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# The Corporate Governance Implementation and Related Party Transactions in Indonesia

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***Abstract.*** *The purpose of this study is to examine the impact of corporate governance (CG) implementation on related party transactions (RPT), proxied by debt and receivables, in Indonesian banks. This study utilizes a multiple regression approach to analyze it. The results depict that CG did not affect both debt and receivables from bank-related parties. Those results suggest that albeit the government and company implement CG on Indonesian banking, it did not provide benefits to alleviate RPT, where RPT itself leads to bringing more drawbacks for the company.* Therefore, it is pivotal to improve CG in Indonesia due to the low CG score.

***Keywords: related party transactions (RPT), corporate governance (CG), bank, Indonesia***

***Abstrak.*** *Studi ini bertujuan untuk menguji dampak dari implementasi tata kelola perusahaan (CG) terhadap transaksi dengan pihak terkait/related party transactions (RPT), yang diproksikan dengan hutang dan piutang, pada bank-bank di Indonesia. Studi ini menggunakan pendekatan regresi berganda untuk menganalisisnya. Hasilnya menunjukkan bahwa CG tidak berpengaruh terhadap hutang dan piutang dengan pihak bank terkait. Hasil tersebut menunjukkan bahwa meskipun pemerintah dan perusahaan mengimplementasikan CG pada perbankan Indonesia, CG tidak memberikan manfaat untuk mengurangi RPT, di mana RPT sendiri lebih memicu kerugian perusahaan. Sehingga, penting untuk meningkatkan CG di Indonesia karena skor CG yang rendah.*

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***Kata Kunci: related party transactions (RPT), tata kelola (CG), bank, Indonesia***

## Introduction

The Corporate Governance (CG) implementation becomes considerable pivotal for any company, after the disclosure scandals from big companies, e.g., Enron in 2001, WorldCom, and Tyco in 2002. In Indonesia, the issue related to CG is very crucial, as evidence by the establishment of the National Committee on Governance Policy in 1999. The CG definition base on the Forum for Corporate Governance in Indonesia (FCGI) is a set of rules that regulates the relationship between shareholders, administrators, creditors, government, employees, and other both internal and external stakeholders. In other words, a system that directs and controls the company. The goal of CG implementation is to create added value for all stakeholders and to realize the Good Corporate Governance (GCG) for the Indonesian company.

The prior studies on CG have been conducted in various ways, such as Kaihatu (2006) and Wibowo (2010), about Good Corporate Governance (GCG) and its application in Indonesia. Those studies find that the implementation of GCG in Indonesia was still weak, and 69.3% of Indonesia banks did not comply with GCG reporting due to various reasons. Indonesian Institute for Corporate Directorship (IICD) also finds that the implementation of GCG in Southeast Asia in 2013, where Indonesia has a CG score by 54.55 (Yunus, 2016). From those studies, it could be seen that the CG implementation in Indonesia is not adequate.

The disclosure case of the Ratu Harbor, a branch of West Java Bank (Bank Jawa Barat Banten/BJB) in 2015 related to misappropriation of loan funds to the members of the Putra Daerah Cooperation as the employees of PT. Haekal Adeel Utama could be proof of weak CG. The chairman of Putra Daerah Cooperation and Managing Director of PT. Haekal Adeel Utama was made defendants along with the other three defendants. In this case, there were also a lot of fictitious matters related to requirements of credit application, including unfit procedures, employee salaries mark-up, and procurement of fictitious employees. Also, there was no evidence that all employees of PT. Haekal Adeel Utama was registered as the Employment Social Security (JAMSOSTEK) participants; so, the validity of their business was questioned (Supriadi, 2015). Besides, there was also the Bank Mandiri case in 2016, which carried out loans to PT. Central Stell Indonesia (CSI). In this case, the bank management and PT CSI were suspected of cooperating, so the loan is carried out and ultimately detrimental to Bank Mandiri since the credit is not by its procedure. Finally, the credit was stalled (Antara, 2017).

