JURNAL AKUNTANSI
FAKULTAS EKONOMI
UNIVERSITAS SARJANAWIYATA TAMANSISWA
jurnalfe.ustjogja.ac.id

DOES CORPORATE GOVERNANCE MODERATE THE EFFECT OF RELATED PARTY TRANSACTIONS ON REAL EARNINGS MANAGEMENT?

Dody Hapsoro[1,*] Dhenayu Tresnadya Hendrik[2]
Akuntansi, Fakultas Ekonomi
STIE YKPN Yogyakarta
*email: dodyhapsoro@gmail.com

ARTICLE INFO

Article History
Submission: 18 Desember 2023
Reviewed: 20 Desember 2023
Accepted: 28 Desember 2023
Publish : 31 Desember 2023

Keyword:
Related party transactions, earnings management, corporate governance

ABSTRACT

This study aims to examine the ability of corporate governance in moderating the effect of related party transactions on real earnings management. The institutional ownership and financial expertise of the audit committee are used as a proxy for measuring corporate governance. This study uses a purposive sampling technique in manufacturing companies listed on the Indonesia Stock Exchange. The study period began from 2018 to 2022. The results showed that related party transactions had a positive and significant effect on real earnings management. Furthermore, institutional ownership is able to moderate the effect of related party transactions on real earnings management and the financial expertise of the audit committee is not able to moderate the effect of related party transactions on real earnings management.

Introduction

Cases of earnings management have occurred in many companies in various parts of the world. The latest situation that has been the subject of discussion by many parties, among others, is the case of PT Garuda Indonesia at the end of 2018. PT Garuda's net profit of USD809.85 thousand is considered to be too large and suspected to contain engineering, especially when compared to a loss of USD216.58 million experienced by PT Garuda in the previous year. There is one transaction that is in the spotlight, namely the transaction of PT Citilink Indonesia (a subsidiary company of PT Garuda) with PT Mahata Aero Teknologi. The cooperation transaction amounting to USD239.94 million was signed on October 31, 2018 with a period of 15 years. PT Garuda claims the transaction with PT Mahata as revenue for 2018 and is recorded at the same time in other income account, even though the transaction should still be receivable.

Financial Accounting Standards (SAK) require companies to recognize accrual-based income that allows management to recognize an income all at once in one or several years. These conditions provide a loophole for management to recognize revenue as done by PT Garuda. Investors are more interested in investing in companies that have high profits. This motivates managers to create financial reports as needed by investors.

According to Schipper (1989), earnings management is one form of manager involvement in the process of making financial statements that aim to meet the interests of managers. Earnings management arises as a result of management using judgment in the process of recording transactions and financial reporting (Healy & Wahlen, 1999). The considerations made are based on management interests. One example of a consideration taken by managers is to recognize earnings for a number of periods to come to the current period with the aim of earning a bonus.

In general, earnings management can be classified into two groups, namely accrual-based earnings management (MLA) and real-based earnings management (MLR) (Ewert & Wagenhofer, 2005). Managers perform accrual earnings management by replacing accounting methods in financial reporting that will affect income items (Dechow et al., 2015). Whereas real earnings management is a method of earnings manipulation carried out by managers by deviating from the company's operational activities. Managers do this because of the desire to obtain higher profits than they should (Healy & Wahlen, 1999; Roychowdhury, 2006).

Accrual earnings management is more easily detected by regulators and auditors, whereas real earnings management is more difficult to detect because it is similar to the normal activities of a company (Graham et al., 2005). The focus of real earnings management is to increase company profits. One form of earnings manipulation is through related party transactions (TPB). Majority shareholders utilize related party transactions to reduce the level of prosperity that should be received by minority shareholders (Djankov et al., 2008). According to Ryngaert & Thomas (2012), internal parties use related party transactions to take over the wealth of the company owner.

Jian & Wong (2010) and Chen et al. (2011) explained that related party transactions carried out by internal parties are not entirely based on accrual management, but also on a real basis. Companies that focus on increasing profits tend to try to do real earnings management. The impact of real earnings management is a decline in the company's performance in the long run and decisions by stakeholders become inaccurate. The effectiveness of corporate governance is needed in order to reduce management's actions in carrying out real earnings management through related party transactions.

