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## Controlling shareholders, audit committee characteristics, and related party transaction disclosure: Evidence from Indonesia

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**Abstract**

The disclosure of related party transactions was required in the financial statements because it is potentially misused by controlling shareholders. This study aims to examine controlling shareholders, audit committee characteristics, and related party transaction disclosure. The controlling shareholders are proxied by the family share ownership and the proportion of the controlling shareholder family members on the board of directors. The samples used in this study are family companies listed on the Indonesia Stock Exchange (IDX) in the year 2017. In this study, the multiple regressions were used to test the hypothesis. We found that controlling shareholders have a negative influence on related party transaction disclosure. Meanwhile, accounting expertise of the audit committee has a positive influence on related party transaction disclosure. Our result show companies that controlled by the family have low motivation to disclose related party transaction disclosure. However, accounting expertise audit committee may encourage companies to disclose related party transactions.

**Abstrak**

*Pengungkapan transaksi pihak berelasi diwajibkan dalam laporan keuangan, karena berpotensi disalahgunakan oleh pemegang saham pengendali. Penelitian ini bertujuan untuk menguji pengaruh pemegang saham pengendali, karakteristik komite audit, dan pengungkapan transaksi pihak berelasi. Pemegang saham pengendali diprosikan dengan kepemilikan saham keluarga dan proporsi anggota keluarga pemegang saham pengendali pada jajaran direksi. Sampel yang digunakan dalam penelitian ini adalah perusahaan keluarga yang listing di Bursa Efek Indonesia tahun 2017. Penelitian ini menggunakan analisis regresi berganda untuk menguji hipotesis yang diajukan. Temuan kami menunjukkan pemegang saham pengendali berpengaruh negatif terhadap pengungkapan transaksi pihak berelasi. Sedangkan, keahlian akuntansi komite audit berpengaruh positif terhadap pengungkapan transaksi pihak berelasi. Temuan kami menunjukkan perusahaan yang dikendalikan oleh keluarga cenderung menyembunyikan transaksi pihak berelasi. Sedangkan, keahlian akuntansi yang dimiliki komite audit dapat mendorong perusahaan untuk mengungkapkan transaksi pihak berelasi.*

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## 1. Introduction

This study aims to empirically examine the influence of controlling shareholders, audit committees, and compliance of related party transaction disclosure. This research is significant because related party transaction disclosure have a value relevance for shareholders (Ge et al., 2010). Furthermore, Maigoshi, Latif, & Kamardin (2018) also found that related party transaction disclosure have a significant positive effect on stock market value.

Related party transactions (RPT) has been a concern since the emergence of corporate financial scandals in United States, United Kingdom, and several other countries; such as the cases of Enron, Adelphia, and Tyco (Gordon, Henry, & Palia, 2004). Academic literature suggests that there are two points of view to interpret related parties' transaction; efficient transaction and conflict of interest (Gordon, Henry, & Palia, 2004). Related party transactions are considered as efficient transactions which are able to increase the value of the company (Kohlbeck & Mayhew, 2010) due to its ability to optimize the utilization of resources. Thus, it can reduce transaction costs (Ge et al., 2010). On the other hand, related parties transactions may be considered as management's and controlling shareholders' opportunistic behavior (Ge et al., 2010). The controlling shareholder conducts transactions to related parties or invested in affiliated companies to maintain their wealth (Setiawan et al., 2016)

Previous studies found that transaction with related parties often inflicts a financial loss to minority shareholders wealth (Jian & Wong, 2010; Nekhili & Cherif, 2011; El-helaly & Lowe, 2018). The results of this study suggest that related party transactions tend to create a conflict of interest. Regulators and standard setters have supervised related party transactions by requiring disclosure of related party transactions (Gordon, Henry, & Palia, 2004). Related party transactions disclosure that regulated in IAS 24 is a solution to reduce abuse of related party transactions. Transparency can be improved through the presenta-

tion and reporting of related party transactions in financial statements so that it will reduce information asymmetry (Utama & Utama, 2014).

The study of related party transactions disclosure had been carried out previously, but it showed inconsistently. The level of related party transactions disclosure in Indonesia is 74.20 percent (Utama & Utama, 2014). Meanwhile, the related party transactions disclosure level in South Africa is 77 percent (Sellami & Fendri, 2017). While Elkelish (2017) finds that the level of related party transactions disclosure in the United Arab Emirates is 12 percent, based on the evidence above, it can be concluded that there are no studies that uncover the level of related party transactions disclosure reaching the percentage of 100 percent; whereas the disclosure of related party, the transaction is a mandatory process in which the level of disclosure must be 100 percent. Thus, there are still problems in related party transactions disclosure.

