

## **The Effect Of Related-Party Transactions On The Financial Performance Of The Global Defense Industry**

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### **Abstract**

*The global defense industry is a critical sector that frequently engages in related-party transactions, including payables, purchases, receivables, and sales. These transactions, while legal, can raise concerns about efficiency and transparency, as they have the potential to influence a company's financial performance significantly. Understanding their impact becomes even more essential amid increasing international competition. This study investigates the influence of related-party transactions on the financial performance of defense industry companies, using Return on Assets (ROA) as the primary performance indicator. The research employs panel data regression analysis with the support of the Eviews 13 application. The dataset consists of financial information from 15 companies listed in the Defense News Top 50 Defense Companies during the period 2021–2023. The results show that partially, payables, purchases, receivables, and sales transactions with related-parties do not have a significant influence on ROA. Simultaneously, however, these transactions significantly affect the company's financial performance. Limitations in disclosing related-party transaction data are the main obstacle in this study. For future research, it is recommended to expand the sample coverage and use additional data sources to obtain more comprehensive results.*

**Keywords:** *Global Defense Industry, Related Party Transactions, And Financial Performance*

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## **INTRODUCTION**

According to data from the Indonesian Coordinating Ministry for Political, Legal and Security Affairs, the contribution of Indonesia's domestic defense industry to the fulfillment of national defense equipment needs in 2022 only reached 45.18% (Kemenko Polhukam, 2024). In fact, the target set by the government for that year is  $\geq 50\%$ . This shows that Indonesia's dependence on defense equipment imports is still quite high, because the portion of imports is greater than the contribution that can be fulfilled by the domestic defense industry (Rudini, 2017).

The Indonesian government has taken a strategic step by forming a defense industry holding company known as Defend ID. With a combination of five major SOEs in the sector, including PT LEN Industri as the holding's parent, this initiative aims to increase the strength of the national defense industry. Defend ID is not only aimed at improving capabilities to meet domestic defense needs but also to compete in the global market.

This move is part of a broader vision to increase Indonesia's independence in the defense industry, which directly supports national sovereignty. The government is optimistic that Defend ID has great potential to become 1 of the 50 largest companies in the global defense industry. With full support from the government and strong integration between the SOE entities involved, Defend ID is expected to optimally utilize the latest technology and improve production efficiency to achieve this ambitious goal.

The examination of how related party transactions influence corporate financial performance within the defense industry is particularly pertinent in today's global landscape. This sector is crucial for a nation's defense and security, and various elements, including transactions with related parties and a thorough understanding of market segmentation, can significantly impact the financial outcomes of companies operating in this field.

The global defense sector is characterized by numerous transactions involving related parties, such as owners, shareholders, subsidiaries, affiliates, or other connected entities. These transactions typically encompass payables, receivables, purchases, and sales, all of which can influence a company's financial results. According to the “Top-50 Defense Companies” report by Defense News, many leading firms in this industry engage in substantial related-party transactions that could potentially affect their financial performance assessments.

Previous studies have provided diverse insights into the impact of related-party transactions (RPTs) on corporate financial performance across different industries and regions. Below is a summary of key findings:

- a. RPTs Research in Taiwan & China: Their study revealed contrasting effects of RPTs in high-tech companies in Taiwan and China. In Taiwan, RPTs positively influenced business performance due to their economic benefits, while in China, they had a negative impact attributed to weak supervisory mechanisms (Huang & Liu, 2013).
- b. RPTs Research in Italy: This research found no significant correlation between RPTs and the financial performance of companies listed in Italy, nor evidence of a cause-and-effect relationship (Pozzoli & Venuti, 2014).
- c. RPTs Research in Nigeria: The study showed that RPTs did not significantly affect return on equity (ROE) but had a notable impact on net worth (Chidimma Anastasia & Onuora, 2019).
- d. Research on RPTs in Property Companies in Indonesia: Their findings indicated that sales to related parties positively influenced the financial performance of property companies, while purchases from related parties did not show any significant effect (Herawati et al., 2022).
- e. Research on RPTs in Manufacturing Companies in Indonesia: This research concluded that sales and payables to related parties positively impacted company performance, whereas purchases and receivables did not have a significant effect (Savitri, 2023).

