JURNAL AKSI (Akuntansi dan Sistem Informasi). 2020. 6 (1): 51-59

JURNAL AKSI
Akuntansi dan Sistem Informasi
http://aksi.pnm.ac.id

The Effect of Propping on the Performance of the Financial Industry in Indonesia

Verlina Anggita Kartika Putri [1] and Supatmi[2])

[1,2)] Universitas Kristen Satya Wacana

ARTICLE INFO

Keywords:
Financial performance, Market performance, Propping, Related party transactions

Article History:
Received: 19/03/2021
Accepted: 19/04/2021

Corresponding author:
Supatmi
E-mail:
supatmi.supatmi@uksw.edu

ABSTRACT

This study aims to determine the effect of related party transactions *propping* on the financial industry's financial performance and performance market performance. This research sample is 66 financial industry companies listed on the Stock Exchange Indonesia (IDX) during 2017-2019 with 198 observations as panel data. Based on the panel data regression test, this research found *propping* proxied by related party transactions account payables, related party transactions with other payables and related party transactions liabilities other than account payables do not positively affect the company's financial performance (ROA). *Propping* is proxied by related party transactions, account payables, and liabilities other than account payables do not positively affect the market performance of industrial companies' finance. Meanwhile, *propping* proxied by transactions of other debt-related parties positively affects financial industry companies' market performance (Tobin's Q). The findings align with transaction cost theory and the efficient transaction hypothesis that related party transactions are efficient transactions to boost company performance.

INTRODUCTION

Every company has goals to be achieved, one of which is to improve company performance. Company performance is helpful to describe a company's good or bad financial condition. Company performance shows the company's success or company achievements. Performance measurement has a significant influence on effective organizational management. Therefore it is necessary to measure it to improve company performance. Measurement of company performance is classified into accounting-based and market-based measurements (Al-Matari, Al-Swidi, & Fadzil, 2014).

Related party transactions are considered a good business exchange to meet its economic needs (Pozzoli & Venuti, 2014). Related party transactions have been carried out by companies in Indonesia supported by data on issuers' corporate actions on the Indonesia Stock Exchange (IDX) during the 2017-2019 period. Corporate action data shows that issuers carried out related party transactions is 50.37 percent in 2017, in 2018 is 49.75 percent and in 2019 is 48.10 percent. This data supports that companies in Indonesia carry out related party transactions in order to improve company performance.

Related party transactions will affect the company's performance based on the related party transactions' type and size (Supatmi *et al.,* 2019). Governance owned by a company can assess a related party transaction related to its performance (Chien & Hsu, 2011). Related party transactions improve resource allocation efficiency among companies affiliated with the

p-ISSN: 2528-6145, e-ISSN: 2541-3198 Accredited Third Grade by Ministry of Research, Technology of The Republic of Indonesia, Decree No: 148/M/KPT/2020

Cite this as: Verlina Anggita Kartika Putri and Supatmi. (2021). The Effect of Propping on the Performance of the Financial Industry in Indonesia. JURNAL AKSI (Akuntansi dan Sistem Informasi), 6 (1), 51-59. http://doi.org/10.32486/aksi.v6i1.729

same business group (Wong, Kim, & Lo, 2015). Efficient related party transactions help the company improve monitoring to avoid conflicts of interest and meet its economic needs (Gordon, Henry, & Palia, 2005).

Related party transactions can be classified as *tunneling* and *propping* (Cheung, Rau, & Stouraitis, 2006). *Tunneling* related party transactions are related party transactions that contain conflicts of interest that endanger the board of directors' management and supervisory functions. Meanwhile, *propping* related party transactions are efficient transactions that meet the economic needs (Gordon *et al.,* 2005). The two perspectives conclude that *tunneling* provides losses for the company and *propping* provides benefits for the company. *Propping* transactions can be in the form of transactions in direct cash payments, loans, and loan guarantees made by the parent company and subsidiaries (Cheung *et al.,* 2009). The *propping* transaction causes the company's transactions to be efficient (Supatmi *et al.,* 2019).

Related party transactions can have a positive impact on operations and group relationships within a company. Related party transactions related to company sales positively affect company performance as measured by ROA (Cheung *et al.,* 2009). Related party transactions positively influence daily business operations to be more efficient (Utama *et al.,* 2010). Meanwhile, the research results by (Supatmi *et al.,* 2019) found that there are indications that trade payable related party transactions, which are one of the factors, have a negative effect on financial performance and banking market performance in Indonesia. The relationship between related party transactions and company performance is negative because it supports a company conflict of interest (Chien & Hsu, 2011). Related party transactions have the effect of weakening market reactions on investment decisions because investors perceive related party transactions to be more vulnerable to the takeover of minority shareholders' wealth. (Utama *et al.,* 2010).