Corporate governance is a solution to resolve agency problems between shareholders and management or between controlling shareholders and minority shareholders (Renders & Gaeremynck, 2012; Wardhani, 2015). The audit committee as part of the corporate governance mechanism has a responsibility to improve supervision. Consequently, information asymmetry can be reduced. Effective audit committees are expected to improve the quality of financial statement disclosure including related party transaction disclosure (Haldar & Raithatha, 2017; Sellami & Fendri, 2017). The formation of the audit committees in Indonesian public companies has been obligated since 2004, which was regulated in Decision of the Chairperson of Bapepam Number: KEP-29/PM/2004.

Researches about audit committee toward disclosure had been done previously. Research audit committee and disclosure in international context i.e. audit committee on intellectual capital disclosure (Li, Mangena, & Pike, 2012; Haji, 2015), ethical disclosure (Othman et al., 2014), voluntary disclosure (Mensah, 2018), and related party transaction disclosure (Sellami & Fendri, 2017). Furthermore, research

on audit committees and disclosures in Indonesia i.e. audit committees and intellectual capital disclosures (Arifah, 2012; Zulkarnaen & Mahmud, 2013), disclosure of corporate social responsibility (Nussy, 2013; Krisna & Suhardianto, 2016), mandatory disclosures (Kharis & Suhardjanto, 2012), voluntary disclosure (Wijaya, 2009). However, those studies have shown very few empirical evidence of the influence of audit committees and mandatory disclosures in International and Indonesian context (Kharis & Suhardjanto, 2012; Sellami & Fendri, 2017). Therefore, the research regarding the influence of audit committees on mandatory disclosure, such as disclosure of related party transactions, is necessary to be conducted.

This research is different from Sellami & Fendri (2017), i.e., by adding the variable of controlling shareholder. This variable is quite important to examine because more related party transactions are carried out by controlling shareholders (Kang et al., 2014; Utama & Utama, 2014). Dyanty et al. (2012) state that companies controlled by families have a higher motivation to conduct related party transactions. This is because a family may control several companies (groups). Hence they choose to make transactions with groups to maintain their wealth. Thus, the family controlling shareholder is the focus of this study.

Considering several essential considerations, Indonesia is selected as the research setting of this research. First, most public companies in Indonesia are controlled by family (Carney & Hamilton-hart, 2015). Second, Indonesia is a country with weak legal enforcement and investor protection (Dyanty et al., 2012; Darmadi & Sodikin, 2013). Third, Indonesia has low corporate governance (Utama, Utama, & Amarullah, 2017). Laporta et al. (2000) argue that law enforcement and corporate governance are important mechanisms to protect the rights of minority shareholders. The low protection on minority shareholders increases the chance of controlling shareholders to take actions that can harm minority shareholders; one of them is related party transactions (Dyanty et al., 2012).

This study is expected to contribute for the development of accounting research in terms of mandatory disclosure in financial statements, particularly the influence of the family controlling shareholders, the characteristics of the audit committee and compliance with disclosure of related party transactions. Investors can use the results of this study as a consideration in making business decisions in Indonesia since most public companies in Indonesia are controlled by families and based on our analysis on our data almost every company has related party transactions. In addition, this finding can also be an input for regulators to evaluate regularization to be more effective.

This paper is organized as follows: (1) section 2 is literature review and hypotheses development; (2) section 3 is research methodology; (3) section 4 contains results of the study; (4) section 5 is discussion; and (5) section 6 contains conclusions, research implications, limitations of research, and suggestions for future research.

## **2. Hypotheses Development**

Companies controlled by families are more susceptible to the conflict between majority shareholders and minority shareholders or called the agency problem type 2 (Dyanty et al., 2012). This agency problem is caused families as controller shareholder have more opportunity to take over the minority shareholder resources (Shleifer & Vishny, 1997). In addition, a high level of ownership reduces the interest of controlling shareholders to ask managers to disclose widely regarding company information, because the controlling shareholders have access to company information (Jankensgård, 2018). This situation is getting worse if a country has weak investor protection (Dyanty et al., 2012).

