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The Impact of Related Party Transactions on Company Performance Manufacturing Companies Listed on the Indonesia Stock Exchange

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Abstract

This study aims to determine the effect of related party transactions (RPTs) on the performance of manufacturing companies listed on the Indonesia Stock Exchange during the period 2020-2021. This highlights the ongoing concerns over the potential for fraud associated with RPTs, which can create significant agency problems, particularly between controlling shareholders and minority shareholders. This study confirms that RPTs can have both positive and negative impacts on economic performance, depending on how they are managed. While strong indications emerge from the literature that RPTs enhance firm value through effective resource allocation, there are important risks such as tunneling practices that can exploit minority shareholders. This methodology employs quantitative analysis using multiple regression on data from 30 selected manufacturing companies. Key findings reveal a significant positive relationship between RPTs and return on assets (ROA), confirming that related party transactions can generate financial benefits by maximizing profits while minimizing transaction costs. In addition, firm size and leverage are identified as crucial factors influencing performance, indicating that larger firms with substantial asset bases generally achieve better profitability metrics. Overall, this study underlines the complexity of related party dynamics within the corporate governance framework and suggests regulatory measures *to protect the interests of minority shareholders while leveraging RPTs for corporate growth.*

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Keyword: Related Party Transactions, Company Performance Manufacturing

INTRODUCTION

Intercompany transactions involving related parties are particularly concerning due to the risk of fraud. Consequently, corporations affiliate with business groups due to their significant impact on the economy and their ability to address financial challenges. Tambunan et al. (2017) indicate that companies listed on the Indonesia Stock Exchange represent approximately 50% of total capitalization. Business groups can also be classified as holding companies due to the legitimate intercompany affiliation that facilitates integrated business governance and decision-making. Organizations participating in business groups benefit from internal financial markets. This is illustrated by the ability to distribute capital and generate economic returns, especially when external financing is limited, thereby enhancing company value and performance (Yaputri et al., n.d.). Consequently, the existence of these internal financial markets can lead to significant agency problems and impact company performance.

Conflicts between principals (shareholders) and agents (company managers) create agency difficulties, which lead to problems with related-party transactions. In contrast, agency problems are not disputes between managers and shareholders, but rather disagreements between controlling owners and minority shareholders. Disputes between dominant and minority shareholders can lead to takeovers. Minority shareholders can be negatively impacted by takeovers initiated by majority shareholders. Related-party transactions can increase corporate profitability by reducing transaction costs; however, they can also trigger agency problems due to shareholder conflict (Dresti & Fau, 2021).

Transactions between affiliated entities within a corporate group can impact a company's financial performance both positively and negatively. Lubis et al. (2013) stated that related-party transactions, in accordance with PSAK 7, use the criteria of loans or receivables with related parties in manufacturing companies, and determined that this variable positively and significantly affects firm value. Pratama (2018) examined the influence of related parties on manufacturing company performance, using business size and leverage as control variables, and concluded that related-party transactions affect firm value.

Research conducted by Gabe Richard and Elizabeth Sugiarto Dermawan (2022) shows that company size negatively impacts ROA. Larger companies have higher operating costs and expenses. A company's net return on assets is measured through

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Return on Assets (ROA). Efficient utilization of operational assets can generate significant revenue (Afifah & Ramdani, 2023). Companies seek to assess their scale to improve Return on Assets (ROA), as companies with larger total assets often generate higher revenues.

Thus, related-party transactions benefit companies because shareholders do not view them negatively. This study aims to explore the topic of related-party transactions listed on the Indonesia Stock Exchange in more depth in 2020-2021. This study begins with a literature review addressing emerging agency theory issues and, more specifically, related-party transactions.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Agency Theory

Agency theory explains the dynamics of decision-making between principals, particularly shareholders, and agents, particularly company management. Agents are crucial in a company, particularly in managing and overseeing company resources and helping principals achieve their goals. The involvement of individuals in company operations can lead to conflict between shareholders and management. Agency theory states that controlling shareholders have an advantage over managers, particularly through their ability to minimize overhead costs and their correlation with profit and loss in company performance (Yaputri et al., n.d.). This control should benefit other shareholders. Unlike minority shareholders, controlling shareholders may be more actively involved in company management and possess more accurate knowledge of company operations (Nailiah et al., n.d.). Consequently, majority shareholders can set significant objectives for the operational effectiveness of a manufacturing company. Agency theory suggests that controlling shareholders have an advantage in managing executives due to their ability to exert influence with minimal costs and the correlation between profit and loss and company performance (Aditya & Efendi, 2021). Therefore, if related-party transactions benefit the company, financial supervisors will approve such choices.