This research aims to find empirical evidence of the impact of related party transactions *propping* on the performance of the financial industry in Indonesia. The results of research on the effect of *propping* related party transactions were still found to be inconsistent. Previous research also used more research samples from non-financial industries or manufacturing industries. This study focuses on *propping* related party transactions to provide an empirical picture of these transactions' effect on the performance of the financial industry in Indonesia. The financial industry, which consists of banking, insurance, and financing, is a highly regulated industry or an industry controlled by applicable regulations to provide a different picture of this research with less regulated industries. The study uses three indicators to measure *propping* related party transactions, including related party transactions related to trade payables, related party transactions with other payables, and related party transactions with liabilities other than trade payables (Supatmi *et al.*, 2019).

The research conducted has the benefit of providing empirical evidence regarding the effects of related party transactions on Indonesia's financial industry's performance, as seen from financial conditions and market conditions. In practical terms, this study's results help assist investors in assessing companies that carry out *propping* related party transactions so that they can determine which one is more profitable. Research is also beneficial for Bank Indonesia (BI) and Otoritas Jasa Keuangan (OJK) in formulating appropriate policies to regulate and supervise related party transactions (RPT) in the financial industry.

MATERIALS AND METHODS

Transaction cost theory is a theory that views the success of an organization as measured by the ability of company managers to manage economic transactions efficiently (Pagalung, 2004). It is further stated that transaction cost savings are the main factor in explaining the contract's viability. This theory is widely applied in marketing and other fields by adopting two assumptions about economic actors regarding rationality and limited opportunism and three critical economic transactions regarding asset specificity, uncertainty, and frequency. (Coase, 1937)**.** According to Pagalung (2004)**,** transaction cost theory believes that transaction cost savings are the main factor in explaining the contract's viability. This theory is in line with research Gordon, Henry, & Palia (2004) explained that related party transactions carried out by companies could increase transaction cost efficiency to improve company performance which is formulated as the efficient transaction hypothesis. Related party transactions have relatively straightforward procedures, faster, and prices can be adjusted. The relationship between related party transactions can improve its performance due to these transactions' cost efficiency.

Company performance describes the success of a company over a certain period. Effective corporate performance improvement requires several measurements, and company performance measurements are classified into accounting-based and market-based

measurements. The accounting-based measurement reflects past company performance that looks at its short-term profitability using Return on Assets (ROA). The ROA ratio relates the company's operating profit to its total assets. It is an appropriate ratio to identify the company's performance because it is generally accepted as a significant ratio and can be calculated without disclosing a self-assessment (Pozzoli & Venuti, 2014).

A useful market-based measure that helps anticipate future performance is categorized as a long-term measure using Tobin's Q measure (Al-Matari *et al.,* 2014). Tobin's Q measurement is seen from the ratio of market value to the cost of replacing its assets, so some economists highly prefer it because it informs more about market constraints (Villalonga & Amit, 2004). Tobin's Q ratio compares the total market value of shares and market value of debt to the amount of capital (Sudiyatno & Puspitasari, 2010). Therefore, ROA is used in this study as an accounting-based company performance measurement, and Tobin's Q measures market-based company performance.

A related party transaction is a company business that carries out operations through a subsidiary, partner, joint venture, or affiliate that will ultimately benefit top management and controlling shareholders. (Nor & Ismail, 2015). Related parties are parties that one of the parties wants to control or have significant influence over the other party and the company's financial statements (Ikatan Akuntan Indonesia, 2009). Related party transactions are always associated with assets, liabilities, sales, and expenses (Utama *et al*., 2010). Bapepam Regulation Number IX.E.1 states that related party transactions conducted by controlled companies with affiliates of members of the Board of Directors, the Board of Commissioners, or the company's significant shareholders are affiliated transactions. Bapepam Regulation Number IX.E.2 explains that all entities must make public announcements regarding affiliated transactions (including related party transactions) and must be approved by shareholders in the General Meeting of Shareholders. (OJK, 2009).