Companies that owned by families usually also place family members on the board of directors (Abdullah et al., 2015). Directors who come from controlling shareholders are not easily disciplined. This condition can trigger expropriation the minority shareholders (Dyanty et al., 2012). Related party transac-

tions are one of the ways of controlling shareholders to expropriate minority shareholders (Ali, Chen, & Radhakrishnan, 2007; Setiawan et al., 2016).

Some previous studies suggest that companies that disclose related party transactions have lower stock prices (Ge et al., 2010; Kohlbeck & Mayhew, 2010; Elkelish, 2017). This is because investors tend to be skeptical of related party transactions (Carlo, 2014). Thus, the company chooses to hide related party transactions so that they can still take advantage of related party transactions and also the company's stock price is maintained.

The study on the effect of family control on mandatory and voluntary disclosure has been done before. Ali, Chen, & Radhakrishnan (2007) found that family companies had better earnings quality, but family companies had a lower level of disclosure of corporate governance. Darmadi & Sodikin (2013) found that family control had a negative effect on the extent of voluntary disclosure. This finding indicates that family companies have lower motivated to express voluntary disclosure that may contain information that exposes the company resources used to the personal interests of controlling shareholders. Employing the percentage of families in the board of directors as a proxy for family control, Abdullah et al. (2015) had documented that companies with large family controls had a lower mandatory International Financial Reporting Standard (IFRS) disclosure. Based on the theory and the results of previous studies, the hypothesis can be stated as follows:

- H<sub>1</sub>: share ownership by controlling family has a negative influence on the related party transaction disclosure.
- H<sub>2</sub>: the board of directors from the controlling family has a negative influence on the related party transaction disclosure.

As part of the corporate governance mechanism, the audit committee has a very important role in investor protection (Lin, 2018). The audit committee aims to reduce management's opportunistic behavior

through oversight mechanisms in the financial reporting process (Beasley et al., 2009; Sellami & Fendri, 2017). Thus, the audit committee can reduce information asymmetry (Aldamen et al., 2011).

The regulations require that audit committee members consist of at least three people (OJK, 2015). The previous study of the number of audit committees on disclosure showed mixed results. Fatmawati, Astuti, & Suhardjanto (2018) find the positive affected between sizes of the audit committees on the voluntary disclosure in Indonesia. Salehi & Shirazi (2016) showed significant positive effect between the size of the audit committee and the quality of financial disclosure. However, Abdullah et al. (2015) conduct study in Malaysia and Kent & Stewart (2008) in Australia found the size of the audit committee had a significant negative effect on disclosure level. Different from Kent & Stewart (2008), Abdullah et al., (2015), Salehi & Shirazi (2016), Sellami & Fendri (2017), and Fatmawati, Astuti, & Suhardjanto (2018), they do not find the effect of the size of the audit committee on related party transactions disclosure.

Based on the analysis of the applicable rules and the results of previous studies we argued for family companies, the number of audit committees does not reflect the diversity of audit committee expertise, so the hypothesis is formulated as:

- H<sub>3</sub>: the size of the audit committee has a negative effect on related party transaction disclosure.

Prior studies show the number of audit committee meetings could reduce earnings management (Inaam & Khamoussi, 2016). In the disclosure contexts, Li et al. (2012) show the number of audit committee meetings has a significant positive effect on intellectual capital disclosure. Othman et al. (2014) also find a positive effect between the number of audit committee meetings and ethical disclosure. Li et al. (2012) and Othman et al. (2014) present that the audit committee meeting is a form of management supervision. This is in accordance with the opinion Menon & Williams (1994) which states audit committees that only

hold one meeting cannot be effectively monitored. Salehi & Shirazi (2016) finds the number of audit committee meetings has a negative effect on financial statement disclosure. However, Abdullah et al. (2015) and Sellami & Fendri (2017) do not find the effect of the number of audit committee meetings toward the mandatory disclosure of IFRS. Based on the results above of previous studies (Li et al., 2012; Othman et al., 2014), the hypothesis can be stated as, follow:

H<sub>4</sub>: the number of audit committee meetings has a positive effect on related party transaction disclosure.

Some prior studies have examined the effect of audit committee accounting expertise on disclosure, i.e., financial statement disclosure and related party transactions disclosure. Audit committee accounting expertise has a positive effect on the quality of financial statements in Singapore (Kusnadi et al., 2015), quality of financial statements disclosure in Iran (Salehi & Shirazi, 2016) and related party transactions disclosure in South Africa (Sellami & Fendri, 2017).

