



## Financial Risks, Related Party Transactions and Value of BUMN Companies in Indonesia

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### ABSTRACT

**Purpose :** The research investigates the influence of financial risk on the value of state-owned companies (BUMN) on the Indonesia Stock Exchange with related party transactions as a moderating variable.

**Method :** The population in this research is all state-owned companies listed on the Indonesia Stock Exchange from 2015 to 2022. The sample selection technique uses purposive sampling methods. Data analysis uses regression testing with moderating variables.

**Findings :** The results of this research show that financial risk has a negative effect on the value of state-owned companies in Indonesia. Related party transactions (RPT) have a moderating effect that strengthens the influence of corporate financial risk on the value of BUMN companies.

**Novelty :** The research can prove the role of related party transactions as a moderating variable on the influence of financial risk and the value of BUMN companies.

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### INTRODUCTION

BUMN companies are companies whose shares are owned mainly by the Government of the Republic of Indonesia. In the last eight years, quite a lot of financial scandals have occurred in state-owned companies, including state-owned companies listed on the Indonesian Stock Exchange. The financial scandal involving PT Garuda Indonesia's profit reporting in 2018 and the debt scandal at PT Waskita Karya and PT Waskita Beton Precast in 2016-2022 are evidence of the still weak business governance of BUMN in Indonesia. These two cases remind us that state-owned companies face high business and financial risks. BUMN risk management needs attention from government bodies, academics and capital market regulators (Anton, 2018)

Adiputra (2019) stated that one of the objectives of establishing a state-owned company was to increase sources of state income. The occurrence of various financial scandals in Indonesian BUMN indicates unhealthy business governance, weak internal control and a lack of attention to corporate risk management. BUMN has a high level of security against fraud, inappropriate use of resources, and the risk of other financial irregularities. The Government of the Republic of Indonesia, as the majority shareholder of BUMN, is under intense pressure from the public to improve the performance of BUMN, prevent BUMN from inappropriate interests (such as political interests), and refocus on the function and role of BUMN as a source of state income. Improving BUMN business governance, strengthening internal control, and risk management are central issues in managing BUMN in Indonesia.

Putri & Makaryanawati (2023) explain that the company's primary goal is to increase shareholder income through company value. Good company value can provide high returns for shareholders through dividend payments, high share value, and company retained earnings. State-owned companies in Indonesia also have the same goal, namely improving the welfare of company owners through increasing company value. Pangestuti et al. (2022) explain that when investors make investment decisions, investors will assess all aspects of the company, the aim of which is to assess how to maximize the company's returns in the future. Jagirani et al. (2023) state that one of the company's efforts to improve company performance and value is by managing the company's financial risks.

Jia & Chen (2008) explained that as cases of failure occurred in large companies, the idea emerged to prevent significant failures through corporate risk management. According to Ndicu (2018) and Jagirani et al. (2023), the

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global economic crisis such as that which occurred from 2007 to 2009 made many parties pay attention to financial risks, especially those related to the risk of credit failure or failure to pay company debts. Sahin et al. (2016) explained that financial risk is a crucial component in considering company risk. Using debt in the capital structure will increase financial risk due to increased debt costs, which can lead to financial difficulties and bankruptcy. An increase in financial risk will affect the probability of company profits, which can reduce company value.

This research will examine the influence of financial risk on the value of BUMN companies on the Indonesia Stock Exchange with related party transactions as a moderating variable. Rafique et al. (2020) explained that financial risk shows future uncertainty regarding a company's financial outcomes, which can affect profitability and business targets. Financial risk is the leading risk that has a significant impact on all aspects of the company's finances. Previous research on financial risk was mainly conducted on companies in the financial and banking industry, such as research by Liu & Huang (2022), Olalere et al. (2020), Rafique et al. (2020) and, Jagirani et al. (2023), but there is still relatively little research that examines financial risks in state-owned companies (BUMN).

Adiputra (2019) explains that BUMN has unique characteristics which make BUMN companies attractive to research. The majority share ownership of BUMN is the Government of the Republic of Indonesia, so BUMN business policies follow the direction of state policy and are influenced by political elements of the government. BUMN companies are a type of company with strict regulations (highly regulated) which require BUMNs to comply with various laws and regulations. State-owned companies hold essential and strategic business sectors so that the public pays high attention and demands the performance of state-owned companies. Problems that occur in BUMN, such as fraud and financial irregularities, will increase the negative sentiment of the public towards the Indonesian government. The unique characteristics inherent in BUMN and several financial scandals in BUMN make us interested in researching the financial risk conditions of BUMN companies in Indonesia.