Related party transaction activities can be classified into *tunneling* and *propping* related party transactions (Cheung *et al.,* 2006). *Propping* is a form of related party transactions that results in efficient transactions (Supatmi *et al.,* 2019). *Propping* related party transactions include cash receipts (sales and debt) and transactions with subsidiaries not listed on the stock exchange (Cheung *et al.,* 2009). *Propping* related party transactions benefit the company's operations' efficiency (Wong *et al.,* 2015). *Propping* impacts underperforming companies positively (Friedman, Johnson, & Mitton, 2003). Thus, *propping* is a related party transaction that has an efficiency impact on the company to cause the company's performance to increase.

Related party transactions are transactions in the form of the takeover of resources, services, and liabilities between the entity and related parties, including debt and equity in cash or in-kind (IAS, 2010). Related party transactions related to *propping* impact the company's weakened financial performance positively by selling assets, exchanging assets, and trading in goods and services such as providing easy inter-company loans (Cheung *et al.,* 2009). The related party transactions involved in the *propping* increase or decrease the company's financial performance measured by ROA (Wan & Wong, 2015). *Propping* is a tool to increase resource efficiency between affiliated companies and increase company value (Wong *et al.,* 2015). Related party transactions in trade payables can provide excess funds and improve company performance (Supatmi *et al.,* 2019). Related party transactions involving related party loans positively affect the company's financial performance (Utama & Utama, 2014). Accounts (notes) receivables and accounts (notes) payable from related parties show a positive relationship to the company's financial performance (Huang & Liu, 2010). Based on the theory and findings of previous research, the first hypothesis is formulated to be:

H_1: *Propping* has a positive effect on the company's financial performance

Propping related party transactions can meet basic economic needs by reducing transaction costs to be more efficient (Gordon *et al.,* 2005). Transaction cost efficiency is done by creating companies in the same business group to increase company value (Wong *et al.,* 2015). *Propping* related party transactions affect the company's profitability, and its market performance positively is measured by Tobin's Q (Supatmi *et al.,* 2019). The company is *propping* by issuing debt credibly to help its weak performance (Friedman *et al.,* 2003). Related party transactions related to *propping* affect the company's market performance in Indonesia, especially on the stock market, which gives a positive reaction that can increase revenue (profit) and increase interest in investing in shares in the company (Utama *et al.,* 2010). The announcement of *propping* related party transactions carried out by companies in China gave a positive market reaction and changed its condition for the better (Peng, Wei, & Yang, 2011). The positive impact of related party transactions propped on market performance as indicated by more than one Tobin's Q (Al-Matari *et al.,* 2014). Based on the theory and findings of

previous research, the second hypothesis is formulated as:

H_2: *Propping* has a positive effect on the company's market performance

This study uses the financial industry population listed on the Indonesia Stock Exchange (IDX) during 2017-2019, totaling 94 companies. Research data in the form of financial industry annual reports for 2017-2019 were obtained through *www.IDX.co.id.* By using purposive sampling, the following samples were obtained:

Table 1.
Determination of Research Samples

Information	Amount
Financial Industry Companies listed on the IDX in 2017-2019.	94
The company did not provide annual reports for 2017-2019 consecutively	(2)
The company displays financial statements not ending on December 31	0
Companies that do not have share price information	(7)
The number of samples that meet the criteria	66

The financial industry consists of five sectors, including the banking sector, the insurance sector, the financial institution sector, the securities company sector, and other financial sectors. The research sample was found to be 66 companies or 198 research observations. Regarding data processing, it was found that there were 12 outlier data for the dependent variable ROA and seven outlier data for the dependent variable Tobin's Q so that the details of the number of observations per sector are presented as follows:

Table 2.
Distribution of Number of Research Observations per Financial Industry Sector

Sector	ROA		Tobin's Q	
	Amount	Percentage	Amount	Percentage
Insurance Sector	30	18%	36	20%
Banking Sector	105	65%	120	68%
Securities company sector	9	6%	9	6%
Financial institutions	6	3%	6	3%
Other sectors / General	12	8%	6	3%
Total	162	100%	177	100%

The study has a dependent variable: the company's performance (KP) related to financial performance and market performance. The profitability ratio of Return On Assets (ROA) is a measurement for financial industry companies' financial performance. ROA is net income scaled by total assets (Wahab *et al.,* 2011). Meanwhile, measurement related to market performance uses Tobin's Q (TOBIN) ratio generated from the market capitalization value and the book value of debt divided by the book value of assets (Rohi-Mone, Budiansyah, Rinaningsih, & Yuliati, 2020). Related party transactions are *propping* as an independent variable measured by three measurements that adopt research by Supatmi (2020), namely related party transactions related to trade payables divided by total liabilities (RPT AP), related party transactions related to other debts divided by total liabilities (RPT OP), and related party transactions related to liabilities other than trade payables divided by total liabilities (RPT NAP).