Implementation of corporate governance can be done through corporate governance mechanisms. Lins & Warnock (2004) classified corporate governance into two parts, namely the ownership structure and the control or supervision structure. Institutional ownership (KIN) is an important part of the ownership structure. Institutional ownership is ownership of shares by institutions. One part of the control structure is the presence of audit committee members who have certain expertise. The expertise referred to can be seen from the educational background that has been taken as well as the experience gained while working outside or inside the organization or company. OJK (2015) in its regulation regarding the audit committee explained that high integrity, extensive knowledge, adequate ability and experience in accordance with the field of work and being able to communicate well are a part that should be owned by every member of the audit committee. In addition, the ability to understand financial statements relating to the audit process, issuers' services, risk management and other related regulations is also required. Therefore, researchers are motivated to test the ability of corporate governance to moderate the effect of related party transactions on real earnings management.

Literature Review and Hypothesis Development

Literature Review

Agency Theory

Jensen & Meckling (1976) explained that agency relations occur when there is a contract between the principal and the agent. Principal (shareholder) is the owner of the entity that delegates

authority to the agent (company management) to manage the company. Based on the contract that has been made, the actions of the agent should be in accordance with the principal's interests.

In practice, managers as agents who have the responsibility for managing the company are more aware of the company's actual condition than the principal or company owner. These conditions can encourage managers to provide information that is not in accordance with the interests of the owner in order to meet their own interests and cause agency problems. Watts & Zimmerman (1990) explained that there are several factors that trigger agency problems, including bonus plans, debt contracts, and political costs.

Related Party Transactions

PSAK No. 7 shows that a related party is a party that has a relationship with a certain party in providing financial statements (referred to as "reporting entity"). An entity can be classified as a party that has a relationship with the company if it meets the provisions in PSAK No. 7. A related party transaction is defined as any transaction consisting of the transfer of obligations and resources between the reporting party and the related party. Nekhili & Cherif (2011) explained that related party transactions are transactions between reporting parties and other parties related to them, such as subsidiary company, managers, joint companies, controlling shareholders and so forth.

Related party transactions can have a positive impact on the development of business activities because they can function to increase the value of the company through lower transaction costs, efficiency, and ease in enforcing property rights and good control. While the negative impact of related party transactions is that these transactions tend to be used by managers as a mechanism to exploit company resources and divert funds from the company to other controlling companies even to the manager's personal pockets (Amzaleg & Barak, 2012).

Institutional Ownership

Institutional ownership refers to ownership of shares by institutions or external institutions, such as pension funds, banks, insurance companies, mutual funds and other institutions. Jensen & Meckling (1976) argued that agency conflicts that occur between shareholders and management can be reduced through the presence of institutional ownership.

Institutional investors can act as management supervisors (Demsetz, 1983; Shleifer & Vishny, 1986). The large number of shares owned by institutions can encourage the level of monitoring or the level of supervision of management discretion. Monitoring actions are taken to ensure the welfare of shareholders.

Financial Expertise of the Audit Committee

OJK (2015) required an audit committee consisting of at least one competent person in the field of accounting and finance so that the resulting report is transparent and able to reduce agency problems. Dhaliwal et al. (2010) explained that to monitor the financial activities of companies, members of the audit committee are required to have a level of understanding in analyzing the actual financial condition of the company. The financial expertise of audit committee members is needed to identify management's work to improve the quality of financial reporting (Bédard & Gendron, 2010).

Earnings Management

Schipper (1989) defined earnings management as the involvement of corporate managers in the process of presenting financial statements with the aim of fulfilling personal interests. Healy & Wahlen (1999) and Shen & Chih (2007) defined earnings management as changes in information on financial statements made by management in order to meet personal interests. The implications of these management actions can mislead the shareholders' assessment of the actual condition of the company's performance.

One form of earnings management is real earnings management. Real earnings management occurs when the manager's behavior is contrary to the company's operational practices due to the manager's desire to increase reported earnings (Ewert & Wagenhofer, 2005; Roychowdhury, 2006). Management can manage real earnings through three events, namely sales manipulation, reduction of discretionary expense and overproduction.

