like Indonesia are particularly vulnerable - the combination of weak institutions, cultural acceptance of familial control, and complex ownership structures creates an environment where expropriation can occur with minimal consequences (OECD, 2012). These three concepts collectively explain why non-business RPTs are frequently used as tools for wealth extraction in family-controlled firms. They highlight how transaction characteristics (e.g., lack of collateral, absence of market benchmarks) can signal potential expropriation, and why certain governance mechanisms (like independent oversight and transparency requirements) are necessary to mitigate these risks (Chernykh, 2008). By understanding these distinct but related concepts, we can better analyze the dynamics of abusive RPT practices in emerging market

## 2.3 RELATED PARTY TRANSACTION (RPT)

The study of Related Party Transactions (RPTs) begin with their formal definition under IAS 24 as transactions between entities where one party possesses control or significant influence over the other, encompassing relationships between parent companies, subsidiaries, joint ventures, and key management personnel (IASB, 2009). Such transactions are diverse in nature and frequently involve complex arrangements between a company and its executives, board members, major shareholders, or related entities

(Gordon, Henry, and Palia, 2004). While RPTs can enhance efficiency and reduce costs (Jian & Wong, 2010; Ryngaert & Thomas, 2012), their inherent conflicts of interest often distort pricing and terms, raising reliability concerns (FASB, 1982; OECD, 2012).

In emerging markets, weak institutions exacerbate RPT risks, enabling tunneling through non-market asset transfers or preferential financing (Cheung, Rau, and Stouraitis, 2006). Studies show controlling shareholders exploit RPTs via loan guarantees (Berkman, Cole, and Fu, 2009) or interest-free "other receivables" (OREC), which often represent significant asset diversion (Jiang et al., 2010).

RPTs are increasingly classified by economic substance: operational RPTs (e.g., intra-group trade) may create value, while non-operational RPTs (e.g., personal loans, asset transfers) signal governance failures (Utama & Utama, 2014; Kohlbeck & Mayhew, 2017). The latter strongly correlates with tunneling, especially under weak governance (Hendratama & Barokah, 2020). Kohlbeck and Mayhew's (2017) distinction between Business RPTs (routine transactions) and Tone RPTs (high-risk dealings with insiders) clarifies this dichotomy. Jiang et al. (2010) found that 43.75% of tunneling cases involved Tone RPTs, particularly unsecured OREC.

Dominant shareholders in weak regulatory environments further amplify risks. In China, 30–40% of high-OREC firms involved controlling shareholders (Jiang et al., 2010), highlighting institutional voids (Morck, Shleifer, and Vishny, 2005). Disclosure alone proves insufficient without minority protections (Young et al., 2008).

This substantial body of research provides strong justification for employing the use of the related-party other receivables to total assets (RPT-OREC/TA) ratio as a robust metric for assessing Tone RPT risk. This metric provides

three significant analytical advantages for detecting tunneling risk. First, it effectively isolates non-operational transactions that are most strongly associated with opportunistic behavior (Kohlbeck & Mayhew, 2017), a finding corroborated by our sample data showing that most related-party other receivables (RP-OREC) lack collateral guarantees and are subsequently written off. Second, the metric demonstrates strong predictive validity, evidenced by its 73.7% correlation with confirmed tunneling cases in Jiang et al.'s (2010) comprehensive study. Third, it relies on direct accounting evidence from financial statements rather than indirect proxy measures, providing more concrete identification of expropriation attempts. This focused examination of related-party other receivables offers researchers a robust mechanism for uncovering governance weaknesses, especially in emerging markets where inadequate disclosure regimes often enable controlling shareholders to conceal asset misappropriation and entrenchment strategies. The accumulated evidence strongly suggests that effective regulation of RPTs requires both enhanced transparency measures and complementary enforcement mechanisms to address the fundamental conflicts inherent in related-party dealings.

#### *2.4 FAMILY OWNERSHIP AND NON-BUSINESS RPT*

Family-owned firms represent a crucial setting for examining RPT dynamics, as their concentrated ownership structures simultaneously enhance operational efficiency potential while exacerbating minority shareholder expropriation risks. Young et al. (2008) argue that in emerging markets, family ownership emerges as a rational response to institutional voids - defined as the absence or underdevelopment of formal market-supporting institutions that would normally regulate transactions, enforce contracts,

and protect minority investors. This concept of institutional voids, originally developed by Khanna and Palepu (2000) in their work on emerging market strategies, explains how families substitute for weak legal enforcement through trust-based governance mechanisms. While such arrangements may reduce traditional owner-manager agency costs (i.e., principal-agent conflicts) through aligned interests and informal trust networks, including goal congruence, familial altruism, and reduced managerial opportunism (Purkayastha, Veliyath, and George, 2019), they simultaneously create new principal-principal (PP) agency conflicts. These conflicts prove particularly intractable when emotional ties and informal decision-making structures undermine accountability, and when family-member managers benefit from reduced performance scrutiny due to kinship protections or cultural norms that discourage external challenge.

The dualistic nature of related-party transactions in family firms exhibits significant variation across different institutional environments. Kohlbeck et al.'s (2023) comprehensive analysis of S&P 1500 firms (2001-2013) reveals this fundamental dichotomy: although family-controlled enterprises—especially those under founder leadership—generally enjoy valuation premiums in capital markets, these benefits are significantly eroded when such firms engage extensively in RPTs. This finding suggests that the market discounts family firm valuations when RPT activity increases, reflecting investor concerns about potential expropriation risks despite the firms' otherwise favorable governance characteristics. Their findings reveal that family firms exhibit greater propensity for opportunistic "Tone RPTs" (transactions with directors, officers, or major shareholders), which correlate with a 9–12% decline in Tobin's Q. This suggests that even in developed markets with strong disclosure

regimes, the benefits of family ownership remain conditional on sound governance practices.