Control variables support research to examine the relationship between the dependent and independent variables (Yuliyanti, 2019). The control variables used in previous studies are firm size, leverage, and managerial ownership. Firm size (UP) is measured as the logarithm of firm assets, and firm leverage (LEV) is measured as the relationship between the company's total debt and assets (Bona-Sánchez, Fernández-Senra, & Pérez-Alemán, 2017). The influence of a large company size will help the company improve its performance (Chien & Hsu, 2011). Managerial ownership (KM) is the proportion of share ownership by managers to total shares (Supatmi *et al.,* 2019). The level of leverage has a positive impact on company performance (Bona-Sánchez *et al.,* 2017).

The analysis technique used to test the hypothesis is panel data regression with Eviews series 10. Before testing panel data regression, the panel data regression estimation testing is carried out, which includes the Ordinary Least Square (OLS) or Common Effect Model (CE), Fixed Effect Model (FE). Moreover, the Random Effect model (RE)(Winarno 2015, 9.14-9.27) and the classical assumption test include normality test, multicollinearity, autocorrelation, and heteroscedasticity. The regression equation for hypothesis testing is as follows:

$$KPit = \alpha + \beta 1 RPTAPit + \beta 2 RPTOPit + \beta 3\ RPTNAPit + \beta 4 UPit + \beta 5 LVit + \beta 6 KMit + \varepsilon$$

Acceptance of hypotheses 1 and 2, namely the *propping* related party transactions have a

positive effect on the performance of accounting-based companies, and the market will use a significance level of 5 percent, and it is stated with a statistical hypothesis $H_0 = \beta_1 < 0$ dan $H_a = \beta_1 > 0$.

RESULTS AND DISCUSSION

The description of the data's distribution for each variable in this study can be seen in Table 3 as follows:

Table 3 also shows that the financial industry has an average company size (natural logarithms of market capitalization) of 28.28 and an average leverage level of 0.74, which means that the total liabilities of financial companies are less than total assets. This is thought to be related to banking regulations, which are the most significant sample of this study's financial industry. Namely Bank Indonesia Regulation Number 15/15 / PBI / 2013 concerning Minimum Statutory Reserves, which states that there is a regulation on the loan amount to Deposit Ratio (LDR), the benchmark to see the banks liquidity in fulfilling their lending (Bank Indonesia, 2013). Meanwhile, the average managerial ownership in the financial industry is very low (0.00 percent).

Table 3.
Descriptive Statistics Results

Research variable	Average value	Highest Value	Lowest Value	Standard Deviation
ROA	0,01	0,07	-0,05	0,02
TOBIN	1,05	1,69	0,46	0,20
RPT AP	0,03	0,17	0,00	0,04
RPT OP	0,01	0,05	0,00	0,01
RPT NAP	0,00	0,00	0,00	0,00
UP	28,28	32,61	24,99	1,41
LEV	0,74	0,93	0,30	0,16
KM	0,00	0,00	0,00	0,00

Description:
ROA: Return on Asset; TOBIN: Tobin's Q; RPT AP: Accounts Payable related party transactions; RPT OP: Related party transactions Other Debt; RPT NAP: Related party transactions other than accounts payable; UP: Company Size; LEV: Leverage; KM: Managerial Ownership (Blockholder)

The results of descriptive statistics show that the financial industry's financial performance, which is proxied by ROA, is at an average of 0.01, which means that the financial industry's assets can provide a profit of 1 percent in 2017-2019. The average market performance as proxied by Tobins'Q shows the financial industry's success in developing market value and increasing investment (Al-Matari *et al.,* 2014). This means that the financial industry's performance during the study period was reasonably good because, on average, the ROA was positive, and Tobins'Q was worth more than one.

Propping measured by transactions related parties trade payables, other payables, and liabilities other than trade payables, on average, low value (0.1 percent - 3 percent of total liabilities). This means that the financial industry's level of *propping* related party transactions during this study was low. Several financial companies do not carry out this *propping* related party transactions, namely PT Asuransi Harta Aman Pratama Tbk, PT Lippo Securities Tbk, PT Yulie Sekuritas Indonesia Tbk, and PT Trust Finance Indonesia Tbk. However, it was found that there was one financial company, namely PT Bank QNB Indonesia Tbk, which had related party transactions related to trade payables up to 17 percent of total liabilities.