The previous empirical studies show that accounting expertise can improve the quality of financial reporting and disclosure in various countries. This is because knowledge about accounting and auditing held by audit committees can be useful in dealing with conflicts between auditors and management (Salehi & Shirazi, 2016). Based on the discussion of the results of previous studies, the hypothesis formulation is:

H<sub>5</sub>: accounting expertise of the audit committee has a positive effect on related party transaction disclosure.

An independent audit committee can reduce earnings management (Inaam & Khamoussi, 2016) and increase of information financial statements disclosure (Abdullah et al., 2015; Sellami & Fendri, 2017). Thus, companies with independent audit committees should have better financial reporting and disclosure quality for their independent audit committees are more objective in making decisions (Salehi & Shirazi, 2016). However, Kent & Stewart (2008) do not find the influence of an independent audit committee on disclosure level in Australia. Based on the analysis above our hypothesis is:

H<sub>6</sub>: the independence of the audit committee has a positive effect on related party transaction disclosure.

### 3. Method, Data, and Analysis

The samples used in this study are companies listed on the Indonesia Stock Exchange (IDX) in 2017. The sampling technique is purposive sampling with the criteria as follows: (1) the companies are not the financial industries as financial companies own particular regulations; (2) the companies are family companies with the controlling family ownership of more than 20 percent; (3) the companies disclose the related party transactions; and (4) the companies present the information needed in this study. The research data was obtained from three sources, Indonesia Stock Exchange website, company websites, and online newspapers. The detail samples in this study are explained in Table 1.

**Table 1.** Sample Data

Sample	The Number of Firms
The firm listed on the Indonesian stock exchange in 2017	564
<b>Deducted</b>	
Firms in the financial industry	89
Non-family firms	122
Family share less than 20%	17
Incomplete data firms	92
<b>Total Sample</b>	<b>244</b>

In order to examine the controlling shareholders, audit committee characteristics and related party transaction disclosure, the dependent variable is the related party transaction disclosure. The related party transaction disclosure assessment was arranged based on related party transaction disclosure checklist (part of IFRS disclosure checklist) published by Ernst & Young revised on August 2014. As the research setting of this study is in Indonesia, the checklists of related party transaction disclosure were adjusted with the PSAK (the Financial Accounting Standard) no. 07 revised 2015 and Decision of Chairman of Bapepam-LK No. KEP-347/BL/ 2012, on June 25, 2012, concerning Presentation and Disclosure of Financial Statements of Issuers or Public Companies, concerning Presentation and Disclosure of Financial Statements for Public Companies. Based on the results of these adjustments, 17 items of assessment were compiled.

Following House & Cooke (1992), Glaum, Schmidt, & Street (2013), Tsalavoutas & Dionysiou (2014), Abdullah et al. (2015), and Sellami & Fendri (2017), a modified dichotomous assessment method was used to calculate the value of related party transactions disclosure compliance. The companies got “1” for the required disclosed-item and “0” for required undisclosed-item. Some disclosure items may not be applied to every company. Therefore, for disclosure items that are not relevant in particular companies are classified as “not applicable,” i.e., the score is not given, and the number of items that should be disclosed is one point reduced for each item that is not applied. This assessment is considered more suitable for assessing disclosure than the unmodified dichotomy method. In addition, companies that do not disclose the irrelevance item of the disclosure are also not aggrieved in this valuation method (House & Cooke, 1992). Thus, we calculate the compliance score of related party transaction disclosure with the following formula:

$$C_j = \frac{T = \sum_i^n}{M = \sum_i^m} \quad (1)$$

Where:

- C<sub>j</sub> : related party transaction disclosure for firm j
- T : the number of items disclosed by the company j
- M : the amount of disclosure relevant to the company j, M ≤ 17

The independent variables in this study are controlling shareholders and audit committee characteristics. Legal entities or individuals become controlling shareholders in public companies if they own more than 50 percent of the paid-up shares or those who have the ability to regulate and determine company policies both directly and indirectly (BAPEPAM, 2011) while Faccio & Lang (2002), Setiaatmaja, Tanewski, & Skully (2009), and Darmadi & Sodikin (2013) define controlling shareholders as shareholders with ownership of 20 percent or more.