The risks associated with family firm RPTs escalate substantially in emerging markets due to weaker institutional safeguards. Liew et al.'s (2015) analysis of Malaysian listed firms (2007–2009) reveals a striking divergence: while RPTs significantly erode firm value in family-controlled entities, non-family firms remain largely unaffected. This pattern underscores the acute principal-principal (PP) conflicts endemic to family firms, where controlling shareholders systematically exploit RPTs to expropriate minority investors—a phenomenon empirically validated by Jiang et al.'s (2010) study of Chinese firms and theoretically grounded in Young et al.'s (2008) framework. Young et al. (2008) particularly highlight how concentrated family ownership, when combined with insufficient external monitoring, creates conditions ripe for tunneling, especially in environments characterized by weak board independence and lax regulatory enforcement.

The contrast between developed and emerging market contexts proves instructive. Unlike the U.S. context examined by Kohlbeck et al. (2023), where SEC-mandated RPT disclosures help constrain opportunistic behavior, Liew et al.'s (2015) Malaysian evidence demonstrates that reputational mechanisms fail to compensate for institutional weaknesses. Even prominent family firms engaged in tunneling during financial crises, strategically exploiting legal loopholes and the absence of effective minority protections. These findings substantiate Young et al.'s (2008) contention that traditional cultural norms and opaque board practices systematically disadvantage minority shareholders, thereby perpetuating the dominance of controlling family interests.

Based on these theoretical and empirical foundation, the following hypothesis is proposed:

**H1.** *Family-owned firms are more likely to engage in non-business Related Party Transactions (RPTs) compared to non-family firms, particularly in environments with weak legal protections for minority shareholders.*

## 2.5 CORPORATE GOVERNANCE AND NON-BUSINESS RPT

Effective corporate governance serves as a critical mechanism for monitoring and constraining opportunistic Related-Party Transactions (RPTs), particularly in firms with concentrated ownership (Yeh et al., 2012). Strong minority protections can mitigate principal-principal conflicts where controlling shareholders (often family insiders) exploit RPTs at minority investors' expense. Taiwanese evidence shows robust governance reduces RPT frequency and scale through enhanced transparency and oversight, while weak governance (e.g., insider-dominated boards) correlates with value-destructive RPTs (Yeh et al., 2012).

Building on Yeh et al.'s (2012) findings about governance mechanisms in concentrated ownership structures, Chernykh (2008) reveals a particularly opaque dimension of corporate control that exacerbates RPT risks: anonymous ownership. In Russia's unique institutional environment, Chernykh documents how 85% of publicly traded firms contain nominee or offshore blockholdings in their control chains, with anonymous owners holding average cash flow rights exceeding 38%. This deliberate obfuscation of ownership—motivated by tax avoidance, concealment of self-dealing activities, and protection from political risks—creates a governance vacuum where traditional oversight mechanisms fail.

The Russian case presents an extreme manifestation of the principal-principal conflicts observed by Yeh et al. (2012) in Taiwan, but with critical distinctions. While Yeh et al. (2012)

demonstrate that formal governance structures (independent boards, ownership alignment) can mitigate RPT risks even in family-controlled firms, Chernykh's (2008) findings show how anonymous ownership completely undermines such protections. When ultimate controllers mask their identities through offshore vehicles and nominee arrangements, three key governance failures emerge: (1) traditional checks like board independence become ineffective as true decision-makers remain hidden; (2) the separation of cash flow and control rights reaches extremes unobservable in conventional concentrated ownership; and (3) related-party transactions can be systematically concealed rather than merely under-scrutinized.

Indonesia's weak Ultimate Beneficial Owner (UBO) disclosure regime demonstrates similar challenges. Ambiguous implementation allows partial compliance—firms often omit indirect control details (Jurdant, 2013). This undermines enforcement and enables hidden RPT expropriation. Currently, the Ultimate Beneficiary Owner disclosure became mandatory under Peraturan Presiden Republik Indonesia Nomor 13 Tahun 2018. It is described as an individual or entity who owns a minimum of 25% of the company shares, 25% or more voting rights, proclaimed to a minimum of 25% profit, has the power to choose, change, and fire a member of the board, and have immediate control of the firm's decision without approval from other parties. However this also means that firms with slightly dispersed ownership with all shareholders owning less than 25% of shares will automatically be exempt from disclosing their ultimate owner. This is particularly concerning because firms in Indonesia are usually dominated by one entity even with less than 25% shares which is reflected in our sample.

This study examines two pivotal governance mechanisms—board independence and ultimate beneficial ownership (UBO)

disclosure—that collectively address the systemic vulnerabilities enabling abusive related-party transactions (RPTs) in emerging markets. The selection of these variables is theoretically grounded in their complementary roles in mitigating expropriation risks: independent board members serve as essential monitors against self-dealing, yet their effectiveness is contingent upon both the transparency of ownership structures (Yeh et al., 2012) and insulation from familial or social pressures—conditions frequently compromised in opaque ownership environments (Chernykh, 2008). Concurrently, UBO disclosure requirements target the concealment strategies that facilitate abusive RPTs by unmasking ultimate transaction beneficiaries and preventing the obfuscation of ownership through nominee accounts or shell companies. This dual focus is particularly salient given Gordon et al.'s (2004) empirical demonstration that transparency fundamentally differentiates value-destroying from efficiency-enhancing RPTs. The joint investigation of these mechanisms is further justified by their synergistic relationship: UBO disclosure provides the informational foundation necessary for independent commissioners to exercise effective oversight, while independent boards ensure the disclosed information translates into meaningful governance actions. Together, these mechanisms establish the transparency and accountability framework required for the nuanced evaluation of RPTs that emerging market contexts demand.

Independent commissioners, under their detachment from controlling shareholders, can serve as effective monitors of managerial and shareholder behavior, thereby reducing the likelihood of non-arm's-length transactions. Empirical evidence from emerging and developed markets indicates that higher board independence is associated with reduced incidence and scale of RPTs. However, the effectiveness of this mechanism is conditional

upon the strength of the broader governance environment. In settings with transparent ownership structures and strong enforcement, independent commissioners are more empowered to challenge self-serving behaviors by controlling shareholders. Conversely, in opaque environments, their monitoring capacity may be undermined by limited access to accurate ownership and transactional data. Nevertheless, in contexts where governance frameworks are well-developed and independent commissioners are institutionally supported, their presence can significantly reduce the occurrence of value-destroying non-business RPTs.