Hypothesis Development

Effect of related party transactions on real earnings management

Related party transactions are considered dangerous and unprofitable for shareholders (according to agency theory) because managers have greater opportunities than principals to take over the company. On the other hand, related party transactions are considered harmless and can benefit shareholders because they can increase the value of the company through lower and efficient transaction costs (Jensen & Meckling, 1976; Gordon et al., 2004; Amzaleg & Barak, 2012).

El-Helaly'S (2018) research results provide evidence that related party transactions have a positive effect on real earnings management and audit quality can reduce the effect of these transactions. This condition was explained by Zang (2012) that management switched from using accrual earnings management to real earnings management in accordance with the cost benefit analysis. That is, if the benefits obtained are greater in using one of earnings management, then management will choose the method. Based on the explanation above, the researcher proposes a hypothesis:

H_1: Related party transactions have a positive effect on real earnings management.

The ability of institutional ownership in moderating the effect of related party transactions on real earnings management

Institutional ownership can monitor management behavior through the amount of shares held. According to Claessens & Fan (2002), to reduce problems related to agency conflicts between majority shareholders (controlling) and minority shareholders (non-controlling) in Asian companies, the involvement of institutional investors can improve corporate governance practices.

The results of Mitra & Cready (2005) research show that active monitoring by institutional investors helps prevent managerial opportunistic reporting behavior and improves the quality of governance in the financial reporting process. Velury & Jenkins (2006) research results are in line with findings, namely institutional ownership has a positive effect on earnings quality. Institutional ownership is expected to reduce the effect of related party transactions on real earnings management. Based on the explanation above, the researcher proposes a hypothesis:

H_2: Institutional ownership moderates the effect of related party transactions on real earnings management.

The ability financial expertise of the audit committee in moderating the effect of related party transactions on real earnings management

The audit committee's financial expertise (KKK) is expected to minimize fraud by managers against the company (Abbott et al., 2012). Research of Kalbers & Fogarty (1993) stated that the audit committee's financial expertise can improve the strength and ability of the audit committee in carrying out its duties, so as to produce a quality financial report. Fama & Jensen (1983) asserted that the audit committee plays an important role in conducting internal oversight of the performance of the board of directors.

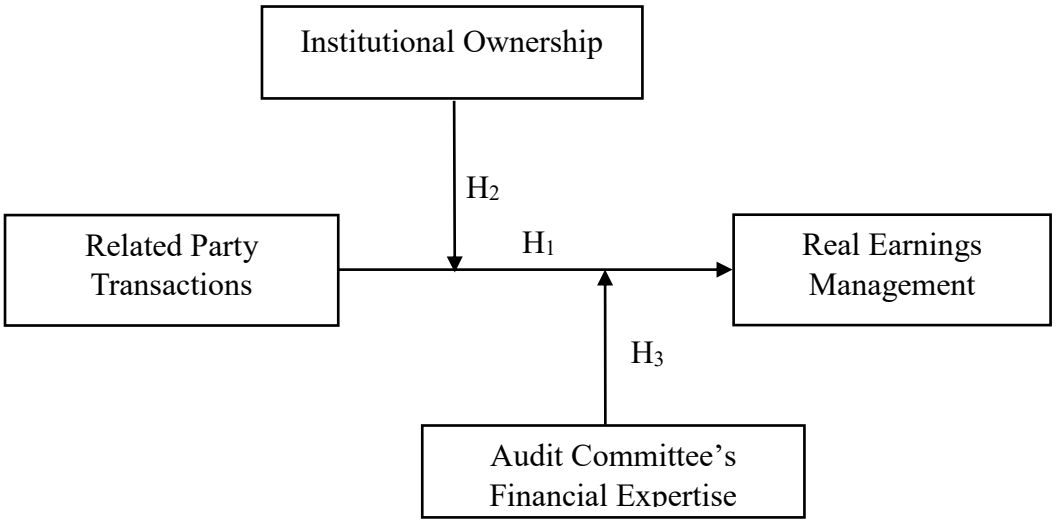
Research of Chang & Sun (2009) found that the existence of audit committee's financial expertise has no effect on earnings management. Whereas Badolato et al. (2014) found evidence that low earnings management is closely related to the audit committee's financial expertise. That is, a high level of financial expertise allows the audit committee to be able to track the possibility of earnings management. Based on the explanation above, the researcher proposes a hypothesis:

H_3: Audit committee financial expertise moderates the effect of related party transactions on real earnings management.