Those two cases proved that even though a bank is a highly regulated company, nonetheless the problems related to CG are still found associated with its application in the banking business activities**.** The case occurred due to the abuse of authority related to the selection and submission of credit requirements for transactions on related parties or often referred to as Related Party Transactions (RPT). RPT is an agreement or business arrangement carried out by parties that are dependent on each other for specific purposes. Indeed, in its implementation, transactions on related parties can not only contribute benefits to the company in many aspects but also cause a conflict of interest. The argument is aligned with Pozzoli & Venuti (2014), who found that higher RPT could be a source of calamity for the company. The RPT is a moral hazard since certain parties use it as a mechanism to exploit the asset's company. Therefore, the shareholders are abused, and the company is also damaged. Besides, Claessens, et al., (1999) stated that RPT could also lead to financial losses for the company. It is a process of using the right to control a person to maximize one's welfare or certain groups by distributing wealth from the other parties.

The RPT can occur in the companies entailing banks. In banking, RPT is reflected through every activity related to debt and receivables carried out by banks. It is completed to fulfill the company's objectives and so that transactions can be efficient. Still, at this point, there is possible agency conflict (Jensen & Meckling, 1976) between the principal (shareholders with related party) and agent (bank manager). It could be used as a tool for certain parties to fulfill their personal goals and ignore the company's main objectives. It is detrimental for the company to include credit, as the application of investments in related parties, and fund receipt from customers for deposits that are not under the bank's standard procedures.

A CG is required to solve agency conflict when it occurs. The disclosure in financial statements indicates an example of CG implementations. The disclosure detail is presented in the financial statement notes. Those notes include the explanation of various accounts on the balance sheet, including related to accounts with associated parties. When the disclosures are presented adequately, it will introduce the origin and process of RPT. Accordingly, it could reduce RPT that could be the source of financial losses. Thus, fulfilling disclosure is the best strategy to enhance company value and then to maximize stakeholder's wealth.

This study offers some improvements from the limitations of the previous research. For instance, Lo et al., (2010) suggest that corporate governance is essential in deterring the use of manipulated transfer prices in related-party sales transactions. They also note that the corporate governance mechanism could be less effective in curbing earnings manipulations via related-party transactions due to different manipulation incentives. The limitations of this study are from China and for just one year. Choi et al., (2014) the effect of corporate governance in emerging markets could be weak, so its benefit could be insignificant. Korea is a developed country, but that has strong business affiliation groups, called “Chaebol”, that can reduce CG effect. In comparison, Sulong & Ahmed (2011) find a negative relationship between CG and RPT on Malaysian listed firms because it restricts the controlling shareholders to vote on related party transactions. Next, Roy (2015) found that CG helps to reduce

RPT in India by promoting transaction monitoring. Both Sulong & Ahmed (2011) and Roy (2015) focused on industrial firms only excluding bank.

Therefore, in this study, we try to improve those limitations by entailing all Indonesian commercial banks over the period 2013 to 2015, focusing on RPT as the dependent variable. This study also focuses on Indonesian banks to provide empirical evidence of CG implementation on Related Party Transaction with a unique setting in an emerging market to obtain understanding genuinely. This research was conducted due to some reasons: First, the phenomenon that Indonesia implements CG for banking. Utama & Musa (2011) reports that Bank Indonesia Decree No. 8/4/PBI/2006 requires the banking sector to communicate their corporate governance practices in the form of a self-assessment working paper GCG. Second, even though CG has been implemented for Indonesian banks, the existence of RPT and credit fraud involved bank management still happens. The weak governance is one of the factors that causes bank fraud in Indonesia. By those factors and prior studies, this research is hopefully would be useful for both policymakers and banks. First, Indonesian Central Bank as an input to regulate CG in the banking sector to alleviate RPT in Indonesia; second, for commercial banks to improve the CG implementation.

