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The Influence of Corporate Governance Index and Related-Party Transactions on Company Value with Political Connections as a Moderation Variable: The Case of State-Owned Companies on the Indonesia Stock Exchange

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Abstract

Corporate governance and company value are essential issues in managing state-owned companies in Indonesia. This research examines the influence of corporate governance index and related-party transactions on the value of state-owned companies on the Indonesia Stock Exchange by analyzing the role of political connections as a moderating variable. The population of this research is all state-owned companies on the Indonesia Stock Exchange from 2015 to 2022. The research sample was obtained using a purposive sampling technique. Data analysis uses moderated regression analysis. This research found that, in the case of state-owned companies in Indonesia, the corporate governance index positively affected company value. In contrast, related-party transactions harmed company value. Political connections have not been proven to be a moderating variable in the influence of corporate governance index on company value. However, they are proven on the influence between related-party transactions and company value. Investors in the Indonesian capital market assess political connections in state-owned companies in Indonesia as increasing the risk that it will worsen the influence of related-party transactions and the value of state-owned companies.

Keywords: corporate governance, firm value, state-owned enterprises, related-party transactions, political connections

JEL classification: G32, G30, O16

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➲ Introduction

This research examines the influence of corporate governance indices and related-party transactions (RPT) on the value of state-owned companies on the Indonesia Stock Exchange with political connections as a moderating variable. Zimon *et al.* (2021) stated that since bankruptcy cases occurred in large companies in the United States, such as Enron, WorldCom, Subprime Mortgage, and Adelphia, various stakeholders have become aware of the importance of implementing corporate governance. *Corporate governance* is a mechanism created to minimize the risk of company control and prevent misalignment of interests between managers and company owners (Nazir & Afza, 2018).

The background to this research is the various financial scandals that occurred in state-owned companies in Indonesia. Several cases of financial scandals at state-owned companies in Indonesia include the falsification of profit figures in the 2018 financial report of PT Garuda Indonesia and the fictitious supply chain financing case at PT Waskita Karya and PT Waskita Beton Precast in 2016-2020. This financial scandal shows that the business governance of state companies in Indonesia still needs to improve. State-owned enterprises are prone to business fraud, corruption, and unhealthy business practices, which result in shareholder losses.

Research on corporate governance in state-owned companies in Indonesia is essential because Indonesians pay great attention to the performance of these entities. The Indonesian people have high hopes for the performance of state companies so that they can contribute to increasing state income. The Indonesian public does not want the misuse of state-owned companies functions for individual and political interests detrimental to state assets. One of the community's demands is to improve the implementation of corporate governance in state companies. Huang *et al.* (2020) explained that implementing corporate governance is a company's systematic steps to improve performance and increase company value.

Apart from corporate governance, this research also discusses the relationship between related-party transactions and the value of state-owned companies in Indonesia. According to Utama *et al.* (2010), the Indonesian capital market has characteristics similar to the stock markets of other Asian countries in that it has concentrated ownership. Concentrated ownership leads to increased control over the company through related-party transactions. Tarighi *et al.* (2022) argue that related-party transactions can be a way to manipulate company profits, take over shareholder rights, and reduce the quality of financial report information. Haj-Salem *et al.* (2020) and Azmi *et al.* (2020) explained that research discussing corporate governance, related-party transactions, and company value gave varied results.

This research's novelty extends the analysis by testing the role of political connections as a moderating variable. Fisman (2001) explains that political connections in the Indonesian capital market have become dominant. Armadiyanti and Iswati (2019) explained that state-owned companies tend to be synonymous with issues of political interest. As head of government, the President of the Republic of Indonesia appointed many figures with political affiliations in the structure of directors and commissioners of state companies. The existence of political connections in state-owned companies is exciting to research to find out whether political connections tend to positively or negatively impact state-owned companies in Indonesia.

The main contribution of this research is testing political connections as a moderating variable in the relationship between corporate governance and related-party transactions on firm value in state-owned companies in Indonesia.

➲ Review of literature and hypotheses

■ Agency theory

The leading theory that is the basis for this research is agency theory. Parks and Conlon (1995) explain that there are two interested parties in agency theory: the principal and the agent. The principal is the company's owner, and the agent is the party tasked with managing the company. The principal contracts managers to run the company's business according to the goals of the company owner. The principal provides specific incentives to the agent for managing the company. Separating roles and functions between principal and agent will create agency conflict (Jensen & Meckling, 1976).