The initial investigation that we carried out found a condition of capital deficit at two state-owned companies in Indonesia, namely PT Garuda Indonesia and PT Waskita Beton Precast. PT Garuda Indonesia experienced a capital deficit for three consecutive years, namely in the 2020 to 2022 financial reports, while PT Waskita Beton Precast experienced a capital deficit for two years, namely in the 2021 and 2022 financial reports. A capital deficit is a condition where the company's total debt is more than more significant than the total equity of the company. Capital deficiency is an unhealthy financial condition of a company and contains very high financial risks for all stakeholders. This phenomenon of capital deficit shows that research on financial risks in state-owned companies is fundamental. High financial risk is predicted to reduce company value.

Factors related to party transactions in state-owned companies are also attractive to research. As a state-owned company, BUMN has a guarantee of easy access to funding from other banks, which may also be a type of BUMN company. The researcher gave an example of a case of fictitious project financing in the Supply Chain Financing documents of PT Waskita Karya and PT Waskita Beton Precast. Several banks that were victims of this financial scandal were state-owned banks and regional banks owned by the provincial government. PT Waskita Karya Tbk and PT Waskita Beton Precast have an exceptional parent and subsidiary relationship. The banking companies that are victims of fictitious project financing are also state-owned banks, which indirectly are banks that have ownership affiliations with the Indonesian government. Research on related party transactions in state-owned companies is very relevant for analysis because several fraud cases have occurred in related party transactions. Through this example, we want to convey that related party transactions can potentially increase BUMN's financial risks. The latest in this research is the examination of related party transactions as a moderating variable that strengthens the negative influence of financial risk on the value of BUMN companies on the Indonesia Stock Exchange. An increase in financial risk is expected to reduce company value; this condition will be more muscular when, at the same time, state-owned companies have high related party transactions.

The grand theory used in developing this research framework is agency theory. Jagirani et al. (2023) explain that agency theory is a theory that is widely used to explain research related to corporate risk management. Business decisions made by company managers can impact agency conflicts between managers and company shareholders. Jensen & Meckling (1976) explain that agency conflicts can be reduced when the analysis of each business risk is carried out correctly so that management decisions are the best in the interests of shareholders.

Roy & Bandopadhyay (2022) explain that financial risks arise related to the existence of future agreements related to contractual company loans. In the context of total risk, financial risk is a risk that the company can manage. Risk management must be able to ensure profitability runs well to ensure efforts to maximize company value. Mistakes in managing a company's financial risks can lead the company to bankruptcy. A company's debt failure affects not only that company but also similar industries and can even cause a country's economic crisis if debt payment failure occurs in all industry categories.

Debt in the composition of a company's capital structure has two opposing approaches. Bhagat et al. (2011) explain that the use of debt can have a positive impact on the company, namely savings on corporate tax aspects and incentives for managers to increase company profits to cover debt costs. Jensen (1986) explains that the use of debt in a company's capital structure is a form of control and supervision of the performance of company managers. If all investments are funded by company equity, there is a tendency for managers to be opportunistic and less careful in using funds because shareholders bear all risks. It is different if the company's investment is funded by debt, where the debt holder monitors the company's management performance, and the manager is pressured to pay the

cost of debt. However, Bhagat et al. (2011) added that high debt harms companies, namely in the form of a high potential for company bankruptcy (Modigliani & Miller, 1958), decreased company sustainability (Bhagat et al., 2011) and decreased company value (Vo & Ellis, 2017).

Roy & Bandopadhyay (2022) explain that the company's aim to increase loan capital is to increase financial leverage, which has an impact on increasing the company's profitability. However, the use of debt in the company's capital structure will increase the company's risk, which impacts the company's cost of capital. When the amount of debt increases, the marginal benefit of debt in the capital structure will decrease. High debt will increase the company's cost of capital and reduce company value. Gul and Goodwin (2010) emphasized financial risk in the company's short-term debt. Short-term debt maturities will be related to the company's liquidity risk and ability to provide cash to pay debts.

