




“The moderating role of audit quality and firm size in the effect of corporate governance on related party transactions: Evidence from Indonesia”

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THE MODERATING ROLE OF AUDIT QUALITY AND FIRM SIZE IN THE EFFECT OF CORPORATE GOVERNANCE ON RELATED PARTY TRANSACTIONS: EVIDENCE FROM INDONESIA

Abstract

This study aims to analyze the essential corporate governance determinants of related party transactions (RPTs) in Indonesia. Based on a hand-collected sample of three business groups of small, medium, and large-cap publicly listed firms on the Indonesia Stock Exchange (IDX) for 2013–2019, panel regression results find that foreign shareholders and firm size have a significant effect, at -2.402 and 0.248 , respectively. The moderating model of audit quality shows that domestic shareholders, foreign shareholders, and firm size are significantly negatively associated, with -5.627 and -5.958 at 5%, respectively. Similar results show that foreign shareholders and independent commissioners significantly negatively affect related party transactions at -2.864 and -1.845 , moderating the firm size at 10% and 5%, respectively. The moderation of regression results also indicates that audit quality and firm size tend to strengthen negative effects on the association between related party transactions and corporate governance. The moderation interaction confirms that audit quality will determine that domestic and foreign shareholders tend to increase the number of affiliate transactions. The interaction of complete information quality will force domestic and foreign shareholders to increase the role of affiliate transactions in creating firm value. The larger size of the firm, which is owned by foreign shareholders, will increase the intensity of cross-border related party transactions through the combined effects in the context of internationalization with a tendency of expropriation and transfer pricing practices, which can reduce government tax incomes.

Keywords corporate governance, related party transactions, business group, audit quality, firm size

JEL Classification G32, G38

INTRODUCTION

National business entities in emerging markets create domestic, regional, and even multinational business groups that carry out related party transactions (hereafter as RPTs) based on business developments and economic globalization. However, related party transactions tend to be abusive rather than positive if they are not controlled by corporate governance with the support of stakeholders. RPTs have been identified as direct indicators of wealth exploitation (Saleh, 2021; El-Helaly, 2018). The OECD's latest summit emphasized that Asian nations should adopt a comprehensive strategy to monitor and regulate abusive RPTs as a threat to corporate governance in the region. Among the accounting scandals involving corporations such as Enron, WorldCom, Adelphia, and Tyco in the United States, related party transactions emerged as the primary source of concern (Tambunan et al., 2017). These cases demonstrate how insiders exploit RPTs to further expropriate minority shareholders' interests. RPTs are not legally

prohibited because they are considered typical business transactions and assist the efficient resource allocation among affiliated firms within business groups (Rasheed et al., 2019).

This is a severe corporate governance problem, and to resolve it, it is necessary to examine which corporate governance processes in Indonesia fail and thereby facilitate asset appropriation (Santosa, 2020; Hendratama & Barokah, 2020). Even if corporate governance is better implemented, minority shareholders are still under-protected (Suk et al., 2019). While these transactions are apparently fair, they frequently favor the principals involved (for example, managers, major shareholders, or their affiliates). Along with numerous other frauds in Indonesia, this scandal has prompted renewed attention in the relationship between corporate governance and RPTs and their influence on capital markets (Tambunan et al., 2017). This condition makes special challenges more complicated for regulators in their efforts to improve the implementation of corporate governance in multinational companies (MNCs) and national business groups as they have the opportunity to regulate related party transactions. Arrangements for related party transactions between business entities and cross borders are carried out for the principal and related managers (Sari & Baridwan, 2014; Rathke et al., 2020).

In general, the key instrument used by MNCs and business groups is to manipulate transfer pricing between business entities within the business group (transfer mispricing). Furthermore, Liu et al. (2017) and Klassen et al. (2017) found that the motivation for “transfer pricing manipulation” is to avoid taxes through the transfer of business group profits across business entities and cross-border by increasing the intensity of RPT. Recently, OECD countries and emerging market countries have been increasingly interested in developing related party transaction practices that are increasingly intensive and tend to be manipulated (Cristea & Nguyen, 2016). There is the problem of related party transactions in Indonesia, where business groups (or conglomerates) and MNCs take advantage of the flexibility of deviant affiliate transactions to take over minority shares and avoid taxes legally (Tambunan et al., 2017). RPTs have long been perceived as a way for majority shareholders to expropriate minority shareholders through a variety of means, including related party asset sales, receivables, loans, and even trading affiliations (Bansal & Thenmozhi, 2020; Richardson et al., 2013).