Hill and Jones (1992) explain that principals can limit deviant behaviour carried out by agents by creating sufficient incentive mechanisms for agents and spending monitoring costs designed to limit opportunistic behaviour from agents. Jensen and Meckling (1976) explain that principals can create monitoring mechanisms for agents, and agents place restrictions on actions (bonding). Companies can strengthen the monitoring aspect of agents by implementing suitable governance mechanisms within the company. Parks and Conlon (1995) state that monitoring and compensation are essential in agency relationships. The principal must have a monitoring mechanism that can assess the agent's performance appropriately so that the principal can determine the appropriate compensation contract and avoid excessive payments to the agent.

■ Corporate governance and company value

Haris *et al.* (2019) explain that corporate governance is a system created to align the interests of shareholders and company management. Corporate governance seeks to protect the interests and rights of all shareholders and is the key to success in winning global competition (Purnamawati *et al.*, 2017). Corporate governance is essential in managing state-owned companies in Indonesia (Adiputra, 2018). This research positions the alleged positive influence of corporate governance on company value. Lehmann (2019) states that corporate governance will increase the direct role of monitoring manager performance. Huang *et al.* (2020) argue that managers must change their corporate governance structure to be stricter and focus on agency conflicts. Strict supervision of managers can be used as a medium to increase company value.

Haj-Salem *et al.* (2020) explain that implementing corporate governance will improve the company's financial performance, which will positively impact company value. Ammann *et al.* (2011) argue that corporate governance will lead to high company share prices. High share prices are a form of investor anticipation of reduced cash flow received and friction over company earnings, interest, or dividends. Nazir and Afza (2018) explain that investors feel safer investing in companies with good corporate governance because there will be less risk of cash flow irregularities due to agency problems and higher payments, which increase share prices and company value (Jensen & Meckling, 1976). Corporate governance also helps companies build a good reputation in the capital market by allowing them to get cheaper sources of funds and increase company value.

Based on the explanation above, the first hypothesis in this research is stated as follows:

H1: Corporate governance index has a positive effect on company value.

■ Related-party transactions and company value

Zimon *et al.* (2021) define related-party transactions as company management actions in transferring resources, services or obligations between reporting entities and related parties. The majority of shareholders, directors, groups, and subsidiaries are some examples of related parties. Hendratama and Barokah (2020) explain two opposing views regarding related-party transactions. The first is that related-party transactions have opportunistic potential for company insiders to maximize their interests and sacrifice the interests of the company's shareholders. Zimon *et al.* (2021) state that related-party transactions are an aspect that causes financial scandals. Shareholders and investors assess RPT as a risk that can hurt company performance. The second perspective states that related-party transactions benefit companies by providing an efficient negotiation process, strategic partnerships, risk sharing, and contract facilities (Hendratama & Barokah, 2020).

Looking at practical phenomena in state-owned companies in Indonesia and referring to Tarighi *et al.* (2022) and Hendratama and Barokah (2020), researchers suspect that related-party transactions negatively affect company value. This perspective is consistent with agency theory, which thinks RPT are vulnerable to earnings management actions and other opportunistic behaviour that can cause shareholder losses. Bona-Sánchez *et al.* (2017) explain that related-party transactions can be a medium for misuse of company resources for personal interests. Enriques (2015) explains that related-party transactions have a risk of potential tunnelling activity. Researchers suspect that related-party transactions will harm company value because of the potential losses that company shareholders could bear due to RPT.

Based on the explanation above, the second hypothesis in this research is stated as follows:

H2: Related-party transactions have a negative effect on company value.

■ Political connections, corporate governance, and company value

Fisman (2001) explains that political connections are relationships between company executives and political officials such as senior government officials, political party leaders, elected legislators, and other government officials. This research proposes political connections as a moderating variable in the influence of corporate governance on company value. *Political connections* are a variable that weakens the influence of corporate governance on company value. Hashmi *et al.* (2018) found that companies with political connections tend to have a high level of information asymmetry, impacting high earnings management and low-quality financial reports. Riahi-Belkaoui (2004) explains that companies with political connections report low-quality profits to avoid legal intervention from parties outside the company. Gul (2006) argues that political connections have the potential to reduce the transparency of financial reports, which has the impact of increasing company agency costs. Political connections can cause weak internal controls, increasing the potential for misstatements in financial reports. Cheng *et al.* (2015) stated that companies with high political connections will tend to choose less qualified auditors, which proves that the company needs more commitment to supervision and audit information.