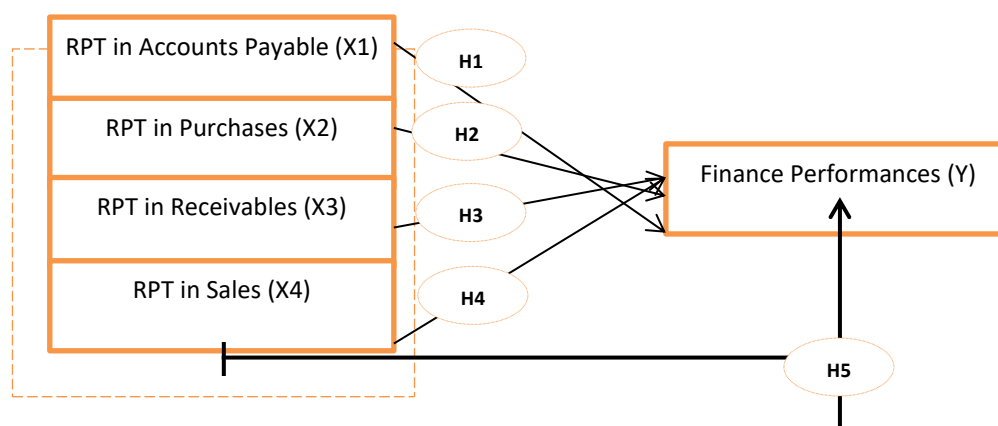
These studies highlight the varied outcomes of RPTs depending on industry, geographic location, and regulatory environments. However, there remains a gap in understanding how RPTs specifically affect companies in the defense industry—a sector characterized by strategic importance and complex financial dynamics.

To address this gap, the current study aims to analyze the influence of RPTs on the financial performance of top global defense companies as listed by Defense News. The research will focus on transactions involving receivables, payables, sales, and purchases with related parties, providing insights into factors contributing to financial success in this competitive sector while offering potential benefits for Indonesia's national defense industry development.

Problem formulation:

- a. How do related-party transactions affect the financial performance of defense industry companies?
- b. How does the interaction between these transactions influence their financial outcomes?

**Figure 1**  
**Framework of Thought**



## RESEARCH METHODS

This research is a comparative causal quantitative research. According to Mulyadi in (Ulum & Yudanto, 2022), quantitative research is a study used to prove the truth of a theory or hypothesis. Then explained comparative causal research is research that finds out about cause-and-effect relationships in which complex variable relationships are distinguished between independent variables and dependent variables. This study uses a regression model, which is a model used to analyze the effect of one or more independent variables on one dependent variable (Paramita et.al, 2016)

The research method for this study involves selecting the population and sample from the Top 50 Defense Companies for 2023, as listed on people.defensenews.com. The data utilized includes financial reports or annual reports from 2021-2023 period. The sample selection techniques employed is Purposive Sampling, which is a non-probabilistic method where participants are selected base on specific criteria relevant to the study's objectives. The sample criteria are as follows:

- Companies listed as Top 50 Defense Companies For 2023 according to people.defensenews.com
- Companies that publish financial reports or annual reports on the company's official website
- The company discloses details of the amount or value of special relationship transactions in the financial statements or annual reports (not in a separate report).
- There are receivables, payables, purchases and sales transactions from or to parties with special relationships.