Building on this evidence, the following hypothesis is proposed:

**H2.** *Firms with a higher proportion of independent commissioners are less likely to engage in non-business Related Party Transactions (RPTs), particularly in environments with strong governance frameworks.*

Disclosure of Ultimate Beneficial Ownership (UBO) has emerged as a critical governance tool for enhancing transparency and accountability in corporate structures. When ultimate owners are identified, it becomes more difficult for insiders to conceal self-dealing activities through complex ownership arrangements or offshore vehicles (Chernykh, 2008). Transparent UBO disclosure mitigates information asymmetries, strengthens external monitoring, and allows regulators and minority shareholders to identify potential conflicts of interest in RPTs. However, in jurisdictions where disclosure requirements are weak or poorly enforced—as observed in Indonesia (Jurdant, 2013)—UBO information is often incomplete or inaccurate, reducing its effectiveness in curbing opportunistic behavior. Despite these challenges,

firms that voluntarily provide comprehensive UBO disclosures demonstrate a stronger commitment to governance transparency and are less likely to engage in tunneling via non-business RPTs. This is particularly true in environments with strong enforcement mechanisms, where transparent disclosures are not only more credible but also subject to meaningful oversight. As such, UBO transparency can serve as a deterrent to self-dealing by exposing potential abuses to public and regulatory scrutiny.

Based on this theoretical and empirical foundation, the following hypothesis is proposed:

**H3.** *Firms with transparent Ultimate Beneficial Ownership (UBO) disclosure are less likely to engage in non-business Related Party Transactions (RPTs), particularly in environments with strong enforcement mechanisms.*

## RESEARCH METHOD

### 3.1 DATA SELECTION AND SAMPLE RESULTS

This study employs a purposive sampling approach to analyze non-financial public companies listed on the Indonesia Stock Exchange (IDX) from 2017 to 2022. Data is sourced directly from the IDX's official database, including audited financial statements, annual reports, and corporate governance disclosures, ensuring reliability and compliance with regulatory standards (Otoritas Jasa Keuangan, 2014). Financial sector firms, such as banks, are

excluded due to their distinct regulatory frameworks and accounting practices, which differ markedly from non-financial entities (Claessens, Fan, and Lang., 2006). For example, financial institutions often classify accounts receivable and payable in ways that could distort key variables like RP\_TONE (related-party receivables) and LEVERAGE (debt ratios), compromising comparability.

To refine the sample, a structured filtering process is applied. Companies with incomplete financial records, missing disclosures on related party transactions (RPTs) or family ownership, or negative total equity—a red flag for financial distress—are systematically excluded. This ensures a homogeneous dataset of financially stable, non-financial firms with complete and comparable data across all variables. The initial dataset comprises 3,276 firm-year observations (546 firms). After excluding financial sectors (89 firms/534 observations), entities with incomplete data (71 firms/426 observations), and firms with negative equity (35 firms/210 observations), the final sample consists of 2,106 firm-year observations from 351 companies.

This six-year timeframe (2017–2022) is strategically chosen to capture potential shifts in RPT behavior, particularly during the COVID-19 pandemic, which may have heightened opportunistic transactions amid economic uncertainty. The finalized dataset, summarized in Tables 1 and 2, enables robust empirical analysis while mitigating biases from data gaps or sector-specific anomalies.

Table 1. Sample Selection Process

	Firms	Firm-years
IDX Listed Companies (2017 - 2022)	546	3276
Excluded		
Financial firms	89	534
Firms with unavailable/incomplete data	71	426
Firms with negative equities in the sampling period	35	210
Final sample	351	2106

Table 2. Sample Result per Industry Sectors

Industries	Firms	Firm-years
Basic Materials	57	342
Consumer Cyclical	65	390
Consumer Non-Cyclical	55	330
Energy	43	258
Healthcare	13	78
Industrials	27	162
Infrastructures	34	204
Properties and Real Estate	41	246
Technologies	6	36
Transportation and Logistics	10	60
TOTAL	351	2106

### 3.2 RESEARCH MODEL

The study employs a panel regression model adapted from Jiang et al. (2010), particularly referencing Model 1 in Table 6 of their study on the determinants of ORECTA. Consistent with their framework, we incorporate key control variables such as Return on Assets (ROA) and firm size (FIRMSIZE). However, instead of using the BLOCK variable to represent block ownership, we refine the focus by including a family ownership variable (FAMOWN), which

specifically captures the effects of family-owned firms. In addition to the variables drawn from Jiang et al. (2010), we extend the model by incorporating several variables that are novel to our research, including board independence (INDEPCOM), ultimate ownership disclosure (ULTDISC), firm age (FIRMAGE), and financial leverage (LEVERAGE). These additions aim to provide a more comprehensive understanding of the factors influencing ORECTA within the context of our study.

The model is specified as:

$$RPTONE_{it} = \beta_0 + \beta_1 FAMOWN_{it} + \beta_2 INDEPCOM_{it} + \beta_3 ULTDISC_{it} + \beta_4 FIRMSIZE_{it} + \beta_5 FIRMAGE_{it} + \beta_6 LEVERAGE_{it} + \beta_7 ROA_{it} + \varepsilon$$

Related Party Transactions (RPTONE): measures the proportion of non-operational, opportunistic transactions between related parties. It is calculated as the ratio of Other Receivables from related parties to Total Assets. Family Ownership (FAMOWN): represents the percentage of shares held by family members. Independent Commissioners (INDEPCOM): captures governance capacity, measured as the proportion of independent commissioners in

the board. Ultimate Beneficial Ownership Disclosure (ULTDISC) is a binary variable (1 = transparent, 0 = opaque). Firm Size (FIRMSIZE): measured as the natural logarithm of total assets. Firm Age (FIRMAGE): the company's age from its founding to the year of the financial report. Leverage (LEVERAGE): debt to asset ratio. Profitability (ROA): return on asset ratio.