Jia & Chen (2008) explain that companies may experience the threat of bankruptcy due to limited resources for parties involved in funding sources. Debt in the capital structure increases the company's financial risk due to the potential for failure to pay debts and company bankruptcy. Olalere et al. (2020) researched the financial risk and value of banking companies in five ASEAN countries. Olalere et al. (2020) found a negative influence of operational risk and interest rate risk on company value. Nam & An (2017) explain that high debt composition in a company's capital structure is a form of default risk and potential bankruptcy. High debt will cause an increase in the risk of bankruptcy, which will cause a decrease in company value.

Pangestuti et al. (2022) explain that concerning company value, business risk will be closely related to the company's sustainability, ability to pay debts, investors' desire to invest in the company, and the company's ability to obtain sources of funds to finance various company activities. An increase in the company's business risk will harm the company's value. Jia & Chen (2008) found a negative influence of financial risk on company value. The higher the company's leverage level, the greater the financial risk the company faces, so the company's value decreases. Based on the trade-off theory of capital structure, Roy & Bandopadhyay (2022) explain that when debt has exceeded the limit of marginal profit over the cost of debt, an increase in debt is an increase in risk, which impacts decreasing company value. Companies must be able to balance the tax benefits of using debt and the risk of increasing company bankruptcy costs. Research by Roy & Bandopadhyay (2022) found a negative influence of financial risk on company value.

Vo & Ellis (2017) found a negative influence of leverage on company value on the Vietnam Stock Exchange. The results of this research are consistent with the pecking order theory presented by Myers (1984), where companies prefer to use internal funding sources with small risks. If funding sources are lacking, then management uses risky external funding sources. An increase in debt is an increase in risk caused by significant debt costs and harms company value. According to Ramadhan & Firmansyah (2022), the financial risks companies face will be related to the risk of bankruptcy. The risk of bankruptcy occurs due to poor company performance and poor cash flow management. Debt policy is also a component of a company's financial risk because a poor debt policy will fail to pay debts, financial difficulties and cause bankruptcy, which, of course, will impact decreasing company performance and value. Based on the explanation above, the first hypothesis in the research is as follows:

#### **H<sub>1</sub>: Financial risk has a negative effect on the value of state-owned companies in Indonesia**

Utama (2015) explains that a related party transaction (RPT), according to the Financial Accounting Standards (PSAK), is a transaction of resources, services, or bonds between related parties, regardless of the price set. Wulandari et al. (2022) explain that related party transactions (RPT) are transactions with related parties such as shareholders, board of directors, and subsidiaries. Hope and Lu (2020) explain that RPT can benefit a company's daily operations by saving transaction costs, increasing operational efficiency, and sharing financial and intangible resources. However, if RPT is misused, it can be hazardous for the company, as happened in the cases of Enron and Adelphia. Even though the amount of RPT is small, if it is misused, RPT can cause severe disruption to the company's business governance (Hope & Lu, 2020).

Hendratama & Barokah (2020) and Utama (2015) state that two points of view are related to related party transactions. The first perspective is based on the conflict of interest hypothesis, explaining that RPT is harmful and detrimental to the company. RPT contains opportunistic behavior that uses RPT to divert company resources for the benefit of company managers and has the potential to harm company shareholders. The second perspective is based on the efficient transaction hypothesis, stating that RPT is a good thing and benefits the company. RPT is considered capable of covering the company's tangible and intangible resource difficulties and enabling the company to obtain transactions at more efficient costs.

Marchini et al. (2018) explain that investors assess related-party transactions as increasing the risk of earnings management actions, which can reduce the quality of financial reports and increase agency costs. Pizzo (2013) explains that related-party transactions have the potential for personal benefits from managers from company business transactions. Hendratama & Barokah (2020) stated that related-party transactions contain elements of opportunistic management behavior that transfer shareholder welfare for the personal interests of company management. Bona-Sánchez et al. (2017) and Enriques (2015) explain that related-party transactions risk potential tunneling activities, namely the transfer of wealth from minority shareholders to controlling shareholders.