Before panel data regression testing, panel data regression estimation testing was carried out, which included Ordinary Least Square (OLS) or Common Effect Model (CE), Fixed Effect Model (FE), and Random Effect Model (RE) (Winarno 2015, 9.14-9.27) along with the classical assumption tests including normality, multicollinearity, autocorrelation, and heteroscedasticity tests. The classical assumption test results found that the research data passed the classical assumption test except for the normality test. Testing for normality with the Jarque-Bera test shows the research data is not normally distributed (probability is more than 0.05). However, the study covers 70.21 percent of the total population. The sample average will be closer to the population average so that it is estimated that the data is normally distributed (Filmus, 2010). Meanwhile, the panel data regression estimation test shows that the suitable model for testing panel data regression in this study, both for the dependent variable ROA and TOBIN is the random effect model presented in Table 4.

Table 4.
Panel Data Regression Technique Estimation Test Results

Dependent Variable	ROA	TOBIN
F Statistical Test (Chow Test)	Probabilitas *Cross-section F* 0,0016	Probabilitas *Cross-section F* 0,0000
Hausman Test	Probabilitas *Cross-section random* 0,2113	Probabilitas *Cross-section random* 0,0013
Lagrange Multiplier Test	Probabilitas *Breusch-Pagan (Both)* 0,0023	Probabilitas *Breusch-Pagan (Both)* 0,0005
Conclusion	Model *Random Effect*	Model *Random Effect*

According to the random effect model for each dependent variable, a summary of hypothesis testing with panel data regression is presented in table 5 below.

Table 5.
Hypothesis testing

Variable	Prediction of Influence	The company's performance-based accounting (ROA)		Market-based Company Performance (TOBIN)	
		Coefficient	Prob	Coefficient	Prob
Constant		-0,0587	0,1107	-0,9212	0,0164
RPT AP	+	-0,0153	0,3644	-0,0145	0,4848
RPT OP	+	0,0265	0,3656	2,7627	0,0314
RPT NAP	+	-5,4215	0,1499	2,7971	0,0736
UP		0,0036	0,0192	0,0610	0,0000
LV		-0,0438	0,0001	0,2898	0,0115
KM		3,9178	0,4046	-0,1660	0,2907
R^2		0,1712		0,2113	
Adjusted R^2		0,1188		0,1581	
F-statistic		3,2709	0,0057	3,9748	0,0014

This study uses Adjusted R2 to explain the proportion of variations in the independent variables that explain the dependent variable (Widarjono 2013, 66). In table 6, the adjusted R2 values of the dependent variable ROA are 0.1188 and 0.1581 for the dependent variable Tobin's Q. This means that the independent variables in this study, namely related party *propping* transactions, company size, *leverage*, and managerial ownership, can describe variations in financial performance. (ROA) of 11.88 percent and variations in market performance (Tobins'Q) of 15.81 percent, the rest is explained by other variables outside this study's regression model. The F test results show that the F-statistic probability value in both tests is significant so that the regression model in the study is suitable for use (goodness of fit) for further hypothesis testing.

The t-test results found that transactions with related parties trade payables, other payables, and liabilities other than trade payables that are proxies of *propping* do not affect the financial industry's financial performance (ROA). Meanwhile, transactions with other debt-related parties were found to positively affect the financial industry market's performance (TOBIN), and other *propping* transactions were not proven to affect. However, the control variables, company size, and the financial industry's leverage level are proven to affect financial performance and financial industry market performance. In contrast, managerial ownership is not proven to affect the performance of the financial industry.

The first hypothesis is that *propping* affects the company's financial performance positively by using ROA. Based on the regression results in this study, the proxies proxied by transactions with related party accounts payable, related party transactions with other debt, and related party transactions other than trade payables were found not to affect financial performance (ROA). Therefore, the first hypothesis is not supported. This hypothesis is not proven due to the low proportion of related party transactions conducted by the financial industry. This is indicated by the relatively low proportion of the financial industry conducting transactions related to debt-related parties (*propping*), namely related party transactions related to trade payables, related party transactions with other debt, and related party transactions other than trade payables of 3 percent, respectively. 1 percent and 0 percent. The company's low level of related party transactions does not significantly impact the financial industry accounting profit. Also, most financial companies disclose that related party transactions related to loans provide

different credit terms than loans to third parties. This has resulted in no efficiency in these related party transactions and has no impact on improving the financial industry's financial performance (Lin, Liu, & Keng, 2010). The existence of strict regulations and the financial industry's supervision related to the low number of related party transactions in the financial industry, namely OJK Regulation Number VIII.G 7. Which regulates the amount of each item of liability related to related party transactions or regarding trade payables of related parties so that transactions related parties are no different from non-related party transactions in the financial industry (Kemenkeu, 2013).