## Literature Review

### Agency theory

Agency theory, firstly proposed Jensen & Meckling (1976), could be applied to explain the corporate governance phenomenon in this research. It concerns contractual relationships among the company's members. It also revealed that agency relationship occurs when a person or more (shareholders as principal) appoints another person (manager as agent) to provide a service and delegate decision-making authority. It would lead to agency conflict when the principal acts as its own, not to maximize shareholder wealth. The agency conflict occurs when there is a separation between ownership and control.

An understanding of agency theory is pivotal since its implementation is used to overcome agency problems. Those problems could arise from various parts of the company. In this study with banking context, debt, and receivable accounts are the core of bank business. The problem could happen, as an example, when determining credit will be given by the bank. As an agent, the bank manager should approve the loan that benefits to shareholders (principal). But, when the shareholders have conflicts of interest to certain parties, they still ask the manager to approve loans even though it would be losses to the banks.

Nevertheless, it is also possible for the bank manager to take the opportunity to benefit its own or group, as shown in the case of determining credit at BJB and Mandiri banks. Transactions from related parties in debt and receivables account can be part of the agency problem. The good corporate governance (GCG) application hopefully could solve that problem. When corporate governance is running-well, that problem could be minimized. According to

Naufa & Lantara, (2018) the corporate governance could help to solve that agency conflict since it makes the manager act following the company's goal. Besides, good corporate governance could improve the company's value. Moin et al., (2019) added that corporate governance helps to measure a conflict of interest between controlling and minority shareholders through monitoring the manager.

## Corporate governance in banking

According to the Cadbury (1992), corporate governance (CG) is a system concerning how companies are directed and controlled. The Forum for Corporate Governance in Indonesia (2000) suggested that CG is a set of rules that define the relationship between internal and external parties of the company related to their rights and obligations. While Warsono, Darmawan, & Ridha (2009) stated that the phrase of CG consists of two words; *corporate,* indicating various traits related to corporation or company and *governance,* which means the management. Hayati & Gusnardi (2012) said that CG is a concept that, based on agency theory, is expected as a tool to provide confidence for investors to receive returns from their investment in the future. The Indonesian Institute for Corporate Governance (2000) defines good corporate governance (GCG) as a set of rules that regulates the relationship between shareholders, company managers, creditors, governments, employees, and other internal-external stakeholders. Those relationships are related to rights and obligations or, in other words, a system that regulates and controls the company.

The purpose of CG implementation in banks is to achieve sound corporate governance (GCG). KNKCG (2004) suggested that the application of GCG in banks must be considered because bank characteristics are highly regulated. Hence, they are different from other types of companies. Good banking governance includes resource and risk management to be more effective and efficient. It is essential to enhance the discipline and responsibility of corporate members and to increase the company's contribution to the economy. GCG, in its implementation, is also found in banks as stipulated in PBI No. 8/4/PBI/2006. This regulation outlines five principles that become the GCG basis on banks as follows: 1). *Transparency*, openness in expressing material and relevant information, and openness in carrying out the decision-making process. 2). *Accountability*, function, and implementation clarity of bank accountability, so the management would run effectively. 3). *Responsibility*, the suitability of bank management with applicable laws and regulations, and the principles of bank management soundness. 4). *Independence*, bank management in a professional manner without any influence or pressure from any party. 5). *Fairness*, equality in fulfilling the stakeholder rights that arise based on agreements, applicable laws, and regulations.

## Related party transaction

Related party transactions (RPT) are the transactions from agreements between the two parties related to a particular contract. RPT is carried out as an objective to fulfill the company interests through exclusive agreements. According to PSAK No. 7 in 2015, related parties are if a party can control another party or has a significant influence on the other party to make financial and operational decisions. The related party's selection must be made following the management of each company, so there is no abuse. The RPT is transactions carried out by 1). companies with ownership relationship, 2). individuals as owners or employees with significant influence, 3). the closest family member of the individual, and 4). companies with substantially own from these individuals.