Wulandari et al. (2022) explain that from an agency theory perspective, related-party transactions can reduce

**Table 1.** Selection of Research Samples

No	Sample Criteria	Amount
1	BUMN Company with complete financial data 2015-2022	196
2	BUMN Companies with Capital Deficient Conditions	5
3	BUMN Companies with a negative ROA Ratio	21
4	Outlier Data	58
5	Total research observations during 2015-2022	112

Source: secondary data, processed 2023

company value. In countries with a concentrated ownership type, related-party transactions will cause tunneling activities, namely the takeover of the rights of minority shareholders by majority shareholders (type 2 agency). This research mindset places related-party transactions as a bad thing for the company. Hope et al. (2019) explain that RPT can provide managers with personal benefits and harm shareholders. Tarighi et al. (2022) explain that related-party transactions play a significant role in various financial scandals and bankruptcies in large companies. Tarighi et al. (2022) have the potential to reduce the quality of financial reports, increase conflicts of interest, and increase the risk of company bankruptcy.

Suppose financial risk is a factor that causes a decline in company value. In that case, researchers suspect that related-party transactions will strengthen the negative influence of financial risk on company value. Gul & Goodwin (2010) explain that large debt will be directly proportional to the company's financial risk. Ramadhan & Firmansyah (2022) explain that if a company fails to pay debts, the company will face financial difficulties, risk of bankruptcy, decreased performance, and decreased company value. On the other hand, El-Helaly (2018) explains that related-party transactions increase the risk of manipulation of financial report data, which reduces earnings quality. Related-party transactions have the potential for inappropriate use of cash, reducing the welfare of minority shareholders, reducing returns, and reducing company value. Wulandari et al. (2022) and Tarighi et al. (2022) that company value will decrease when the company has high related-party transactions due to the negative impact of RPT on company performance. Referring to several studies, the researcher believes that if financial risk will reduce the company's value, then the existence of related-party transactions will further reduce the company's value. Based on the explanation above, the second hypothesis in this research is as follows:

**H<sub>2</sub>: Related Party Transaction strengthens the influence of financial risk on the value of state-owned companies in Indonesia**

## RESEARCH METHODS

This research uses data from state-owned companies (BUMN) listed on the Indonesia Stock Exchange from 2015 to 2022. The data used in this research comes from annual reports of state-owned companies, audited financial reports of state-owned companies, and company share data obtained from the finance.yahoo.com database. The sample selection in this study used a purposive sampling approach with the following criteria: 1) BUMN companies listed on the Indonesia Stock Exchange in 2015-2022, 2) BUMNs do not experience capital deficit and have positive comprehensive profits, 3) Companies have complete research data as needed research data. The regression equation model for this research is as follows:

$$TOBINQ_t = \alpha + \beta_1 LEV_{t-1} + \beta_2 RPT_{t-1} + \beta_3 ROA_{t-1} + \beta_4 LNSIZE_{t-1} + \beta_5 BIG4_{t-1} + e \dots\dots\dots(1)$$

$$TOBINQ_t = \alpha + \beta_1 LEV_{t-1} + \beta_2 RPT_{t-1} + \beta_3 LEV_{t-1} * RPT_{t-1} + \beta_4 ROA_{t-1} + \beta_5 LNSIZE_{t-1} + \beta_6 BIG4_{t-1} + e \dots\dots\dots(2)$$

Information:

- TOBINQ<sub>t</sub> = Firm value as measured by Tobin Q,
- LEV<sub>t-1</sub> = Leverage,
- RPT<sub>t-1</sub> = Related Party Transaction,
- ROA<sub>t-1</sub> = Company profitability
- LNSIZE<sub>t-1</sub> = Firm size as measured by the natural log of total assets,
- DBIG4<sub>t-1</sub> = Audit quality with dummy variable,
- LEV<sub>t-1</sub> \* RPT<sub>t-1</sub> = Interaction between leverage and related party transaction
- β<sub>1</sub> – β<sub>6</sub> = regression coefficient, and
- e = Standard error.

## RESULTS AND DISCUSSIONS

Table 3 shows the descriptive statistical results of the variables used in the research. Firm Value has an average value of 1.04 with a standard deviation of 0.20. The minimum firm value is 0.54, with a maximum value of 1.66.