The relationship between the variables in this study is captured through the following regression model:

$$Y_{ai} = \alpha + \beta_1 RPTPA_{ai} + \beta_2 RPTPU_{ai} + \beta_3 RPTR_{ai} + \beta_4 RPTS_{ai} + \epsilon_{ai}$$

Where:

$Y_{it}$  = Return on Assets (ROA) for company  $a$  in period  $i$

$\alpha$  = constant term

$\beta_1 RPTPA_{ai}$  = Regression coefficient for related-party transactions in Accounts Payable

$\beta_2 RPTPU_{ai}$  = Regression coefficient for related-party transactions in Purchases

$\beta_3 RPTR_{ai}$  = Regression coefficient for related-party transactions in Receivables

$\beta_4$ RPTS<sub>ai</sub> = Regression coefficient for related-party transactions in Sales

$\epsilon_{ai}$  = Error term representing unexplained variance

This study employs a quantitative approach with descriptive statistical techniques to analyze data. As defined by Mulyadi cited in (Ulum & Yudanto, 2022), quantitative research focuses on validating theoretical propositions or hypotheses through empirical evidence. Descriptive statistics, as outlined by Sugiyono (2013), involve summarizing and organizing collected data to identify patterns, trends, and variability without extending conclusions beyond the observed sample. The dataset comprises panel data, integrating:

- Cross-sectional data: Financial metrics from multiple companies.
- Time-series data: Observations spanning three consecutive fiscal years (2021–2023).

For hypothesis testing, panel data regression analysis was conducted using Eviews 13. The methodology follows the structured steps for panel data regression outlined by Basuki (2019), which include model selection, estimation, and diagnostic checks to ensure robustness and accuracy.

Hypothesis testing in this study was carried out with panel data regression using the Eviews 13 application. According to (Basuki, Regression Analysis in Economic & Business Research, 2019) The steps of panel data regression are as follows:

#### 1. Determining or Choosing a Model

To select the most appropriate model to use in managing panel data, there are several tests that can be performed, namely:

##### Step 1 - Chow Test

The Chow test is a test to determine the Fixed Effect or Random Effect model that is most appropriately used in estimating panel data.

##### Step 2 - Hausman Test

The Hausman test is a statistical test to choose whether the Fixed Effect or Random Effect model is most appropriate to use.

##### Step 3 - Lagrange Multiplier Test

To find out whether the Random Effect model is better than the Common Effect (OLS) method, the Lagrange Multiplier (LM) test is used.

#### 2. Classical Assumption Test

After the tested sample meets the model selection criteria, the next step is to perform a classic assumption test. According to Basuki and Prawoto, 2016 in (Yunera, 2018), the classic assumption test used in linear regression is the Ordinary Least Squared approach and in panel data it is sufficient to test Multicollinearity and Heteroscedasticity Test only.

#### 3. Hypothesis Testing Procedure

The hypothesis testing in this study involves three sequential analyses to evaluate the relationship between related-party transactions (RPTs) and financial performance (ROA).

Below is the structured approach:

##### Partial Test (t-Test)

Objective: Assess the individual impact of each independent variable (Accounts Payable, Purchases, Receivables, Sales) on ROA.

Criteria:

**Reject  $H_0$**  (Null Hypothesis) if:

- $t - \text{count} > t\text{-table}$  or
- $p - \text{value} < 0.05$

This indicates the variable has a statistically significant effect on ROA.

**Accept  $H_0$**  if:

- $t - \text{count} \leq t\text{-table}$  or
- $p - \text{value} \geq 0.05$

This suggests no significant influence.

### Simultaneous Test (F-Test)

Objective: Determine whether all RPT variables collectively influence ROA.

Criteria (Ghozali, 2016):

**Reject  $H_0$**  if:

- F-statistic  $F$ -statistic significance  $<0.05 <0.05$ , implying all variables jointly affect ROA.

**Accept  $H_0$**  if:

- F-statistic  $F$ -statistic significance  $\geq 0.05 \geq 0.05$ , indicating no combined effect.

### Coefficient of Determination (Adjusted $R^2$ )

Objective: Measure the proportion of ROA variation explained by the RPT variables.