In the context of the family firm, Villalonga & Amit (2006) defines a family as a controlling shareholder if the family members or the company founders are on a corporate board or the family has 5 percent of share or more. Meanwhile, Yeh, Lee, & Woidtke (2001) use the percentage of family share ownership and the percentage of controlling shareholders family’s on company board as proxies. In this study, two proxies of controlling shareholders are applied. First, family share ownership is at least 20 percent (Setiaatmaja, Tanewski, & Skully, 2009; Darmadi & Sodikin, 2013) and second, the proportion of controlling shareholders family’s on board of directors (Yeh, Lee, & Woidtke, 2001).

Following the previous research of Salehi & Shirazi (2016) and Sellami & Fendri (2017), four measures of audit committee characteristics were used; the size of the audit committee, the number of audit committee meetings in one year, the accounting expertise of audit committee members, and the independence of audit committees. The data of audit com-

mittee characteristics were obtained from the company's annual report in 2017. In order to obtain the data of audit committee independence, the researcher refers to OJK Regulation No.55/POJK.04/2015 concerning the establishment and guidelines for the implementation of the audit committee's work. Meanwhile, the data of the accounting expertise audit committee were analyzed from the profile of the audit committee. Furthermore, accounting expertise is proxied by the number of the audit committee with accounting expertise divided by the number of the audit committee. The proxy also applies to an independent audit committee.

The control variables in this study are the company size, leverage, external auditor, and industry type. Firm size was chosen as a control variable because some previous studies find that firm size influences the level of compliance disclosure (Bepari, Rahman, & Mollik, 2014; Sellami & Fendri, 2017; Fatmawati, Astuti, & Suhardjanto, 2018). Following Bepari, Rahman, & Mollik (2014) and Sellami & Fendri (2017), firm size is proxied by the natural logarithm of the total assets. Furthermore, leverage was also used as the control variable in this study. High levels of leverage can reduce a manager's opportunistic actions because companies that have high leverage would provide more comprehensive disclosure to reduce the cost of debt (Utama & Utama, 2014). Thus, companies with high leverage would have a better level of information disclosure (Sellami & Fendri, 2017). Following Bepari, Rahman, & Mollik (2014), leverage is proxied with total debt divided by total assets.

The auditor quality was also used as the control variable. Hodgdon & Hughes (2016) states the auditor choice may effect on voluntary disclosure. The audit quality was measured with dummy variables, '1' for big 4 and '0' for otherwise (Darmadi & Sodikin, 2013; Utama & Utama, 2014). Finally, the type of industry was controlled as done by Salehi & Shirazi (2016). The industry controls were measured with a nominal scale. The type of industry was divided into eight groups; (1) agriculture, (2) basic and chemical

industry; (3) customer goods industry; (4) miscellaneous industry; (5) property, real estate, and building construction; (6) infrastructure, utilities, and transportation; (7) mining; and (8) trade, service, investment.

The multiple regression models used to test hypotheses are as follows:

$$RPTD = a + \beta_1 FS + \beta_2 FD + \beta_3 SKA + \beta_4 MKA + \beta_5 ACAK + \beta_6 INKA + \beta_7 SIZE + \beta_8 LEV + \beta_9 AUD + \beta_{10} INDST + \varepsilon \quad (2)$$

Where:

- RPTD : the level of related party transaction disclosure
- FS : the controlling family share ownership
- FD : the proportion of directors affiliated with the controlling family
- SKA : the size of the audit committee
- MKA : the number of audit committee meetings held within a year
- ACKA : the proportion of audit committees which has accounting expertise
- INKA : the proportion of independent audit committee
- SIZE : the firm size
- LEV : leverage
- AUD : the auditor
- INDST : the industry type
- $\varepsilon$  : an error

## 4. Results

### Descriptive statistics

Table 2 describes the descriptive statistics or statistical descriptions which include the amount of data, minimum values, maximum values, mean and standard deviation on all variables used. The highest value of disclosure of related party transactions of 0.93 is owned by PP London Sumatra Indonesia Tbk and Salim Ivomas Pratama Tbk. Meanwhile, the company with the lowest related party transactions disclosure value

is Anugerah Kagum Karya Utama Tbk with disclosure value of 0.31. The average related party transaction disclosure is 0.63, and the standard deviation is 0.12.

The controlling shareholders variable, Gunawan Dianjaya Steel Tbk is the highest family ownership company while Berlian Laju Tanker Tbk is the lowest family share company. The average family ownership is 60.35 percent with the standard deviation is 19.23 percent. Prasihda Aneka Niaga Tbk is the company that has the largest family directors. Table 2 shows some companies do not place families in the board of directors as evidenced with the minimum percentage of family directors is 0 percent. The average of the family director is 22.6 percent while the standard deviation is 0.229.