**Table 2.** Definition and Measurement of Variables

Variable	Definition	Measurement
Firm Value	Company value is investors' perception of company performance when selling shares on the capital market (Irawati & Komariyah, 2019)	Tobin Q = Market value of company equity plus market value of liabilities divided by total company assets (Ammann et al., 2011)
Financial Risk	Financial risk shows the variability of profits available to shareholders caused by using debt as a financing source (Jia & Chen, 2008).	Leverage = Total debt divided by total company assets (Gul & Goodwin, 2010)
Related Party Transaction (RPT)	Related Party Transaction (RPT) is a transfer of resources, services, or obligations between a reporting entity and related parties, which generally include company executives, directors, commissioners, shareholders, prospective directors, and the central immediate family of the company (Hope & Lu, 2020)	RPT Receivable = Receivables from related parties divided by total company assets (Hendratama & Barokah, 2020)
Profitability	Profitability shows the company's ability to generate profits.	Return on Assets (ROA) = total comprehensive profit divided by total company assets (Mule et al., 2015)
Firm Size	Company size shows the perception of how big a company is from the perspective and analysis of an investor.	Firm Size = Log natural of the Company's Total Assets (Kusnadi, 2019)
Audit Quality	Audit quality shows how well a company carries out the external audit process.	A dummy variable, where a value of 1 is assigned if a Big Four public accounting firm audits the company and a value of 0 if a Non-Big Four public accounting firm audits the company (Nsour & Al-Rjoub, 2022)

Source: secondary data, processed 2023

The standard deviation of firm value is below the average value, meaning that company value has a low level of data variation. PT. Bukit Asam has the highest company value data in the 2017 financial report, while PT. Perusahaan Gas Negara has the lowest company value in the 2015 financial report.

Financial risk proxied by leverage (LEV) averages 0.62 with a standard deviation 0.16. The minimum financial risk value is 0.08, with a maximum value of 0.92. The standard deviation value of financial risk is smaller when compared to the average financial risk, which means that the spread of leverage data as a proxy for financial risk is not significant. PT. Bank Tabungan Negara, in the 2015 financial report data, is the sample with the most significant financial risk, while PT. Kimia Farma in 2018 was a sample of state-owned companies with the slightest financial risk.

Related party transactions have an average value of 0.10 with a standard deviation 0.09. The minimum value for Related party transactions is 0.00, with a maximum value of 0.32. The standard deviation value of related party transactions is lower than the average value, which means that the data variation is also insignificant. In the 2019 financial report data, PT Elnusa was the state-owned company with the most significant number of related party transactions. PT Semen Baturaja in 2015 was the state-owned company with the smallest number of related party transactions.

Table 4 shows the correlation values between the variables used in this research. The most significant correlation between financial risk and company size is 0.56, while the most negligible correlation occurs between financial risk and audit quality at -0.01. The data used in this research has passed all classical assumption tests. The data

**Table 3.** Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
TOBINQ	112	0.54	1.66	1.0406	0.2086
LEV	112	0.08	0.92	0.6284	0.1693
RPT	112	0.00	0.32	0.1062	0.0960
ROA	112	0.01	0.28	0.0427	0.0403
LNSIZE	112	29.06	35.23	31.5156	1.8022
DBIG4	112	0.00	1.00	0.6250	0.4863
Valid N (listwise)	112				

Source: secondary data, processed 2023

**Table 4.** Correlation

	TOBINQ	LEV	RPT	ROA	LNSIZE	DBIG4
TOBINQ	1.00					
LEV	-0.23	1.00				
RPT	-0.30	0.03	1.00			
ROA	0.30	-0.50	-0.16	1.00		
LNSIZE	0.13	0.56	-0.09	-0.27	1.00	
DBIG4	0.18	-0.01	-0.30	0.09	0.50	1.00

Source: secondary data, processed 2023

normality test shows that the results of the One-Sample Kolmogorov-Smirnov test have a p-value of 0.123, which means that this research data meets the assumption of data normality. The results of the multicollinearity test show that all independent variables have a Variance Inflation Factor (VIF) value below 10. Hence, the researcher concludes that the data in the research model does not have multicollinearity problems. The autocorrelation test shows that the calculated Durbin-Watson value is 1.687, meaning there is no autocorrelation problem in the regression model. The heteroscedasticity test in this study used a scatterplot test approach. The scatterplot test shows a pattern of scattered points, and no definite pattern forms regularly, so we can conclude that there is no heteroscedasticity problem in the research model.