Framework of Thinking

The framework of thinking of this study is shown in Figure 1 below:

Figure 1. Framework of Thinking



Research Method

Population and Sample

Population is defined as a collection of all elements studied (Cooper & Schindler, 2014). The population that is the object of this research is manufacturing companies in the 2018-2022 period which are listed on the IDX, but at the time of the analysis only 2020-2022 data were used. This happens because the 2018-2019 period is used as a period to calculate real earnings management that requires data from the previous two years. The sample is part of the population object that needs to be studied its characteristics, so that it can represent all important elements of the population (Cooper & Schindler, 2014). Sampling uses a purposive sampling technique with the following criteria:

1. Manufacturing companies that present their financial statements to the public.
2. The sample company has complete data to support research.

Types and Sources of Data

This type of research is quantitative research. The data used is secondary data. Data is downloaded from www.idx.co.id and from each sample company.

Operational Definition of Variables and Measurement of Variables

Independent Variables

This research places related party transactions as an independent variable. Measurement of related party transactions is carried out using a formula adopted from the study of Habib et al. (2017) as follows:

$$\text{Related Party Transaction Loan Ratio} = \frac{\text{Gross Related Party Transactions Loan}}{\text{Total Asset}}$$

Dependent Variables

This study places real earnings management as the dependent variable. Real earnings management can be detected using abnormal costs. Abnormal costs are obtained by reducing actual costs with normal costs. The formula for measuring normal costs is done using a regression equation. Measurement of real earnings management is carried out using a formula adopted from the research of Roychowdhury (2006) which consists of three measurements as follows:

a. Real earnings management through cash flow operation activities

$$\frac{\mathbf{CFOt}}{\mathbf{At-1}} = \alpha_0 + \alpha_1\left(\frac{1}{\mathbf{At-1}}\right) + \beta_1\left(\frac{\mathbf{St}}{\mathbf{At-1}}\right) + \beta_2\left(\frac{\Delta\mathbf{St}}{\mathbf{At-1}}\right) + \varepsilon_t$$

b. Real earnings management through production expenses

$$\frac{\mathbf{PRODt}}{\mathbf{At-1}} = \alpha_0 + \alpha_1\left(\frac{1}{\mathbf{At-1}}\right) + \beta_1\left(\frac{\mathbf{St}}{\mathbf{At-1}}\right) + \beta_2\left(\frac{\Delta\mathbf{St}}{\mathbf{At-1}}\right) + \left(\frac{\Delta\mathbf{St-1}}{\mathbf{At-1}}\right) + \varepsilon_t$$

c. Real earnings management through discretionary expenses

$$\frac{\mathbf{DISEXPt}}{\mathbf{At-1}} = \alpha_0 + \alpha_1\left(\frac{1}{\mathbf{At-1}}\right) + \beta_1\left(\frac{\mathbf{St-1}}{\mathbf{At-1}}\right) + \varepsilon_t$$

Explanation:

CFO_t	=	Cash flow operation in the current year or in year t.
$PROD_t$	=	Production expenses in the current year or in year t. PRODt = COGSt + ΔINV.
$DISEXP_t$	=	Discretionary expenses in the current year or in year t.
A_{t-1}	=	Total assets in the previous year or in year t-1.
S_t	=	Sales in the current year or in t.
ΔS_t	=	Changes in sales by reducing sales in the current year with sales in the previous year or sales in year t-1.
ΔS_{t-1}	=	Changes in company sales by reducing company sales in the previous year or year t-1 with sales in the previous two years or sales in year t-2.
α	=	Constanta
β	=	Coefficient
ε	=	Error in current year or error in year t.

Real earnings management is measured comprehensively by researchers by subtracting abnormal CFO (ABNR_CFO) and abnormal discretionary costs (ABNR_DISEXP) from abnormal production costs (ABNR_PROD). The measurement formula is described as follows:

Real earnings management = ABNR_ PROD – ABNR_CFO – ABNR_DISEXP

The formula was adopted from the study of Wu et al. (2015) based on research by Cohen et al. (2008) and Zang (2012).