**Interpretation:**

- A higher **Adjusted  $R^2$**  value (closer to 1) indicates greater explanatory power of the model.
- Unlike standard  $R^2$ , Adjusted  $R^2$  penalizes adding non-significant variables, making it more reliable for multi-predictor models.

### Methodological Workflow

1. Model Selection: Choose between pooled OLS, fixed effects, or random effects using tests like Hausman.
2. Partial Analysis: Identify which RPT variables (payables, purchases, etc.) individually impact ROA.
3. Holistic Analysis: Confirm whether all variables together drive financial performance.
4. Model Fit Assessment: Use Adjusted  $R^2$  to evaluate how well the model captures data trends.

This structured approach ensures rigorous validation of hypotheses while accounting for both individual and combined effects of RPTs.

## RESULT AND DISCUSSION

### Data Collection

The results of data collection conducted by the author by searching for annual financial reports and / or annual reports on the official website of the company targeted as the sample of this study are as follows:

No.	Criteria	Amount
1	Top-50 Global Defense Industry Companies by <i>defensenews.com</i>	50
2	Companies that do not publish their financial statements on the company's website	7
3	Companies that do not disclose details of the amount or value of special relationship transactions in their financial statements or annual reports	28
<b>Number of samples that meet the criteria (1-2-3)</b>		<b>15</b>
<b>Number of years of observation</b>		<b>3</b>
<b>Number of samples (n)</b>		<b>45</b>

A more detailed description of the data that can be collected is as follows:

1. The 7 (seven) companies that did not upload their financial statements on the company's official website are: China North Industries Group Corporation Limited, China South Industries Group Corporation, China Aerospace Science and Technology Corporation, Israel Aerospace Industries Ltd., Saab AB, Rafael Advanced Defense Systems Ltd. and KNDS.
2. The 28 (twenty-eight) companies that do not disclose details of the amount or value of special relationship transactions in their financial statements or annual reports are generally companies domiciled in the United States, namely 25 companies. US companies separate the report on special relationship transactions in a separate compliance report section that requires access or special requests to obtain the information. While the other 3 companies are domiciled outside the US, namely Hanhwa (South Korea), Naval Group (France), and Mitsubishi Group (Japan).

### Empirical Test

After data collection, statistical analysis was conducted using the Eviews application through several stages. The first step is to evaluate the fixed effects model against the common effects model using the Chow test. The Chow test results are presented as follows:

#### The Chow Test Result Table

Redundant Fixed Effects Tests

Equation: Untitled

Test cross-section fixed effects

Effects Test	Statistic	d.f.	Prob.
Cross-section F	2.157838	(14,26)	0.0436
Cross-section Chi-square	34.694706	14	0.0016

The analysis reveals a Cross-section Chi-square probability value of 0.0016, which falls below the 0.05 significance threshold. This outcome demonstrates that the Fixed Effects Model is statistically preferable to the Common Effects Model for this study. To further validate the optimal model choice, a Hausman Test was performed to compare the Fixed Effects Model against the Random Effects Model. Below are the Hausman Test results derived from Eviews:

#### The Hausman Test Result Table

Correlated Random Effects - Hausman Test

Equation: Untitled

Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	12.635037	4	0.0132

The analysis reveals a cross-section random probability value of 0.0132, which is below the 0.05 significance threshold ( $<0.05$ ). This result confirms that the Fixed Effects Model (FEM) is statistically superior to the Random Effects Model for this study. Consequently, there is no need to proceed with the Lagrange Multiplier test, as the combined outcomes of the Chow Test and Hausman Test have already demonstrated a clear preference for the Fixed Effects Model.