The regulation referred to International Accounting Standards (International Accounting Standard) No. 24 and stated in the Indonesian Banking Accounting Guidelines (PAPI). The RPT has two opposing hypotheses, opportunistic and efficient transactions (Choi et al., 2014). The opportunistic deal due to conflict of interest is consistent with agency theory. RPT is expressed as an opportunist activity. Choi et al., (2014) stated that RPT would ultimately destroy the company's value. An opportunistic transaction in RPT is carried out to fulfill personal benefits without thinking about the company's goals. In contrast, an efficient transaction is when it carried out efficiency consideration to meet the company's needs. When RPT is opportunistic, the agency problems will occur. This problem could be solved by GCG implementation. So, an understanding of the relationship between two parties (agency relationship) is essential in the GCG application.

## The impact of CG implementation on the RPT level

The accurate and fair financial statements determine GCG implementation in the company. The accurate means carefully presented in each part, while fair implies following the actual situation. The financial statements are accountability proof of every party in the company, both internal and external. It will be used as guidelines for various stakeholders to make investments, assess the company's health, and determine how the actions to achieve the company's goals in the future. The company's goals will not be achieved if there are many obstacles in various from the company. One of them is unfair financial statements. It could be caused by multiple items, one of which is a fraud.

In bank business, fraud could happen linked to debt and receivable accounts with related parties. This account exists due to RPT, such as a family relationship or a subsidiary. Policies for those accounts have their procedures and are prone to be misused by bank management to fulfill personal or group needs. In this case, CG implementation is used as a tool to suppress fraud through RPT, thereby reducing activities that can decrease the company's value.

The application of the CG role is divided into five principles in banking. First, openness to present material and relevant information in the decision-making process. Once banks have implemented proper disclosure on their financial statements, detailed information on the accounts would be seen. The presented information contains how processes in accounts occur. The information details could be seen in financial statement items issued by the bank. When data has been presented openly, the stakeholders could monitor any related party transactions.

Second, accountability is the clarity function. When banks have a proper level of responsibility, the clarity of the accountability function of each bank body will run effectively. The bank management will make decisions related to the RPT properly, so it runs under the company objectives and stakeholders' interests.

Third, responsibility is suitable for bank management according to laws, regulations, and bank principles. Conducting RPT avoidance will reduce the occurrence of RPT, which is unmatched with bank qualifications and procedures.

Fourth, bank management is independent of any influence or pressure. The bank management has separate functions to make decisions regarding the right procedures with no RPTs; it will process without any intervention from various parties that are not in line with bank objectives.

Fifth, fairness is justice and equality to fulfill stakeholders the rights from the agreements, applicable laws, and regulations. Fairness occurs when each stakeholder upholds the equality principle. In this case, the related party would obtain its share without disrupting other stakeholder rights. The rights can be in the form of loans with lower interest rates, longer-term investments, and so on.

When those five principles work well means that the implementation of CG is also proper. Proper CG implies that companies do not conduct business activities that are profitable for certain groups, only RPT; therefore, the number of related party transactions will decrease. The decrease is better because if a deal with a relevant party has a large amount, it could create an opportunity for management to commit fraud, namely opportunistic earnings management. The fraud could be carried out by the company's management through related party transactions for a particular person or group interests. For instance, when a company plans to avoid high taxes on profit by reducing profits through transfers between periods or between transactions with related parties. Once it is completed, the deals would only benefit specific groups and ignore the company's goals.

Self-assessment scores reported by the company measure CG assessments. The lower the CG score indicated, the better the implementation of CG. This statement is in line with the study by Kohlberck & Mayhew (2004) which stated that the possibility of the existence of RPT would be even more significant when corporate governance is weak. Therefore, the hypotheses proposed in this study are as follows:

**H1a:** The implementation of corporate governance hurts the level of related party transactions in terms of debt on commercial banks.

**H1b:** The implementation of corporate governance hurts the level of related party transactions in terms of receivables on commercial banks.

