RELATED PARTY TRANSACTIONS AND EARNINGS MANAGEMENT IN MANUFACTURING COMPANIES IN INDONESIA

Erika Handayani
Shania Milla Christano
Retno Yuliati
Fognawati Budhijono
Prasetiya Mulya University School of Business & Economics
erika.handayani@student.pmsbe.ac.id
shania.christano@student.pmsbe.ac.id
retno.yuliati@pmbs.ac.id
fongnawati@gmail.com

ARTICLE INFO

Article history:
Received : 3 August 2021
Revised: 29 October 2021
Accepted: 1 November 2021

Keywords:
Expropriations Related Party Transactions, Accruals Earnings Managements, Real Earnings Management

DOI:
https://doi.org/10.33508/rima.v4i2.3334

ABSTRACT

This study examines the effect of the number of related party transactions (RPT) on earnings management through accruals and real earnings management in manufacturing companies listed on the Indonesia Stock Exchange (IDX). The effect of RPT is seen from the entire amount of RPT recorded in the company's financial statements divided by the company's total assets (RPTOTAL). This study uses secondary data from the S&P Capital IQ and company annual reports that the public can access on the IDX website. The sampling technique used purposive sampling. There were 732 observations from 164 manufacturing companies during the 2014-2018 period—data analysis using multiple regression with the fixed-effects model. The results showed that the amount of RPT has a significant positive effect on accrual earnings management. However, there is no effect of the RPT amount on real earnings management. RPT is a transaction carried out for expropriation of minority shareholders, and to cover RPT losses, management has an incentive to manipulate through earnings management. This study contributes to the effect of RPT on earnings management in manufacturing companies in Indonesia. This study is a valuable starting point for similar research in other developing countries.

INTRODUCTION

In the last decade, governance research has shifted from owner-management agency conflict (type 1 agency conflict) to conflict between majority shareholders and minority shareholders (agency conflict type 2) (La Porta, De-Silanes & Shleifer, 1999). Agency problems arise in companies with highly concentrated ownership structures. For example, families have the control that acts as both owner and management in the company (Claessens, Djankov & Lang, 2000). The research by Siregar and Utama (2008) found that almost 69% of companies listed on the Indonesia Stock Exchange adhere to concentrated ownership owned by families.

The family aims to enjoy personal benefits by controlling the company because they want to transfer the business to their children and grandchildren, employ siblings, and increase the family's reputation. All these personal benefits are enjoyed as long as the family retains voting rights. Families who have control within the company can protect the company's unique resources from take-over actions by companies that are not family (Sugiarto, 2010). The majority shareholder who acts as management has control to have more profits than the minority party. Private benefits are used to maximize personal welfare by distributing wealth from the minority (expropriation). The method used by transferring assets out of the company, which ultimately harms minority shareholders, is also known as "tunneling" (Johnson, La-Porta, De-Silanes & Shleifer, 2000).

This study highlights the use of Related Party Transactions (RPT) as an act of expropriation of majority shareholders through "tunneling" activities in the form of transfer pricing, transfer of assets to affiliates at lower prices, or providing loans to related parties. Alternative use of RPT as earnings management can be classified as an opportunistic act of majority shareholders to cover income from the public. This study highlights the use of RPT as an act of expropriation of majority shareholders through "tunneling" activities in the form of transfer pricing, transfer of assets to affiliates at lower prices, or providing loans to related parties. Alternative use of RPT as earnings management can be classified as an opportunistic act of majority shareholders to cover income from the public(Aharony, Wang & Yuan, 2010; Jian & Wong, 2010; Chen, Cheng & Xiao, 2011).

RPT is used as earnings management because it is difficult to audit (Johnstone & Beddard, 2004). For decades, earnings management and RPT have been essential aspects of financial reporting and have come under strict regulatory regulations after many corporate collapses (Kuan, Tower, Rusmin & Zahn, 2010). For example, Enron's scandal of misused accounting methods related to earnings management and financial fraud (Pizzo, 2011). Enron, proliferating, carried out expansion activities with several debts and covered this debt by establishing unique purpose entities (SPE). Enron manipulated earnings because it changed accounting policies by recognizing debt as revenue to deceive stakeholders. SPE is used to hide non-current assets payable by selling assets and getting cash from the SPE.

Nevertheless, the costs incurred are more significant than SPE's income, so that the company suffers a loss. In the end, Enron continued to recognize debt (within its affiliates) as revenue to manipulate revenue (Kroger, 2004). This view shows that RPT is used as earnings management. RPT activity has a significant positive effect on earnings management (Jian & Wong, 2004; Khanna & Palepu, 2000).