### 3.3 RESEARCH VARIABLES

The research variables are categorized into dependent, independent, control, and interactive variables, as described in Table 3.

**Table 3. Variable Definition**

Variable	Description	Source	Formula
RP_TONE	Proportion of related party transactions (other receivables) to total assets.	Jiang et al. (2010)	(Other receivables from RPTs) / Total assets
FAMOWN	Proportion of family ownership in the company.	Jiang et al. (2010)	Percentage of shares owned by families
INDEPCOM	Proportion of independent commissioners.	Kohlbeck et al. (2023)	Proportion of independent commissioners
ULTDISC	Transparency of Ultimate Beneficial Ownership disclosure.	-	Binary (1 = Transparent, 0 = Opaque)
FIRM_SIZE	Firm Size.	Jiang et al. (2010)	Natural logarithm of total assets = Ln(Total Assets)
FIRM_AGE	Firm age.	Liew et al. (2015)	Natural logarithm of number of years since the company's founding
LEVERAGE	Leverage.	Kohlbeck et al. (2023)	Total Debt / Total Assets
ROA	Profitability.	Jiang et al. (2010)	Net Profit / Total Assets
COVID	Pandemic period.	-	Dummy, with the value of 1 (one) for the 2020–2022 pandemic period, and 0 (zero) for the 2017–2019 before pandemic period

### 3.3 ANALYSIS METHOD

The empirical analysis employs a multi-stage quantitative approach to examine the relationship between family ownership, corporate governance variables, and related party transactions. First, descriptive statistics are calculated for all variables, including measures of central tendency (mean), dispersion (standard deviation), and distributional characteristics (minimum, maximum, and quartiles). These statistics provide a comprehensive overview of the dataset's properties and help identify potential outliers or anomalies.

The regression analysis incorporates several diagnostic tests to ensure the validity of the results. The normality assumption is verified using a chi-square goodness-of-fit test, with p-values exceeding 0.05 indicating normally distributed residuals. Multicollinearity among independent variables is assessed through variance inflation factors (VIF), where values below 10 suggest acceptable levels of correlation, and through Pearson correlation analysis. The homoscedasticity assumption is tested using a chi-square-based Breusch-Pagan test, with p-values above 0.05 confirming constant residual variance. Autocorrelation is examined through the Wooldridge test, where p-values greater than 0.05 indicate no significant serial correlation.

The model's goodness-of-fit is evaluated using the coefficient of determination ( $R^2$ ), which quantifies the proportion of variance in the dependent variable explained by the independent variables. For hypothesis testing, the F-test examines the overall significance of the regression model ( $p < 0.05$  threshold), while t-tests assess the individual significance of each predictor variable at conventional significance

levels ( $p < 0.10$ ,  $p < 0.05$ , and  $p < 0.01$ ).

## RESULTS AND DISCUSSION

### 4.1 DESCRIPTIVE STATISTICS

Table 4 summarizes the descriptive statistics of the overall variables. Overall, firms conduct non-business RPTs of 1.14% per total assets within 2017 until 2022, with the largest being 75.17% of total assets represented by Intermedia Capital Tbk. (IDX:MDIA) who reported the highest RPT for 6 consecutive years. Family ownership levels of Indonesian public listed companies between 2017 to 2022 averages approximately 20.31%, which reaches the 20% controlling threshold based on Business Combinations Accounting Standard–PSAK 22. The largest family ownership percentage is represented by Solusi Tunas Pratama Tbk. (IDX:SUPR) with ownership of 99.96% in 2022, followed by Plaza Indonesia Realty Tbk. (IDX:PLIN) with an average of 96.61% shares, and Duta Anggada Realty Tbk. (IDX:DART) who owned approximately 92.45% family shares.

Based on a sample of 351 companies, 115 (32.8%) are family-owned. Among these family-owned firms, 22 (19.1% of family-owned, or 6.3% of the total sample) have family ownership between 20% and 50%, indicating significant but non-majority control. The remaining 90 (78.3% of family-owned firms, or 25.6% of the total sample) exhibit majority ownership (>50%), reflecting full controlling interest by the family. This breakdown demonstrates that while approximately one-third of the sample consists of family-owned businesses, the vast majority of them are under dominant family control, which also aligns with PwC's survey result in 2014.

Independent Commissioners' Proportion

mean of 40.26% shows that our sample firms have approximately 2 independent commissioners in every 5 board of commissioners, with the maximum proportion being 100%, meaning every member in the BoC is independent, represented by Solusi Tunas Pratama Tbk. (IDX:SUPR) and Sarana Meditama Metropolitan Tbk. (IDX:SAME). Ultimate beneficial ownership (UBO) disclosure among sampled non-financial Indonesian public listed firms averages 89.79%, indicating strong but incomplete compliance with transparency standards—the remaining 10% non-disclosure rate represents a persistent governance vulnerability represented by Tempo Scan Pacific Tbk. (IDX:TSPC), Ever Shine Tex Tbk. (IDX:ESTI), and Tri Banyan Tirta Tbk. (IDX:ALTO). The firm age of Indonesian public

listed companies being sampled averages 34 years since their deed of incorporation with the oldest being Delta Djakarta Tbk. (IDX:DLTA) and Sepatu Bata Tbk. (IDX:BATA). Firm size, represented by total assets, shows an average value of 11,500,000 million rupiahs with the biggest being Astra International Tbk. (IDX:ASII). Leverage shows that the average liability of Indonesian public listed companies amounts to 45.19% total assets, with the largest being 91.14% represented by Anabatic Technologies Tbk. (IDX:ATIC). Lastly, Return on Assets averages by 3.34% and largest by 36.36% represented by Merck Tbk. (IDX:MERK), which measures the approximate and maximum.