Referring to Cheng *et al.* (2015), Hashmi *et al.* (2018), Gul (2006), and Riahi-Belkaoui (2004), researchers argue that the existence of these political connections can be a negative thing for the company. Researchers suspect that political connections will weaken the positive influence of corporate governance on the value of state-owned companies in Indonesia. Researchers suspect that political connections in state-owned companies in Indonesia will reduce the transparency aspect of company financial reporting, increase accruals in earnings management, reduce earnings quality, increase the potential for fraud and cause a decline in the company's internal control. The existence of political connections is likely to weaken the influence of corporate governance on company value. Using company resources for inappropriate political interests is thought to reduce company performance. The company's corporate governance system will become less functional when political connections are high. Political connections will reduce aspects of control and supervision, which are the core substance of corporate governance. Political connections can lead to using company resources for personal or political interests that are detrimental to company shareholders.

Based on the explanation above, the third hypothesis in this research is stated as follows:

H3: Political connections weaken the positive influence of the corporate governance index on firm value.

- **Political connections, related-party transactions, and company value**

According to Pizzo (2013), related-party transactions will hurt company value due to earnings management actions and managers' actions that use company resources for the manager' interests. Habib *et al.* (2017) stated that there is a tendency for controlling shareholders of companies with political connections to take over the resources of minority shareholders for the benefit of political affiliation. This condition will occur more often in countries with weak investor protection and a poor legal environment. Researchers suspect that the political interests of company management also influence the related-party transactions policy at state-owned companies in Indonesia. This allegation is thought to moderate political connections, strengthening the negative influence of related-party transactions on the value of state-owned companies in Indonesia.

Habib *et al.* (2017) found that companies with political connections tend to have more significant related-party transactions compared to companies that do not have political connections. Profit management in this type of company becomes higher to cover the tunnelling activities. Related-party transactions have an opportunistic motive to support complex political transactions, so management prefers to use non-big four auditors to avoid a higher-quality audit process (Habib *et al.*, 2017). Abdel-Fattah *et al.* (2020) explain that political connections will cause related-party transactions to become more prominent, decreasing the company's value.

Referring to Habib *et al.* (2017), Supatmi *et al.* (2019), and Abdel-Fattah *et al.* (2020), researchers suspect that political connections will strengthen the negative influence of related-party transactions on the value of state-owned companies in Indonesia. When related-party transactions are evaluated as a bad thing for the company and can erode the company's value, the existence of political connections between directors and commissioners will cause the company's value to decrease further. Habib *et al.* (2017) stated that extensive political connections will make related-party transactions politically profitable but increase the risk of losses for company shareholders.

Based on the explanation above, the fourth hypothesis in this research is stated as follows:

H4: Political connections strengthen the negative influence of related-party transactions on company value.

➲ Research methodology

■ Research data

The population in this research is all state-owned companies listed on the Indonesia Stock Exchange from 2015 to 2022. The sample for this research is state-owned companies that have met the sample selection criteria. The sampling technique used is purposive sampling, which is a technique for sampling research data using specific criteria determined in advance by the researcher. The sample selection criteria determined by researchers are as follows: 1. State-owned companies listed on the Indonesia Stock Exchange between 2015-2022; 2. State-owned companies in a financially healthy condition, not experiencing capital deficit, and not currently facing financial distress; 3. State-owned companies have complete research data sources in annual reports, audit reports, stock data information, and other sources that suit researchers' data needs.

■ Dependent variable

The dependent variable in this research is company value. Company value is measured by Tobin Q, referring to research by Haj-Salem *et al.* (2020). Tobin Q is measured by the sum of the market value of equity and the market value of liabilities divided by the company's total assets.

■ Independent variable

There are two independent variables in this research, including:

a) Corporate governance index. The corporate governance index in this research was developed based on research by Ararat *et al.* (2017) and Nsour and Al-Rjoub (2022), who developed a 60-point index as an assessment of the implementation of corporate governance. The index items consist of board structure (10 items), board procedures (9 items), disclosure (22 items), ownership structure (6 items), and shareholder rights (13 items). In total, there are 60 corporate governance index items.

b) Related-party transactions. Related-party transactions in this research are measured by the ratio between related-party trade receivables divided by the company's total assets referring to research (Hendratama & Barokah, 2020).