Along with the development of earnings management literature, Graham, Harvey & Rajgopal (2005) found that managers do more real earnings management to manage earnings. Cohen, Dey & Lys (2008) stated that the shift in earnings management from accrual to real began after the Sarbanes Oxley Act period. Some of the reasons managers tend to use actual activities rather than accruals are because accruals are very risky. After all, they are in the spotlight and attention of external auditors and the government. So, if managers only manipulate accrual-based earnings, it will risk the company because of the limited flexibility in reporting accrual activities.

Real earnings management is when managers take actions that deviate from operating activities to increase (Gunny, 2005). Management performs real earnings management by manipulating sales, excessive production, and reducing discretionary spending. With real earnings management, companies can increase profits in the current period. With an increase in earnings, management can directly provide information on good company performance, so that this research uses two proxies of earnings management, namely accrual and real earnings management, which are very interesting to study.

Research on the effect of RPT on earnings management is exciting to study because of the inconsistency of previous studies. Previous research found that RPT has a positive effect on earnings management. RPT is an abusive transaction to the detriment of minorities (Jian & Wong, 2004; Aharony et al., 2005; Chien & Hsu, 2010; Cheung, Rau & Stouraitis, 2006; Kang, Lee, and Lee, 2014). Contrary to previous research, it was found that RPT was not significantly related to earnings management. RPT is reasonable to compensate for the inefficient functioning of external markets, legal processes, and weak investors. The objective of efficient RPT transactions is conventionally valid for company operations, minimizing transaction costs, facilitating organizational development and structure, and meeting economic demands as a binding mechanism (Gordon & Henry, 2006; Kuan et al., 2010; El-Helaly, 2016; El-Helaly, 2018).

Second, the RPT literature on earnings management in companies in Indonesia is still scarce. This study adds to the previous literature by continuing Habid et al. (2017a) & El-Helaly (2018). The sample of companies in Indonesia is suitable as an object of research because of the large number of family companies with concentrated ownership structures that reflect the protection of minority investors and the weak public (Habib et al., 2017; Utama, 2015). Earnings management is one of the critical variables in accounting research, but it is still rare to find previous literature that directly investigates the effect of RPT on earnings management (Kuan, Tower, Rusmin & Zahn, 2010; Habid et al., 2017a; El-Helaly, 2018; Alhadab., 2020). Although there has been much previous literature investigating the negative consequences of RPT and tunneling, most researchers have only focused on the effect of RPT on market valuations (firms value or firm performance) (Chen, Chen & Chen., 2009; Bona Sanchez, Fernandez-Senra and Perez-Aleman, 2009). 2017; Gordon, Henry & Palia., 2004; Jian & Wong, 2004; Kang et al., 2014) such as Tobin's Q, market to book ratio, and ROA. Therefore, the researcher uses a direct proxy of earnings management by dividing it into two types of earnings management: accrual and real. The purpose of this study is to examine the effect of RPT on earnings management in manufacturing companies listed on the Indonesia Stock Exchange (IDX).

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Research The researcher uses a direct proxy of earnings management by dividing it into two types of earnings management: accrual and real. The purpose of this study is to examine the effect of RPT on earnings management in manufacturing companies listed on the Indonesia Stock Exchange (IDX). This research contributes to expanding the influence literature RPT disclosed by the company as real earnings management and accruals. The results show that the amount of RPT has a positive effect significant effect on accrual earnings management. These results suggest that RPT is used as a "tunneling" measure in Indonesia with high family ownership, consistent with the type 2 agency conflict theory.

RPT is carried out by transferring assets out of the company. It can help the company to control the conflict of interest between the majority shareholder and the company. Minority. Alternatively, it is used to manage profits and cover losses to cover the expropriation action carried out on an accrual basis (Jian & Wong, 2004; Aharony et al., 2005; Habib et al., 2017a; Marchini et al., 2018). However, there was no significant effect of the amount of RPT on real earnings management.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Agency Theory

Agency theory is defined as a conflict between the principal and the agent due to the different interests of both parties who want to maximize their respective profits (Jensen & Meckling, 1976). Agency theory is based on the existence of a contract where the principal, as the owner, delegates responsibility to the agent (Andrijasevic & Pacic, 2018). The separation between the management and ownership functions of the company causes agency conflicts. The interests between principals and agents are different because they maximize their profits which triggers asymmetric information and other opportunistic behavior and earnings management (Ballantine, Berle & Means, 1932). In developing countries with high family ownership, Agency problems arise from the relationship between controlling and minority shareholders, categorized into type 2 agency problems (Dharwakhar, George & Brandes, 2000; Panda & Leepsa; 2017).