### Classical Assumption Test Results

- a. Multicollinearity Test Results

This study conducted a multicollinearity assessment to determine whether strong correlations exist among the independent variables within the regression framework. The presence of multicollinearity can compromise the accuracy of regression coefficients, thereby affecting the validity of the model's interpretations. The outcomes of these classical assumption tests, performed using the Fixed Effects Model (FEM) in Eviews 13, are presented below:

**Table of Multicollinearity Test Results**

	RPTPA (X1)	RPTPU (X2)	RPTR (X3)	RPTS (X4)
RPTPA (X1)	1.000000	0.207546	0.641066	0.540575
RPTPU (X2)	0.207546	1.000000	0.347779	0.435838
RPTR (X3)	0.641066	0.347779	1.000000	0.534821
RPTS (X4)	0.540575	0.435838	0.534821	1.000000

The pairwise correlations between independent variables were evaluated to assess potential multicollinearity. The results are summarized below:

1. Variable X1

Correlation with X2 is 0.207, with X3 is 0.641, and with X4 is 0.540

2. Variable X2

Correlation with X1 is 0.207, with X3 is 0.347, and with X4 is 0.436

3. Variable X3

Correlation with X1 is 0,641, with X2 is 0,348, and with X4 is 0.535

4. Variable X4

Correlation with X1 is 0,541, with X2 is 0,436, and with X3 is 0.535

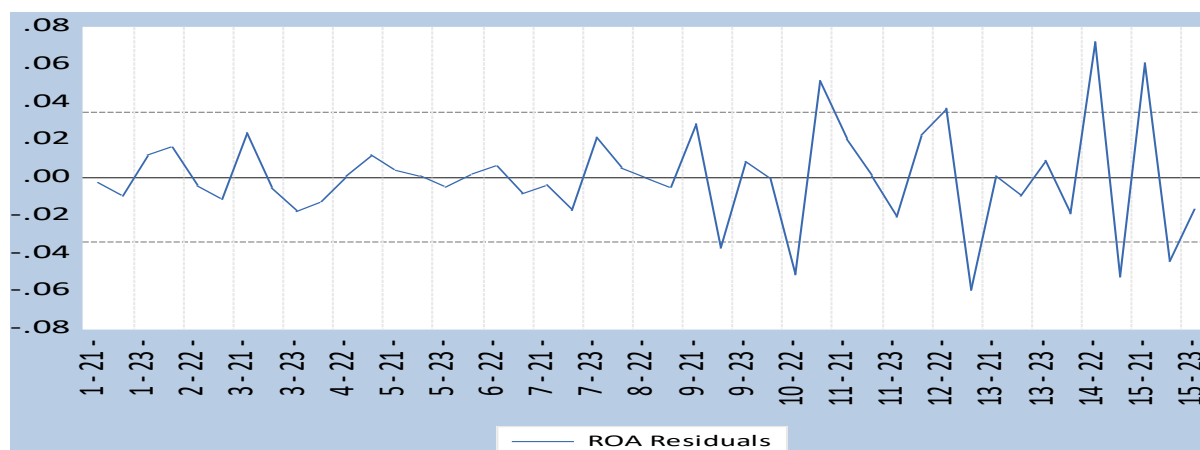
Based on the multicollinearity test conducted, the highest correlation coefficient observed among the independent variables was **0.642**, which is below the thresholds set by various researchers. According to Basuki & Prawoto (2019) a correlation coefficient smaller than **0.85** indicates no multicollinearity, while Susanti (2021), suggests that acceptable correlation values should be below **0.7 or 0.8**. Since the value of **0.642** is less than these thresholds, it can be concluded that there is no multicollinearity problem in this study.