**Table 4. Full-sample descriptive statistics**

<b>Variable</b>	<b>Mean</b>	<b>Std. dev.</b>	<b>Min</b>	<b>Max</b>	<b>Q1</b>	<b>Q3</b>
<b>RP_TONE</b>	0.0114	0.0483	0.0000	0.7517	0.0000	0.0040
<b>FAMOWN</b>	0.2031	0.3113	0.0000	0.9996	0.0000	0.5010
<b>INDEPCOM</b>	1.6586	0.8275	0.0000	5.0000	1.0000	2.0000
<b>UBO</b>	0.8979	0.3028	0.0000	1.0000	1.0000	1.0000
<b>AGE_YEAR</b>	34.2407	15.2572	2.0000	105.0000	24.0000	44.0000
<b>FIRMAGE</b>	3.4184	0.5201	0.6931	4.6540	3.1780	3.7840
<b>TOTALASSETS*</b>	11,500	21,400	69,927	123,000	1,068.9	10,400
<b>FIRMSIZE</b>	15.0411	1.6601	10.6474	19.8397	13.8820	16.1620
<b>LEVERAGE_W</b>	0.4519	0.2093	0.0480	0.9114	0.2940	0.6070
<b>ROA_W</b>	0.0334	0.0852	-0.2510	0.3636	0.0000	0.0670

**\* Total Assets in billion rupiahs**

**Table 5. Pearson Correlations Among variables**

	<i>Rptone</i>	<i>Famown</i>	<i>Indepcom</i>	<i>Ultrdisc</i>	<i>Firmage</i>	<i>Firmsize</i>	<i>Leverage</i>	<i>Roa</i>
<b>RPTONE</b>	1							
<b>FAMOWN</b>	<b>0.0549***</b>	1						
<b>INDEPCOM</b>	<b>0.0070***</b>	<b>0.0528***</b>	1					
<b>ULTRDISC</b>	<b>-0.0609***</b>	<b>0.1663***</b>	<b>-0.0235***</b>	1				
<b>FIRMAGE</b>	<b>-0.0981***</b>	<b>0.0269***</b>	<b>0.1776***</b>	<b>-0.0159***</b>	1			
<b>FIRMSIZE</b>	<b>-0.0420***</b>	<b>0.1809***</b>	<b>0.5203***</b>	<b>0.0291***</b>	<b>0.0788***</b>	1		
<b>LEVERAGE</b>	<b>0.0991***</b>	<b>-0.0741***</b>	<b>0.1190***</b>	<b>-0.0362***</b>	<b>0.0323***</b>	<b>0.2232***</b>	1	
<b>ROA</b>	<b>-0.0556***</b>	<b>0.0739***</b>	<b>0.1330***</b>	<b>0.0375***</b>	<b>0.0541***</b>	<b>0.2042***</b>	<b>-0.2645***</b>	1

Notes: \*, \*\*, and \*\*\* indicate significance of difference at the 10%, 5% and 1% levels, respectively

4.2 DISCUSSION

Prior to model estimation, a series of diagnostic tests were performed to validate the underlying assumptions of the regression analysis. The normality tests, assessed through skewness and kurtosis measures, indicated that the variables were not normally distributed. Therefore we applied winsorizing on the variable leverage and ROA. Multicollinearity among the predictors was examined using variance inflation factors (VIF), with all values remaining below the threshold of 5, suggesting no significant multicollinearity issues. This finding was further supported by Pearson correlation analysis (Table 5), which confirmed the absence of strong correlations among the independent variables.

The Breusch-Pagan/Cook-Weisberg test for heteroskedasticity yielded statistically significant results ( $\chi^2(1) = 2670.40$ ;  $p < 0.01$ ), suggesting the presence of heteroskedasticity. To address this issue, robust standard errors were incorporated in the model estimation to

ensure accurate statistical inference. Furthermore, the Wooldridge test for autocorrelation produced significant results ( $F(1, 350) = 10.959$ ;  $p = 0.001$ ), indicating first-order autocorrelation. While the presence of autocorrelation was confirmed by the Wooldridge test, no further adjustments were made to address it in the model estimation. We acknowledge the implications of autocorrelation, including potential inefficiency in coefficient estimates and biased standard errors, which could affect hypothesis testing. However, given the nature of the data and the research design, we deemed the robust standard errors—already implemented to correct for heteroskedasticity—sufficient to mitigate some of these concerns. The decision to retain autocorrelation without additional treatment aligns with prior studies in this domain, where robust standard errors are often employed as a pragmatic solution to violations of classical regression assumptions.

**Table 6. Regression Result**

	RP_TONE		PRE COVID-19		POST COVID-19	
	Coefficient	t-values	Coefficient	t-values	Coefficient	t-values
	#1	#2	#3	#4	#5	#6
FAMOWN	0.0151***	(2.57)	0.0163**	(2.05)	0.0140	(1.59)
INDEPCOM	0.0090	(0.99)	-0.0017	(-0.17)	0.0171	(1.23)
ULTDISC	-0.0104***	(-2.78)	-0.0107**	(-2.52)	-0.0106*	(-1.75)
FIRM_AGE	-0.0020***	(-2.81)	-0.0011	(-1.60)	-0.0027**	(-2.32)
FIRM_SIZE	-0.0099***	(-2.85)	-0.0074*	(-1.71)	-0.0134**	(-2.35)
LEVERAGE	0.0285***	(4.37)	0.0257***	(3.72)	0.0298***	(2.82)
ROA	0.0018	(0.17)	0.0182	(1.17)	-0.0128	(-0.79)
Constant	0.0664***	(4.66)	0.0506***	(3.11)	0.0892***	(3.68)
Industry FE	Yes		Yes		Yes	
Year FE	Yes		Yes		Yes	
Observations	2,106		1,053		1,053	
F	3.19***		2.50***		2.17***	
R-Square	0.0505		0.0535		0.0560	

Notes: \*, \*\*, and \*\*\* indicate significance of difference at the 10%, 5% and 1% levels, respectively

Table 6 summarizes the regression outcomes for the determinants of non-business RPTs (RP\_TONE) in Indonesian listed firms, segmented into pre-COVID (2017–2019) and during COVID (2020–2022) periods. It employs an Ordinary Least Squares (OLS) regression model replicating Jiang et al. (2010). The results are interpreted using significance levels denoted as \*\*\* (1%), \*\* (5%), \* (10%), and no asterisk for insignificance.