Moderation Variable

This study places the institutional ownership and financial expertise of the audit committee as a moderating variable that is predicted to strengthen or weaken the effect of the independent variable on the dependent variable. The measurement of institutional ownership is formulated as follows:

$$\text{Institutional ownership} = \frac{\text{Number of shares owned by the institution}}{\text{Number of outstanding shares}} x\ 100\%$$

The measurement of the audit committee's financial expertise (KKK) was adopted from the study of Badolato et al. (2014) as follows:

$$\text{KKK} = \frac{\text{Number of audit committees with financial expertise}}{\text{Number of audit committees}} x\ 100\%$$

 https://doi.org/10.30738/ja.v11i2.4148
https://jurnalfe.ustjogja.ac.id/index.php/akuntansi/article/view/4148/1091

Results

Sample Selection Results

Details of the results of purposive sampling are presented in Table 1.

Table 1
Research Samples

Description	Amount
Number of manufacturing companies listed on the Indonesia Stock Exchange in the 2014-2018 period	166
Number of companies that do not have complete data	(114)
The number of companies that suffered losses	(17)
Number of companies used as samples	35
Total observations (3 years)	105
Outlier data	(15)
Final total sample	90

Source: Data processing

Screening is done to see the presence or absence of outlier data. Outlier data detection is done by changing data into standardized scores (Z-scores). Data is categorized as outlier data if the Z-score is> 1.5 or <-1.5 for each variable (Ghozali. (2016). After screening out 15 outlier data, the total sample after outlier was 90.

Descriptive Statistics

The description of the research variables is presented in Table 2 below:

Table 2
Descriptive statistics

Variable	N	Minimum	Maximum	Mean	Std. Deviation
TPB	90	0,02	7,21	1,33	1,44
KIN	90	47%	94%	75%	13,72
KKK	90	25%	100%	63%	25,67
MLR	90	-0,89	1,49	0,29	0,50

Source: Data processing

The test results in Table 2 using 90 observations show that related party transactions have a range of values between 0.02 to 7.21 with an average of 1.33 and a standard deviation of 1.44. Variable institutional ownership ranges from 47% to 94% with an average of 75% and a standard deviation of 13.72. The audit committee financial expertise variable has a range of values between 25% to 100% with an average of 63% and a standard deviation of 25.67. The real earnings management variable has a range of values between -0.89 to 1.49 with an average value of 0.29 and a standard deviation of 0.50.

Classical Assumption Test

Normality Test

The results of the normality test are shown in Table 3.

Table 3
Normality test

	Main Effect	Moderating Effect I	Moderating Effect II	Description
Kolmogorov-Smirnov Z	0,093	0,087	0,085	Residuals are normally distributed
Asymp. Sig.	0,051	0,092	0,129	

Source: SPSS Output

Normality test uses one sample Kolmogorov-Smirnov (K-S). Table 3 shows that the normality test results have met the assumption test for the main effect test, the moderating effect test I and the moderation effect test II. This is known through the value of sig. > 5%.

Multicollinearity Test

The results of the multicollinearity test are shown in Table 4.

Table 4
Multicollinearity Test

Variable	Moderating Effect I		Moderating Effect II		Description
	VIF	TOL	VIF	TOL	
TPB	1,269	0,788	1,331	0,751	Multicollinearity free
KIN	1,011	0,989			
KKK			1,122	0,891	
TPB*KIN	1,273	0,786			
TPB*KKK			1,469	0,681	

Source: SPSS Output

Table 4 shows that the assumption test for the moderating effect I test and the moderation effect II have been fulfilled. This is known from the VIF value <10 and tolerance value> 0.1.

Heteroskedasticity Test

Heteroscedastity test results are shown in Table 5.