The majority shareholder is usually the company's manager, while the minority is a small number of people who own the company's shares. In the RPT, agency problems occur between the controlling shareholder, who also acts as management, and the minority shareholder. RPT is used as a means of expropriating minority shareholders' wealth by transferring resources to its affiliated group or using earnings management to cover income for losses received by minority shareholders on RPT (Pizzo, 2003).; Chen et al., 2011). As a result of these expropriation activities, RPT affects the low value of the company (Gordon et al., 2004; Jian & Wong, 2004; Kang et al., 2014); low company performance (Chen & Chien, 2004), and is positively associated with earnings management (Sumiyana & Febrianto, 2012).

Profit management

Earnings management is a way for managers to influence the information in financial statements to deceive stakeholders about financial performance that affects accounting decisions based on reported figures (Healy & Wahlen, 1999). The company's earnings management efforts occur because of the motivation of capital market, contracting, and regulations.

Accrued Earnings Management

Accrual earnings management is widely used in various literature. Factors that encourage management to carry out accrual earnings management are widely used to manage income which should be the income desired by management (Tsipouridou & Spathis, 2012). Because only playing the accrual component will not require physical evidence in cash, playing with the accrual component's size does not have to be accompanied by cash evidence (Sulistyanto, 2008). Accrual earnings management occurs when managers change accounting policies to trick investors. This study uses the absolute value discretionary accruals modified by Jones as a proxy for accrual earnings management (Dechow et al., 1995).

Real Earnings Management

Along with the development of earnings management literature, earnings management has developed into two approaches: accrual and real earnings management. According to Roychowdhury (2006), real earnings management is when managers manage earnings directly on the company's operational activities. There are two main factors of earnings management shifting from accruals to real First; real earnings management is considered to capture real effects better than operating accruals that can bring risk to the company. Also, real techniques are considered harder to detect by auditors than accruals. Types of real earnings management include sales manipulations, decreased discretionary expenses, and excessive production. Companies that do real earnings management,

Related Party Transactions

RPT is the transfer of resources, the reporting entity's obligations with related parties, regardless of whether a price is charged (Indonesian Accounting Association, 2017). PSAK No. 7, effective as of 1 January 2017, regarding disclosing related party transactions to ensure disclosure of the required RPT such as transactions with affiliated parties, including commitments with parties that affect the statement of financial position and profit or loss. RPT is used as a means of expropriating minority wealth by transferring resources with its affiliated group or using earnings management to cover income for losses received by minority shareholders on RPT (Pizzo, 2003).; Chen et al., 2011).

Firms have incentives to allocate resources and tunneling to related entities that perform poorly (Friedman et al., 2003). As a result of these expropriation activities, RPT affects the low value of the company (Gordon et al., 2004; Jian & Wong, 2004; Kang et al., 2014); low company performance (Chen & Chien, 2004) and is positively associated with earnings management (Sumiyana & Febrianto, 2012).

Hypothesis Development

In the last few decades, RPT has become a concern for companies with ownership characteristics of a dominant managerial party and weak investor protection and security legal system (La Porta et al., 2006). In previous studies, RPT was potentially used to divert resources outside the company (tunneling) to benefit the majority shareholder, such as asset transfer to a controlling company (Johnson et al., 2000; Utama, 2015). The ability of majority shareholders to use RPT tends to make it difficult for investors to monitor RPT (Johnstone & Beddard, 2004). With the opportunity for management to expropriate, management has the authority to regulate the company's financial statements by hiding the impact of RPT losses through earnings management (Gordon & Henry, 2005).

Related Party Transactions have two different sides. Two motivations for RPT, first based on the theory of "Conflict Interest Hypothesis" RPT activity is used as tunneling by taking cash, selling assets, obtaining loans at preferential prices, transferring assets to other companies that are still in the same group, weakening minority interests by acquiring shares which are considered a mechanism for siphoning off the company's internal resources. Second, the "Efficient Contract Hypothesis" RPT is used for economic reasons to maximize the allocation of internal resources, reduce transaction costs because it fulfills governance rationalizations and economies of scale to reduce transaction costs.

RPT can help entities operate assets more efficiently because the RPT is run by parties who have the same control, thereby reducing management contract costs and making the negotiation process faster (Friedman et al., 2003; Chien & Hsu, 2010; Utama, 2015; Rohi-Mone, Budiansyah, Rinaningsih & Yuliati., 2020). Thus, it is still highly debated that RPT signals management to benefit its interests and can indicate opportunistic behavior, such as earnings management (Kang et al., 2014). Even so, efficient RPT still brings conflict between majority and minority shareholders (Utama, 2015).

To prevent opportunistic RPT and harm minority shareholders, the Financial Services Authority (OJK) made Financial Services Authority (OJK) regulation Number IX. E.1 of 2009 concerning affiliated transactions and conflicts of interest on certain transactions that must be published to the public to disclose the company's financial statements. However, management (controlling shareholders) who are the primary control holders of the company and are insiders can still take advantage of RPT transactions in managing company profits.