The next variable is the characteristics of the audit committee. The descriptive statistic in Table 2 shows the highest number of audit committees are Charoen Pokphand Indonesia Tbk, Malindo Feedmill Tbk, and Nusa Konstruksi Engineering Tbk. The lowest number of audit committees is Borneo Lumbung

Energi & Metal. The average number of audit committee meetings held during a year is five times. The most frequent audit committee meeting is held by Charoen Pokphand Indonesia Tbk. The average of audit committee's accounting expertise is 0.39 with the highest score is '1' and the lowest value is '0'. The average of the independent audit committee is 0.92. The highest independent audit committee is '1' and the lowest value is '0'.

### Regression test

The hypothesis was tested using the OLS model. Before testing the hypothesis, a classic assumption test was performed. The classic assumption test shows that our data is normally distributed and free from multicollinearity problems, autocorrelation, and heteroscedasticity. The regression test results are presented in Table 3.

Our results show families as controlling shareholders have a negative effect on related party trans-

**Table 2.** Descriptive Statistics

Variable	N	Minimum	Maximum	Mean	Std. Deviation
RPTD	244	0.313	0.930	0.631	0.125099
FS	244	21.190	98.000	60.352	19.23934
FD	244	0.000	0.800	0.226	0.229843
SKA	244	1.000	5.000	3.041	0.371794
MKA	244	1.000	32.000	5.422	3.642186
ACKA	244	0.000	1.000	0.393	0.277038
INKA	244	0.000	1.000	0.927	0.197231
SIZE	244	19.807	32.270	28.528	1.704554
LEV	244	0.027	5.771	0.503	0.457002
AUD	244	0.000	1.000	0.295	0.457017
INDST	244	1.000	8.000	5.299	2.406404

Notes:

RPTD = related party transaction disclosure  
 FS = family share  
 FD = family director  
 SKA = size audit committee  
 MKA = meeting audit committee  
 ACKA = accounting competence audit committee  
 INKA = independent audit committee  
 SIZE = company size  
 LEV = leverage  
 AUD = auditor  
 INDST = industry



action disclosure. The evidence is the variable coefficient of family share ownership and the percentage of family directors which have negative values with the significance level of five and one percent. Thus,  $H_1$  and  $H_2$  are accepted.

The size of the audit committee and the number of the audit committee meeting have positive coefficients. However, the coefficients are not significant. Thus, it cannot be accepted. The coefficient of the variable of the audit committee accounting expertise is positive at the one percent significance level. Thus,  $H_3$  was accepted. Furthermore, the audit committee independence variable is positive but not significant. Consequently,  $H_6$  cannot be supported by data.

As for the control variables, there is merely an external auditor variable that has a positive and significant effect on the related party transaction disclosure. Meanwhile, the other variables (company size, leverage, and type of industry) have a positive but not significant coefficient value.

## 5. Discussion

The results of the hypothesis testing indicate that the family as the controlling shareholder, as measured by share ownership of controlling family and family controlling member that placement in the board of directors, has a significant negative effect on related party transactions disclosure. In other words, the higher the controlling family share ownership and the more controlling family members in the board of directors, the lower the related party transactions disclosure level. This result is consistent with Abdullah et al. (2015) and Ali, Chen, & Radhakrishnan (2007). For Indonesian Context, Darmadi & Sodikin (2013) also find that family control can reduce voluntary disclosure.

The low disclosure of related party transactions in the family firms indicates that related party transactions may potentially harm the interests of minority shareholders. This finding is in accordance with the opinion of Faccio & Lang (2002) who state that companies controlled by families are easier to

**Table 3.** Regression Analysis

Variable	Coefficient	t-statistic	Sig.
Intercept	0.392	2.666	0.008
FS	-0.001	-2.462	0.0145**
FD	-0.091	-2.776	0.0059***
SKA	0.026	1.292	0.198
MKA	0.001	0.707	0.480
ACKA	0.091	3.385	0.0008***
INKA	0.045	1.184	0.237
SIZE	0.004	0.906	0.366
LEV	0.016	0.981	0.328
AUD	0.059	3.399	0.0008***
INDST	0.001	0.457	0.648
Adjusted R <sup>2</sup>	0.191		
F-stat	6.723***		
No. Observations	244		