Due to the growing practice of manipulating global transfer prices, including in Indonesia, the latest regulation regarding transfer pricing has been issued, namely No. 213/PMK.03/2016 or better known as PMK-213, as a new provision for transfer pricing documents. The new regulation regulates the master document/local document report per country for Taxpayers who conduct transactions with parties with a special relationship. Previously, The Financial Services Authority (OJK) had issued regulations based on the Decree of the Chairman of Bapepam-LK No. 412/BL/2009 as last amended by Regulation of the Financial Services Authority of the Republic of Indonesia No. 42/POJK.04/2020 concerning Affiliated Transactions and Conflicts of Interest in Certain Transactions. However, violations of affiliate transactions still occur on the Indonesia Stock Exchange (IDX), including the loss of potential tax as a source of state revenue. This decision is in line with the OECD recommendation on affiliate transactions, also known as BEPS Action 13. In general, the stipulation of RPT regulations aims to enhance the implementation of corporate governance in business groups and reduce potential tax losses due to affiliate transactions that business groups often misuse on the IDX.

1. LITERATURE REVIEW

Two distinct viewpoints can help explain why firms are committed to related party transactions. The first views related party transactions as an efficient approach to contracting in the absence of complete information (Downs et al., 2016).

According to this view, related party transactions are critical in a market economy because they help businesses meet basic requirements, reduce transaction costs, and facilitate the implementation of fundamental property rights and contracts (Bona-Sánchez et al., 2017). Thus, given the presence of a slow-developing external market that creates

high transaction costs, related party transactions are expected to increase efficiency, promote better business relations, long-term profits, and reduce uncertainty in the economic environment, resulting in corporate business risks. Wong et al. (2015) discovered that related party sales have a favorable effect on firm value when applied to a sample of Chinese publicly traded businesses. This growth in value, however, was significantly reduced as a result of the parent director's dominant role, significant government ownership, or tax evasion incentives frequently associated with management lease extraction operations.

The globalization of business groups adds to the agency problem, as management requires a commensurate increase in discretionary power. This development needs proper corporate governance frameworks for business groupings to ensure management and shareholder interests are aligned (Rasheed et al., 2019; Saleh, 2021). Despite the importance of corporate governance factors in developing multinational corporations, relatively few literature sources have explored various governance factors that can affect RPTs in emerging markets. Globalization of MNCs requires more excellent information processing (big data) and knowledge of international markets, and emphasizes the role of internationalized ownership structures (Becker & Runkel, 2013; Santosa, 2020a). On domestic side, as indicated by Suk et al. (2019), family-based ownership concentration can be identified through stock pyramids and cross-ownership. Additionally, the function of the relationship-based business as a reflection of Indonesia cultural orientation toward families and group membership is completely apparent.

Santosa et al. (2020) and Bena and Ortiz-Molina (2013) stated that the ownership structure tends to be concentrated in emerging markets with controlling shareholders consisting of families or the state. Firm value with concentrated shares provides an opportunity to maximize majority shareholder wealth through related party transactions (Kang et al., 2014). Based on this, related party transactions can be used as an efficient market internalization tool. Still, on the other hand, it can also be negative as a tool that allows the expropriation of majority shareholders to minority shareholders through earning management

(Tambunan et al., 2017; Merle et al., 2019). The opposite understanding sees RPTs as a vehicle for transferring resources from a firm to affiliated parties. In this sense, business associations' owner-managers have significant incentives to divert resources from member firms, and they exploit investment and financing decisions to use it (Wong et al., 2015; Bona-Sánchez et al., 2017). Controlling stockholders can expropriate minority shareholders in a variety of ways in organizations with poor corporate governance. One of these is through transactions involving affiliated parties. Bad governance is correlated with poor financial reporting, including earnings manipulation, restatements, and fraud (Hasnan et al., 2016).