By default, RPT has the nature of expropriation, and one way is by tunneling, then the losses arising from these activities are covered by manipulating profits (Kang et al., 2014; Tong & Wang, 2008; Wang, 2006). As Kroger, 2004 explains, RPT can be used to do earnings management, such as using a Special Purpose Entity (SPE) at the Enron company to hide the company's debts and manipulate profits. Thus, the high number of companies conducting RPT on their affiliates is suspected of doing earnings management. Graham et al. (2005) divide earnings management practices into two, namely accruals and real. The existence of earnings management practices through accruals because the accrual component does not require physical evidence so that it plays with the size of the accrual policy not accompanied by cash received or issued by the company (Irianto, 2014).

However, until now, many companies have switched to using real earnings management rather than accruals. Cohen et al. (2008) stated that the shift in accrual to real earnings management began after the Sarbanes Oxley Act period to avoid detection by auditors and regulators. One of the reasons underlying the shift in accrual earnings management to real earnings management is the concern of auditors and regulators rather than decisions about pricing and production will be riskier if companies use accrual earnings management rather than accruals. Thus, the amount of RPT affects two groups of earnings management, namely those that are real and accrual. Thus the hypothesis can be formulated as:

Hypothesis 1A: The amount of RPT has a positive effect on accrual earnings management

Hypothesis 1B: The amount of RPT has a positive effect on real earnings management

<u>Framework</u>

The research framework is described in the form of a diagram as follows:

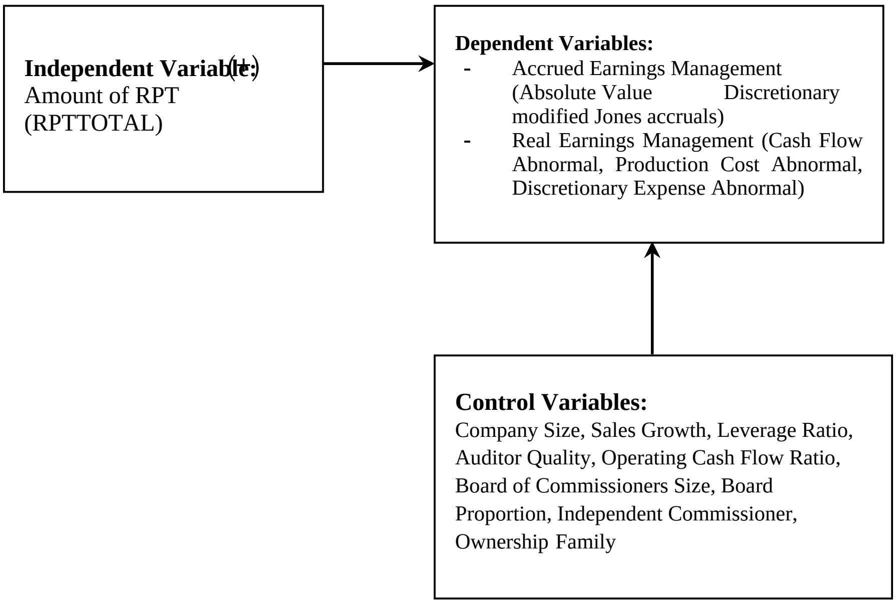

Figure 1. Conceptual Framework

RESEARCH METHODS

Population and Sample

This study aims to find the effect of RPT on accrual and real earnings management in manufacturing companies listed on the IDX in 2014-2018. The company's secondary financial data is taken from S&P Capital IQ and publicly accessible company annual reports. The study used a purposive sampling technique according to the research criteria. There are five main criteria, namely manufacturing industry companies listed on the IDX in 2014-2018, data on the amount of RPT is available in the company's financial statements, financial statements that have been audited by external audit, and earnings management ratio data is available on S&P Capital IQ. The total sample of the final research observations used was 732 total observations with a total of 164 manufacturing companies. The list of research samples can be described in the following table:

Table 1. Research Sample Acquisition

Sample Selection Criteria	Number of Companies	Number of Observations
Manufacturing companies listed on the IDX in 2014-2018	168	748
Companies with incomplete RPT	(4)	(16)
Companies used as samples	164	732