■ Moderating variable

The moderating variable in this research is political connections, that are measured by the percentage of commissioners who have political connections compared to the total number of members of the board of commissioners, according to research by Yusoff *et al.* (2015).

■ Control variable

There are five control variables in this research, namely: 1. Board size. In this research, board size is measured by the number of people who serve on the board of directors of state-owned companies (Werastuti, 2022); 2. Profitability. In this research, profitability is measured by return on assets, respectively a financial ratio that compares the company's profit and total asset (Mule *et al.*, 2015); 3. Leverage. Leverage is a financial ratio that compares the total debt owned with the company's total assets, referring to research by Ismail *et al.* (2022); 4. Company size. In this research, company size is measured by the natural log of total company assets, referring to Kusnadi (2019); 5. Audit quality. Audit quality is measured by a dummy variable, namely 1 if the financial report is audited by a Big Four public accounting firm and a value of 0 if the financial report is audited by another public accounting firm outside the Big Four (Nsour & Al-Rjoub, 2022).

■ Analysis techniques

This research uses several linear regression models as follows:

$$TOBINQ_t = \alpha + \beta_1 ICG_{t\text{-}1} + \beta_2 RPT_{t\text{-}1} + \beta_3 CPOL_{t\text{-}1} + \beta_4 BDS_{t\text{-}1} + \beta_5 ROA_{t\text{-}1} + \beta_6 LEV_{t\text{-}1} + \beta_7 LNSIZE_{t\text{-}1} + \beta_8 BIG4_{t\text{-}1} + \varepsilon \quad (1)$$

$$TOBINQ_t = \alpha + \beta_1 ICG_{t\text{-}1} + \beta_2 RPT_{t\text{-}1} + \beta_3 CPOL_{t\text{-}1} + \beta_4 ICG_{t\text{-}1} \times CPOL_{t\text{-}1} + \beta_5 RPT_{t\text{-}1} \times CPOL_{t\text{-}1} + \beta_6 BDS_{t\text{-}1} + \beta_7 ROA_{t\text{-}1} + \beta_8 LEV_{t\text{-}1} + \beta_9 LNSIZE_{t\text{-}1} + \beta_{10} BIG4_{t\text{-}1} + \varepsilon \quad (2)$$

Information:
$TOBINQ_t$ = Firm value as measured by Tobin Q
ICG_{t-1} = Corporate governance index
RPT_{t-1} = Related-party transaction
$CPOL_{t-1}$ = Political connection
BDS_{t-1} = Board size
ROA_{t-1} = Company profitability
LEV_{t-1} = Leverage
$LNSIZE_{t-1}$ = Firm size as measured by the natural log of total assets
$BIG4_{t-1}$ = Audit quality with dummy variable
β_1-β_6 = Regression coefficient
ε = Standard error

➲ Empirical findings and discussion

■ Descriptive statistics

The following table shows the results of descriptive statistical tests of each research variable.

Table 1. Descriptive statistics

Description	TOBINQ	ICG	RPT	CPOL	BSD	ROA	LEV	LNSIZE	BIG4
Mean	1.17	0.67	0.08	0.21	7.04	0.05	0.62	31.77	0.68
Median	1.04	0.67	0.05	0.20	6.00	0.03	0.65	31.59	1.00
Maximum	2.27	0.75	0.32	0.60	14.00	0.28	0.91	35.23	1.00
Minimum	0.54	0.58	0.00	0.00	3.00	0.00	0.08	29.06	0.00
Standard deviation	0.36	0.05	0.09	0.13	2.43	0.05	0.18	1.64	0.47
Skewness	1.40	0.36	0.84	0.13	1.41	2.13	-0.31	0.52	-0.78
Kurtosis	4.40	2.05	2.46	2.95	4.16	8.73	2.04	2.42	1.61
Observations	135	135	135	135	135	135	135	135	135

Source: Data calculation results by the authors.

Table 1 shows that the number of observation data for each variable is 135. The company variable (TOBINQ) has the smallest value of 0.54. The most significant value is 2.27, with an average of 1.17. The value of state-owned companies has a standard deviation of 0.36 (smaller than the average), which means that the variation and spread of company value data are insignificant. RPT owns the most considerable Tobin Q ratio value.