This study's findings are not in line with the transaction cost theory and the efficient transaction hypothesis of Gordon *et al.* (2004) that related party transactions can improve transaction cost efficiency and improve company performance. However, this study's results are in line with Munir & Gul (2012) dan Pozzoli & Venuti (2014), who found that the *propping* related party transactions did not affect the company's financial performance. It means that there was no evidence of a causal relationship between these variables. Therefore, related party transactions are not a means to increase company profits and company financial performance.

The second hypothesis is that the projection of other debt-related party transactions positively affects financial companies' market performance, which is proxied by Tobin's Q. It is concluded that the second hypothesis is accepted. The regression results show that other debt-related party transactions positively affect the company's market performance. The higher the transactions of other debt-related parties conducted by the company, the higher the market performance. More and more companies conduct related party transactions related to other debts, which investors see as positive to increase company value. Transactions with related parties related to other debt are considered an efficient transaction by investors to value the company as higher than its carrying value. This study's findings support the transaction cost theory and efficient transaction hypothesis from Gordon et al. (2004) that related party transactions can increase the efficiency of transaction costs, thereby increasing company performance.

This study's findings are in line with Utama & Utama (2014), which proves that *propping* related party transactions provide a buoyant stock market reaction compared to stock market reactions in companies that do not conduct related party transactions. The stock market reaction reflects the company's market conditions. This study's findings also support Supatmi *et al.* (2019), which states that financial companies that conduct *propping* related party transactions positively impact the company's profitability and market performance as measured by Tobin's Q.

Meanwhile, *propping* proxied by related party transactions, trade payables, and other than trade payables were not proven to affect financial industry companies' market performance positively, so the hypothesis was rejected. This is because investors' perceptions or assessments of related party transactions related to trade payables and liabilities other than trade payables by financial industry companies are not considered efficient. There is a possibility that these related party transactions in the financial industry will only benefit certain parties so that investors will not respond positively to this transaction. This is closely related to Bapepam Regulation Number IX.E.1, which states that related party transactions indicate the existence of company interests and personal interests of members of the Board of Directors, members of the Board of Commissioners, or different major shareholders to the detriment of the company (OJK, 2009).

This study's results are in line with Dahya, Dimitrov & McConnell (2008) that the market reaction of financial companies is not influenced by the presence or absence of related party transactions. However, the research findings are not in line with Peng *et al.* (2011) and Al-Matari *et al.* (2014), which states that the *propping* proxied by related party transactions of financial companies gives a positive market reaction and changes the company's condition for the better as measured by the value of Tobin's Q.

CONCLUSIONS AND SUGGESTION

This research aims to determine the effect of *propping* related party transactions on financial industry companies' financial performance and market performance. The study results found that *propping* proxied by transactions with related party accounts payable, transactions with related parties on other debt, and transactions from related parties other than trade payables did not affect the company's financial performance as measured by ROA. *Propping*, which is proxied by related party transactions, trade payables, and other than trade payables, does not affect financial industry companies' market performance. Meanwhile, *propping* proxied by transactions from other debt-related parties positively affects the company's market performance as measured by Tobin's Q. The findings align with transaction cost theory and the efficient transaction hypothesis that related party transactions are efficient transactions that can boost company performance.

This study's findings provide additional empirical evidence of the relevant transaction cost theory to link the impact of *propping* related party transactions on the company's market performance, especially transactions with other debt-related parties. For investors, these findings can be used as consideration for investing in financial industry companies by considering that related party transactions can affect the return on investment. For companies, especially in the financial industry, research results can be a consideration for companies to increase other debt-related party transactions because they are proven to improve financial industry companies' performance. For regulators, namely Bank Indonesia (BI) and the Financial Services Authority (OJK), the findings can be used as material for developing regulations related to related party transactions in financial industry companies.