Variable Operationalization

Table. 2 Variable Operationalization

Variable	Indicator	Formula	Scale	Source
Dependent Variable				
ABSJONES 1995	Score Absolute Jones Modified Discretionary Accruals	$\frac{TAC_t}{TAi_{t-1}} = a_1 \frac{1}{TAi_{t-1}} + a_2 (\frac{\Delta REV_t - \Delta REC_t}{TAi_{t-1}}) + a_3 (\frac{PPE_t}{TAi_{t-1}}) + eit$ $DAC = \frac{TAC_t}{TA_{t-1}} - NDAC$ Information: TACt = total accruals DAC = discretionary accruals NDAC = non-discretionary accruals TAt = Total assets in the previous year research REVt = Difference in research year income with the previous year RECt = Difference in accounts receivable in the year of research with the previous year PPEt = Plants, properties, and equipment	Ratio	Dechow et al., 1995
RMPROXY	Real earnings management aggregate value	RMPROXY = (-1*(ABSCFO)) + (ABSPROD) + (-1*(ABSDISX)	Ratio	Cohen et al., 2008
Independent Variable				
RPTTOTAL	Amount of Related Party Transactions	The total amount of RPT/Total assets of the company	Ratio	Habib et al., 2017
Control Variable				
SIZE	Company Size	SIZE = Natural Logarithm(Total Revenue)	last name	Kang et al., 2014

Variable	Indicator	Formula	Scale	Source
Control Variable				
CFO	Company operating cash flow	Cash flow from activity operation end year/total assets at the end of the year	Ratio	Helaly., 2015
LEV	*Leverage Ratio*	LEV=Total Debt/Market Value Total Assets	Ratio	Helaly., 2015
BSIZE	Size Board Commissioner	Number of members of the board of commissioners in the company	Ratio	Helaly., 2018
BINDEPENDENCE	Proportion Board Independent Commissioner	Proportion independent board of commissioners to the number of members of the board of commissioners in the company	Ratio	Helaly., 2018
BIG4	HOOD that company use	Dummy Variables. 1 If BIG 4 audits sample companies, 0 otherwise	Ratio	Munir, 2014; Main, 2015; De Angelo, 1981
FAMOWN	Family Ownership	amount stock that owned by family/number of shares outstanding	Ratio	Wirawan & Diyanty, 2014

Research Model

There are two research models conducted using multiple regression in this study. The first and second research models are helpful for testing hypotheses 1a and 1b to see the positive effect of the amount of RPT on accrual and real earnings management. The measurement of accrual earnings management uses the modified absolute value of discretionary accruals Jones (ABSJONES, 1995), and real earnings management uses the aggregate value of the total value of real earnings management standardization. Research models 1 and 2 can be formulated as follows:

$$ABSJONES1995_{it} = \propto_0 + \beta_1 LOG(1+RPTAL)_{it} + \beta_2 LOG(1+RPTSE)_{it} + \beta_3 SIZE_{it} + \beta_4 GROWTH_{it} + \beta_5 CFO_{it} + \beta_6 LEV_{it} + \beta_7 BIG4_{it} + \beta_8 BSIZE_{it} + \beta_9 BINDPENDENCE_{it} + e_{it} \quad (1)$$

$$ABSJONES1995_{it} = \propto_0 + \beta_1 DUMMYRPT_{it} + \beta_2 SIZE_{it} + \beta_3 GROWTH_{it} + \beta_4 CFO_{it} + \beta_5 LEV_{it} + \beta_6 BIG4_{it} + \beta_7 BSIZE_{it} + \beta_8 BINDPENDENCE_{it} + e_{it} \quad (2)$$

α_0 = Constant
$B_1 - B_9$ = Regression Coefficient
RPTAL = RPT on company assets and liabilities
RPTSE = RPT on company revenue and expenses

ABSJONES1995	= Absolute Value Earnings accrual management modified Jones model (1995)
Dummy RPT	= Dummy Variable 1 = Total RPT/Total Assets equal to or more than 5% 0 = Total RPT/Total Assets below 5%
SIZE	= company size
GROWTH	= company sales growth year- t
LEV	= ability to pay company obligations
CF	= operating cash flow divided by total assets
BIG 4 (Dummy)	= auditor Quality (Big 4 or not)
BSIZE	= size of the board of commissioners
BINDEPENDENCE	= proportion of independent commissioners
e	= error term

RESULTS AND DISCUSSION

<u>*Descriptive statistics*</u>

Table 3 Descriptive Statistics

Variable		Total Data	Min	Max	mean	Std. Dev
Dependent	ABSJONES1995	732	0.000	1.155	0.069	0.088
	RMPROXY	732	-1.752	1.181	-0.006	0.331
Independent	TOTALRPT	732	0	8.135	0.938	0.247
Control	SIZE	732	7,962	19.926	14,472	1,654
	GROWTH	732	-1	5.947	0.0823	0.365
	LEV	732	0	4.711	0.328	-0.441
	CFO	732	-0.311	0.914	0.059	0.111
	BIG4	732	0	1	0.384	0.487
	BINDEPENDENCE	732	0.300	2	0.410	0.126
	Variable	**Total Data**	**Min**	**Max**	**mean**	**Std. Dev**
	BSIZE	732	2	13	4.240	1.740
	FAMOWN	732	0	0.980	0.475	0.315
Total Observations: 732 Observations						

