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## Article

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## ACCOUNTING, CORPORATE GOVERNANCE & BUSINESS ETHICS | RESEARCH ARTICLE

# The impact of related party transactions on firm value in Indonesia: moderating role of good corporate governance

Anita Abigail<sup>1</sup> and Christiana Dharmastuti<sup>1\*</sup>

**Abstract:** In its business operation, a firm may transact with related parties. From an agency theory point of view, agents may use the transaction to maximize the firm value or for personal gain. This study aims to analyze the effect of Related Party Transactions on Firm Value with Good Corporate Governance as moderating variable, represented by the oversight by the majority shareholder and the size of the audit committee. The majority shareholders are divided into three groups: the state-owned company, the foreign-owned company, and the local privately owned company. The study was done using a quantitative analysis method on 58 public companies on Indonesia Stock Exchange included in the LQ45 Stock Index between 2016–2020. The data is processed with the moderated multiple regression model. The result shows no significant relationship exists between Related Party Transactions on Firm Value. The Detrimental Related Party Transactions only become significant on Firm Value when moderated by the state majority ownership. Meanwhile, the Beneficial Related Party Transactions only become significant on Firm Value when moderated by the foreign majority ownership. This study recommends that state-owned companies strengthen the application of their good corporate governance and execute related party transactions only when it adds to the firm value. Managers of foreign companies are advised not to rely entirely on related party transactions with shareholders or sister companies.

**Subjects:** Political Economy; Finance; Business, Management and Accounting

**Keywords:** related party transactions; firm value; good corporate governance; agency theory

### 1. Introduction

The company aims to maximize the firm value for its owners (Smith, 1776). For the company to survive, it must maximize value; thus, it always strives to increase value through various policies. Modern companies have a separation between owners and management, so approaches to increase company value can be taken more professionally (Jensen & Meckling, 1976). Generally, a company in Indonesia has three organs: the owner, the Board of Directors, and the Board of Commissioners, so there is a need for good corporate governance to regulate the relationship between these three organs of the company.

When viewed from the number of ownerships, owners can be divided into majority and minority owners. Majority ownership is a condition where a shareholder owns more than 50% of the

company's total shares, either directly or indirectly (Pengambilalihan Perusahaan Terbuka, 2018). Many companies in Asian countries, including Indonesia, are characterized by a high level of majority ownership (Hendratama & Barokah, 2020). Based on majority ownership, companies can be grouped into several groups: local private ownership, foreign ownership, and government ownership (Berger et al., 2005).

According to neo-institutional theory, the institutional environment influences the procedures and the company's operations (Alshbili et al., 2020). Through this theoretical approach, the owner controls the company if the company's owner is an institutional environment. The type of ownership then becomes vital for the company because it can affect the company's decisions. Therefore, the Financial Services Authority ("OJK") requires, and the Organization for Economic Co-operation and Development ("OECD") recommends, the disclosure of majority ownership as part of the implementation of good governance (OECD, 2015). By knowing who the majority owner of the company is, the minority owner can consider remaining the company owner or leaving. The majority owner has greater bargaining power and better access to undermine the interests of the minority owner when the interests of the majority owner are not in line with the interests of the minority owner (Alshbili et al., 2020; Dharmastuti & Wahyudi, 2013; OECD, 2015).

One method often suspected of eroding minority owners is related party transactions (Hendratama & Barokah, 2020). The company's affiliates can be shareholders of the company, other companies with the same shareholders, or subsidiaries. The transactions carried out can be in the form of sales transactions of goods or services that increase the value of goods or services or a financing transaction that increases the value of accounts payable. However, from the perspective of Transaction Theory, a Related Party Transaction is an efficient step because it simplifies the negotiation process, lowers transaction costs, and minimizes risk (Hendratama & Barokah, 2020). So, the conclusion is that Related Party Transactions may reduce (Detrimental) and increase (Beneficial) the firm value.

Previous studies examine the impact of Related Party Transactions on firm value. Hendratama and Barokah (2020) found that only certain types of Related Party Transactions correlate with firm value. Diab et al. (2019) stated that they found no evidence that Related Party Transactions had an impact on firm value. Fooladi and Farhadi (2019), on the other hand, found a strong correlation between Related Party Transactions and firm value where Fooladi and Farhadi (2019) classified Related Party Transactions into Detrimental Related Party Transactions and Beneficial Related Party Transactions.

In 2019, Indonesia's national airline, Garuda Indonesia, was discovered to experience financial difficulties due to poor management (Hartomo, 2019). The ensuing investigation found that the company had 26 subsidiaries whose contribution is questionable and is suspected of being a place to accommodate Detrimental Related Party Transactions in the form of transfer pricing (Indraini, 2019). However, other companies still carry out Related Party Transactions because it is seen that if done correctly, Related Party Transactions do not affect or are more profitable for the firm value in the long term. After all, they have a more straightforward negotiation process and reduce transaction costs, namely transaction efficiency, and reduce transaction risk, for example, by becoming a more certain source of income for the company (Nabila, 2021; Suryahadi & Winarto, 2021). Referring to the results of the Related Party Transaction research and the inconsistent practice, it is necessary to examine how significant the role of the type of majority owner and good corporate governance are in controlling these transactions.

In addition to the disclosure of the majority owner, the audit committee mechanism is also required by OJK through POJK No. 55/POJK.04/2015 dated 29 December 2015, concerning the Establishment and Guidelines for the Work Implementation of the Audit Committee as part of effective governance to weaken the negative impact of Related Party Transactions. An independent member of the Board of Commissioners is required to chair the audit committee. Such independence is deemed sufficient to represent the interests of minority owners. By getting input and approval from the audit committee, the decisions taken by management gain legitimacy.

Thus, based on the discussion above, it is essential to review the impact of the Related Party Transaction policy on the company's performance by paying attention to corporate governance. This study analyzes the effect of detrimental and beneficial related party transactions on firm value. Analysis of the role of corporate governance is measured by the existence of an audit committee and majority ownership which is divided into government, foreign and private. The study differs from previous studies since related party transaction is measured using the related party activities considering the three variants of majority ownership in a firm (state, foreign, and private local).

For Company Management, more profound knowledge regarding the correlation of Related Party Transactions to company value can be a guideline for companies in making decisions about affiliate transactions for the company's long-term interests. For Owners, this research is expected to provide further consideration before long-term investment in a company. For the community, the effectiveness of corporate governance provisions in managing the risk of agency conflict shall be beneficial in considering a firm's sustainability. This research can provide additional evidence on the influence of the Related Party Transaction on the firm value, especially in Indonesia's context, culture, and politics.