Saleh (2021) and Tambunan et al. (2017) argue that there are two RPTs hypotheses: the propping up and the internal capital market. For propping up, it is intended to support the performance of business groups by transferring funds from stronger companies to companies that need capital in one business group. This practice is generally related to IPO activities or rights issues of affiliated firms in the next period and reports lower income than the last period, so it needs to be propped (El-Helaly, 2018; Chee Yoong et al., 2015), in propping abnormal sales to affiliates. Furthermore, the internal capital market hypothesis implies using affiliate transactions as a substitute for arm-length markets. Juliarto et al. (2013) found the effect of managerial ownership on tunneling behavior in several ASEAN countries, which supports the hypothesis regarding a positive relationship between managerial ownership and the expansion of tunneling as an effort to tax avoidance. Firms in the business group that require internal capital are characterized by increased capital expenditure and working capital with low lending and guarantee rates to affiliates and high lending rates from affiliates (Dow & McGuire, 2009). Munir et al. (2013) and Lo et al. (2010) mention that corporate governance plays an essential role in balancing the positive and negative effects of RPTs on firm value and tax avoidance.

Moreover, Cheung et al. (2006) in the Hong Kong capital market found an interesting thing, such as the effect of affiliate transactions on the expropriation of minority shareholders. They further stated that they found specific evidence that the business

group traded transactions at a discounted valuation before the takeover. This result shows that investors cannot estimate expropriation and revalue the firm only when a takeover occurs. Wang et al. (2019) and Santosa et al. (2020) suggest that individual firms have some power to prevent the expropriation of minority shareholders if legal protections are inadequate. These transactions typically involve diverse, complex, and undisclosed business transactions between companies and parties, such as directors, controlling shareholders, and other business affiliates. Related party transactions present opportunities to expropriate firm resources and provide managers with incentives to carry out earnings management (Munir et al., 2013; Bona-Sánchez et al., 2017).

The implementation of corporate governance is one of the best alternatives to increase information transparency of business group issuers to reduce the increasing prevalence of RPTs manipulation in business groups in Indonesia. This study addresses the relationship between essential corporate governance variables such as domestic and foreign shareholders, independent directors and commissioners, and audit quality and firm size moderating. The paper explores the moderating role of audit quality and firm size in the RPTs panel model related to corporate governance in affiliated corporations to increase symmetric information in Indonesian business groups.

2. HYPOTHESES DEVELOPMENT

The empirical results of several previous studies summarized the association between RPTs and corporate governance in general. To begin, corporate governance quality is adversely linked with the amount of RPTs, establishing a consistent negative relationship across a variety of RPT intensities and types. Additionally, at various levels of RPTs, the propping up and internal capital market hypotheses are somewhat validated. Finally, corporate governance moderates the relationship between these conditions and RPTs (Yeh et al., 2012). There is also a negative correlation between corporate governance and RPTs, which is not focused on board structure and RPTs. Still, it is possible to analyze corporate governance and RPTs research

from a broader perspective, in which a firm is divided into sub-items or integrated into a composite index, and RPTs can be analyzed. Itemization into related asset sales, related borrowing, and related lending and guarantees (Ryngaert & Thomas, 2012; Yeh et al., 2012).

The ownership pyramid enables the dominant owner to have tight control over the firm while investing low capital, by separating ownership (cash flow) from control (voting rights). This ownership structure and the power of shareholders to recruit and nominate directors who will operate in their economic interest might improve the likelihood of RPT abuse (Suk et al., 2019; El-Helaly et al., 2018). Agency conflicts between dominant and minority shareholders often occur in emerging markets where dominant shareholders take over minority shareholders through various means, for example, RPTs (Wang et al., 2019). Controlling shareholders can seize money from minority shareholders in a variety of ways, including self-dealing transactions, preferential loans, asset transfers, and acquiring additional shares at a desired price (Yeh et al., 2012).