Source: processed data, 2020

Note: ABSJONES1995 = Absolute value of modified jones 1995 discretionary accruals; RMPROXY= real earnings management aggregate value from the standardized values of ABSCFO, ABSDISX, ABSPROD; RPTTOTAL=percentage of total RPT in the financial statements divided by the total assets of the company; SIZE= natural logarithm of total revenue (firm size); GROWTH=sales growth; LEV= Leverage ratio; CFO=operating cash flow ratio; BIG4=audit quality (dummy); BINDEPENDENCE: the percentage of independent commissioners in the total number of commissioners in the company; BSIZE: total number of commissioners in the company; FAMOWN: the family's shareholding percentage in the company

The descriptive statistical description shows that ABSJONES1995 has an average value of 0.072 with a standard deviation of 0.118, which indicates that companies in the manufacturing industry carry out accrual earnings management of 6.9%. The standard deviation value is 0.0887. Then, the maximum value is 1.155, and the minimum value is 0.00000179. The largest value from ABSJONES1995 was PT Merck Tbk (MERK) in the Consumer Goods Industry in 2018. In comparison, the minimum value was owned by PT Asia Pacific Fibers Tbk (POLY) in 2015.

Then, the average value of RMPROXY is -0.0006% which indicates that the average sample company does not indicate real earnings management (Cohen et al., 2008). The maximum RMPROXY value of 1.181 PT Wilmar Cahaya Indonesia Tbk (CEKA) in 2015 with negative abnormal operating cash flow values, positive abnormal production costs, and negative discretionary costs. The minimum value is owned by PT Merck Sharp Dohme Tbk (SCPI) in 2015 with positive abnormal operating cash flow values, negative abnormal production costs, and positive discretionary costs, which do not indicate earnings management.

The RPTTOTAL variable has an average of 35.3%, which shows that almost all companies make 35% (of their total assets) originating from Related Party Transactions compared to third parties. The maximum value owned by PT Sharp Dohme Pharma (SCPI) in 2016 was 8.135%, and the minimum value was owned by PT Nusantara Inti Corpora (UNIT), which did not record RPT during 2015-2018.

Hypothesis testing

There are two research models to test the hypothesis. The test of selecting a suitable model is fixed effects. First, a classical assumption test ensures that the model meets the BLUE (Best, Linear, Unbiased, Estimator) standard. In the normality test, 6 out of 11 variables have abnormal data, so that treatment and data winsorize are carried out to ensure the data follows the normality assumption. There are no variables in the study that show symptoms of multicollinearity. In heteroscedasticity and autocorrelation testing, models 1 and 4 indicate heteroscedasticity and autocorrelation symptoms. So, treated with white's heteroscedasticity corrected standard errors or robust standard errors and the xtscc function to accommodate the heteroscedasticity and autocollinearity problems (Gujarati & Porter, 2009). The following table of hypothesis testing for the four research models is below:

Table 4 Hypothesis Test Results

	Expected Sign	ABSJONES1995	RMPROXY
		Research Model 1 (H1A)	Research Model 2 (H1B)
RPTTOTAL	+	0.035***	0.027
SIZE	+/-	-0.009***	-0.002***
GROWTH	+	-0.016***	-0.134***
LEV	+	0.073***	0.007***
CFO	-	0.002	-0.098*
BIG4	-	-0.038**	-0.016
BINDEPENDENCE	-	-0.111**	0.088***

	Expected Sign	ABSJONES1995 Research Model 1 (H1A)	RMPROXY Research Model 2 (H1B)
BSIZE	+/-	0.001**	0.016***
FAMOWN	+	0.022**	0.009**
Cons	+	0.097***	-0.006
Number of Observations		732	732
Prob > F		0.0000	0.000
Within R-Squared		4.47%	31.31%

Significance : *** = 1 percent, ** = 5 percent, * = 10 percent **Source: processed data ,2020**

Note: ABSJONES1995 = Absolute value of modified jones 1995 discretionary accruals; RMPROXY= real earnings management aggregate value from the standardized values of ABSCFO, ABSDISX, ABSPROD; RPTTOTAL=percentage of total RPT in the financial statements divided by the total assets of the company; SIZE= natural logarithm of total revenue (firm size); GROWTH=sales growth; LEV= Leverage ratio; CFO=operating cash flow ratio; BIG4=audit quality (dummy); BINDEPENDENCE: the percentage of independent commissioners in the total number of commissioners in the company; BSIZE: total number of commissioners in the company; FAMOWN: the family's shareholding percentage in the company

Research model 1 looks at the effect of RPT on accrual earnings management (Hypothesis 1A). The model was tested using fixed effects regression with a coefficient of determination of 4.47% for research model 1 (Within R-Squared)). RPTTOTAL has a significant positive relationship with the ABSJONES 1995 value, a coefficient value of 0.035, and a p-value of 0.000. The control variables SIZE, GROWTH, BIG4, and BINDEPENDENCE had a significant negative effect on ABSJONES1995. LEV, CFO, BSIZE, and FAMOWN have a significant positive effect on ABSJONES 1995. It can be concluded that the amount of RPT recorded in the financial statements indicates accrual earnings management.