## 2. Theoretical background and hypothesis development

### 2.1. Literature review

According to agency theory, this separation between the owner or the principal and the management agent can lead to a principal-agent conflict, namely when the owner's interests conflict with the agent's interests and when there is asymmetric information (Jensen & Meckling, 1976). Agency theory was subsequently developed into type II, namely conflicts or problems between owners (principal—principal conflict; Martin et al., 2017). Based on the type II agency theory, a conflict of interest between owners is when the majority owner uses the company to improve his welfare without considering the adverse effects on the welfare of the minority owner. Then the problems that arise from asymmetric information are adverse selection and moral hazard. Adverse selection is when the minority owner does not know whether the company's policies are taken because of the information obtained or because of the orders of the majority owner. A moral Hazard is when the majority owner does things against the company without the knowledge of the minority owner for personal gain and lowers the welfare of the minority owner (Hendratama & Barokah, 2020; Rohi-Mone et al., 2020).

Various ways can measure firm value, but this study will use Tobin's Q method. Tobin's Q is used not only to test the level of investment but also to test the level of corporate profits so that Tobin's Q ratio expresses the relationship between the intrinsic value of a physical asset and its market value (Carlos et al., 2002a).

One way to achieve the company's goals of adding value is by conducting transactions. Such transactions can be carried out with parties who are affiliated with the company or also known as Related Party Transactions, or with parties who are not affiliated. According to Contracting Theory, Related Party Transactions are efficient contracting processes and add (beneficial) company value due to a more straightforward negotiation process, lower transaction costs, and the ability to share risks (Hendratama & Barokah, 2020). On the other hand, based on agency theory, if the interests of the majority owner conflict with those of the minority owner, a conflict of interest occur because the majority owner uses the Related Party Transaction to secure their interests or tunneling (Diab et al., 2019). The simplicity of contract negotiations for Related Party Transactions can also turn around and harm the company because the company has the potential to neglect the prudent contracting process because it feels that it already knows the affiliated party. This omission can give rise to the possible agency costs assumed in Agency Theory.

To avoid agency problems within the company, Good Corporate Governance aims to help create a trusting, transparent and accountable environment necessary to maintain the long-term investment, financial stability, and business integrity. Corporate governance provides a structure in which companies can set their goals, how companies can achieve these goals, and monitor their

performance (Cadbury & Committee on the Financial Aspects of Corporate Governance, 1992; OECD, 2015). Corporate governance is divided into two: internal mechanisms and external mechanisms. Internal tools are governance activities carried out by management, including the Board of Directors, Board of Commissioners, and company employees. External mechanisms are governance activities by owners, creditors, and other stakeholders (Gillan, 2006). This study uses Majority Ownership as a proxy for the external mechanism of Corporate Governance and the Audit Committee as a proxy for the internal mechanism of Corporate Governance.

Ownership can be divided into several types according to the majority shareholder: local private ownership, government ownership (State Owned Enterprises—BUMN), and foreign ownership (Berger et al., 2005). The majority owner of the company is an institution that can influence the company's view of implementing Corporate Governance. Primarily if the stable owner has owned the company for a long time, the majority owner has more opportunities to inspect and supervise the company (Alshbili et al., 2020; Dharmastuti & Wahyudi, 2013; OECD, 2015).

The Board of Commissioners, which acts as the company's supervisor, is also a mechanism for implementing Corporate Governance. The Board of Commissioners in a public company or issuer must have 30% or more independent members (Direksi dan Dewan Komisaris Emiten atau Perusahaan Publik, 2014). This independence is expected to guarantee the voice of the public and minority owners in influencing the policies of the Related Party Transactions carried out by the company. However, the Board of Commissioners, which has independent members from the company's owner, does not always mean the company's performance is improving (Erickson et al., 2005). There is no significant evidence that the Independent Commissioner affects the company's corporate performance, which means that the Independent Commissioner is not fully independent, so he cannot take actions that balance the interests of the owner and management (Dharmastuti & Wahyudi, 2013). The study found different results related to the Audit Committee because there is a significant influence associated with the role of the Audit Committee in protecting the owners' interests, especially in difficult times (Hanani & Dharmastuti, 2015).

The Audit Committee is a committee formed by and responsible to the Board of Commissioners in assisting in carrying out the duties and functions of the Board of Commissioners as a supervisor for the management of the company and is chaired by an Independent Commissioner. POJK No. 55/POJK.04/2015, dated 29 December 2015, concerning the Establishment and Guidelines for the Work Implementation of the Audit Committee, stipulates that the audit committee has a minimum of three independent commissioners and parties from outside the company. Competencies that members of the Audit Committee must possess are an understanding of financial statements, a good understanding of the company's business, audit processes, risk management, and related laws and regulations. With the required skill set, the Audit Committee has a more significant influence in overseeing company policies and provides legitimacy for the company to stakeholders in general.

## **2.2. Detrimental related party transaction to firm value**

Huang and Liu (2010) stated that the Related Party Transaction contradicts the company's goal to maximize the firm value because it implies embezzlement of company resources, resulting in the loss of minority owners. Previous studies have proven that when Related Party Transactions are used to erode company resources, it harms firm value (Berkman et al., 2009; Y. L. Cheung et al., 2009). Transfer of resources to affiliates can harm company performance (Y. Y. Chen et al., 2009) and abnormal share dividends (Y. L. Cheung et al., 2006).

Thus, Related Party Transactions are likely to reduce the firm value (becoming a Detrimental Related Party Transaction) when transferring money using loans or cash payments to affiliates (H. Berkman et al., 2009; Y. L. Cheung et al., 2006; Gallery et al., 2008; Gordon et al., 2004; Zakir et al., 2007). Transactions such as loans to affiliates may have lighter terms and conditions or lower interest rates than loans to unaffiliated parties (Kahle & Shastri, 2004; La Porta et al., 2003) and have a higher risk of default (Gao & Kling, 2008). The company also bears a greater risk if it acts as a debt guarantor from its

affiliates (Kim & Yi, 2006). The transfer of goods and services to affiliates can be done at a price below the market price (Y. L. Cheung et al., 2006) or buy above the market price (Y.-L. Y.-L. Cheung et al., 2008), thus eroding the firm value. Several studies have proven that firm value negatively correlates with the sale of assets or goods to affiliates (Ge et al., 2010; Huang & Liu, 2010).

An example of Related Party Transactions used as a tool to transfer company profits, for example, is when a transaction is made with affiliates located in countries with lower tax rates or worse financial conditions (Susanti & Firmansyah, 2018). By diverting some of the profits, the company displays the impression of lower yields, resulting in lower dividends and taxes. Although it benefits the majority owner personally, it directly harms the minority owner because of the lower dividend amount. It harms society because the taxes paid in the public interest are also lower. Based on these studies, the formulation of this research hypothesis is as follows:

H1a = Detrimental Related Party Transaction (DRPT) reduces to the firm value (TQ)

### **2.3. Beneficial related party transaction to firm value**

Beneficial Related Party Transactions are transactions with affiliates that add value to the company because they can fulfill the company's economical motivation to get guaranteed access to raw materials or markets or vertical integration (C. L. C. L. Chen et al., 2020). In addition, the Beneficial Related Party Transaction simplifies the negotiation process, lowers transaction costs, and minimizes risk (Hendratama & Barokah, 2020). Revenue from Related Party Transactions, if done fairly, will not differ from transactions made with non-affiliated parties because it uses market prices. Still, the company can increase the ability to calculate income for the long term because of the guarantee of the affiliate relationship.