### Research model

Based on the hypotheses designed the research model is as follows:

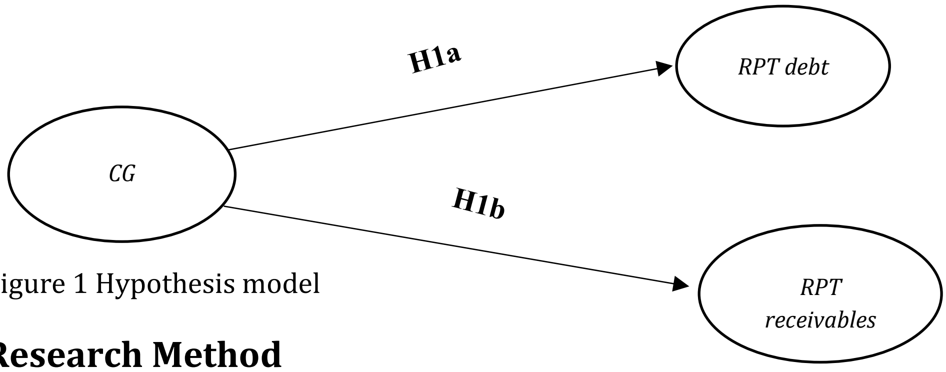


Figure 1 Hypothesis model

## Research Method

### Population and sample

The population in this study were all Commercial Banks in Indonesia registered at Central Bank of Indonesia between 2013 and 2015. Sampling in this study was conducted using a purposive sampling method with the following criteria: (1) having a self-assessment score data in the GCG report during 2013-2015 (2) having a debt and receivables ratio score data with related parties.

**Table 1. Sampling**

| Criteria | Total |
|---|---|
| Banks listed on IDX in 2013–2015 | 118 |
| Banks did not publish the RPT score on financial statements (2013-2015) | 14 |
| Banks did not issue a *self-assessment* score in GCG report (2013-2015 | 34 |
| Total Sample Used | 70 |

Based on Table 1, the number of companies used in this study is 70 companies or 210 firm-year data. The secondary data was collected from the IDX website (www.idx.co.id) and the bank's website regarding the disclosure of Good Corporate Governance.

### Variable measurement

The dependent variable of this study is the level of related party transactions measured by the ratio of related party receivables compared to total assets and the number of related party debts compared to total liabilities. According to Pozzoli & Venuti (2014), increasing the number of RPT could be a bad thing for the company. The higher the number of RPTs, the greater the possibility of fraud. The independent variable of this research is the implementation of corporate governance, which is measured using a self-assessment score on the GCG report.

The control variable of this study is the firm size. According to Putri & Nasir (2006), the firm size can be measured by total assets. The higher the firm's assets, the greater the size of the firm. The higher the firm's assets allow the greater value of the fraud. The fraud can be in the form of determining related parties that are not under corporate governance and determining inappropriate credit requirements. Even though the company has an excellent internal control system, nevertheless, when there is an opportunity, opportunistic management will take the opportunity to gain personal advantage. It causes the failure of Good Corporate Governance.

The measurement of variables and scales in this study are presented in Table 2 below:

**Table 2. The Measurement and Scale of Research Variables**

| Variables | Measurement | Scale |
|---|---|---|
| X = Corporate Governance | Measured by a self-assessment score on the corporate governance report for the period 2013-2015 | Ratio |
| Y = Related Party Transaction | Measured by the ratio of debt to related party debt<br>Measured by the ratio of receivables to related party receivables | Ratio |
| Control = Firm Size | Measured by Natural Logarithm (ln) of total assets | Ratio |

## Analysis techniques and steps

The analysis technique in this study is multiple linear regression with the following equation:

*For debt with related parties*

$RPT_u = \alpha + \beta_1 GCG + \beta_2 UP + \varepsilon$ (1)

Notes:

$RPT_u$ = total debt to related parties; $\alpha$ = constant; $\beta_1$GCG = the level of implementation of good corporate governance; $\beta_2$UP = firm size; $\varepsilon$ = error

*For receivables with related parties*

$RPT_p = \alpha + \beta_1 GCG + \beta_2 UP + \varepsilon$ (2)

Notes:

$RPT_p$ = total receivables from related parties; $\alpha$ = constant; $\beta_1$GCG = the level of implementation of good corporate governance; $\beta_2$UP = firm size; $\varepsilon$ = error

Furthermore, the steps of the analysis are as follows:

1. Descriptive statistics testing

This test is carried out to get a description or description of data that is seen from the mean, standard deviation, variance, minimum, sum, the range of kurtosis, and skewness.

2. Classical assumptions testing

A multicollinearity test, according to Ghozali (2006) is conducted to test whether the regression model found a correlation between independent variables. A multicollinearity test is done by looking at the value of the variance inflation factor (VIF). If the VIF value is more than 10, there will be multicollinearity. Conversely, if the VIF value is below 10, then this does not occur.

A normality test is held to test whether, in the regression model, the confounding or residual variables have a normal distribution. It is known that the t and F tests assume that the residual value follows a normal distribution.

The Heteroskedasticity test is conducted to determine whether the regression model is feasible to predict the dependent variable influenced by the independent variable using the Glejser test.

3. Hypothesis testing

Hypothesis testing in this study was carried out using multiple linear regression analysis, as described in the previous section.

## Research Results And Discussion

### Descriptive statistics analysis

Table 3 shows descriptive statistics that include mean, minimum value, maximum value, and standard deviation of the study variables.

### Table 3. Descriptive Statistics

| | N | Minimum | Maximum | Sum | Mean | SD |
|---|---|---|---|---|---|---|
| Score of self-assessment | 210 | 1.00 | 4.00 | 398.85 | 1.89 | 0.52 |
| RPT debt | 210 | 0.00 | 0.51 | 19.06 | 0.09 | 0.10 |
| RPT receivables | 210 | 0.00 | 0.41 | 5.28 | 0.02 | 0.05 |
| Ln of firm size | 210 | 10.50 | 20.63 | 3,453.43 | 16.44 | 1.98 |
| Valid N (listwise) | 210 | | | | | |

Source: Output from SPSS version 20

Based on Table 3, the CG self-assessment score has a minimum value of 1.00 and a maximum of 4.00, with an average of 1.89. The average value depicts that the level of RPT debt is low since it is worth less than 2.5, according to Bank Indonesia regulations. Furthermore, Table 4 shows the CG composite values, which indicate the final rating of the self-assessment.

### Table 4. Rating Classification of Composite Value of CG Implementation

| No | Composite Value | Composite Predicate |
|---|---|---|
| 1 | Composite Value < 1.5 | Very good |
| 2 | 1.5 ≤ Composite Value < 2.5 | Good |
| 3 | 2.5 ≤ Composite Value < 3.5 | Good enough |
| 4 | 3.5 ≤ Composite Value < 4.5 | Less good |
| 5 | 4.5 ≤ Composite Value < 5 | Not good |

Source: SE of Bank Indonesia No. 9/12/DPNP about the implementation of Good Corporate Governance of General Bank and attachment

The ratio of RPT debt has a minimum value of 0.00 and a maximum value of 0.51, with an average of 0.09. The average value is good because the value is lower than the mean value (0.09 <0.25). The ratio of RPT receivables has a minimum value of 0.00 and a maximum value of 0.41, with an average of 0.02. The average value shows that the level of RPT of receivables is low since the value is lower than the mean value (0.02<0.20). The control variable in this study is the firm size, which is assessed by the natural logarithm (ln) of the assets. Natural logarithms (ln) are used to obtain data normality. The Ln of firm size has a minimum value of 10.50 and a maximum value of 20.63, with an average of 16.44. The average value of the company size is significant, as it is higher than the average value (16.44>15.56). The independent variable, CG self-assessment scores, and control variable, firm size show good data quality because, according to Ghozali (2006), the higher average value than the standard deviation indicates a small error standard of the variable under study.