The corporate governance index variable has the smallest value of 0.58 and the most significant value of 0.75, with an average of 0.67. The corporate governance index has a standard deviation of 0.05 (smaller than the average). The corporate governance index's standard deviation is below the ICG index's average, which means that the corporate governance index has a low level of data variation. The related-party transaction variable has the smallest value of 0.00 and the maximum value of 0.32, with an average of 0.08. The related-party transaction variable has a standard deviation of 0.09 (higher than the average). The standard deviation of related-party transactions has a slightly higher value than the average of related-party transactions, meaning that RPT have varied data levels.

The political connection variable has the smallest value of 0.00. The maximum value is 0.60, with an average of 0.21. The standard deviation value of the political connection variable is 0.13 (smaller than the average). The standard deviation of the political connection index is below the average political connections, which means that the political connection variable has a low level of data variation. Based on 135 state-owned companies' data from 2015 to 2022, this data shows that 82.89% of state-owned enterprises in Indonesia have affiliated political connections in the structure of the company's board of commissioners.

Table 2 below will provide an overview of the correlation between research variables.

Table 2. Correlation matrix

	TOBINQ	ICG	RPT	CPOL	BSD	ROA	LEV	LNSIZE	BIG4
TOBINQ	1.00								
ICG	0.09	1.00							
RPT	-0.34	0.10	1.00						
CPOL	-0.10	0.09	-0.08	1.00					
BSD	0.03	0.34	0.10	0.07	1.00				
ROA	0.55	-0.11	-0.25	0.07	-0.19	1.00			
LEV	-0.40	0.21	0.26	0.11	0.45	-0.53	1.00		
LNSIZE	-0.03	0.40	0.10	0.13	0.89	-0.21	0.51	1.00	
BIG4	0.13	0.14	-0.25	0.01	0.31	0.19	-0.16	0.42	1.00

Source: Data calculation results by the authors.

Table 2 shows the most considerable correlation between board size and company size, with a correlation coefficient of 0.89. A minor correlation between variables occurs between political connections and audit quality, with a correlation coefficient 0.001.

■ Classic assumption test results

All data used in this research have passed the classical assumption test. The results of the data normality test in this study showed a Jarque-Bera value of 0.267, with a p-value of 0.262. The results of the Jarque-Bera test show a p-value above 0.05, so it can be concluded that the data is normally distributed. The autocorrelation test with Durbin-Watson obtained a value of 1.704, which means that in this research model there is no autocorrelation problem. The multicollinearity test shows that all centred VIF values are less than 10, which means that in the regression model there is no multicollinearity problem. The heteroscedasticity test using the ARCH test approach gives a statistical F-value of 0.064, with a p-value of 0.800. Testing the ARCH test gave insignificant results, so it can be concluded that in the regression model used in this research there is no heteroscedasticity problem.

■ Analysis results

The results of the regression test for the first equation and the second equation are presented in the following table.

Table 3. Summary of hypotheses test results

Variable	Model 1			Model 2		
	Coefficient	t-statistic	Probability	Coefficient	t-statistic	Probability
Cons	-0.118	-0.118	0.906	1.022	0.877	0.382
ICG	1.109	2.212	0.029	1.185	1.092	0.277
RPT	-1.068	-3.717	0.000	-2.187	-3.977	0.000
CPOL	-0.442	-2.336	0.021	-0.302	-0.106	0.916
BSD	0.028	1.313	0.191	0.043	1.978	0.050
ROA	3.523	5.920	0.000	3.397	5.776	0.000

Variable	Model 1			Model 2		
	Coefficient	t-statistic	Probability	Coefficient	t-statistic	Probability
LNSIZE	-0.563	-2.951	0.004	-0.528	-2.808	0.006
DBIG4	0.026	0.679	0.498	-0.014	-0.348	0.729
ICG x CPOL	-			-0.925	-0.216	0.830
RPT x CPOL	-			6.077	2.500	0.014
Observation	135			135		
Adjusted R^2	43.34%			45.44%		
Δ Adjusted R^2	-			2.1%		
F-Statistic	13.813			12.162		
Probability F	0.000			0.000		

Source: Data calculation results by the authors.