$$\text{TOBINQ}_t = -0.178 - 0.444 \text{LEV}_{t-1} - 0.563 \text{RPT}_{t-1} + 1.044 \text{ROA}_{t-1} + 0.049 \text{LNSIZE}_{t-1} - 0.056 \text{BIG4}_{t-1} \dots\dots\dots(3)$$

$$\text{TOBINQ}_t = 0.036 - 0.635 \text{LEV}_{t-1} - 1.834 \text{RPT}_{t-1} + 2.042 \text{LEV}_{t-1} * \text{RPT}_{t-1} + 1.512 \text{ROA}_{t-1} + 3.136 \text{LNSIZE}_{t-1} - 1.057 \text{BIG4}_{t-1} \dots\dots\dots(4)$$

The first research model shows a coefficient of determination value of 0.214, which means that company financial risk, related party transactions, profitability, company size, and audit quality influence 21.4% of changes in company value. 78.6% of changes in company value were influenced by other factors outside the first research regression model. The F value of the first regression equation is 7.044 with a p-value of 0.000, which means there is a simultaneous influence of the independent variable on the dependent variable in model 1 of the regression equation.

The second equation regression model includes an interaction variable between financial risk and related party transactions. In the second model, a coefficient of determination is obtained of 0.237, which means that company financial risk, related party transactions, the interaction of financial risk and related party transactions, profitability, company size, and audit quality influence 23.7% of changes in company value. 76.3% of changes in company value were influenced by other factors outside the first research regression model. The F value of the reg-

**Table 5.** Summary of Hypothesis Test Results

Variable	Model 1			Model 2		
	Coef.	t-Stat	Prob.	Coef.	t-Stat	Prob.
Cons	-0.178	-0.435	0.664	0.036	0.086	0.932
LEV	-0.444	-3.008	0.003***	-0.635	-3.677	0.000***
RPT	-0.563	-2.891	0.005***	-1.834	-2.826	0.006***
RPT*LEV	-	-	-	2.042	2.051	0.043**
ROA	1.044	2.045	0.043**	0.784	1.512	0.134
LNSIZE	0.049	3.295	0.001***	0.047	3.167	0.002***
DBIG4	-0.056	-1.167	0.246	-0.050	-1.057	0.293
Observation	112			112		
Adjusted R2	21.4%			23.7%		
Δ Adjusted R2	-			2.3%		
F-Stat	7.044			6.748		
Probability F	0.000			0.000		

Notes: \*\*\*significant at 0.01 level; \*\*significant at 0.05 level; \*significant at 0.10 level

Source: secondary data, processed 2023

ression for the second equation shows a value of 6.748 with a p-value of 0.000, which means that in the regression model for this second equation, the independent variable also has a simultaneous effect on the dependent variable.

Let us look at the comparison of the coefficient of determination. There is an increase in the value of the coefficient of determination by 2.1% from the first regression model compared to the second regression model. This data means including financial risk interactions and related party transactions improves the research model.

The first regression model aims to test the influence of financial risk on the value of state-owned companies in Indonesia. Based on the results of the regression test, the regression coefficient shows a value of -0.444 with a p-value of 0.003. The test provided significant results, so the researchers concluded that financial risk had a negative effect on company value. The first hypothesis in this study is supported.

The second regression model aims to test the role of related party transactions as a moderating variable that strengthens the influence of financial risk on company value. Based on the test results in the second regression, the interaction between financial risk and related party transactions (LEV\*RPT) produces a regression coefficient of 2.042 with a p-value of 0.043. Testing of the moderating variable provides significant results, which means that related party transactions strengthen the negative influence of financial risk on company value. The second hypothesis is supported.

### **The Effect of Financial Risk on Company Value**

This research proves the negative influence of financial risk on the value of state-owned companies in Indonesia. This research is consistent with the results of previous research conducted by Jia & Chen (2008), Vo & Ellis (2017), Olalere et al. (2020), and Roy & Bandopadhyay (2022), who found a negative influence of financial risk on company value. The results of this research confirm the explanation of agency theory presented by Jensen & Meckling (1976), which explains the trade-off theory of capital structure. Roy & Bandopadhyay (2022) explain that the amount of debt that has exceeded the marginal profit limit on debt will increase the company's financial risk. An increase in financial risk will cause company value to decrease (Olalere et al., 2020).