Juliarto et al. (2013) discovered a positive correlation between management ownership and the deviation rate of regression similarity tests. Another significant conclusion is that the business environment, ownership structure, independent directors and commissioners, and audit quality can serve as governance tools that are ineffective at completely preventing propping or tunneling conduct. Several other previous studies explain the association between related party transactions and corporate governance related to audit quality and tax avoidance (Sikka, 2018; Tambunan et al., 2017; Lo et al., 2010). In addition, several studies state that firm size has a moderating effect on the implementation of corporate governance in business groups (Santosa, 2020b; Fooladi & Farhadi, 2019). In general, their findings support good corporate governance because it can reduce the potential for RPTs, which tends to be abusive. In addition, the result of good corporate governance also encourages an increase in firm value through reasonable RPTs (Hendratama & Barokah, 2020).

The important role of corporate governance is to monitor the disclosure of financial information re-

regardless of information asymmetry so that stakeholders get more balanced information with management (Santosa et al., 2020; Yoon & Jin, 2021). So, the quality of disclosure of better RPT information is generally audited by big-four accounting firms because the opinions submitted to the public are more accurate and reliable (Yoon & Jin, 2021). Therefore, related party transactions in Indonesia can be used by shareholders in a business group for propping up, tunneling or expropriation if corporate governance is not appropriately implemented. Therefore, the direction of the relationship between RPTs and corporate governance is still a theoretical and empirical question, so the hypotheses of this study are as follows:

H1: There is an association between corporate governance and RPTs in a business group.

H2: Audit quality moderates the effect between corporate governance and RPTs in business groups.

H3: Firm size moderates the effect between corporate governance and RPTs in business groups.

3. DATA AND METHOD

3.1. Population and sampling

The selection of business groups is carried out through purposive sampling according to the typology criteria in the population of business

groups that were traded on the Indonesia Stock Exchange during the 2013–2019 period. The typology of three business groups is classified based on market capitalization (Santosa et al., 2020; Tambunan et al., 2017), which is divided into capitalization categories, namely 1) business group capitalization above IDR 300 trillion (large group), (2) business group capitalization of IDR 150-300 trillion (medium group), and (3) business group capitalization below IDR 150 trillion (small group). Secondary data were obtained from various sources such as IDX (<https://www.idx.co.id/>), ICaMEL and the website of the Astra International business group, Tbk as a proxy for a large business group of seven companies (<https://www.astra.co.id/>), Lippo Group, Tbk (<https://lippogroup.com/>) with nine companies (medium group), and Bakrie Brothers, Tbk (<https://bakrie-brothers.com/>) with six companies.

3.2. Research variables and measurement scale

RPT is the dependent variable in this study, and the independent variables are domestic shareholder, foreign shareholder, independent director, and independent commissioner. Public auditor quality and firm size are used as moderating variables. More details can be seen in Table 1.

3.3. Empirical model

The specification model in estimating the parameters in this study is based on several previous studies on the association and correlation of RPT,

Table 1. Description of variables

Variables	Description/Formula	Abbreviation
Related Party Transaction	$RPT = \frac{\text{Value of RPT}}{\text{Total assets}}$	RPT
Domestic shareholder	$\frac{\text{Domestic ownership}}{\text{Total shareholder}}$	DSH
Foreign shareholder	$\frac{\text{Foreign ownership}}{\text{Total shareholder}}$	FSH
Independent director	$\frac{\text{Number of independent director}}{\text{Total director}}$	IND
Independent commissioner	$\frac{\text{Number of independent commissioner}}{\text{Total commissioner}}$	INC
Audit quality	Dummy: opinion of auditor big 4 = 1, otherwise = 0	AQ
Firm size	Log natural of total assets	Size

domestic shareholder, foreign shareholder, independent director, independent commissioner, audit quality, and firm size in business groups. The first model is constructed to analyze corporate governance of the firms in the panel regression with related party transactions and the moderating role of audit quality and firm size, respectively (Claessens et al., 2006; Merle et al., 2019; Lastiati et al., 2020; Hasnan et al., 2016; Yeh et al., 2012):

Model 1: Association of corporate governance with RPT and without considering the moderating effects of audit quality and firm size:

$$RPT_{it} = \alpha_{it} + \alpha_1 DSH_{it} + \alpha_2 FSH_{it} + \alpha_3 IND_{it} + \alpha_4 INC_{it} + \alpha_5 AQ_{it} + \alpha_6 Size_{it} + e_{it} \tag{1}$$