Notes: \* = Significant at 0.1, \*\* = Significant at 0.05, \*\*\* Significant at 0.01

RPTD = Related Party Transaction Disclosure, FS = Family Share, FD = Family Director, SKA = Size Audit Committee, MKA = Meeting Audit Committee, ACKA = Accounting Competence Audit Committee, INKA = Independent Audit Committee, SIZE = Company Size, LEV = Leverage, AUD = Auditor, INDST = Industry Type

transfer company resources that harm minority shareholders. Tunneling is one of the transactions carried out by controlling shareholders to divert company resources for their personal benefit (Elkelish, 2017). The controlling shareholders usually conduct transactions with related parties to maintain their wealth (Setiawan et al., 2016).

Family members of the board of directors will facilitate the expropriate company resources. The family member on the board of directors can collaborate with the management to make executive decisions for the controlling shareholder's advantages (Yasser & Al Mamun, 2015). In addition, the family member on the board of directors can also limit the disclosure of company information. The expropriation of minority shareholders through related party transactions will be more severe if law enforcement and protection of investors in a country are still weak, as is the case in Indonesia (Dyanty et al., 2012).

Concentrated ownership structures and weak investor protection make family firm in Indonesia choose to limit disclosure of related party transactions. This phenomenon is supported by Darmadi & Sodikin (2013) who state that companies controlled by families have the lower motivation to disclose wider information in the annual report due to their intention to maintain their interests for their personal benefit.

The result indicates that the size of the audit committee does not affect related party transactions disclosure. The result contradicts with Kent & Stewart (2008) and Abdullah et al. (2015) that found the size of the audit committee has a significant negative effect on compliance disclosure. However, this result is consistent with the finding of Sellami & Fendri (2017). The results support the statement that a larger number of audit committees do not guarantee the quality of financial statements better than the number of smaller audit committees (Mangena & Pike, 2005). Furthermore, the size of the audit committee does not affect related party transaction disclosure, probably because the size of the audit committee is less able to represent the diversity of the competence of the audit

committee. Thus, the performance of the audit committee becomes less effective.

It is also obvious that there is no influence between the number of audit committee meetings and related party transaction disclosure. The result indicates that the number of meetings cannot always be used as a measure of the effectiveness of the audit committee. In accordance with the opinion of Menon & Williams (1994) who state that the number of audit committee meetings does not indicate improving the quality of financial statements. This result is consistent with the results of Othman et al. (2014), Abdullah et al. (2015), and Sellami & Fendri (2017).

Audit committee accounting expertise has a significant positive effect on related party transactions disclosure. This means that the more the number of audit committees expertise in accounting, the broader the disclosure of the related party transactions. Audit committee members with accounting expertise have a better understanding of accounting standards. Therefore, they are able to detect recording errors or non-compliance accounting standards. In addition, audit committees accounting expertise can also encourage management to disclose broader information in financial statements (Mangena & Pike, 2005). Our results support the findings of Salehi & Shirazi (2016) in Iran context and Sellami & Fendri (2017) in South Africa who find that the audit committee accounting expertise has a significant positive effect on the disclosure of financial statements.

The effect of the independence of the audit committee on related party transaction disclosure was also found. However, this study fails to prove the influence of committee independence and disclosure of related party transactions. This result is consistent with Kent & Stewart (2008) and Kusnadi et al. (2015). In this study, the independence of the audit committee does not have a significant effect on related party transaction disclosure. This may be caused by the average company has not met the provisions of the number of independent audit committees required by OJK Regulation No. 55/PJOK.04/2015. The regulation states

that the audit committee consists of at least three people who are all from independent parties. However, the descriptive statistics show the average proportion of independent audit committees is only 0.92.

Four characteristics of the audit committee (size, number of meetings, accounting expertise, and independence) were tested, but only accounting expertise has a significant positive influence on the related party transaction disclosure. The result indicates that Indonesia has poor corporate governance. The analysis complements the results of Utama, Utama, & Amarullah (2017) which state that generally Indonesian companies have not implemented good corporate governance practices.

Furthermore, for the control variable, there is no significant influence of firm size and related party transactions disclosure. The finding is consistent with Utama & Utama (2014). Any significant influences are not found between leverage and related party transactions disclosure. This result is consistent with Suhardjanto & Dewi (2011), Abdullah et al. (2015), and Mensah (2018).