### Overall Sample Analysis

The full-sample results demonstrate that family ownership (FAMOWN) exerts a statistically significant positive influence on RP\_TONE (coefficient = 0.0151,  $p < 0.01$ ), supporting Hypothesis 1 (H1). This finding aligns with the principal-principal (PP) conflict framework (Young et al., 2008), where concentrated family control in weak institutional environments facilitates expropriation. For instance, Intermedia Capital Tbk. (IDX:MDIA), with 89.97% family ownership, exhibits consistent and high RPT activity (0.7517 in 2020), illustrating how dominant shareholders may exploit financial engineering. Similarly, Eka Sari Lorena Transport Tbk. (IDX:LRNA), with 57.14% family ownership and 40% independent commissioners, engaged in high RPT activity (0.1597), underscoring the limited efficacy of board independence when ownership is highly concentrated.

However, the relationship is not universal. Alakasa Industrindo Tbk (IDX:ALKA), despite 77.03% family ownership, reports zero RPTs, suggesting industry norms (Basic Materials) or stewardship motives may deter expropriation. Similarly, Akasha Wira International Tbk (IDX:ADES), a family-controlled firm (50.1%), shows no RPTs, indicating that reputational concerns or sectoral regulations may override

tunneling incentives. Contradictions also arise in non-family firms like Pelangi Indah Canindo Tbk (IDX:PICO), where it shows the absence of family ownership does not deter non-business RPT but exhibit significant usage (ORECTA of 0.3980).

Contrary to Hypothesis H2, which predicted a negative relationship between board independence and RP\_TONE, INDEPCOM demonstrates statistically insignificant coefficients across both periods (pre-COVID: -0.0017,  $t = -0.17$ ; post-COVID: 0.0171,  $t = 1.23$ ). This contradicts Yeh et al. (2012), who found that independent commissioners reduce tunneling in strong governance environments. For example, Indofarma Tbk (IDX:INAF), despite 80.66% family ownership and 33% independent commissioners, reports no RPTs, yet this likely stems from regulatory gaps rather than board efficacy. The null results likely reflect Indonesia's institutional weaknesses, where limited enforcement and opaque ownership structures undermine independent commissioners' capacity to challenge controlling shareholders. These findings echo Liew et al. (2015), who argue that independent oversight requires institutional support to curtail RPTs effectively. The inability of independent commissioners to constrain RPTs suggests that Type II agency problems require different solutions than those designed for Type I conflicts.

Ultimate beneficial ownership disclosure (ULTDISC) shows a significant negative association with RP\_TONE (coefficient = -0.0104,  $p < 0.01$ ), consistent with Hypothesis 3 (H3). Transparency curbs tunneling by reducing information asymmetry, as seen in Bayan Resources Tbk (IDX:BYAN), where 55.19% family ownership coexists with post-2020 RPT reductions. This aligns with Chernykh (2008),

highlighting transparency's role in weak enforcement regimes. The result highlights the importance of transparency in curbing tunneling, particularly in jurisdictions where regulatory enforcement is weak.

The analysis of control variables reveals significant relationships between firm characteristics and the prevalence of non-operational related party transactions (RP\_TONE). Firm size (FIRM\_SIZE) and firm age (FIRM\_AGE) both demonstrate negative associations with RP\_TONE, indicating that larger and more established companies tend to engage in fewer questionable related-party transactions. This pattern is evident in cases like Unilever Indonesia Tbk. (IDX:UNVR), which with its substantial size (FIRM\_SIZE of 15.33 in 2022) and long operating history, reported minimal RP\_TONE (0.002). Similarly, Astra International Tbk. (ASII), a family-owned firm, maintained low but constant RP\_TONE (0.007) despite financial challenges. On the other end, firms such as Metro Realty Tbk. (IDX:MTSM) with firm size of 11.20 has reported RP\_TONE of 0.2154 which is on the higher percentile, reflecting how institutional maturity and scale contribute to stronger governance frameworks and greater external oversight that deter opportunistic RPTs.

In contrast, leverage (LEVERAGE) shows a strong positive relationship with RP\_TONE (coefficient = 0.0285,  $p < 0.01$ ), suggesting that financially strained firms are more likely to utilize related-party transactions. This is particularly apparent in companies like Globe Kita Terang Tbk. (IDX:GLOB), which has the highest leverage in our sample (101.87 in 2022) and negative profitability (-7.59 ROA), have used intra-group transactions for liquidity support in 2020. The case of Argo Pantes Tbk. (IDX:ARGO) further illustrates this pattern, as its increasing leverage (from 2.15 in 2021 to 2.22

in 2022) coincided with financial distress, potentially necessitating RPTs for financial maneuvering despite maintaining zero reported RP\_TONE.

Notably, profitability (ROA) does not show a statistically significant relationship with RP\_TONE, implying that operational performance is less influential than governance and financial structure in determining RPT activity. This is demonstrated by firms like Asia Pacific Fibers Tbk. (IDX:POLY), which maintained consistent zero RP\_TONE across years despite fluctuating ROA figures (-0.05 to 0.05). Similarly, Modern Internasional Tbk. (IDX:MDRN) showed no RP\_TONE even when reporting negative ROA (-1.21 in 2017), suggesting that governance quality and ownership structures, rather than current profitability, are the primary drivers of RPT decisions.

The findings collectively suggest that while financial distress (as measured by leverage) may push firms toward greater RPT activity, the presence of strong governance mechanisms - typically found in larger, more established firms - serves as an effective counterbalance. This dichotomy is particularly evident when comparing young, highly leveraged firms like Waskita Beton Precast Tbk. (IDX:WSBP), which showed RP\_TONE of 0.0029 in 2022 with leverage of 1.35, against mature industry leaders like Unilever that maintain minimal RPTs despite market pressures. These patterns underscore the importance of considering both financial conditions and governance quality when evaluating a firm's propensity for non-operational related party transactions.