Table 5 illustrates the comparison between CG scores and RPT from the ten highest banks that have good CG scores (CG ≤ 2) and high RPT.

**Table 5. Comparison of CG Score and RPT of the 10 Highest Banks**

| No | Bank ID | Bank Name | CG Score | RPT debt | RPT Receivables |
|---|---|---|---|---|---|
| 1 | 122 | PT. BPD KALIMANTAN SELATAN | 2.00 | 0.40 | 0.30 |
| 2 | 501 | PT. BANK ROYAL INDONESIA | 1.50 | 0.40 | 0.03 |
| 3 | 111 | PT. BANK DKI | 1.53 | 0.23 | 0.003 |
| 4 | 564 | PT. BANK MANDIRI TASPEN POS D/H PT. BANK SINAR HARAPAN BALI | 1.50 | 0.23 | 0.004 |
| 5 | 153 | PT. BANK SINAR MAS | 1.60 | 0.19 | 0.03 |
| 6 | 8 | PT. BANK MANDIRI (PERSERO), Tbk | 1.60 | 0.09 | 0.18 |
| 7 | 2 | PT. BANK RAKYAT INDONESIA (PERSERO), Tbk | 1.14 | 0.13 | 0.10 |
| 8 | 422 | PT. BANK BRI SYARIAH d/h DJASA ARTHA | 1.70 | 0.13 | 0.05 |
| 9 | 11 | PT. BANK DANAMON INDONESIA, Tbk | 1.40 | 0.13 | 0.04 |
| 10 | 16 | PT. BANK BUMI ARTA | 1.50 | 0.01 | 0.001 |

## Classical assumption testing

Table 6 below summarizes the classical assumption test. It includes the normality test, multicollinearity test, and heteroskedasticity test. We did not test the autocorrelation test since it is not an issue of this study (due to low standard errors).

**Table 6. Summary of Classical Assumption Testing Results**

| Model | Collinearity Statistics | | t | Sig. |
|---|---|---|---|---|
| | Tolerance | VIF | | |
| (Constant) | | | -0.05 | 0.95 |
| CG | 0.97 | 1.02 | 0.80 | 0.42 |

| | | | | |
|---|---|---|---|---|
| UP | 0.97 | 1.02 | 1.67 | 0.09 |
| Asymp. Sig. (2-tailed) = 0.75 | | | | |

Source: Data computed in 2017

Based on Table 6, the results of the normality test using the one-sample Kolmogorov-Smirnov Test show asymptotic value significance of 0.75, which indicates that the data is normal. The tolerance value is > 0.10 or VIF value < 10.00. The significant value is more than 0.05. It indicates that the data are free from multicollinearity and heteroscedasticity.

## Hypothesis testing

Table 7 summarizes the hypothesis test, which includes the R-square test, t-test, and F-test.

**Table 7. Summary of Hypothesis 1a Testing Results**

| Variable | Coefficient | t | Sig |
|---|---|---|---|
| (Constant) | 0.33 | 0.26 | 0.79 |
| CG | 0.06 | 0.32 | 0.74 |
| UP | -0.64 | -1.47 | 0.14 |
| $R^2 = 0.012$; F = 0.296; Sig.(F) = 0.587[b] | | | |

Source: Data computed in 2017

Based on Table 7, the value of R-square is 0.012, which means that corporate governance affects debt with related parties of 1.2%, and other variables influence the rest. The significance of the F-value is higher than 0.05 (0.58>0.05), which indicates that the proposed hypothesis is not supported. These results suggest that simultaneous corporate governance does not significantly affect debt with related parties. The t value of the CG variable is smaller than the value of t-table (0.32<1.99), and the significance value is greater than 0.05 (0.14>0.05); accordingly, that hypothesis 1a is rejected. The t value of the control variable, i.e., the firm size of the company, is smaller than t-table (-1.44<1.99), and the significance value is higher than 0.05 (0.14> 0.05). Thus, the firm size does not significantly influence the debt to related parties.