Lastly, this study found that big four auditors can increase related party transaction disclosure. The results prove the opinion of Premuroso & Bhattacharya (2008) who state that the experience and good reputation of the big four auditors are able to encourage clients to improve the quality of financial statements through the disclosure of broader financial statements. This result is consistent with Tsalavoutas (2011). Finally, there is no influence on the type of industry and the level of related party transactions disclosure.

### **Sensitivity analysis**

A sensitivity test was employed to test the robustness of the results of the hypothesis test. Employing the actual compliance score may not be normally distributed (Sellami & Fendri, 2017). Following Tsalavoutas (2011), Abdullah et al. (2015), and Sellami & Fendri (2017), to reduce the problems that might arise from the use of the actual disclosure value, the

dependent variable was transformed into a log odds ratio formulated as follows:

$$Y = \log \left( \frac{p}{1-p} \right) \quad (3)$$

Where:

Y = value of transformation of RPTD score

p = actual value of RPTD

The next step was repeating all empirical tests (classic assumption test and hypothesis test). The classic assumption test results show that the data meets the classical assumption test requirements (normality, multicollinearity, autocorrelation, and heteroscedasticity). The results of the sensitivity test are presented in Table 4. Table 4 shows that the results of the hypothesis testing do not change. Therefore, it can be concluded that the results are robust.

## **6. Conclusion, Limitations, and Suggestions**

### **Conclusion**

This research examines the influence of families as controlling shareholders and audit committee characteristics (size, number of meetings, accounting expertise, and independence) on related party transaction disclosure. Non-financial companies that listed on the IDX in 2017 were employed. The final sample is 244 companies.

It is found out that families as controlling shareholders have a negative effect on the related party transactions disclosure. This shows that family-controlled companies have low motivation to disclose related party transactions. This result can be an indication that the family as the controlling shareholder takes advantage of related party transactions.

The audit committee as part of the corporate governance mechanism has not been able to mitigate the information asymmetry in family firms. As evidence is in the hypothesis test, out of the four characteristics of the audit committee tested (size, number of meetings, accounting expertise, and independent au-

dit committee) only the audit committee accounting expertise which was able to increase the related party transaction disclosure. The results provide evidence of the lower implementation of good corporate governance in Indonesia.

This research has at least three implications. First, it may add insight to investors about related party transactions disclosure, especially in companies controlled by families. Second, the findings can be used as consideration for investors who will invest in family companies, especially in Indonesia. Third, the findings can be the inputs for regulators and capital market supervisors to evaluate regulations regarding audit committees, especially at independent points.

### Limitations and suggestions

This study has several limitations. First, a checklist of related party transactions disclosure was not

consulted to independent practitioners. Thus, different interpretations are possible. Second, the aspect used was only family firms. Therefore, the level of compliance of related party transactions disclosure between family and non-family companies cannot be compared. Third, this research only used one corporate governance mechanism, namely the audit committee, in the analysis.

Based on the limitations, the following are some suggestions for further research: (1) future researchers can consult a checklist of related party transactions disclosure to independent practitioners to obtain a better checklist assessment; (2) future studies can employ families and non-families sample to be able to compare the results, and it would be better if the samples are obtained from different countries; and (3) future researchers can add other corporate governance mechanisms to better represent the overall corporate governance.

**Table 4.** Sensitivity Analysis

Variable	Coefficient	t-statistic	Sig.
Intercept	-0.158	-0.529	0.598
FS	-0.002	-2.622	0.009***
FD	-0.174	-2.602	0.010**
SKA	0.046	1.152	0.250
MKA	0.003	0.669	0.504
ACKA	0.180	3.283	0.0012***
INKA	0.093	1.197	0.233
SIZE	0.007	0.759	0.449
LEV	0.033	1.027	0.306
AUD	0.126	3.528	0.0005***
INDST	0.000	0.040	0.968
Adjusted R <sup>2</sup>	0.187		
F-stat	6.607***		
No. Observations	244		

Notes: \* = Significant at 0.1, \*\* = Significant at 0.05, \*\*\* Significant at 0.01  
RPTD = Related Party Transaction Disclosure, FS = Family Share, FD = Family Director,  
SKA = Size Audit Committee, MKA = Meeting Audit Committee, ACKA = Accounting  
Competence Audit Committee, INKA = Independent Audit Committee, SIZE = Company  
Size, LEV = Leverage, AUD = Auditor, INDST = Industry Type

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