Many companies continue to apply the Related Party Transaction policy because the market also seems to view that not all Related Party Transactions reduce the firm value based on the nature of the transaction (Kohlbeck & Mayhew, 2010). Several types of Related Party Transactions can add value to the company (Zakir et al., 2007). Cheung et al. (2006) argue that Related Party Transactions can be categorized as transactions that can reduce the firm value and transactions that can add value to the company.

Companies also have a high probability of benefiting from a related party transaction if the company obtains loans or cash directly from affiliates (Y. L. Cheung et al., 2006, 2009; Y.-L. Y.-L. Cheung et al., 2008; Friedman et al., 2003). Companies that are high in the group pyramid also have the opportunity to flee resources from companies that are lower in the pyramid. Thus, minority shareholders of companies with high positions are likely to benefit from the Related Party Transaction (Bertrand et al., 2002).

Fooladi and Farhadi (2019) proves that Beneficial Related Party Transactions positively correlate with firm value. Transactions with subsidiaries are considered to add value to the company because the books of accounts of subsidiaries are usually consolidated with the company. Based on these studies, the formulation of this research hypothesis is as follows:

H1b = Beneficial Related Party Transaction (BRPT) adds to the firm value (TQ)

### **2.4. Moderating effects of majority ownership**

Majority ownership is ownership where there is one owner with a percentage of ownership type with the largest proportion compared to the average percentage of ownership in a company. This type of ownership is the most common type of ownership worldwide, as only 36% of companies are widely owned without clear majority ownership (Porta et al., 1999).



Previous studies found a positive correlation between majority ownership and firm value. Strict supervision by majority owners can reduce agency problems between owners and their agents, such as acting as an external governance mechanism, efficient oversight of management, and active participation in the policy-making process in line with Neo-Institutional Theory (Pandey & Sahu, 2019). External governance mechanisms are more effective in influencing corporate financial performance than internal governance mechanisms because owners can better monitor, suppress, and understand corporate information (Dharmastuti & Wahyudi, 2013).

There are various studies investigating the effect of different types of owners on firm value. Studies related to state-owned companies argue that countries with weak governance systems (for example, in countries with high levels of corruption) are also expected to have inadequate corporate governance practices (Alshbili et al., 2020). Based on this opinion, Indonesia, ranked 102 out of 180 countries in the Corruption Perception Index 2020, should have weak corporate governance practices. Consequently, as the institution that owns the majority shares in BUMN companies, the government will not encourage the implementation of Good Corporate Governance in BUMN. Thus, it weakens the influence of Beneficial Related Party Transactions on company value and strengthens the impact of Detrimental Related Party Transactions on the firm value. The negative effect of ownership by the State is due to the conflicting dual roles of the government as the majority owner and as a supervisor, namely, on the one hand as the owner wants to improve his welfare, and on the other hand as a supervisor must protect the interests of minority owners (Pargendler, 2012).

On the other hand, according to Alshbili et al. (2020), this type of foreign ownership brings views from the country of origin into the company so that companies are pressured to adopt corporate governance, which is generally more stringent. As a result of this pressure in terms of foreign majority owners, Corporate Governance is implemented according to higher standards. It will strengthen the influence of Beneficial Related Party Transactions on firm value and weaken the power of Detrimental Related Party Transactions on firm value. Based on these studies, the formulation of this research hypothesis is as follows:

H2a = Majority ownership contributing to weakening the influence of DRPT on TQ

H2b = Majority ownership contributing to strengthening the influence of BRPT on TQ

### **2.5. Moderating effects of audit committee**

The Audit Committee has a positive and significant influence on the firm value because the existence of the Audit Committee is essential for the still developing Indonesian market and weak corporate governance mechanisms. Previous studies have argued that the independent party on the Audit Committee is more important to the market than the Board of Directors (Samasta et al., 2018). Concurrent positions between members of the Audit Committee on the Board of Commissioners have also been shown to be positively and significantly associated with company value, especially if the member of the Audit Committee/Board of Commissioners has experience in the financial sector (Almaqoushi & Powell, 2017; Chan & Li, 2008). Adopting the Audit Committee as part of standard corporate governance practices reduces agency costs and information asymmetry by ensuring that the company's activities align with the expectations of management and owners (Agyemang-Mintah & Schadewitz, 2018).

Under the provisions of POJK No. 55/POJK.04/2015, the Audit Committee has at least three members in each public company, regardless of size. Considering the various dimensions of companies and after understanding the magnitude of the role of the Audit Committee in supervising company activities, it is questionable whether the required number of members is sufficient to ensure the effectiveness of the Audit Committee in supervising large companies or if more



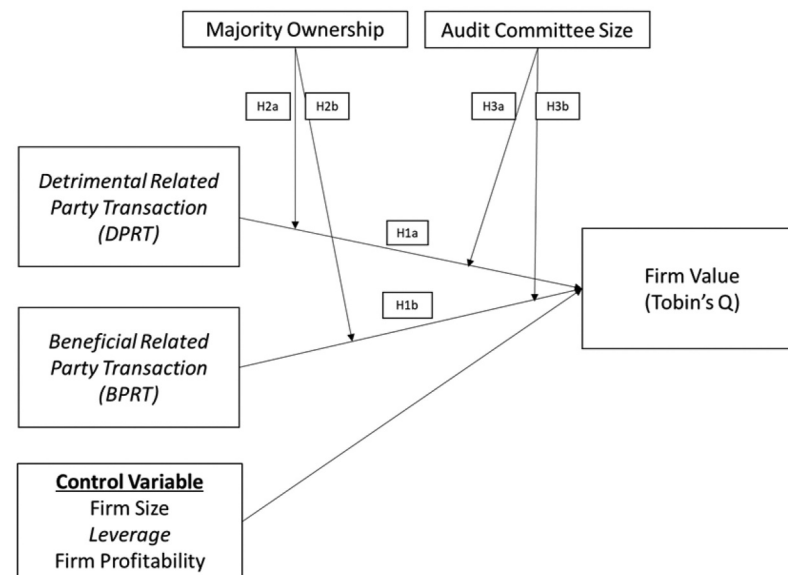
members are needed. Based on these regulations, the Audit Committee is expected to strengthen the influence of Beneficial Related Party Transactions on firm value and weaken the influence of Detrimental Related Party Transactions on firm value.