Model 2: Association of corporate governance with RPT and considering the moderating effects of audit quality:

$$RPT_{it} = \beta_{it} + \beta_1 DSH_{it} + \beta_2 FSH_{it} + \beta_3 IND_{it} + \beta_4 INC_{it} + \beta_5 AQ_{it} + \beta_6 Size_{it} + \beta_7 (DSH \cdot AQ)_{it} + \beta_8 (FSH \cdot AQ)_{it} + \beta_9 (IND \cdot AQ)_{it} + \beta_{10} (INC \cdot AQ)_{it} + \beta_{11} (Size \cdot AQ)_{it} + e_{it} \tag{2}$$

Model 3: Association of corporate governance with RPT and considering the moderating effects of firm size:

$$RPT_{it} = \delta_{it} + \delta_1 DSH_{it} + \delta_2 FSH_{it} + \delta_3 IND_{it} + \delta_4 INC_{it} + \delta_5 AQ_{it} + \delta_6 Size_{it} + \delta_7 (DSH \cdot Size)_{it} + \delta_8 (FSH \cdot Size)_{it} + \delta_9 (IND \cdot Size)_{it} + \delta_{10} (INC \cdot Size)_{it} + \delta_{11} (AQ \cdot Size)_{it} + e_{it} \tag{3}$$

where *RPT* (related party transaction), intercept, $\alpha_1 \dots \alpha_6$, $\delta_1 \dots \delta_{11}$, $\beta_1 \dots \beta_{11}$ – coefficients of the interaction variables, *DSH* – domestic shareholder, *FSH* – foreign shareholder, *IND* – independent director, *INC* – independent commissioner, *AQ* – audit quality, and *Size* – firm size (log natural), and moderating variables, respectively, *i* – firm, *t* – period, and *e* – error term.

4. RESULTS

4.1. Descriptive statistics

Based on the descriptive results, the following sample characteristics displayed in this study include average (mean), median, maximum value, minimum, and standard deviation for the dependent and independent variables, respectively. Table 2 shows that related party transactions are quite high, with an average *RPT* of 28.386. The summary statistics of the data is shown in Table 2.

Table 2. Descriptive statistics

Descriptive	RPT	DSH	FSH	IND	INC	AQ	Size
Mean	28.386	0.816	0.183	0.129	0.438	0.411	30.062
Median	28.402	0.895	0.104	0.100	0.400	0.000	30.249
Maximum	32.436	1.040	0.987	0.750	1.000	1.000	33.494
Minimum	23.982	0.012	0.000	0.000	0.000	0.000	21.906
Std. Dev.	1.727	0.217	0.217	0.159	0.141	0.493	1.652

Overall, the results of the descriptive analysis show relatively good data. There is no extreme data used for this study to provide comprehensive data.

4.2. Correlations

Table 3 presents the correlation analysis of criterion and predictor variables. The dependent variables are RPT, and the independent variables are DSH, FSH, IND, INC, Size, and AQ. RPT has a positive correlation with FSH, AQ and Size; the highest one is the correlation to the size as 0.734. Meanwhile, RPT has a negative correlation with IND, which is -0.138. However, RPT does not correlate with DSH and INC.

Table 3. Correlation analysis

Variable	RPT	DSH	FSH	IND	INC	Size	AQ
<i>RPT</i>	1.000						
<i>DSH</i>	-0.202	1.000					
<i>FSH</i>	0.201	-0.999	1.000				
<i>IND</i>	-0.138	0.075	-0.075	1.000			
<i>INC</i>	-0.018	0.005	-0.005	0.157	1.000		
<i>AQ</i>	0.368	0.079	-0.079	-0.211	-0.238	0.378	
<i>Size</i>	0.734	-0.217	0.216	-0.211	-0.006	0.378	1.000

The correlation between DSH, IND, INC, and AQ is positive. However, the relationship between FSH and IND, INC, and AQ is negative. Furthermore, the correlation of DSH with Size is negative, but FSH with Size is positive.