The regression of the first equation produces a coefficient of determination of 0.4334, which means that 43.34% of changes in the value of state-owned companies on the Indonesia Stock Exchange are influenced by the corporate governance index, related-party transactions, political connections, number of board sizes, ROA, leverage, company size, and quality audits. In the second regression equation, the coefficient of determination increases by 2.1% to 45.44%, which means including the moderating variable can improve the regression capital. Model 1 of the regression equation produces a F-value of 13.813, with a p-value of 0.000, while model 2 produces a F-value of 12.162, with a p-value of 0.000.

The first equation model regression will test the first and second hypotheses formulated in this research. The first hypothesis of this research aims to test the influence of the corporate governance index on the value of state-owned companies in Indonesia. Based on the analysis test results on the regression t-value, the regression model shows that the corporate governance index has a regression coefficient value of 1.109, with a p-value of 0.029. The test results on the corporate governance index provide significant results with a positive regression coefficient, which means that the corporate governance index positively affects the value of state-owned companies on the Indonesia Stock Exchange. The first hypothesis in this study is supported.

The second hypothesis of this research aims to test the influence of related-party transactions on the value of state-owned companies in Indonesia. Based on the regression t-value test results presented in Table 3, the regression model shows that related-party transactions have a regression coefficient of -1.068, with a p-value of 0.000. The test results on related-party transactions provide significant results with a negative regression coefficient, which means that related-party transactions have a negative effect on the value of state-owned companies on the Indonesia Stock Exchange. The second hypothesis in this study is supported.

The second equation regression model tests the third and fourth hypotheses, which will test the role of political connections as a moderating variable. The third hypothesis in this research tests the role of political connections in weakening the influence of the corporate governance index on company value. The second regression equation shows that the interaction between the corporate governance index and political connections gets a regression coefficient of -0.925, with a p-value of 0.830. Testing of the moderating variables gave insignificant results. The third hypothesis in this study was not supported. Political connections are not proven to be a moderating variable that weakens the influence of the corporate governance index on the value of state-owned companies in Indonesia.

The fourth hypothesis in this research tests the role of political connections that strengthen the influence of related-party transactions on company value. The second regression equation shows that the interaction between related-party transactions and political connections gets a regression coefficient of 0.607, with a p-value of 0.014. Testing the moderating variable political connections provides significant results. The fourth hypothesis in this study is supported. Political connections are a moderating variable that strengthens the negative influence of related-party transactions on the value of state-owned companies in Indonesia.

Discussion

Corporate governance and company value

The first results of this research found a positive influence of the corporate governance index on the value of state-owned companies on the Indonesia Stock Exchange. The results of this study are consistent with previous research conducted by Ammann *et al.* (2011), Nazir and Afza (2018), Haj-Salem *et al.* (2020), and Adinegara and Sukamulya (2021), who found a positive influence of corporate governance on company value. The results of this research are based on the explanation of agency theory, where, according to Lehmann (2019), corporate governance is a mechanism that minimizes agency conflicts and harmonizes the interests of various parties in the company. Nsour and Al-Rjoub (2022) explain that corporate governance will have a positive impact on company value due to the optimization of governance functions, such as optimizing the functions of the board of directors and board of commissioners, protecting shareholder rights, increasing supervision and control, and increasing company disclosure. Corporate governance is seen as a commitment and responsibility for healthy state-owned companies' governance, protecting investors, and harmonizing various conflicts of interest within state-owned enterprises. The implementation of corporate governance in state-owned companies in Indonesia has been proven to gain appreciation from investors in the capital market by providing higher company value.

Related-party transactions and company value

The second result of this research found a negative influence of related-party transactions on the value of state-owned companies in Indonesia. The findings of this study are consistent with research of Bona-Sánchez *et al.* (2017) and Zimon *et al.* (2021), who found a negative influence of related-party transactions on company value. These results are consistent with the explanation of agency theory because, according to Tarighi *et al.* (2022), related-party transactions are conditions prone to causing welfare transfers between conflicting parties, which will impact decreasing company value. According to Bona-Sánchez *et al.* (2017), the negative influence of related-party transactions on company value can be interpreted as investors' concerns about the risk of losing resources and the potential for management to gain personal benefits from these related-party transactions.