This study has limitations; namely, the sample of this study is the financial industry dominated by the banking sector, so that it can influence the results of this study. Although both are financial industries, there are still differences between the financial industry sectors because each sector has its characteristics. Therefore, future research may consider exploring the impact of related party transactions on company performance for specific subsectors, such as insurance companies or finance companies. This study also ignores existing economic conditions during the study period, such as the interest rate and the inflation rate, indirectly influencing company performance. Future research may consider conducting this research in different economic conditions, for example, separating the conditions before the Covid-19 pandemic and during the Covid-19 pandemic.

REFERENCES

Al-Matari, E. M., Al-Swidi, A. K., & Fadzil, F. H. B. (2014). The Measurements of firm performance's dimensions. *Asian Journal of Finance & Accounting*, *6*(1), 24. https://doi.org/10.5296/ajfa.v6i1.4761

Bank Indonesia. (2013). *Peraturan Bank Indonesia No: 15/15/PBI/2013 tentang Giro Wajib Minimum*.

Bona-Sánchez, C., Fernández-Senra, C. L., & Pérez-Alemán, J. (2017). Related-party transactions, dominant owners and firm value. *BRQ Business Research Quarterly*. https://doi.org/10.1016/j.brq.2016.07.002

Cheung, Y. L., Jing, L., Lu, T., Rau, P. R., & Stouraitis, A. (2009). Tunneling and propping up: An analysis of related party transactions by Chinese listed companies. *Pacific Basin Finance Journal*, *17*(3), 372–393. https://doi.org/10.1016/j.pacfin.2008.10.001

Cheung, Y. L., Rau, P. R., & Stouraitis, A. (2006). Tunneling, propping, and expropriation: evidence from connected party transactions in Hong Kong. *Journal of Financial Economics*. https://doi.org/10.1016/j.jfineco.2004.08.012

Chien, C.-Y., & Hsu, J. C. S. (2011). The Role of Corporate Governance in Related Party Transactions. *SSRN Electronic Journal*, (January 2010), 1–27. https://doi.org/10.2139/ssrn.1539808

Coase, R. H. (1937). The Nature of the Firm, Economica, New Series, Vol. 4, No. 16. (Nov., 1937), pp. 386-405. *Economica*.

Dahya, J., Dimitrov, O., & McConnell, J. J. (2008). Dominant shareholders, corporate boards, and corporate value: A cross-country analysis. *Journal of Financial Economics*. https://doi.org/10.1016/j.jfineco.2006.10.005

Friedman, E., Johnson, S., & Mitton, T. (2003). Propping and tunneling. *Journal of Comparative Economics*. https://doi.org/10.1016/j.jce.2003.08.004

Gordon, E. A., Henry, E., & Palia, D. (2004). Related party transactions and corporate governance. *Advances in Financial Economics*. https://doi.org/10.1016/S1569-3732(04)09001-2

Gordon, E. A., Henry, E., & Palia, D. (2005). Related party transactions: associations with corporate governance and firm value. *SSRN Electronic Journal*. https://doi.org/10.2139/ssrn.558983

Huang, D. T., & Liu, Z. C. (2010). A study of the relationship between related party transactions and firm value in high technology firms in Taiwan and China. *African Journal of Business Management*.

IAS. (2010). *International Accounting Standard 24 Related Party Disclosures*. (July), 1–7.

Ikatan Akuntan Indonesia. (2009). Pernyataan Standar Akuntansi Keuangan No. 7 Pengungkapan Pihak-Pihak Yang Mempunyai Hubungan Istimewa. *Jakarta: Dewan Standar Akuntansi Keuangan*, *7*(7), h. i-7.20.

Kemenkeu, K. K. R. I. B. P. P. M. dan L. (2013). Kementerian Keuangan Republik Indonesia Badan Pengawas Pasar Modal Dan Lembaga Keuangan Salinan. In *Journal of Chemical Information and Modeling* (Vol. 01).

Lin, W. Y., Liu, Y. A., & Keng, I. (2010). Related party transactions, firm performance and control mechanisms: Evidence from Taiwan. *International Research Journal of Finance and Economics*.

Md Nor, H., & Ku Ismail, K. N. I. (2015). Can independent directors prevent abusive related party transactions ? *2nd International Conference on Education and Social Sciences*, (February), 480–490.