Table 4. Panel unit root test of the variables

Tests	RPT	DSH	FSH	IND	INC	Size		AQ
	Level	Level	Level	Level	First Difference	Level	Level	Level
LLC								
Statistics	-7.6262	-4.0960	-4.0995	-2.8699	-6.9488	-17.7306	-8.5712	NA
P-value	0.0000	0.0000	0.0000	0.0021	0.0000	0.0000	0.0000	NA
IPS								
Statistics	1.9547	-1.2876	-1.2908	0.10849	-3.3144	-3.7626	-2.6448	NA
P-value	0.0253	0.0989	0.0984	0.5432	0.0005	0.0001	0.0041	NA
Fisher ADF								
Statistics	70.5599	37.2695	37.3046	29.7455	67.7359	85.1006	89.0241	NA
P-value	0.0067	0.0707	0.0702	0.8822	0.0002	0.0002	0.0001	NA
Fisher PP								
Statistics	74.2407	48.0083	47.9778	29.0568	72.1495	65.8944	127.356	NA
P-value	0.0029	0.0054	0.0054	0.8998	0.0001	0.0179	0.0000	NA

4.3. Unit root test

In this study, the analysis begins with a unit root test to check the stationarity of the data before estimating the model using panel regression analysis. The stationary test is run to the original data, but not all of the data are stationary at the level. INC is not stationary at the level but at the first difference with $\alpha = 5$. Table 4 shows the detailed unit root test result for each variable.

The LLC test is predicated on the assumption that the existence of unit roots is consistent across cross-sections. The IPS and Fisher tests make no such assumption. As a result, the subsequent tests

assume that the unit root varies across cross-sections. Table 4 presents the LLC test result at the 5% significance level, and all the variables are stationary.

5. DISCUSSION

The study results are grouped into three models, which show that the independent variables presented in Model 1 include elements of the application of corporate governance principles. They are represented by proxies of the ownership structure, which includes a domestic shareholder (DSH) and a foreign shareholder (FSH) as proxies of own-

Table 5. Panel regression analysis results

Variable	Model 1		Model 2		Model 3	
Selected Model	Fixed Effect		Random Effect		Fixed Effect	
Dependent	RPT		RPT		RPT	
Constant	4.506	0.021	2.858	0.138	4.476	0.027
DSH	-2.402	0.211	-5.627	0.005	-2.864	0.151
FSH	2.597	0.089*	-5.958	0.003	-2.977	0.092*
IND	0.340	0.419	0.381	0.813	-2.335	0.825
INC	0.519	0.259	1.087	0.660	-1.845	0.035
Size	0.248	0.001	1.867	0.000	2.128	0.003
Moderating						
DSH*AQ			2.363	0.000		
FSH*AQ			2.523	0.000		
IND*AQ			-0.054	0.952		
INC*AQ			-0.273	0.834		
Size*AQ			-0.804	0.000		
DSH*Size					0.072	0.968
FSH*Size					0.030	0.043
IND*Size					0.076	0.823
INC*Size					0.656	0.029
AQ*Size					-1.089	0.001

Note: * means significance at 10%.

ership, proxies of the principle of independence that are seen through independent management through independent directors (IND), and independent supervision through independent commissioners (INC). The proxies of the principle of transparency are represented through audit quality and control variables through firm size.

The results of Model 1 in Table 5 are in line with the first hypothesis. There is an association between corporate governance and RPTs in business groups through a foreign shareholder and firm size. Morck et al. (1998) and Tambunan et al. (2016) found that share ownership below 25% will cause the intensity of affiliate transactions to tend to expropriate other shareholders, while share ownership above 25% tends to have owners not sabotage the value of a firm. In line with this, the tax provisions in Indonesia based on Article 18, paragraph 4 of the Income Tax Law state that a special relationship occurs if there is an ownership of 25% (twenty-five percent). The average foreign ownership in this study based on Table 5 is 18.3%. In other words, the tendency of foreign shareholders to expropriate is still very possible because the average ownership is below 25%.

Firm size in Model 1, Model 2, and Model 3 in Table 5 presents consistent results, significantly positively affecting affiliate transactions. Firm size is a determining factor in the increase in affiliated transactions, which allows us to understand if this is due to an increase in foreign shareholder ownership. The interaction of foreign share ownership and size will be a determinant in encouraging cross-border transactions in the context of internationalization and transfer pricing (Liu et al., 2017; Klassen et al., 2017; Sikka & Willmott, 2010). Firm size is very decisive in affiliate transactions because the larger the firm, the better the ability to cope with financial pressure (Hasnan et al., 2016). The findings of this study are also in line with Ying and Wang (2013) and Santosa (2020a), who state that firm size is an essential variable in the everyday activities of affiliate transactions.