H3a = Audit Committee contributing to weakening the influence of DRPT on TQ

H3b = Audit Committee contributing to strengthening the influence of BRPT on TQ

## 2.6. Research model

Based on the hypothesis described above, the relationship between independent variables, moderating variables, and dependent variables can be characterized by the research model scheme below:



## 3. Research method

The object of this research is limited to companies included in the LQ45 stock index. Companies included in the index are assumed to have large market capitalization and good liquidity, enabling companies to become more stable, and the influence of their ownership can be observed. LQ45 has a strong 91% correlation to the composite stock price index on the Indonesia Stock Exchange (Mulyono & Mulyono, 2015). The company must also be a member of a conglomerate group (several companies in one majority ownership) and have not changed ownership between 2016–2020 (5 financial years) for related party consistency and Related Party Transaction observations. The scope of the research period starts from the 2016 financial year to the entire 2020 financial year.

There were 68 companies entered into LQ45 during 2016–2020. Of the 68, 7 companies were excluded because they were companies in the Banking and other Financial Institutions sector due to different financial accounting standards, one was excluded due to a change of ownership in the middle of the scope of the research period, two were excluded because did not publish annual reports for the 2019 and 2020 financial years. The total object of the final research consisted of 58 companies or 290 company annual reports. The quantitative data analysis method extracts data presented in the object's annual report and financial statement.

### 3.1. Operational definition of variables

The independent variables in this study are Related Party Transactions, grouped into Detrimental Related Party Transactions and Beneficial Related Party Transactions. The dependent variable that is affected is firm value. The controlling variables that control the fairness of the research are firm size, leverage, and profitability.

#### Independent Variable

Detrimental Related Party Transaction (DRPT) is a variable that is calculated by adding up various Related Party Transactions that are considered to reduce the value, namely transactions with other affiliates that are not included in the Beneficial Related Party Transaction compared to total assets at the end of the financial year (Fooladi & Farhadi, 2019). These transactions include receivables (including receivables, cash assistance, and debt guarantees) to non-subsidiary affiliates, capital expenditure transactions with non-subsidiary affiliates, and goods and services transactions with non-subsidiary affiliates.

Beneficial Related Party Transaction (BRPT) is a composite variable calculated by adding up various Related Party Transactions that are considered to add value to the company and then compared to total assets at the end of the financial year (Fooladi & Farhadi, 2019). These transactions include accounts payable/trade payables to affiliated parties, receivables (including receivables, cash assistance, and debt guarantees) to subsidiaries, capital expenditure transactions with subsidiaries, and goods and services transactions with subsidiaries.

#### Dependent Variable

Firm Value (FV) is a variable measured by Tobin's Q method because companies with good performance have a higher Tobin's Q value than those with poor performance. Company Value is calculated by  $((\text{Number of Shares} \times \text{Price of Shares}) + \text{Book Value of Total Debt}) / \text{Book Value of Assets}$  at the end of the financial year (Carlos et al., 2002b).

#### Moderating Variable

Majority ownership is direct or indirect ownership of more than 50% of all shares. Foreign Owned or Foreign Ownership (FOWN) is owned by a foreign party, State Owned or BUMN (SOWN) is owned by the government of the Republic of Indonesia, and Local Private Ownership (LOWN) is owned by a local private party (Berger et al., 2005). Ownership is measured using a dummy value, one if foreign ownership, one if government ownership, and zero if local Private ownership. Local private ownership is a large part of the data source set used. According to Levine et al. (2017), only two dummies are used, FOWN and SOWN, because the test will compare foreign ownership and SOEs with more common forms of local private ownership.

Based on OJK regulations, three is the minimum number of members of the Audit Committee. This study will examine whether companies that exceed this minimum requirement impact moderating Related Party Transactions and Firm Value. It is measured by using a dummy with a value of zero if the members of the Audit Committee are equal to three and a value of one if the members of the Audit Committee are more than three (Dan Pedoman Pelaksanaan Kerja Komite Audit & Peraturan, 2015)

#### Control Variable

Firm Size or Firm Size (LFSIZE), Leverage (LLEV) or the value of the debt-to-equity ratio, and Return of Assets or Profitability (ROA) are control variables because these variables can affect firm value even though they are not variables studied. The control variables were more or less constant throughout this study. Firm Size refers to total assets at the end of the financial year (Diab et al., 2019; Fooladi & Farhadi, 2019; Hendratama & Barokah, 2020) in the natural log. Leverage refers to

the total debt divided by the total book value of equity at the end of the financial year (Diab et al., 2019; Fooladi & Farhadi, 2019; Hendratama & Barokah, 2020) in the natural log. ROA refers to profit before tax divided by the book value of assets at the end of the financial year (Diab et al., 2019; Fooladi & Farhadi, 2019; Hendratama & Barokah, 2020).

#### 4. Data analysis

This study will perform a multiple regression analysis on the relationship between Related Party Transactions and Firm Value (Model 1—Hypothesis 1). Then, an investigation will be done on the moderating effect of Corporate Governance on the relationship between Related Party Transactions and Firm Value (Model 2—Hypothesis 2 and Hypothesis 3).

##### Model 1

$$FV = \beta_0 + \beta_1 DRPT + \beta_2 BRPT + \beta_3 LFS_{Size} + \beta_4 LLev + \beta_5 ROA + \beta_6 FOWN + \beta_7 SOWN + \beta_8 AC + \varepsilon$$

##### Model 2

$$FV = \beta_0 + \beta_1 DRPT + \beta_2 BRPT + \beta_3 LFS_{Size} + \beta_4 LLev + \beta_5 ROA + \beta_6 FOWN + \beta_7 SOWN + \beta_8 AC + \beta_9 DRPT \times FOWN + \beta_{10} DRPT \times SOWN + \beta_{11} DRPT \times AC + \beta_{12} BRPT \times FOWN + \beta_{13} BRPT \times SOWN + \beta_{14} BRPT \times AC + \varepsilon$$

$\beta$  = coefficient

$\beta_1$ — $\beta_{14}$  = regression coefficient of each independent variable

DRPT = Detrimental Related Party Transaction

BRPT = Beneficial Related Party Transaction

FSize = Firm Size

Lev = leverage

ROA = profitability

FOWN = Foreign Owned

SOWN = State Owned

AC = Audit Committee Size

DRPT×FOWN = Interaction of Detrimental Related Party Transaction with Foreign Owner

DRPT×SOWN = Interaction of Detrimental Related Party Transaction with State Owner

DRPT×AC = Interaction of Detrimental Related Party Transaction with Audit Committee Size

BRPT×FOWN = Interaction of Beneficial Related Party Transaction with Foreign Owner

BRPT×SOWN = Interaction of Beneficial Related Party Transaction with State Owner

BRPT×AC = Interaction of Beneficial Related Party Transaction with Audit Committee Size

$\varepsilon$  = error

Of the 58 issuers studied, ten firms or 17.24% of the Research Objects are companies with foreign majority ownership, 13 firms or 22.41% of the Research Objects are state-owned enterprises (BUMN), and the remaining 35 firms or 60.35% of Research Object is a company with majority ownership of local private sector.