Research model 2 is used to see the effect of RPT on real earnings management (Hypothesis 1B). The model was tested with fixed effects regression with the coefficient of determination was 31.31% for research model 2 (Within R-Squared)). RPTTOTAL has no significant relationship to the RMPROXY value with a coefficient value of 0.027 and a p-value of 0.180. The control variables SIZE, GROWTH, and BINDEPENDENCE have a significant negative effect on RMPROXY, and LEV, CFO, BSIZE have a significant positive effect on RMPROXY. FAMOWN and BIG4 variables do not affect real earnings management. It can be concluded that the amount of RPT recorded in the financial statements is not an indication of real earnings management.

Sensitivity Test

Sensitivity test to confirm the results of the regression hypotheses 1A and 1B shows the effect of the same RPT (robust) on accrual and real earnings management when using other earnings management proxies. The sensitivity test is carried out by changing the dependent proxies of accrual earnings management into the absolute value of discretionary accruals Jones (ABSJONES 1991) (Jones, 1991) for research model 1 and real earnings management into two aggregate real earnings management according to Zang (2006, in Cohen & Zarowin, 2010) namely the sum of abnormal discretionary costs multiplied by minus 1 (-1) and the sum of production costs; this proxy is called RM2. Then, one aggregate proxy for real earnings management is the sum of abnormal discretionary costs and abnormal operating cash flow multiplied by minus 1 (-1); this proxy is called RM3. The following are the results of the sensitivity tests performed:

Table 5 Sensitivity Test Results

	Expected Sign	ABSJONES1991 Hypothesis 1A Research Model 1	RM2 Hypothesis 1B Research Model 2	RM3 Hypothesis 1B Research Model 2
RPTTOTAL	+	0.038***	0.001	0.028
SQRTSIZE	+/-	-0.001**	-0.001	-0.004
GROWTH	+	-0.008	-0.105***	-0.077***
LEV	+	0.073***	-0.052***	0.004***
CFO	-	0.001	-0.263***	-0.743***
BIG4	-	-0.036	-0.030	0.010
BINDEPENDENCE	-	-0.094***	0.030*	0.075
BSIZE	+/-	0.004	0.010***	0.005***
FAMOWN	+	0.026**	0.008	-0.007
Cons	+	0.086***	0.010	-0.011
Number of Observations		732	732	732
Prob > F		0.0000	0.000	0.000
Within R-Squared		2.5%	9.68%	43.02%

Significance : *** = 1 percent, ** = 5 percent, * = 10 percent **Source: processed data ,2020**

Information: ABSJONES1991 = absolute value of Jones discretionary accruals 1991; RM 2 = Aggregate value of real earnings management, abnormal operating cash flow plus abnormal discretionary expenses multiplied by minus 1; RM3= Real earnings management aggregate value 2, abnormal production costs plus abnormal discretionary costs multiplied by minus 1; RPTTOTAL=percentage of total RPT in the financial statements divided by the total assets of the company; SIZE= natural logarithm of total revenue (firm size); GROWTH=sales growth; LEV= Leverage ratio; CFO=operating cash flow ratio; BIG4=audit quality (dummy); BINDEPENDENCE: the percentage of independent commissioners in the total number of commissioners in the company; BSIZE: total number of commissioners in the company; FAMOWN: the family's shareholding percentage in the company

The results show that this finding supports the acceptance of hypothesis 1A that the amount of RPT has a significant positive effect on accrual earnings management. Then, on sensitivity testing on real earnings management proxies, the results show that the amount of RPT does not affect real earnings management, the same as the hypothesis test results. So, through sensitivity testing, it can be seen that the results of research models 1 and 2 produce the same results and are robust with hypothesis testing even though there is a changed earnings management proxy.

The amount of RPT has a significant positive effect on accrual earnings management, and there is no effect of the amount of RPT on real earnings management even though using other earnings management proxies.