Table 5
Heteroscedasticity Test

Variable	Sig Value of Main Effects	Sig Value of Moderation Effect I	Sig Value of Moderation Effect II	Description
TPB	0,710	0,742	0,938	Homoscedasticity
KIN		0,734		
KKK			0,872	
TPB*KIN		0,452		
TPB*KKK			0,759	

Source: SPSS Output

Table 5 shows that the assumption test results for the main effect test, moderation effect I and moderation effect II have been fulfilled. This is known from the value of sig. > 5%.

Autocorrelation Test

The results of the autocorrelation test are shown in Table 6.

Table 6
Autocorrelation

D-W Value Main Effects	D-W Value Moderation Effect I	D-W Value Moderation Effect II	Rule of Thumb	Description
0,964	0,932	1,119	-2 to +2	There is no autocorrelation

Source: SPSS Output

Table 6 shows that the assumption tests for the main effect test, the moderating effect I, and the moderation effect II have been fulfilled. This is indicated by the DW value in the range of -2 to +2.

Model Suitability Test and Determination Coefficient

The results of the model suitability test and the coefficient of determination are shown in Table 7.

Table 7
Model Conformity Test

Value	Main Effect	Moderating Effect I	Moderating Effect II	Description
F	8,386	4.528	4,895	Fulfilled
Sig.	0,005	0,005	0,003	

Source: SPSS Output

Test results show that the value of sig. <0.05, so it can be concluded that the model suitability test has been met. Then the coefficient of determination test is performed to determine the ability of the independent variables in explaining the variation of the dependent variable. The model is said to be robust if the value of R^2 approaches 1.

Table 8
Determination Coefficient Test

Value	Main Effect	Moderating Effect I	Moderating Effect II
Adjusted R^2	0,077	0,106	0,116

Source: SPSS Output

Table 8 shows the results of the main effect test which has an adjusted R^2 value of 0.077. This means that related party transactions can explain the variation in real earnings management variables by 7.7%, while the rest is affected by other variables outside the model. The moderation effect test I has an adjusted R2 value of 0.106. This means that related party transactions, institutional ownership and interactions between related party transactions and institutional ownership can explain variations in real earnings management variables by 10.6%, while the rest is affected by other variables outside the model.

The moderation effect test results II have an adjusted R^2 value of 0.116. This means that related party transactions variables, audit committee financial expertise and interactions between related party transactions and audit committee financial expertise are able to explain variations in real earnings management variables by 11.6%, while the rest are affected by other variables outside the model.

Hypothesis Testing

The results of the main effect test, the moderating effect test 1, and the moderating effect test 2 are shown in Table 9, Table 10 and Table 11 below.

Table 9
Main Effect Test

Independent	Expectations	Coefficient	t-Statistics	Significance
(Constanta)	±	0,159	2,314	0,023
TPB	+	0102	2,896	0,005
Dependent variable: Real earnings management				

Source: SPSS Output

Table 10
Moderation Effect Test I

Independent	Expectations	Coefficient	t-Statistics	Significance
(Constanta)	±	0,480	5,641	0,000
TPB	+	0,216	3,897	0,000
KIN	-	-0,049	-0,989	0,326
TPB*KIN	-	-0,171	-2,658	0,009
Dependent variable: Real earnings management				

Source: SPSS Output

Table 11
Moderation Effect Test II

Independent	Expectations	Coefficient	t-Statistics	Significance
(Constanta)	±	0,162	1,729	0,087
TPB	+	0,088	1,547	0,125
KKK	-	0,082	1,571	0,120
TPB*KKK	-	0,125	1,656	0,101
Dependent variable: Real earnings management				

Source: SPSS Output

Discussion

First Hypothesis Test Results

The first hypothesis is a hypothesis that tests the effect of related party transactions on real earnings management. Based on Table 9, the test results have a coefficient value of 0.102, t arithmetic of 2.896, and a significance value of 0.005, meaning that related party transactions have a positive and significant effect on real earnings management. Thus, hypothesis 1 is supported. One of the strategies of managers to carry out real earnings management is through related party transactions. The more related party transactions are carried out, the more likely there is real earnings management. Thus the results of testing the first hypothesis are supported.

The test results support the research of El-Helaly (2018) which concluded that related party transactions have a positive effect on real earnings management and audit quality can reduce the effect of these transactions. This condition also shows that company management tends to prefer managing real earnings management over managing accrual earnings management (Graham et al., 2005; Gunny, 2010; Badertscher, 2011).