### **Pre- vs. Post-COVID-19 Subsample Analysis**

The pandemic's economic shock created distinct shifts in RPT behavior. In the pre-

COVID period, family ownership (FAMOWN) remained significant (coefficient = 0.0163,  $p < 0.05$ ), as seen in firms like Golden Energy Mines Tbk (IDX:GEMS), where family ownership (66.99% in 2017) correlated with high RPT activity. Post-COVID, the effect weakened (coefficient = 0.014, insignificant), potentially due to external disruptions altering family firms' incentives. For example, Bayan Resources Tbk (IDX:BYAN), with 55.19% family ownership, reduced RPTs post-2020 (ORECTA = 0.0) despite maintaining high leverage (49% in 2022), possibly reflecting tightened external scrutiny during the pandemic.

Contradictory cases include MNC Land Tbk (IDX:KPIG), which increased RPTs post-COVID despite non-family ownership, and Indofarma Tbk (IDX:INAF), where family ownership (80.66%) did not lead to significant RPT shifts during the pandemic. These outliers suggest that non-family firms may have also resorted to non-business RPTs for liquidity during crises, diluting the observed effect of family ownership. This aligns with the argument that pandemic-induced financial stress universalized RPT usage across ownership types, temporarily obscuring the PP conflict mechanism.

Independent commissioners (INDEPCOM) are still insignificant in both periods. Notably, ULTDISC became less effective post-COVID (coefficient = -0.0106,  $p < 0.10$  vs. -0.0107,  $p < 0.05$  pre-COVID), reflecting how crisis conditions may have overshadowed transparency mechanisms as firms prioritized survival over governance. The reduced effectiveness of ULTDISC during the crisis further shows how extreme conditions can overwhelm even the most promising governance mechanisms designed to address PP conflicts.

The empirical results of control variables also reveal significant associations between firm characteristics—specifically size, age, and

leverage—and the prevalence of non-operational related party transactions (RP\_TONE). These findings align with prior governance literature while also reflecting the unique pressures brought about by the COVID-19 pandemic.

Prior to the pandemic, larger and more established firms demonstrated lower levels of RP\_TONE, suggesting that mature organizations with robust governance structures are less likely to engage in opportunistic related party transactions. For example, Unilever Indonesia Tbk. (IDX:UNVR), with a firm size of 16.72 (log-transformed) and an age of 89 years in 2022, reported negligible RP\_TONE (0.0041), reflecting the disciplined oversight typically found in well-governed, long-standing corporations. Similarly, Garuda Indonesia Tbk. (IDX:GIAA), with 72 years of operation in 2022, maintained minimal RP\_TONE (0.0013) despite financial pressures, reinforcing the notion that firm maturity correlates with stricter internal controls. In contrast, younger and smaller firms, such as Waskita Beton Precast Tbk. (IDX:WSBP)—only 8 years old in 2022—exhibited higher RP\_TONE (0.0029), indicating that less established firms may face weaker governance constraints.

The role of firm size and age became even more pronounced during the pandemic, as older and larger firms leveraged their stability to mitigate crisis-related risks. PP Properti Tbk. (IDX:PPRO), for instance, maintained consistent leverage (around 0.79) and low RP\_TONE (0.0031 in 2022), demonstrating resilience despite market volatility. Meanwhile, highly leveraged firms exhibited a stronger reliance on RPTs, particularly in the post-2020 period. Globe Kita Terang Tbk. (IDX:GLOB), with an alarming leverage ratio of 101.87 in 2022, exemplifies how financially strained firms may resort to RPTs for liquidity support, even as their operational performance deteriorates

(ROA of -7.59). Similarly, Sri Rejeki Isman Tbk. (IDX:SRIL) saw its leverage rise from 1.32 in 2021 to 2.02 in 2022, coinciding with worsening profitability (ROA declining from -0.87 to -0.52), yet its RP\_TONE remained at zero, suggesting possible earnings management or intra-group financing arrangements.

Notably, profitability (ROA) was statistically insignificant in explaining RP\_TONE, implying that related party transactions are more strongly influenced by governance and ownership structures than by operational performance. For instance, Asia Pacific Fibers Tbk. (IDX:POLY) exhibited ROA figures hovering near zero across multiple years while consistently reporting no RPTs (RP\_TONE = 0.0), indicating that firms with stable but modest earnings may not necessarily engage in opportunistic transactions. However, exceptions such as Modern Internasional Tbk. (IDX:MDRN), which posted a positive ROA of 0.51 in 2021 yet maintained zero RP\_TONE, suggests that some firms prioritize governance discipline even during profitability fluctuations.

The pandemic amplified existing trends, with leverage emerging as a critical driver of RPTs. Older firms like Jasa Marga Tbk. (IDX:JSMR), with 44 years of operation in 2022, managed to sustain low RP\_TONE (0.0071) despite financial pressures, highlighting the stabilizing effect of institutional maturity. Conversely, distressed firms such as Garuda Indonesia (IDX:GIAA) increasingly relied on RPTs (RP\_TONE of 0.0013 in 2022) as leverage climbed to 1.25, underscoring the role of crisis conditions in exacerbating financial dependencies.

The findings emphasize that strong governance mechanisms—proxied by firm size and age—help mitigate non-operational RPTs, whereas high leverage increases their likelihood, particularly during economic stress.

Policymakers should consider targeted measures, such as enhanced disclosure requirements for highly indebted firms, to improve transparency. Additionally, promoting governance maturity in younger firms could reduce their susceptibility to opportunistic transactions, fostering long-term financial stability.

## **THEORETICAL AND PRACTICAL IMPLICATIONS**

The findings underscore the nuanced role of family ownership in RPTs, demonstrating that while the baseline principal-principal (PP) conflict framework generally holds, exceptions such as IDX:ADES (with family ownership but no RPTs) and IDX:ADMG (with no family ownership and no RPTs) highlight the effects of governance quality or industry-specific factors. Post-COVID, the diminished significance of family ownership (FAMOWN) suggests that exogenous shocks can temporarily disrupt expropriation patterns, though the long-term persistence of PP conflicts in emerging markets remains likely. These results illustrate that PP conflicts are not merely theoretical constructs but observable phenomena that dominate corporate governance challenges in emerging markets, requiring distinct policy solutions from those designed to address traditional manager-shareholder (Type I) agency problems.