Discussion

The Influence of Related Party Transactions on Earnings Management

Hypotheses 1A and 1B find that RPT transactions have a significant positive effect on accrual earnings management, but it is not found that the amount of RPT affects real earnings management. This result suggests that in Indonesia with high family ownership, RPT transactions are used as a "tunneling" act which is consistent with the type 2 agency conflict theory with management actions primarily accrual (Jian & Wong, 2004; Aharony et al., 2005; Kang et al., 2014; Habid et al., 2017; El-Helaly, 2018).

This result is in line with Habib et al., (2017a) research results, who found that RPT is a tool used by politically connected companies to tunnel company resources. Companies that tunnel through RPT transactions are more involved in accrual earnings management to cover expropriation losses. Companies mostly do earnings management that is accrual. Accrual earnings management does not require physical evidence of cash so that companies can play the size of the accrual component in the financial statements (Sulistyanto, 2003).

The amount of RPT has a significant positive effect on accrual earnings management in line with the research of Thomas et al. (2004); Jian & Wong (2004); Aharony et al. (2005); Marchini et al. (2018), who found that RPT transactions provide incentives and opportunities for companies to be involved in earnings management. The higher the amount of RPT recorded in the financial statements, the higher the indication that the company is managing earnings on an accrual basis. According to previous research, directors have incentives to manage earnings to hide profits and expropriate wealth through expropriation. One way companies are using RPT as a helpful tool for managing revenue.

Along with the development of earnings management literature, it was found that managers perform earnings management in real terms higher than managing accruals (Graham et al., 2005). Cohen et al. (2008) found an increase in real earnings management and a decrease in accrual-based earnings management in the period after the issuance of the Sarbanes Oxley Act. In this study, the results found that the amount of RPT did not affect real earnings management. These findings indicate that RPT transactions are more likely to be carried out for accrual than real earnings management in Indonesia. So, it can be concluded that the company carries out real earnings management not from activities by conducting transactions with its affiliates (RPT), but it may be done with other independent transactions (El-Helaly, 2018).

This result is in line with Habib et al., (2017a) research which found that there are two reasons why companies are more likely to carry out accrual management than real. The first reason is because of the costly nature of real earnings management activities. Companies tend to carry out accrual earnings management that does not leave physical cash evidence because, in terms of costs, real earnings management is carried out through the company's operational activities; of course, there will be costs to be incurred to manage earnings real terms. For example, doing overproduction to save costs or cutting discounts on a large scale to get profits on a large scale will add costs to the activities it carries out. These two perspectives of real earnings management make managers not want to take risks to manipulate accrual accounting policies more to manipulate earnings. Then, this is supported by the second reason, namely, in Indonesia, the regulations set by the government are still weaker to enforce sanctions against companies that carry out earnings management on an accrual basis.

CONCLUSIONS, IMPLICATIONS, AND LIMITATIONS OF THE RESEARCH

This study examines the effect of the amount of RPT recorded in the financial statements on accrual and real earnings management. According to the predetermined model selection test, researchers used a fixed-effects regression test to test research models 1 and 2. The results showed that RPT recorded in the financial statements significantly affected accrual earnings management. However, there is no effect of the amount of RPT on real earnings management.

Thus, it can be concluded that managers extensively use the amount of RPT as an accrual earnings management transaction or perform accrual earnings management to cover RPT losses, and there is no finding that the amount of RPT is carried out to manage real income. The research results are robust (fixed) with hypothesis testing even though a changed earnings management proxy. RPT has a significant positive effect on accrual earnings management and does not affect real earnings management.

For researchers, this research contributes to knowledge, studies, and conceptual frameworks about the negative effect of RPT on accrual and real earnings management. For regulators, this research can reference the government through OJK to improve governance practices, especially the rights and equality of shareholders, because it has been proven to reduce abusive RPT. This research can be a reference for investors to be more careful in choosing companies with earnings management initiatives by conducting more careful analysis and interpretation before making investment decisions or providing funds for companies. As well as for practitioners, DSAK and academics can be considered for updating strict regulations to serve as a reference for entities.

The limitations of this study are that the amount of RPT is inputted manually, and some research samples cannot be accessed to reduce the population of the research sample, which impacts data inaccuracies and research time limitations. Hence, the author only conducts research on the amount of RPT on accrual and real earnings management. Further research can expand the scope of the sample analyzed by extending the year of the study or adding the criteria for the research sample.

The topic of RPT can expand to earnings management by conducting qualitative research such as case studies that can contribute to the RPT literature and also continue this research by examining the level of RPT on earnings management (above and median RPT) or analyzing the sub-sample of each RPT variable on earnings management (RPT & NON-RPT). Moreover, this study does not consider about tax amnesty program during 2016. Soepriyanto et al. (2019) found that tax amnesty program is related to lower-earning manipulation. Further research can consider the tax amnesty program as moderating variable that weakens the earning management.

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