The descriptive statistics in Table 1 are the minimum, maximum, average, and standard deviation values. The following is a descriptive statistical analysis of the research data.

As shown in Table 2, some companies with local private ownership (5 out of 35 issuers) do not, or very little, do DRPT. State-owned companies conduct large-value DRPT. Companies with local private ownership less often carry out BRPT. Overall, it can be seen that SOEs are the most prominent affiliated transaction actors, both DRPT and BRPT.

Suppose the descriptive statistics are divided by type of ownership. In that case, it can be seen that foreign companies conduct transactions in the smallest ratio, and SOEs conduct related party transactions in the largest ratio. So the biggest transactions from foreign-owned companies are still smaller than the biggest transactions from local private companies and state-owned enterprises. In terms of average, BUMN also conducts transactions with the most considerable average value, while local private companies conduct transactions with the smallest average value. Looking at the coefficient of variation, local private companies have the highest variation in the transaction ratio, indicating the diversity of situations and conditions of local private companies. On the other hand, the coefficient of variation for BUMN is the lowest, showing a tendency for uniformity of the situation within the BUMN environment.

Within the study period, the audit committee's size illustrated in Table 3 fluctuated based on the movement of its members. Only 20% of companies have an Audit Committee larger than required by regulation consisting of three foreign-owned companies, eight state-owned enterprises, and six local privately-owned companies.

This study has conducted a regression assumption test consisting of panel data test methods (Breusch-Pagan test with Random Effect results and Hausman test with Fixed Effect results), data normality test (Jarque-Bera test) with normally distributed data results, multicollinearity test (Pearson Correlation Matrix) with no multicollinearity problem, autocorrelation test (Philips-Peron test) with no autocorrelation problem, and heteroscedasticity test (Wald's test) with heteroscedasticity problem found. Due to Wald's test result, the Fixed Effect Model is not efficient to use. To test the hypothesis, this study mainly uses the Generalized Least Square (GLS) or Random Effect Model (REM) model to measure the moderation of the majority ownership type and the audit committee's size. REM without interaction (REM-i) measures the direct effect of all independent, moderating, and control variables on firm value without moderating interaction between the independent variable and the moderating variable. REM has an R-squared: 0.42, which explains 42% of the variables studied, better than 26%, which can be defined by the Fixed Effect Model (FEM). REM-i gives Wald chi2 = 78.29 (8) with probability = 0.0000, which means that the model can also explain the effect of BRPT on firm value and DRPT on firm value.

Firm size and profitability affect firm value significantly. In addition to the control variable, only foreign ownership has a significant direct effect on firm value, which adds 1.96 points to firm value. This result is consistent with descriptive statistics where foreign companies have the highest Tobin's Q value, representing the firm value.

The BRPT adds 0.50 points to the firm's value, and the DRPT reduces by 0.14 points to the firm's value. Nevertheless, both are not significant. Government ownership and audit committee size reduce firm value not significantly. REM with the interaction of moderating variables with independent variables is the primary model of this study. This model also has an R-squared: 0.42, or explains 42% of all variables studied by this study.

## STATA Result (Appendix B)

Only two moderating variables have a significant effect. First, foreign-owned companies deducted 11.34 points from the 0.48 points added by BRPT to Firm Value. The moderating effect of foreign ownership changes the direction of the addition of BRPT from adding to reducing the firm value. Second, SOEs deducted 2.03 points from the 0.96 points added by the DRPT to Firm Value. They also changed the direction of the relationship between DRPT and Firm Value from adding to reducing Firm Value.

### 4.1. Regression result

The coefficient of the regression results after being compared with the hypothesis resulted in the research results as follows.

Based on the regression results for Model 1 in Table 4, there is a negative relationship between DRPT and Tobin's Q, with the coefficient equal to  $-0.14$ , which is insignificant. This finding weakly supports H1a, which proposes a negative relationship between DRPTs and firm value. Results for Model 1 in Table 4 also show a positive relationship between BRPT and firm value in line with H1b but insignificant at coefficient 0.50.

The regression result for Model 2 in Table 5 finds that only SOWN is significant in moderating the influence of DRPT on firm value. However, contrary to H2a, SOWN acerbate the negative relationship between DRPT and Tobin's Q with a coefficient of  $-1.07$ . Model 2 in Table 5 showcases that only FOWN significantly impacts BRPT's positive relationship with Tobin's Q. However, the moderation is weakening the positive effect by a  $-1.97$ -coefficient point.

The result in Table 5 noted that Audit Committee's size does not significantly moderate the relationship between DRPT or BRPT with Tobin's Q. Audit Committee's size moderates the negative relationship of DRPT and Tobin's Q to positive at 0.12 coefficient and moderates the positive relationship of BRPT and Tobin's Q to negative at  $-0.18$  coefficient.

## 5. Discussion of research results

### 5.1. Related party transactions do not significantly affect firm value

This study did not find a significant relationship between related party transactions and firm value. These results are consistent with Diab et al. (2019), Alhadab et al. (2020), Kuan et al. (2010), and Pozzoli and Venuti (2014), who found no evidence between related party transactions and firm performance. These results imply that in Indonesia, related party transactions are not necessarily associated with practices that add or reduce the firm value or that existing oversight mechanisms are effective.

After comparing the results of this study with other similar studies conducted in Indonesia, the researcher observed an interesting phenomenon where previous studies covering research objects before 2016 reported similar research results where Related party transactions had a significant

**Table 1. Descriptive statistics**

Variabel	Minimum	Maksimum	Mean	Standardevasi
DPRT	0	1.68	0.20	0.28
BRPT	0	0.50	0.07	0.10
FS	3,731,101,667,000	351,958,000,000,000	46,088,268,315,491.9	52,794,320,545,625.8
LEV	(2.11)	24.85	1.60	2.53
ROA	(0.46)	0.45	0.07	0.10
FV	0.50	23.29	2.19	2.17

**Table 2. Descriptive statistics categorized by type of majority ownership**

	FOWN		SOWN		LOWN	
	DRPT	BRPT	DRPT	BRPT	DRPT	BRPT
Max	0.42**	0.28**	1.68*	0.50*	1.20	0.43
Min	0.01	0.01	0.00	0.00	0.00	0.00
Mean	0.14	0.05	0.46*	0.16*	0.12**	0.03**
St.dev	0.12	0.09	0.37	0.11	0.20	0.06
Variation Coefficient	0.91	1.68	0.81**	0.68**	1.66*	1.95*

\* Largest

\*\* Smallest

**Table 3. Audit committee size composition**

Audit Committee	Frequency	%
3	232	80
More than 3	58	20
total	290	100

**Table 4. Statistics result of random effect model**

FV	Coef.	Z	P> z
BRPT	0.50	0.41	0.68
DRPT	(0.14)	(0.25)	0.80
LFS	(0.74)	(3.74)	0.00
LLEVR	0.20	1.17	0.24
ROA	7.81	6.33	0.00
FOWN	1.96	2.97	0.00
SOWN	(0.13)	(0.20)	0.84
AC	(0.12)	(0.44)	0.66
_cons	24.32	3.97	0.00

**STATA Result (Appendix A)**

effect on the firm value both positively and negatively (Eliakim Tambunan et al., 2017; Hendratama & Barokah, 2020; Pratama, 2018; Rahimah et al., 2021). Meanwhile, previous studies that included these research variables in 2016 and above, such as this study, had insignificant or only moderate results (Darmawati & Triyanto, 2022; Suryani et al., 2019).