The evidence underscores the need for governance systems that remain robust even during crises, when expropriation risks may be heightened. For instance, the pandemic-induced financial stress led some non-family firms to engage in RPTs, temporarily obscuring the role of family ownership. This implies that policy measures should focus on mitigating PP conflicts through enhanced transparency requirements, strengthened minority shareholder protections, and firm-level

governance mechanisms—such as independent commissioners or audit committee oversight—that can curb opportunistic RPTs even under concentrated ownership. Future research should further explore these moderating factors to develop targeted safeguards that are resilient across both stable and crisis conditions.

## CONCLUSION

This study presents compelling empirical evidence on the determinants of non-business Related Party Transactions (RPTs) among Indonesian listed firms, emphasizing the influence of family ownership, corporate governance mechanisms, and external disruptions such as the COVID-19 pandemic. The findings confirm two out of three proposed hypotheses, indicating that family-owned firms are more inclined to engage in opportunistic RPTs, while stronger governance—reflected transparent Ultimate Beneficial Ownership (UBO) disclosure—effectively curtails such behavior, whereas Independent Commissioner's role appears to be less effective. These results offer meaningful implications for corporate governance practices, regulatory frameworks, and investor strategies in emerging markets.

The analysis affirms Hypothesis 1, demonstrating a statistically significant positive relationship between family ownership and non-business RPTs. This finding aligns with prior literature suggesting that, in weak institutional environments, family-controlled firms tend to exploit minority shareholders through tunneling activities such as unsecured loans or asset transfers. The relationship is particularly evident in the pre-COVID period, though it weakens post-pandemic, likely due to financial constraints or increased regulatory scrutiny during the crisis or the disruption of result from non-family firms engaging more in non-business

RPTs during the pandemic. Hypothesis 2 is rejected, as the presence of independent commissioners is insignificantly associated with non-business RPTs. This supports the view that independent oversight is subjected to institutional governance settings in a country. Support for Hypothesis 3 is evident in the significant inverse relationship between transparent UBO disclosure and RPT intensity. This outcome reinforces the argument that ownership transparency deters tunneling by enhancing accountability. Nonetheless, the post-pandemic reduction in this deterrent effect points to a shift in firm priorities under crisis conditions, with governance adherence potentially deprioritized in favor of short-term survival strategies.

The control variables further contextualize these dynamics. Larger and older firms are less likely to engage in non-business RPTs, implying that firm maturity and scale attract greater scrutiny and foster more robust governance structures. Conversely, higher leverage correlates strongly with increased RPT activity, particularly during the pandemic, suggesting that financially constrained firms may resort to RPTs for liquidity or earnings management. Profitability, however, shows no significant association, indicating that governance and ownership structures are more influential determinants of RPT behavior than operational performance. In conclusion, this study highlights the persistent governance challenges in emerging markets where family ownership remains dominant and institutional safeguards are evolving. While independent oversight and ownership transparency offer meaningful deterrents against opportunistic RPTs, their effectiveness is contingent on broader institutional resilience, particularly during times of crisis. These findings underscore the need for regulators to strengthen enforcement

mechanisms and enhance disclosure standards to promote accountability and protect minority shareholders in volatile environments.

### 5.1 RESEARCH LIMITATION

This study acknowledges several methodological constraints that warrant consideration. First, the exhaustive manual data collection process, while ensuring accuracy, necessarily limited the sample size of analyzed firms, potentially affecting the statistical power and generalizability of findings. Second, our measurement of independent commissioners' oversight role relied solely on board proportion metrics, which fails to capture qualitative aspects such as professional competencies or actual engagement in governance processes that might better explain their effectiveness. Third, the quantitative nature of this research could not incorporate critical contextual factors like stated rationales for RPT approvals or negotiation dynamics between shareholder groups. Additionally, while robust standard errors were employed to address heteroskedasticity, the presence of autocorrelation—as detected by the Wooldridge test—remains unaddressed, which may affect the efficiency of coefficient estimates and the reliability of statistical inferences. Most notably, the low  $R^2$  values in our regression models suggest either the omission of significant predictors (e.g., familial relationships between directors) or potential measurement errors in transaction classification. While these limitations constrain the scope of our conclusions, they present valuable opportunities for future research to employ expanded datasets, mixed-method approaches, and refined model specifications.

### 5.2 SUGGESTION

Future studies could employ several methodological improvements. First, machine-

assisted data collection techniques, where available, could expand sample sizes while maintaining data accuracy. Second, researchers might complement board proportion metrics with qualitative assessments of independent commissioners' competencies through director qualification analyses or board meeting attendance records. Third, mixed-methods approaches incorporating interviews with audit committee members could uncover the contextual rationales behind RPT approvals. Additionally, future models could explicitly account for autocorrelation through techniques such as Newey-West standard errors, lagged dependent variables, or panel data estimation methods (e.g., fixed effects with clustered standard errors), particularly if time-series or longitudinal data are available. Finally, alternative model specifications incorporating additional control variables (e.g., familial relationships between directors, informal governance practices) may improve explanatory power for non-business RPTs.

### 5.3 IMPLICATION

The findings carry significant theoretical, practical, and policy implications. Theoretically, they reinforce the context-dependent nature of corporate governance mechanisms, emphasizing to amplify effectiveness of board independence and the role of ownership transparency. Practically, investors should exercise heightened scrutiny when evaluating family-controlled or highly leveraged firms, as these entities exhibit elevated tunneling risks. For regulators, the results underscore the urgency of mandating UBO disclosure and strengthening enforcement to enhance the credibility of voluntary transparency initiatives. Enhancing independent commissioners' authority to further empower them to challenge opportunistic RPTs effectively. At the corporate

level, firms should prioritize governance maturity, particularly as they scale, to align with the accountability observed in older, larger entities. Globally, these insights advocate for OECD-led harmonization of RPT regulations to mitigate cross-border expropriation risks. By

addressing systemic institutional deficiencies, policymakers and practitioners can foster equitable growth and safeguard minority shareholders in Indonesia and analogous markets.

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