Second Hypothesis Test Results

Based on Table 10, the results of institutional ownership ability test in moderating the effect of related party transactions on real earnings management have a coefficient value of -0.171, t-count of -2.658, and a significance value of 0.009, meaning that institutional ownership is able to

moderate the effect of related party transactions on real earnings management. Thus, hypothesis 2 is supported. The greater the percentage of institutional ownership, the less likely that management will manage real earnings through related party transactions. This happens because the large percentage of institutional ownership provides an opportunity for institutions to reduce the behavior of deviant managers through policies in the General Meeting of Shareholders.

The results of the second hypothesis testing are in line with the results of Mitra & Cready (2005) research which shows that active monitoring by institutional investors is able to help prevent managerial opportunistic behavior and improve the quality of governance in the financial reporting process. Mitra & Cready (2005) also found that institutional shareholders were able to mediate and reduce corporate managers' selfish behavior in financial reporting. Velury & Jenkins (2006) research provides evidence that institutional ownership has a positive effect on earnings quality.

Third Hypothesis Test Results

Table 11 shows the results of the audit committee's financial expertise ability in moderating the effect of related party transactions on real earnings management which has a coefficient value of 0.125, a t-test of 1.656, and a significance value of 0.681, meaning that the audit committee's financial expertise is not able to moderate the effect of related party transactions on real earnings management. Thus, hypothesis 3 is not supported. The test results indicate that the audit committee financial expertise may not reduce the effect of related party transactions on real earnings management. This condition occurs because real earnings management has similarities with the normal activities of the company, so the audit committee that has expertise in the financial sector is not able to reduce it. Real earnings management activities that are similar to normal company activities, for example are massive discounts, easier credit requirements, more production, reduced administrative and general costs, and elimination of research and development costs.

Real earnings management occurs when company management with certain motivations act out of line with operational practices in order to achieve profit targets (Roychowdhury, 2006). Some research results, such as Graham et al. (2005), Gunny (2010) and Badertscher (2011) show that real earnings management is difficult to detect when compared to accrual earnings management.

Table 12
Combined Effect Sensitivity Test

Independent	Expectations	Coefficient	t-Statistics	Significance
(Constanta)	±	0,468	3,655	0,000
TPB	+	0,445	2,719	0,008
KIN	-	-0,017	-0,256	0,076
KKK	-	0,103	1,795	0,799
TPB*KIN	-	-0,252	-2,446	0,017
TPB*KKK	-	0,087	0,831	0,408

Dependent variable: Real earnings management
Adjusted R^2 = 0,161
F = 4,407
Sig. = 0,001
DW = 1,049

Source: SPSS Output

Table 12 above is the result of a combined effect sensitivity test whose results are in line with the main effect test.

CONCLUSIONS, LIMITATIONS, SUGGESTIONS AND IMPLICATIONS

Based on research that has been done it can be concluded that related party transactions have a positive effect on real earnings management. Furthermore, institutional ownership moderates the effect of related party transactions on real earnings management. While the audit committee's financial expertise does not moderate the effect of related party transactions on real earnings management.

This study has limitations, namely the number of samples of manufacturing companies conducting related party transactions through debt ratios is very limited. This condition is caused by not all manufacturing companies in Indonesia conducting related party transactions through debt ratios. Based on these limitations, the next research is expected to use a sample of other industrial companies, especially non-financial companies in order to obtain more comprehensive generalization results.

This research provide information to regulators to monitor the condition of manufacturing companies in Indonesia. This is due to related party transactions through the debt ratio to be one part that can affect real earnings management. Therefore, the results of the study are expected to be used as consideration in making regulations related to related party transactions. In addition, the results of the study also show that the existence of institutional ownership can reduce the effect of related party transactions on real earnings management. This shows that the existence of institutional ownership in the company is an important factor that needs to be considered by regulators when making regulations because the existence of institutional ownership can control the company's management in managing real earnings management through related party transactions. This study also provides information to company management related to the effectiveness of corporate governance in reducing the effect of related party transactions on real earnings management. Managers must be careful in managing earnings for the survival of the company.

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