In the case of state-owned companies in Indonesia, the higher the number of related-party transactions in state-owned companies, the more the value of state-owned companies will decrease. Pizzo (2013) explains that related-party transactions can occur because of weak monitoring mechanisms for company management. Investors interpret high related-party transactions in state-owned companies as increasing the risk of potential earnings management, inappropriate earnings reporting, opportunistic behaviour, potential fraud, and transfer of company resources to inappropriate parties. Information on related-party transactions becomes a negative signal, which causes a decrease in market appreciation of company performance, which causes investors to lower their assessment of state-owned companies. This condition certainly needs to be addressed by company management with more appropriate strategies and policies relating to the company's related-party transactions.

The moderating role of political connections in the influence of corporate governance on company value

The third result of this research found that political connections were not proven to be a moderating variable that weakened the positive influence of the corporate governance index on the value of state-owned companies on the Indonesia Stock Exchange. The results of this study do not support the results of previous research by Mohammed *et al.* (2017), Cheng *et al.* (2015), Hashmi *et al.* (2018), Gul (2006), and Riahi-Belkaoui (2004), who explain that political connections are an aspect that determines the influence of corporate governance on company value. This research has not been able to prove the negative impact of political connections which can weaken the positive impact of corporate governance on the value of state-owned companies in Indonesia.

Researchers try to provide several opinions and explanations about political connections which are not proven to be a moderating variable between corporate governance and state-owned company value. The first opinion refers to the results of the first equation regression test, the researcher assesses that political connections have a direct effect as an independent variable on company value. Testing political connections as a moderating variable did not provide significant results because researchers believe that investors focus more on implementing corporate governance in state-owned companies so that, when corporate governance has been implemented well, investors have high trust in state-owned companies and pay less attention to aspects of political connections. The second opinion is that the Indonesian political system which uses a multiparty system makes information about political figures who are included in the state-owned companies' structure somewhat difficult to read directly. Faccio (2006) explains that the nature and characteristics of political connections in each country are not the same, so that investors' reactions to political connections in the capital market in each country can be different. Indonesia's complex and dynamic political system causes a slow response to information on political connections, so that political connections do not have a moderating effect on the relationship between corporate governance and the value of state-owned companies in Indonesia.

■ The moderating role of political connections in the influence of related-party transactions on company value

The fourth result of this research finds that political connections are proven to be a moderating variable that strengthens the negative influence of related-party transactions on the value of state-owned companies on the Indonesia Stock Exchange. This research supports the research of Abdel-Fattah *et al.* (2020) and Habib *et al.* (2017), which explains that related-party transactions are more significant in companies with political connections. Consistent with research by Ben-Nasr *et al.* (2015), Supatmi *et al.* (2019), and Su *et al.* (2013), political connections in this study were proven to increase the negative influence of related-party transactions on company value. Habib *et al.* (2017) explained that companies with political connections tend to have more significant related-party transactions than companies that do not have political connections. Related-party transactions in companies with political connections are used as tunnelling activities, earnings management, and expropriation of minority shareholder rights by insiders.

Harymawan and Roiston (2022) explain that political connections within a company negatively impact the company's financial performance due to fund-seeking activities carried out by politicians to finance their political interests. In the case of state-owned companies on the Indonesia Stock Exchange, investors assess that related-party transactions in companies with extensive political connections have a higher risk than companies with small political connections. The higher the political connections, the more excellent the opportunity for using related-party transactions to fulfil political interests. RPT becomes an additional burden on the company, increasing the risk of loss for shareholders.

➲ Conclusion

This research examines the influence of the corporate governance index and related-party transactions on company value with political connections as a moderating variable in state-owned companies on the Indonesia Stock Exchange. Based on the analysis and discussion in the previous section, it can be concluded that the corporate governance index positively affects the value of state-owned companies. At the same time, related-party transactions harm the value of state-owned companies on the Indonesia Stock Exchange. Political connections are not proven to be a moderating variable that weakens the positive influence of the corporate governance index on company value but are proven to be a moderating variable that strengthens the negative influence of related-party transactions on company value.

The limitations of this research include the fact that the company sample is only state-owned companies and that the evidence for the moderating variable of political connections is only proven in the influence of related-party transactions on company value. It is recommended that further research be able to develop the object of this research to other companies outside the state-owned company type and develop other types of measurements to measure corporate governance, related-party transactions, and political connections. Further research is recommended to examine other variables that are thought to impact company value, such as company risk disclosure and earnings management.

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