Two things can cause this phenomenon, which supports the indication that oversight by governments and associations has a significant effect. First, the issuance of POJK No. 21/POJK.04/2015 and SEOJK No. 32/SEOJK.04/2015, which regulates the governance of public companies, and secondly, the completion of the convergence of International Financial Reporting Standards (IFRS) phase 2 in 2015 (Institute of Indonesia Chartered Accountants, 2022). Increased supervision and application of this international standard can reduce the risk tolerance that business actors initially owned.

Business actors do not have a negative view of Related party transactions both before 2016 (Pratama, 2018) and after, as shown by the results of this study. In line with previous studies, this study results in DRPT reducing the firm value and BRPT increasing the firm value, but insignificantly. With increased supervision and the adoption of new accounting standards, business actors



**Table 5. Statistics result of random effect model with variable interaction**

FV	Coef.	Z	P> z
BRPT	0.48	0.26	0.79
DRPT	0.96	1.03	0.30
LFS	(0.73)	(3.66)	0.00
LLEVR	0.18	1.02	0.30
ROA	7.56	6.06	0.00
FOWN	2.25	2.98	0.00
SOWN	0.30	0.40	0.69
AC	(0.25)	(0.62)	0.54
FOWNxBRPT	-11.34207	-1.97	0.049
SOWNxBRPT	0.60	0.22	0.824
ACxBRPT	0.07	0.03	0.974
FOWNxDRPT	2.01	0.83	0.405
SOWNxDRPT	-2.03	-1.69	0.090
ACxDRPT	0.37	0.40	0.688
_cons	23.77	3.88	0.000

see the risk of related party transactions on the company's sustainability as increasing and gradually reducing their related party transactions so that they become insignificant compared to the total value of their assets. This also proves the existence of a type I agency problem where managers are risk-averse or too careful in taking risks (AlHares, 2020; Chou & Johnnesse, 2021; Detthamrong et al., 2017; Shaikh & Peters, 2018).

From another point of view, it can be said that the Related party transactions that the company still carries out are Related party transactions that cannot be eliminated from the running of the company and can be accounted for by government supervision and association standards. Therefore, the discussion of this study also considers the data analysis results that ignore its statistical significance, insignificant results still affect firm value, and the moderation of corporate governance proxies can still be observed and compared.

### 5.2. The separation of DRPT and BRPT does not significantly affect the firm value

After using the same definition and category of DRPT as Fooladi and Farhadi (2019) on different stock exchanges, this study does not agree with Fooladi and Farhadi (2019). The first difference that can be seen is from the significance of DRPT to Firm Value. Fooladi and Farhadi (2019) found that DRPT had a significant negative relationship with Firm Value in Malaysia. This study found no significant DRPT, while DRPT in Indonesia had mixed and insignificant effects.

DRPT can add firm value even though it is minimal. These results are similar to those of Pratama (2018) and Rahimah et al. (2021) in Indonesia before 2016, where Related party transactions directly affect Company Value without any moderation. Returning to the definition and category of DRPT, Fooladi and Farhadi (2019) stated that its formulation has a high probability of reducing the firm value. This study proves there is a slight possibility that DRPT can add to the firm value, namely when it is not moderated by any variables, such as before the tightening of regulations and standards.

On the other hand, after considering the moderating variable with REM, this study agrees with Fooladi and Farhadi (2019) that DRPT reduces firm value. This negative effect is stronger than the positive effect. This is in line with previous studies, where transactions that underlie the flow of funds out of the company to non-subsidiary affiliated companies reduce the firm value and can indicate the tunneling of company profits. (H. Berkman et al., 2009; Y. L. Cheung et al., 2006, 2009;

Fooladi & Farhadi, 2019; Gallery et al., 2008; Gao & Kling, 2008; Gordon et al., 2004; Huang & Liu, 2010; Kahle & Shastri, 2004; Kim & Yi, 2006; La Porta et al., 2003).

From another point of view, this study finds a second difference from Fooladi and Farhadi (2019), indicating that a moderating variable is needed to conclude that DRPT reduces firm value. In other words, moderating variables can hurt the firm value, contrary to the initial hypothesis of this study.

The results of this study indicate that BRPT adds to the firm value but is not significant. Affiliate Transactions that potentially add firm value in Malaysia have also been proven to add value in Indonesia. This is in line with previous research, which views certain Related party transactions as transactions that add value to the company (Bertrand et al., 2002; Y. L. Cheung et al., 2006, 2009; Fooladi & Farhadi, 2019; Friedman et al., 2003)

However, the findings of this study prove that the regulations set by the government and association standards not only effectively mitigate the adverse effects of Related party transactions but also the positive effects. Previous research also warns that, in line with agency theory, changes in regulations can change firm value and increase agency costs due to excessive compliance (Bhabra & Rooney, 2020).

### **5.3. Moderation by FOWN**

FOWN moderation makes transactions that usually add to reduce the firm value and vice versa. Without FOWN moderation, DRPT reduces firm value, but with FOWN moderation, DRPT adds firm value. BRPT adds value to the company without moderation, but with FOWN moderation, BRPT reduces company value.

Foreign companies rarely have subsidiaries, so value-added-related party transactions mostly come from cash inflows provided by affiliates. Of the nine, four foreign companies in Indonesia do not have subsidiaries. Of the five foreign companies with subsidiaries, only two have transactions with subsidiaries for more than 10% of assets. Although the cash inflows add to the firm value, in cases where cash inflows are injections of funds such as debt, which is one of the numerators of Tobin's Q, then Tobin's Q, which is a proxy for the firm value, will decrease.

The small value of Related party transactions carried out by foreign companies can be caused by various reasons, such as new regulations and standards related to Affiliate Transactions. In particular, due to the status of foreign companies, the difficulty of procedures for opening subsidiaries for foreign investment companies in Indonesia, foreign labor regulations, protection of cross-border data, risk of loss in exchange rates because transactions with foreign affiliates are not conducted in rupiah, and strict transfer pricing regulations (Utama & Utama, 2014). Thus, BRPT, which usually adds value to the company, reduces the firm value for foreign companies in Indonesia.