This result ensures that the independent variables in the regression model are not highly correlated with one another, allowing for reliable and unbiased estimation of regression coefficients. As such, the multicollinearity assumption has been fulfilled, validating the integrity of further statistical analyses in this research.

b. Heteroscedasticity Test Results

The heteroscedasticity test aims to assess whether there is a variation in the residuals' variance across different observations within the regression model. When the residuals' variance remains consistent across observations, it is referred to as Homoscedasticity; conversely, when the variance differs, it is termed Heteroscedasticity. An effective regression model should exhibit Homoscedasticity, indicating the absence of Heteroscedasticity (Ghozali, 2016). The findings from the heteroscedasticity test conducted in this study are presented below:

**Figure of Heteroscedasticity Test Results**



The analysis of the residuals from the regression model indicates that the blue line in the residual plot does not cross the boundaries of **500 and -500**. This observation suggests that there are no symptoms of heteroscedasticity present in the data. As a result, it can be concluded that the heteroscedasticity assumption has been satisfied.

Based on the findings from both the **multikollinearity test** and the **heteroscedasticity test**, it can be concluded that the data utilized in this study have successfully met the classical assumption criteria. This validation allows for confidence in the reliability of the regression model used for hypothesis testing.

With the classical assumptions fulfilled, the research can proceed to hypothesis testing, enabling the drawing of meaningful conclusions regarding the impact of related-party transactions on financial performance in the defense industry.

**The Regression Equation Model and Hypothesis Testing Results**

Alongside hypothesis testing, this study also formulates a linear regression equation model represented as follows:

$$ROA = -0,0516 + 0,6379 \cdot RPTPA + 0,3371 \cdot RPTPU - 0,0108 \cdot RPTR + 0,2783 \cdot RPTS + [CX=F]$$

The interpretation of this linear equation is as follows:

1. The constant term of -0.0516 suggests that if all independent variables are set to zero, the dependent variable (ROA) would decrease by -0.0516.
2. The regression coefficient for X1 (RPTPA) is positive (+) at 0.6379, indicating that if other variables remain unchanged and X1 increases by one unit, the value of the dependent variable (ROA) will rise by 0.6379.
3. The regression coefficient for X2 (RPTPU) is also positive (+) at 0.3371, meaning that if the other variables are held constant and X2 increases by one unit, the value of Y (ROA) will increase by 0.3371.
4. The regression coefficient for X3 (RPTR) is negative (-) at 0.0108, suggesting that if other variables are constant and X3 increases by one unit, the value of Y will decrease by 0.0108.
5. The regression coefficient for X4 (RPTS) is positive (+) at 0.2783, indicating that if other variables remain unchanged and X4 increases by one unit, the value of Y will increase by 0.2783.

After determining the appropriate model and confirming that the classical assumption tests have been satisfied, the next phase involves hypothesis testing using panel data regression with the Eviews 13 application. Below are the results from the panel data regression analysis conducted in this study:

Table of Panel	Data Regression		Test Results	
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.051575	0.046702	-1.104343	0.2796
RPTPA	0.637873	0.542264	1.176315	0.2501
RPTPU	0.337063	0.197173	1.709479	0.0993
RPTR	-0.010788	0.070563	-0.152885	0.8797
RPTS	0.278307	0.257849	1.079344	0.2903
Effects Specification				
Cross-section fixed (dummy variables)				
R-squared	0.583406	Mean dependent var	0.041338	
Adjusted R-squared	0.294995	S.D. dependent var	0.041281	
S.E. of regression	0.034661	Akaike info criterion	-3.590506	
Sum squared resid	0.031237	Schwarz criterion	-2.827693	
		Hannan-Quinn criter.		
Log likelihood	99.78638		-3.306137	
F-statistic	2.022826	Durbin-Watson stat	3.285759	
Prob(F-statistic)	0.049411			

The interpretation of the test results above can be explained as follows:

**Partial Test Results:**

- Variable X1 (RPTPA) has a t-count value of 1.176 < t-table of 2.017 and a Prob. (Significance) value of 0.25 or > 0.05. So it can be concluded that Variable X1 does not have a significant partial effect on ROA. Although it does not have a significant effect, debt transactions in special relationships (RPTPA) have a positive regression coefficient of 0.6379 on ROA, which means that if the RPTPA value increases, the ROA value will also increase.  
 This finding differs from the study by Maulita Prima Savitri & Luhgiatno (2022), which found that related-party debt transactions positively impact manufacturing company performance in Indonesia. However, it aligns with the research by Matteo Pozzoli & Marco Venuti (2014) and Osakuni Chidimma Anastasia & Dr. Joshua Onuora (2019), which concluded that related-party transactions do not significantly affect financial performance in Italy and Nigeria, respectively.
- Variable X2 (RPTPU) has a t-statistic value of 1.709 < t-table of 2.017 and a Prob. (Significance) value of 0.099 or > 0.05. So it can be concluded that variable X2 does not have a significant partial effect on ROA. Although it does not have a significant effect, the purchase transaction in a special relationship (RPTPU) has a positive regression coefficient of 0.3371 on ROA, which means that if the RPTPU value increases, the ROA value will also increase.  
 These results are consistent with the findings of Helmi Herawati et al (2022) and Maulita Prima Savitri & Luhgiatno (2022), who found no meaningful relationship between related-party purchases and performance in Indonesian property and manufacturing sectors.
- Variable X3 (RPTR) has a t-statistic value of -0.152 < t-table, namely 2.017 and a Prob. (Significance) value of 0.879 or > 0.05. So it can be concluded that variable X3 does not

have a significant partial effect on ROA, but the negative beta value (-0.152) suggests that receivable transactions with related parties may negatively impact financial performance. In addition, accounts receivable transactions in special relationships (RPTR) also have a negative regression coefficient value of 0.0108 on ROA, which means that if the RPTR value increases, the ROA value will decrease or decrease.

This result aligns with Maulita Prima Savitri & Luhglatno (2022), who found no significant effect of receivable transactions on manufacturing company performance in Indonesia.

4. Variable X4 (RPTS) has a t-statistic value of 1.079 < t-table of 2.017 and a Prob. (Significance) value of 0.29 or > 0.05. So it can be concluded that variable X4 (RPTS) does not have a significant partial effect on ROA. Although it does not have a significant effect, sales transactions in special relationships (RPTS) have a positive regression coefficient value of 0.2783 on ROA, which means that if the RPTS value increases, the ROA value will also increase.

This finding contrasts with studies by Helmi Herawati et al. (2022) and Maulita Prima Savitri & Luhglatno (2022), which reported that sales transactions to related parties positively influence company performance.

#### **Simultaneous Test Results:**

Given that the F-statistic probability yields a value of **0.049**, which is below the significance level of **0.05** (<0.05), the simultaneous test results are somewhat nuanced due to their proximity to the threshold (0.05). Nonetheless, based on this outcome, the researcher infers that the independent variables (X1-X4) collectively exert a significant influence on the dependent variable (Y). This suggests that the composite effect of related-party transactions (involving payables, purchases, receivables, and sales) on company performance is more pronounced and pertinent when considered in conjunction, rather than in isolation.

#### **Test Results of the Coefficient of Determination (Adjusted R-squared)**

The Adjusted R-squared value of **0.2949** indicates that the independent variables collectively account for **29.49%** of the variation in the dependent variable. The remaining **71.51%** is attributed to other factors not analyzed in this study. This highlights the significance of evaluating these independent variables together; even though their individual effects may not be statistically significant, their combined influence on Return on Assets (ROA) is substantial.

## **CONCLUSION**

Based on the test results and discussions discussed in the previous section, the researcher provides the following conclusions:

1. Debt transactions in special relationships (RPTPA) partially have no significant effect on the financial performance of global defense industry companies as measured by Return on Asset (ROA) because the Prob. (Significance) value is 0.25 or > 0.05 so that H0 is accepted and **H1 is rejected**.
2. Purchasing transactions in special relationships (RPTPU) partially do not have a significant effect on the financial performance of global defense industry companies as measured by Return on Asset (ROA) because the Prob. (Significance) value of 0.099 or > 0.05 so that H0 is accepted and **H2 is rejected**.
3. Partial accounts receivable transactions in special relationships (RPTR) do not have a significant effect on the financial performance of global defense industry companies as measured by Return on Asset (ROA) because the Prob. (Significance) value is 0.879 or > 0.05 so that H0 is accepted and **H3 is rejected**.