Gul & Goodwin (2010) stated that large debts cause sizeable short-term debt maturities, so companies face the risk of limited liquidity to pay debts. Jia & Chen (2008) and Sahin et al. (2016) explain that an increase in debt can put a company in a state of financial difficulty and bankruptcy due to limited resources to pay off debt. Vo & Ellis (2017) explain that the negative influence of corporate debt on company value occurs because investors interpret the risk of increasing the cost of corporate debt, which has an impact on various difficulties faced by investors in the future. Investors' negative projections of increasing financial risks and evaluations of the company's prospects cause investors to lower their expectations of the company's value.

This research implies that investors in state-owned companies should be able to advise management to suppress or control the company's debt policy. The debt policy taken by management must achieve marginal profits on debt. Too large a debt will increase financial risk and lead to bankruptcy, causing a decline in company value. An increase in financial risk will reduce the company's value because investors project the challenging conditions faced by the company, the potential for reduced returns on investment, and uncertainty about the sustainability of the company's business in the future.

### **The Role of Related Party Transactions as A Moderation Variable**

This research shows that related party transactions are a moderating variable that strengthens the negative influence of financial risk on the value of state-owned companies in Indonesia. This research confirms the conflict of interest hypothesis presented by Hendratama & Barokah (2020) and Utama (2015), which states that related party transactions are negative for companies. Related party transactions are one of the causes of increasing agency conflicts, both in terms of conflicts between management and shareholders (El-Helaly, 2018) and between controlling and minority shareholders (Wulandari et al., 2022).

Sahin et al. (2016) explain that the risk is that when financial and business risks come together, the company will face the possibility of decreasing profitability, which will impact decreasing company value. Related party transactions (RPT) are a form of company business risk because, according to Marchini et al. (2018) and Hendratama & Barokah (2020), related party transactions have the potential to be a medium for earnings management and other opportunistic actions by company management that can harm shareholders. El-Helaly (2018) and Hope et al. (2019) explain that RPT has become a transaction pattern with great potential to harm managers personally through company cash diversion activities. Related party transactions have been the cause of various financial scandals in large companies (Tarighi et al., 2022) and the transfer of resources from minority shareholders to controlling shareholders (Wulandari et al., 2022).

This research implies that investors should strictly supervise related party transactions carried out by state-owned companies. High missed party transactions will cause company value to decrease. When financial risks are high and related party transactions are high, BUMN companies' value will decrease further. This condition means that many negative impacts must be anticipated for related party transactions, starting from the potential for financial scandals, fraud, decreasing the quality of financial reports, and tunneling activities. Releasing party transactions harms the company's business, causing the company's value to erode. Shareholders can advise the management of state-owned companies to minimize related party transactions so that the profits obtained by the company come

from business transactions with third parties outside the company. The company's profitability figures will better reflect actual business events so that investors can assess the company's value more accurately.

## CONCLUSIONS

Based on the results of the research and discussion in the previous section, we conclude that financial risk has a negative effect on the value of BUMN companies on the Indonesian Stock Exchange. Related party transactions are proven to be a moderating variable that strengthens the negative influence of financial risk on the value of BUMN companies. Based on the results of this research, the researcher advises shareholders to strictly supervise the company's debt policy because a high debt policy increases financial risk and decreases company value. Shareholders should advise company management to reduce total related party transactions because large RPTs will harm the company's business. High related party transactions will prevent investors from assessing the company's value poorly.

Researchers realize that this research has several limitations, which could become opportunities for further research in the future. This research only conducted a study on the types of state-owned companies on the Indonesian Stock Exchange, so the researchers suggest that similar research could evaluate other types of industries on the Indonesian Stock Exchange. This research only measures the risk of state-owned companies in terms of financial risk. The researcher suggests further research to measure company risk using a risk disclosure index so that it can measure company risk more completely. This research only uses one measurement of related party transactions, the researcher suggests that further research can complete the analysis by using several other measurements of the related party transaction type so that the moderating effect on company value can be a more specific study.

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