On the other hand, the DRPT conducted by foreign companies in Indonesia adds value to the firm for several reasons. First of all, affiliated companies accommodate or distribute products from the company. Second, affiliate transactions allow cost sharing with other related companies. Third, affiliate transactions provide foreign companies access to intangible assets owned by the parent company that adds value to the firm. This finding proves previous research that direct foreign ownership can increase firm value (Fitri et al., 2019; Oyedokun et al., 2020; Park, 2019) and is one of the exceptions to the DRPT categorization by Fooladi and Farhadi (2019).

The results of this study indicate that foreign ownership as a moderator has a statistically significant negative effect on firm value, in line with the results of research by Sousa et al. (2021), where the moderation of foreign ownership harms productivity. Muhammad and Aryani (2021) argue that in developing countries, corruption and complex bureaucracy prevent foreign shareholders from realizing their full potential positive influence on companies. In addition,

emerging markets are also not concentrated and have asymmetric information that undermines the supervisory capabilities of foreign shareholders.

#### **5.4. Moderation by SOWN**

Moderation of SOWN exacerbates the effect of the DRPT and enhances the favorable effect of the BRPT. The correlation between SOE companies and related party transactions is robust, exceeding the correlation between foreign companies and local private companies. Government ownership is proven to moderate the relationship of all related party transactions with firm value. Many transactions contribute to the good and bad effects of Related Party Transactions and magnify the adverse effects of DRPT.

The significance of the negative moderation of government shareholders is in line with some previous studies. Wong et al. (2015) find that the value-adding effect of Related party transactions disappears in the case of significant government ownership. This finding is also confirmed by Hendratama and Barokah (2020) that SOEs indicate further profit-tunneling actions. Although Kang (2020) concludes that investors can enjoy the positive effects of government policies that benefit SOEs, seeing that the reduction in firm value is more significant than the increase, this study concludes that the moderating of government shareholders is more negative than positive.

A vast number of affiliate transactions in SOEs are happening both unintentionally and intentionally. The government holds a strong position in strategic areas such as fuel oil (Pertamina), banking (Bank Mandiri), and telecommunications (Telkom), so SOEs unintentionally carry out Related Party Transactions for their daily operations. The government also runs an SOE synergy program where SOEs are asked to synergize with other SOEs to intentionally conduct Related Party Transactions to carry out its shareholder programs. According to Eforis and Uang (2015), compliance with governance in state-owned companies is ineffective for increasing company value because human business operations are more bureaucratic or controlled.

#### **5.5. Moderation by LOWN**

LOWN has no moderating role in the effect of DRPT and BRPT on firm value. Insignificant results can be caused due to large transaction variations. Without moderation interaction, DRPT reduces firm value, but with LOWN moderation, DRPT adds firm value. Without moderation at all and with LOWN moderation, BRPT still adds value to the company. Contrary to the hypothesis, DRPT adds value to the firm with LOWN moderation. BRPT also adds value to the company but is not too different from the addition without moderation.

Moderation of local ownership is similar to foreign ownership, both of which contribute to causing the DRPT to add to the firm value but local ownership companies have a smaller proportion of additions and subtractions. However, in terms of the number of locally owned companies, there are more in Indonesia; as seen from the average value of Related Party Transactions, local companies are the most minor compared to foreign companies and state-owned companies. This kind of moderation can occur because, like foreign-owned companies, local private companies do more DRPT than BRPT. Nevertheless, where foreign companies have various obstacles to add to the BRPT, the same obstacles should not be experienced by local private companies. Local companies have no restrictions on the business fields on the Negative Investment List, have no difficulty in carrying out supervision, and are less likely to experience currency losses. Thus, it is possible that local private companies do DRPT and do not do more BRPT for different reasons than foreign-owned companies.

This study describes local-owned companies as companies whose majority are not owned by the government or foreign parties. In this categorization, locally owned companies include companies owned by families and companies with institutional ownership. This study did not specifically examine the effects of family firms or institutional firms, but the results obtained are consistent with previous studies regarding the influence of family firms (Muntahanah et al., 2021; Lukviarman,

2004; Claessens et al., 2000; Carney and Hamilton-Hart, 2015). Previous studies of companies that are majority owned by families are more likely to have different interests from minority shareholders (Gaaya et al., 2017; Kumala & Siregar, 2021; Widagdo et al., 2021) unless family interests are in line with the interests of minority shareholders (Kumala & Siregar, 2021; Sami & Khaled, 2021). This is in line with the type II agency theory and could be because family companies make up the majority of public companies in Indonesia (Muntahanah et al., 2021).

### **5.6. Moderation by audit committee**

The result of the audit committee's size as moderating variable is not significant, and leaving aside statistical significance, the audit committee has a similar pattern of moderating foreign and local firms, i.e., correcting the negative effect of DRPT but exacerbating the impact of BRPT. Without moderating interactions, DRPT reduces firm value. However, with AC moderation, DRPT adds to firm value. This insignificant result supports several previous studies (Almarayeh et al., 2022; Madugba et al., 2021; Mnif Sellami & Borgi Fendri, 2017; Na'ma Aisa, 2018). There is also the possibility that within the Audit Committee, the role of independent members is not significant to the company's corporate performance, which can mean that the Independent Commissioner is not fully independent, so he cannot take actions that balance the interests of the owner and management. (Dharmastuti & Wahyudi, 2013).

Putting aside the statistical significance, the supervision of the Audit Committee with more than the minimum number of members changed the DRPT from reducing the firm value to adding to the firm value. This indicates that a sufficient size of the Audit Committee can improve the negative effect of Related Party Transactions under the Resource Dependency theory, where the resources in the audit committee enrich and strengthen the influence of the audit committee on the company (Alsagr et al., 2018; Gupta & Mahakud, 2021; Al Lawati et al., 2021).

Without and with interaction moderation, BRPT reduces firm value. With supervision from the Audit Committee with more than minimum members, BRPT tends to reduce the firm value. This reduction may be due to difficulties in coordinating communication between members of the Audit Committee (O. Berkman & Zuta, 2018) or members of the Audit Committee exercising too tight control so that the BRPT is not large enough to add firm value. This indication of too close external supervision is consistent with the insignificant result of related party transactions in Indonesia due to tightening regulations and accounting standards. The audit committee will ensure the implementation of regulations and company compliance. It should also be noted that companies with the size of the Audit Committee per the regulations also do not significantly affect the firm value. If statistical significance is excluded, then the moderation of the Audit Committee tends to reduce the firm value.