Corporate Performance

Corporate performance is a measure of an entity's measurable activities over a specific period that contribute to its success and financial health throughout that period (Amelia et al., 2024). According to Fitriana and Lucky Dwi Nurhadi (2017), a company's efficiency, effectiveness, and economy are indicators of its health and performance.

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Efficiency is measured based on the ratio between output and input, while effectiveness is assessed based on the amount of output that contributes to organizational goals (Rachman et al., 2023). A corporation is considered successful and operating well if it can survive, grow, and generate profits in each period (Nuru Syifa et al., 2021).

Related Party Transactions

PSAK No. 7 stipulates that related party transactions (RPTs) involve the transfer of resources, services, and obligations between related entities. Furthermore, if applicable, fees will be charged. Related party transactions are conducted by controlled entities for related companies, members of the board of directors, and substantial shareholders of entities under common control. Wijaya et al. (2011) stated that related party transactions can impact a business both favorably and adversely. Embezzlement, which occurs when a controlling owner prioritizes personal interests over business objectives to the detriment of minority shareholders, negatively impacts related party transactions (Supatmi & Wukirasih, 2022). Consequently, related party transactions are more vulnerable to takeovers, and dominant owners commit embezzlement by seizing the interests of minority shareholders instead of supporting them (Tambunan et al., 2017). Tunneling refers to the process of related party transactions that divert funds from a subordinate company to a superior company within a business group hierarchy, while propping involves the reverse movement of funds (Friedman et al., 2003).

HYPOTHESIS DEVELOPMENT

Related party transactions influence company performance.

Company performance can be significantly influenced by transactions between related parties. Related party transactions represent agreements signed by parties with unique relationships, where these parties are considered to have the power to control or influence the other party's decision-making (Supatmi & Widawati, 2021). Supatmi & Wukirasih, 2022, found that businesses participating in related party transactions often trade resources, including assets, commodities, or services, under circumstances that may not be as ideal as if they were engaged in individually.

H1: Related party transactions positively influence company performance.

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Framework of thinking



Figure 1. Thinking Framework
Source: Data processed by researchers, 202

METHODOLOGY

Population and Sample

In this quantitative study, the researchers used descriptive statistics and multivariate linear regression calculations. The participating manufacturing companies were listed on the IDX. Thirty manufacturing companies traded on the Indonesia Stock Exchange were included as the sample for this study.

Operational Variable

The dependent variable in this study is company performance, which is evaluated by return on assets (ROA). Return on Assets (ROA) is calculated using the formula net profit divided by total assets (Husna & Satria, 2019). Two types of related party transactions (RPTs)—complex RPTs and simple RPTs—served as independent variables. Complex RPTs consist of purchases from related parties (RP_PURCH), which is calculated by dividing total purchases from related parties by net purchases, and sales transactions to related parties (RP_SALES), which is determined by the ratio of total sales to related parties to net sales. Transactions receivable to related parties (RP_REC), which are measured by dividing total debt to related parties by total assets (Hendratama & Barokah, 2020), and transactions payable to related parties (RP_PAY), which are measured by dividing total receivables to related parties by total assets (Tambunan et al., 2017), are the basic RPT.

RESEARCH METHOD

The hypotheses were tested using STATA software in this quantitative study design. The study data used were secondary data collected from financial records.

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Research Model

ROA = β0 + β1RP_SALESit + β2RP_PURCHit +β3 RP_RECit + β4 RP_PAYit

Information: RP_SALES = Related party sales; RP_PURCH = Related party purchase; RP_REC = Related party receivable;RP_PAY = Related party payable; LEV = Leverage (Debt to asset ratio); CFRIG = Cash flow right; FSIZE = Firm size.