**Table 8. Summary of Hypothesis 1b Testing Results**

| Variable | Coefficient | t | Sig |
|---|---|---|---|
| (Constant) | -2.683 | -1.845 | 0.067 |
| CG | -0.277 | -1.146 | 0.253 |
| UP | -0.243 | 0.477 | 0.634 |
| $R^2 = 0.008$; F = 1.520; Sig.(F) = 0.219[b] | | | |

Source: Data computed in 2017

Based on Table 8, the value of R-square is 0.008, which indicates that corporate governance affects receivables with related parties by 0.8%, and other variables outside of this study influence the rest. The significance value is higher than 0.05 (0.21>0.05), which means that the proposed hypothesis is not supported. These results indicate that simultaneous corporate governance does not significantly affect receivables with related parties. The t-value of the CG variable is smaller than the value of t-table (-1.14 <1.99), and the significance value is higher than 0.05 (0.25> 0.05); as a result, the hypothesis 1b is rejected. The t-test for the control variable, namely firm size, indicates that the t-value is smaller than the t-table (0.47 <1.99), and the significance value is higher than 0.05 (0.63> 0.05). Thus, the firm size does not significantly affect the receivable to related parties.

### Discussions

Effect of corporate governance on related party transaction on commercial banks

Based on the results of hypothesis testing, corporate governance does not affect a similar party transaction. The hypotheses are not supported because several banks have implemented SOPs related to the RPT practice, but they have a low CG Score. However, many Indonesian banks still did not apply this procedure to alleviate RPT. For the banks who have implemented CG (SOP) to reduce RPT, we still find insignificant results that could tackle the RPT issue. Moreover, for those banks who did not implement it, we argue that the RPT issue could be worse. It is proven by the implementation of ISO (International Organization for Standardization) in several banks such as Bank Indonesia, BCA, BNI, BRI, and Bank Mandiri. The application of ISO includes ISO 27001 regarding the security and disclosure of transaction information to interested parties. When it is done well, the implementation of the RPT is not carried out in the interests of certain parties, but rather for all stakeholders to achieve company objectives. The results of this study are also supported by data showing that some companies have good CG composite values as well as high RPT values compared to the average.

## Conclusion

Based on the results and discussion described above, this study concludes that corporate governance (CG) does not significantly affect debt and receivables (related party transactions/RPT) in the banking sector due to a lower score of CG for Indonesian banks. It is pivotal to improve CG, so it hopefully would alleviate the RPT issue and lead to a bank's improvement in Indonesia.

We were aware that our study still has some limitations, such as first, the subjectivity of CG Self-Assessment composite score measurement because the assessment is carried out by the company itself. Second, the use of short-term data, from 2013 to 2015, does not represent CG practice in the long run. Third, the measurement of related party transactions is only based on the amount value so that the analysis is less comprehensive. Other measures should be added, such as the annual growth of RPT and the amount of RPT fraud.

Based on this study, the Central Bank of Indonesia should provide clear rules regarding the implementation of the RPT by setting a maximum amount of RPT for the banks to minimize the opportunity for bank management, who wants to utilize the RPT to meet the interests of related parties.

Commercial banks should disclose the details of the RPT in the notes to the financial statements by adding explanations of the RPT being implemented and the reasons for choosing a certain party or company in the implementation of the RPT.

Further studies are expected to explore more details of the corporate governance composite score to get a more comprehensive analysis. Self-assessment can be sectionally calculated based on shareholder rights, GCG policies, GCG practices, disclosures, and audits to obtain more accurate results. Future studies could improve the calculation of the increase or decrease the ratio of the percentage of related party transactions, and to explore other types of banks such as Bank of Perkreditan Rakyat (BPR) and categorize them to get more specific results.

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