## **6. Conclusions and suggestions**

### **6.1. Conclusions**

This study aims to observe the moderating impact of corporate governance represented by the firm ownership type and the audit committee's size on the effect of related party transactions on firm value. From the results of testing and analysis, the following conclusions can be drawn:

1. Related Party Transactions do not affect the firm value. This happens because Related Party Transactions have been strictly regulated in Indonesia, so affiliate transactions negatively influence firm value. Indirectly, the problem of agency/agency costs is proven that managers who are afraid of risk will reduce the practice of affiliate transactions so that they are no longer significant.
2. Observing the role of the majority owner as measured by the foreign, government, and local private ownership, it turns out that only foreign ownership and the government act as moderating variables on the effect of related party transactions on firm value.

a. Government ownership contributes to the negative impact of related party transactions. In the case of DRPT, government ownership further reduces the firm value. Meanwhile, in the case of BRPT, government ownership also strengthens, although weakly.

b. Foreign ownership has a different effect; in fact, it reverses the effect of the BRPT, thereby reducing the firm value. In the case of DRPT, foreign ownership weakly also reverses the impact of the transaction so that it adds to the firm value.

3. The audit committee does not have a moderating role in the effect of DRPT and BRPT on firm value. The audit committee size can weakly affect the DPRT so that the firm value is not reduced too much but negatively affects the BRPT so that the transaction no longer adds to the firm value but reduces the firm value.

### **6.2. Suggestion**

Although affiliate transactions do not significantly affect the firm value, this does not mean that this study recommends that companies not conduct related party transactions. By observing applicable regulations and standards, related party transactions can still be carried out and add value to the company. Managers of foreign companies are advised not to rely entirely on related party transactions with shareholders or sister companies. Considering the prevailing regulations and standards in Indonesia that restrict the movement of foreign companies, foreign companies must ensure that the income from parties outside the group has a larger proportion to balance the value of transactions that reduce the firm value.

On the other hand, managers of state-owned companies are advised to implement good governance more strictly and follow Good Corporate guidelines. They pay attention to input from the Audit Committee and minority shareholders to mitigate the adverse effects of related party transactions. As managers and shareholders, the selection and composition of members of the Audit Committee become more critical to ensure that members of the Audit Committee have sufficient ability to distinguish between transactions that add to the firm value from transactions that reduce company value. Committee members with expertise related to related party transactions and an understanding of the business of the company concerned can avoid the possibility of excessive compliance and result in the company missing out on business opportunities.

Contrary to the research of Fooladi and Farhadi (2019), this study did not find a significant effect of separating related party transactions into reducing value (DRPT) and adding value (BRPT). This indicates that up to a certain point, the impact of affiliate transactions can no longer be separated between increasing or decreasing the firm value. Future research can further investigate the causes of the differences in the results of these two studies.

In addition, future research can make observations with company data coverage greater than LQ45. Future research can also compare the effect of related party transactions on firm value in countries with a strict or loose regulatory approach. Another side that can be investigated is whether the percentage of ownership can affect the effect of related party transactions. In addition to categorizing by industry or type of applicable regulations, future research can also observe related party transactions based on the type of related parties involved.

In addition to the type of ownership and size of the audit committee, other studies can also use other corporate governance proxies to see how other proxies affect related party transactions within the company. Finally, the scope of the research period, which tends to be short (5 years), should also be considered because it can affect the usefulness and conclusions of this study.

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## Appendices

### Appendix A. Statistic Result of Random Effect Model (Model 1)

```
Random-effects GLS regression              Number of obs   =      290
Group variable: CD                        Number of groups =       58

R-sq:                                     Obs per group:
    within = 0.1217                               min =          5
    between = 0.4595                               avg =         5.0
    overall = 0.4194                               max =          5

Wald chi2(8) =      78.29
Prob > chi2 =      0.0000

corr(u_i, X) = 0 (assumed)
```

FV	Coef.	Std. Err.	z	P> z	[95% Conf. Interval]	
BRPT	.5000884	1.226359	0.41	0.683	-1.903531	2.903708
DRPT	-.1400941	.5622435	-0.25	0.803	-1.242071	.9618829
LFS	-.7415845	.1983294	-3.74	0.000	-1.130303	-.352866
LLEVR	.2019019	.1731538	1.17	0.244	-.1374733	.541277
ROA	7.812273	1.234314	6.33	0.000	5.393062	10.23148
FOWN	1.958337	.6602521	2.97	0.003	.6642662	3.252407
SOWN	-.1316621	.6540536	-0.20	0.840	-1.413584	1.150259
AC	-.1206223	.2725633	-0.44	0.658	-.6548366	.413592
_cons	24.31934	6.118659	3.97	0.000	12.32699	36.31169
sigma_u	1.6530673					
sigma_e	.90441192					
rho	.76962691	(fraction of variance due to u_i)				

## Appendix B. Statistic Result of Random Effect Model with Interacting Variables (Model 2)

```
Random-effects GLS regression              Number of obs   =       290
Group variable: CD                        Number of groups  =        58

R-sq:                                     Obs per group:
    within = 0.1460                               min =          5
    between = 0.4557                               avg  =         5.0
    overall = 0.4216                               max  =          5

corr(u_i, X) = 0 (assumed)                  Wald chi2(14)    =      87.69
                                           Prob > chi2      =      0.0000
```

FV	Coef.	Std. Err.	z	P> z	[95% Conf. Interval]	
BRPT	.4769761	1.835879	0.26	0.795	-3.121281	4.075233
DRPT	.957164	.9318495	1.03	0.304	-.8692275	2.783555
LFS	-.7273281	.1986115	-3.66	0.000	-1.116599	-.3380568
LLEVR	.181206	.176809	1.02	0.305	-.1653332	.5277453
ROA	7.558182	1.246883	6.06	0.000	5.114336	10.00203
FOWN	2.253137	.7562727	2.98	0.003	.7708693	3.735404
SOWN	.3067775	.7743999	0.40	0.692	-1.211018	1.824573
AC	-.2490962	.4029975	-0.62	0.537	-1.038957	.5407644
FOWN#c.BRPT						
1	-11.34207	5.768992	-1.97	0.049	-22.64909	-.0350574
SOWN#c.BRPT						
1	.6013119	2.699842	0.22	0.824	-4.690282	5.892905
AC#c.BRPT						
1	.0712324	2.19383	0.03	0.974	-4.228596	4.371061
FOWN#c.DRPT						
1	2.008105	2.411575	0.83	0.405	-2.718496	6.734706
SOWN#c.DRPT						
1	-2.028666	1.197376	-1.69	0.090	-4.375479	.3181471
AC#c.DRPT						
1	.3732859	.9286507	0.40	0.688	-1.446836	2.193408
_cons	23.77079	6.133764	3.88	0.000	11.74884	35.79275
sigma_u	1.6352244					
sigma_e	.90092745					
rho	.76713809	(fraction of variance due to u_i)				



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