RESULTS

Descriptive Statistical Analysis

Table 1. Results of Descriptive Statistical Analysis

Variable	Mean	Std. Dev.	Min	Max
ROA	7.684	14.901	0.033	83.457
RPT	0.223	0.111	0.047	0.562
RP_REC	0.391	0.889	0.001	5.737
RP_PAY	0.405	0.1.146	0.000	7.946
RP_PURCH	0.478	0.302	0.091	1.570
RP_SALES	0.109	0.073	0.021	0.340

Source: Data management with SPSS, 2025

The table below shows the descriptive statistics for various financial variables and company performance. The average Return on Assets (ROA) was 7.684, with a fairly large standard deviation of 14.90, indicating significant variation in financial performance across companies. The lowest recorded ROA value was 0.033, while the highest reached 83.45. Related Party Transactions (RPT) had an average of 0.223 with a standard deviation of 0.11, reflecting relatively small transactions between companies and related parties, with a minimum value of 0.04 and a maximum of 0.56. Tobin's Q, which indicates the ratio of market to asset value, had an average of 0.929, with a standard deviation of 0.368. The lowest recorded Tobin's Q value was 0.333 and the highest was 1.943. In the Related Party Receivables (RP_REC) variable, the average related receivables is 0.391, with a high standard deviation of 0.889, indicating large variations between companies, with a minimum value of 0.001 and a maximum of 5.737.

Related Party Payables (RP_PAY) showed an average of 0.405, also with a fairly large standard deviation of 1.146, indicating instability in debts to related parties, with a

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lowest value of 0 and a highest of 5.737. Related Party Purchases (RP_PURCH) had an average of 0.478 and a standard deviation of 0.302, while the lowest purchase value was recorded at 0 and a highest of 7.946. Related Party Sales (RP_SALES) showed an average of 0.109, with a standard deviation of 0.073, indicating smaller variations in sales to related parties, with a minimum value of 0.021 and a maximum of 0.340. Growth Rate (GROWTH) had an average of 0.600, with a standard deviation of 0.930, reflecting highly variable growth rates between companies, with a lowest value of -0.668 and a highest of 3.003. Leverage (LEV) shows an average of 0.361, with a high standard deviation of 0.921, indicating a large variation in capital structure between companies, with a minimum value of 0.001 and a maximum of 6.61. Cash Flow Return on Investment (CFRI) has a very high average of 49.850, with a standard deviation of 16.045, indicating significant variation between companies, with a lowest value of 20.347 and a highest of 77.776. Finally, Firm Size (FSize) shows an average of 21.993 with a standard deviation of 3.066, with a lowest value of 17.894 and a highest of 25.314, indicating quite varied company sizes in the sample used. Overall, this table provides an overview of the distribution of financial data and performance that varies between companies involved in this study.

Multiple Linear Regression Analysis Test

Table 5. Multiple Linear Regression Test Results

	Unstandardized Coefficients		
	B	t	sig
Constant	.389	.721	.523
Party transactions relate	.102	3.341	.009

Source: Data management with SPSS, 2025

The analysis of the table above, in the Unstandardized Coefficients column, shows that the constant value is 0.389, indicating that if the Related Party Transactions variable experiences a one-unit increase of 0.102, the Return on Assets variable will increase.

DISCUSSION

Related Party Transactions on Company Performance

Two variables were tested: Related Party Transactions on Company Performance. The test used Related Party Transactions to determine the results of the test on Company

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Performance. Based on the test results, the coefficient of the Related Party Transactions variable (B1) was 0.102, with a positive direction, indicating that Related Party Transactions positively influence Company Performance. The t-test results also showed a significant value of 0.009 <0.05. This finding supports the hypothesis testing results regarding the relationship between Related Party Transactions and Company Performance. Therefore, these results indicate that Related Party Transactions significantly and positively influence Company Performance, thus accepting the first hypothesis.

Related Party Transactions involve the transfer of resources, services, or obligations between a reporting entity and a related party, regardless of whether the transfer incurs costs (IAS 24, 2021). Kohlbeck and Mayhew (2010) divide related party transactions into two types: basic and complex. Basic transactions have a minimal number of financial statement accounts and related parties, with a third party capable of replacing the related party without significant consequences. Complex transactions involve multiple financial statement accounts and related parties, often involving conditions that obscure their effect on the financial statements.

CONCLUSION

Related Party Transactions (RPTs) have a substantial and beneficial impact on company performance, particularly in increasing Return on Assets (ROA). A higher frequency of related party transactions correlates with an increased beneficial effect on company profitability, provided these interactions are managed effectively.

This research shows that related-party transactions (RPTs) can serve as a strategic tool to optimize revenue and reduce transaction costs; however, these transactions also carry inherent risks, including the practice of "tunneling," which involves the exploitation of power by controlling shareholders at the expense of minority shareholders. Therefore, strict inspection and regulation are needed to protect the interests of minority shareholders.

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