Munir, S., & Gul, R. J. (2012). Related party transactions, family firms and firm performance: Some malaysian evidence. *SSRN Electronic Journal*. https://doi.org/10.2139/ssrn.1705846

OJK. (2009). *Transaksi afiliasi dan benturan kepentingan transaksi tertentu*. 1–3. Retrieved from https://www.ojk.go.id/id/kanal/pasar-modal/regulasi/klasifikasi-bapepam/emiten-dan-perusahaan-publik/Documents/IXE1_1389000017.pdf

Pagalung, G. (2004). Transaction cost, agency theory, dan stakeholder theory dalam teori (desain) organisasional: Kajian asumsi-asumsi dasar. *Jurnal Bisnis Dan Akuntansi*, *6*(2), 138–150.

Peng, W. Q., Wei, K. C. J., & Yang, Z. (2011). Tunneling or propping: Evidence from connected transactions in China. *Journal of Corporate Finance*, *17*(2), 306–325. https://doi.org/10.1016/j.jcorpfin.2010.08.002

Pozzoli, M., & Venuti, M. (2014). Related party transactions and financial performance: Is there a correlation? Empirical evidence from Italian listed companies. *Open Journal of Accounting*, *03*(01), 28–37. https://doi.org/10.4236/ojacct.2014.31004

Rohi-Mone, R., Budiansyah, K., Rinaningsih, & Yuliati, R. (2020). Pengaruh besaran transaksi pihak berelasi terhadap nilai perusahaan pada perusahaan terdaftar di Bursa Efek Indonesia. *Warta LPM*, *23*(1). https://doi.org/10.23917/warta.v23i1.10202

Sudiyatno, B., & Puspitasari, E. (2010). Tobin's Q dan Altman Z-Score sebagai indikator pengukuran kinerja perusahaan. *Kajian Akuntansi*.

Supatmi. (2020). Pengaruh transaksi pihak berelasi terhadap kinerja perusahaan dengan koneksi politik sebagai pemoderasi. *Disertasi Yang Tidak Dipublikasikan (Universitas Brawijaya, Malang)*.

Supatmi, Sutrisno, T., Saraswati, E., & Purnomosidhi, B. (2019). The effect of related party transactions on firm performance: The moderating role of political connection in indonesian banking. *Business: Theory and Practice*, *20*(2003), 81–92. https://doi.org/10.3846/BTP.2019.08

Utama, C. A., & Utama, S. (2014). Determinants of disclosure level of related party transactions in Indonesia. *International Journal of Disclosure and Governance*. https://doi.org/10.1057/jdg.2012.15

Utama, S., Utama, C. ., & Yuniasih, R. (2010). Related party transaction - Efficient or Abusive : Indonesia Evidence. *Asia Pacific Journal of Accounting and Finance*, *1*(December), 77–102.

Villalonga, B., & Amit, R. (2004). "How do family ownership, control, and management affect group-affiliated firms'' innovativeness?"." *Academy of Management Proceedings*, *2004*(1), 12373–12373. https://doi.org/10.5465/ambpp.2014.12373abstract

Wahab, E. A. A., Haron, H., Lok, C. L., & Yahya, S. (2011). Does corporate governance matter? Evidence from related party transactions in Malaysia. In *Advances in Financial Economics* (Vol. 14). https://doi.org/10.1108/S1569-3732(2011)0000014009

Wan, Y., & Wong, L. (2015). Ownership, related party transactions and performance in China. *Accounting Research Journal*. https://doi.org/10.1108/ARJ-08-2013-0053

Widarjono, A. (2013). Ekonometrika : Pengantar dan Aplikasinya. In *Jakarta : Ekonosia*.

Winarno, W. W. (2015). Analisis ekonometrika dan statistika dengan eviews. Edisi keempat. In *UPP STIM YKPN. Yogyakarta*.

Wong, R. M. K., Kim, J. B., & Lo, A. W. Y. (2015). Are related-party sales value-adding or value-destroying? Evidence from China. *Journal of International Financial Management and Accounting*, *26*(1), 1–38. https://doi.org/10.1111/jifm.12023

Yuliyanti, L. (2019). Pengaruh good corporate governance dan pengungkapan corporate social responsibility terhadap nilai perusahaan. *Jurnal Pendidikan Akuntansi & Keuangan*, *2*(2), 21. https://doi.org/10.17509/jpak.v2i2.15464

Yuval Filmus. (2010). Two proofs of the central limit theorem. *Enero/ Febrero*, (February), 1–13. Retrieved from http://www.cs.toronto.edu/~yuvalf/CLT.pdf