The estimation results of Model 2 in Table 5 answer the second hypothesis. Audit quality moderates the association between corporate governance and RPTs in business groups. The estimation results before audit quality moderation show that

domestic shareholders and foreign shareholders significantly negatively affect affiliate transactions. This finding shows that the absence of audit quality affects the arrangement of incomplete information so that affiliate transactions are reduced to avoid inefficient contract mechanisms (Ryngaert & Thomas, 2012). However, moderating audit quality produces the opposite result, namely: domestic shareholders and foreign shareholders increase affiliate transactions because they have incomplete information to maintain efficient contracts. These results indicate that practical corporate governance arrangements for business groups will ensure alignment between the interests of management and shareholders, both domestic and foreign (Maigoshi et al., 2018).

The estimation results of Model 3 in Table 5 answer the third hypothesis. Firm size moderates the association between corporate governance and RPTs in business groups. Before moderating, the estimation results show the same results as Model 2, namely, foreign shareholders have a significant negative effect on affiliate transactions. However, after being moderated by firm size, the result is that foreign shareholders do not have a negative effect on affiliate transactions. This result is ambiguous with the estimation result of Model 1, where foreign shareholders have a positive effect on affiliate transactions. Further analysis to explain this through the literature states that the presence of audit quality and firm size is a way for foreign shareholders to balance the positive and negative effects of RPTs on firm value and tax avoidance (Munir et al., 2013; Lo et al., 2010; Yeh et al., 2012).

The next interesting Model 3 estimation result is that the independent commissioner significantly negatively affects affiliate transactions. However, after being moderated, firm size shows a positive effect on affiliate transactions. These results prove that the larger the firm is, the more flexible the independent commissioner is in approving the firm's affiliate transactions. This result is in line with Fooladi and Farhadi (2019) and Wang et al. (2019), who state that firm size has a significant moderating effect on the implementation of corporate governance in business groups. However, it will maintain independent commissioners' monitoring function through audit quality moderation. This result can be seen in the following Model 3,

which shows that the firm size has a positive effect on affiliate transactions before moderation. Still, after moderation, audit quality negatively affects affiliate transactions. These results are in line with the important role of corporate governance in monitoring the disclosure of financial statement information, regardless of information asymmetry, so that stakeholders receive more balanced information with management (Santosa et al., 2020; Yoon & Jin, 2021).

CONCLUSION

This study contributes to the existing literature on the relationship between auditor quality and firm size in terms of corporate governance in business groups in Indonesia. It also examines the moderating effect of audit quality and firm size on the independent variables through panel data analysis. The discussion results show interesting findings, especially those related to the moderating role of audit quality and firm size, which strengthens the association of corporate governance in related party transactions.

The results and discussion of the first-panel data model show that the elements of corporate governance in the form of foreign ownership variables and a control variable in the form of firm size are determinants that positively affect related party transactions. The discussion results show that the average foreign ownership is 18.3 percent, and the larger size of the firm in which foreign shareholders invest will lead to an increase in cross-border RPTs in the context of internationalization with a tendency of expropriation and transfer pricing practices that can harm government income.

They moderate the role of audit quality and firm size in the interaction of related party transactions with corporate governance variables. Moderation interaction confirms that audit quality will force domestic shareholders and foreign shareholders to tend to increase affiliate transactions. The interaction of complete information quality will make domestic and foreign shareholders increase the role of affiliate transactions in creating firm value. Furthermore, the moderating role of firm size shows the role of independent commissioners in increasing affiliate transactions and increasing firm size. However, at the same time, the balance of the monitoring function of independent commissioners is maintained through the interaction of audit quality.

LIMITATIONS AND AVENUE FOR FUTURE RESEARCH

Three limitations apply to this study: the independent variables, the study period, and the small business group under study. Additional research may include many other factors, primarily control variables such as fundamental ratios and investment, as well as macroeconomic variables such as inflation, interest rates, and currency exchange rates.

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