4. Sales transactions in special relationships (RPTS) partially do not have a significant effect on the financial performance of global defense industry companies as measured by Return on Asset (ROA) because the Prob. (Significance) value of 0.29 or  $> 0.05$  so that  $H_0$  is accepted and **H4 is rejected**.
5. The simultaneous effect of related-party transactions (RPTs), including payables (RPTPA), purchases (RPTPU), receivables (RPTR), and sales (RPTS), on the financial performance of global defense industry companies has been demonstrated to be significant. This conclusion is based on the F-statistic probability value of **0.049**, which is below the 0.05 significance threshold, leading to the rejection of the null hypothesis ( $H_0$ ) and acceptance of the alternative hypothesis ( $H_5$ ). The findings suggest that collectively, these transactions influence financial performance as measured by Return on Assets (**ROA**). Additionally, the linear regression model indicates that RPT practices explain **29.49%** of the variation in financial performance among the Top 50 defense companies listed by Defense News during 2021–2023. This is supported by an Adjusted R-squared value of **0.2949**, with the remaining **70.51%** attributed to other factors not included in this study.

From the conclusion of the research results above, there are several lessons that can be taken by the Indonesian Government to advance the domestic defense industry, namely:

1. Although debt transactions in special relationships do not show a significant effect on the company's financial performance, an increase in debt transactions can still increase Return on Asset (ROA). Therefore, the Indonesian government needs to be more prudent in managing debt transactions in the defense industry, ensuring that debt is used to support sustainable development without adding burdens that can harm the financial performance of domestic defense companies.
2. Although purchase transactions in special relationships do not have a significant effect partially, there is a tendency that an increase in these transactions can improve company performance. This shows the importance of solid relationships with suppliers or related entities in the defense industry supply chain. The Indonesian government should encourage the domestic defense industry to build strategic relationships with key suppliers, especially in terms of purchasing critical components or technology.
3. High receivable transactions in special relationships can potentially lower the financial performance of the company, as seen in global research results. High receivables often reflect cash flow problems that can negatively impact ROA. The government should pay attention to receivables and financial management in the domestic defense industry. Better debt and receivables management practices should be encouraged to improve cash flow efficiency and avoid a decline in financial performance.
4. Similar to debt and purchase transactions, sales transactions in special relationships also do not show a significant effect partially, but there is a positive trend that can increase ROA. This indicates the importance of sales to related parties, especially in the case of contracts or cooperation with entities that have a relationship with the government or related parties. The Indonesian government can take advantage of cooperation between defense SOEs and related entities to increase sales and collaboration in the defense industry, which can have a positive impact on the financial performance of domestic companies.
5. The GOI needs to focus on better management of internal and external transactions in the defense sector. This includes promoting transparency, accountability and efficiency in every transaction made, both with domestic and international related parties, to ensure the sector is stronger and more independent.

These results highlight the importance of managing related-party transactions effectively to optimize their impact on financial performance, particularly in a highly competitive and

regulated sector like defense. However, challenges such as limited disclosure and transparency in RPT data remain significant obstacles.

This study has limitations on the data that can be accessed and presented by global defense industry companies, where only 15 of the 50 companies whose data can be processed. Most companies that do not present data related to special relationship transactions are from the United States, which is due to differences in reporting standards and disclosure regulations. This limitation may affect the generalizability of the research results to the entire global defense industry.

Therefore, for future research it is recommended that it can increase the validity of the data by covering more companies that can be sampled or by using other data sources, such as analyst reports, industry news, or company case studies, in order to help enrich existing data and provide more comprehensive insight into the effect of special relationship transactions on the company's financial performance.

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