



effect of related party transaction on firm value of listed industrial firms in Nigeria

ABRAHAM Peter Tizhe

¹Department of Accounting, Adamawa State University, Mubi

AJAYI Foluke Oloruntoba

²Department of Accountancy, School of Business, Federal Polytechnic Nasarawa
folukeoajayi@gmail.com

Abstract

This study investigates the effect of related-party transactions on the value of listed industrial firms in Nigeria between 2015 and 2024. Related-party transactions comprising loans and advances, borrowings, sales, asset disposals, and loan guarantees play a crucial role in corporate financing and operational efficiency, yet their impact on firm value is varied and context-dependent. Using a longitudinal research design, the study analyses panel data from thirteen industrial firms that remained continuously listed on the Nigerian Stock Exchange during the study period. The Fixed Effects panel regression model, complemented by diagnostic tests, is employed to account for firm-specific characteristics and isolate the effects of different types of related-party transactions on firm value, measured by Tobin's Q. The results indicate that loans and advances, sales, and loan guarantees to related parties positively affect firm value, suggesting that well-managed intra-group transactions enhance liquidity, operational performance, and investor confidence. Conversely, borrowings from related parties and losses from the disposal of assets to related entities are negatively associated with firm value, highlighting the potential risks of overreliance and opportunistic behaviour. These findings underscore that the impact of related-party transactions is contingent on their type and governance. The study concludes that firms can increase shareholder wealth by strategically managing related-party transactions, promoting transparency, and strengthening internal controls. Regulators and policymakers are encouraged to monitor these transactions to prevent misuse and support practices that enhance firm performance. By providing empirical evidence from the Nigerian industrial sector, the study contributes to the understanding of how related-party transactions influence firm valuation.

Keywords: Related-party transactions, Firm value, Tobin's Q,



Introduction

In carrying out daily business activities, transactions may be undertaken between related parties. Such transactions are considered usual and normal in today's trade and commerce. As such, many companies are involved in related party transactions. For instance, a business may assign part of its operating activities to an investor who has significant influence or control over its financial and operating policies. In this situation, the business and the investor become related parties. Related parties may enter into transactions that unrelated parties would not hence, it will affect the profit or loss and financial position of a business entity. For instance, an entity that sells goods to its parent company at a reduced selling price may not sell on those terms to another customer. Borrowing or lending money at an interest rate that differs significantly from the prevailing interest rate may be a result of a related party involvement. It is possible that transactions between related parties may not be made at the same amounts as between unrelated parties (Manaligod, 2012).

Further, even if related party transactions do not occur, the financial position and financial performance may still be affected by the mere existence of the relationship between related parties. For instance, a company may terminate its business relations with a trading partner because it made a substantial investment in a company that is engaged in the same line of business as the former trading partner. Or a business may also be prohibited from engaging in a particular activity by an investor who has a controlling interest in the business. In both cases, the mere existence of a related party relationship wields influence over the activities of a company even without undertaking a business transaction (Manaligod, 2012).

The corporate scandals around the globe have raised considerable concern among regulators and stock market participants about related party transactions, which are often diverse complex business transactions between a company and its managers, directors, or principal owners. As regulators, market participants, and other corporate stakeholders commonly view these transactions, they represent potential conflicts of interest that can compromise management's agency responsibility to shareholders or a board of director's monitoring function. In fact, the



Sarbanes-Oxley law limits the types of related party transactions in which companies can engage, now prohibiting personal loans to executives and directors (Gordon, et al., 2003).

According to Jensen and Meckling (1976), the agency conflict between a manager and outside shareholders show the manager's tendency to appropriate the firm's resources for personal consumption, like perquisites. As such, related party transactions present the potential for the expropriation of the firm's resources. To control potential agency costs, companies can use various corporate governance mechanisms to better align the interests of managers and owners. If related party transactions are conflicts of interest that arise because of the lack of alignment of managers' (or boards') incentives with shareholders, or because of limited internal monitoring, we expect that weaker governance structures will be positively associated with related party transactions (Gordon, et al., 2003).

An alternative view to the conflict of interest hypothesis is that related party transactions are efficient transactions that rationally fulfill the economic demands of a company, such as securing in-depth skills and expertise or providing alternative forms of compensation. For instance, a non-executive director possesses an in-depth knowledge of firm-specific activities as well as an expertise that the company demands such as legal expertise. Then it could be more effective for the company to engage the related party to provide the service than an outsider. Because the non-executive director possesses an in-depth knowledge of the firm, information asymmetries are reduced and contracting enhanced. Not only is the company obtaining needed services, but engaging the director to provide the services can solidify the director's economic bond to the company and escalate the director's commitment. Indeed, many companies report that their contracts with related parties have been made on terms at least as favorable as with unrelated parties (Gordon, et al., 2003).

Based on Feliana (2007) assertion, the related party transactions have two opposite transactions, that is as an opportunist and as an efficient transaction. As opportunistic transactions, related party transactions can cause a conflict of interest. Huang and Liu (2010) also explain that the related party transactions may imply moral risk (moral hazard) and led to a bias in the financial statements.



This will give effect to the relevance and reliability of the financial statements. While companies do not consistently disclose whether or how they monitor related party transactions, the monitoring function naturally falls under the board's responsibilities. Some firms require independent members of the board's audit committee or corporate governance committee to approve related party transactions. Also consistent with the view that related party transactions do not harm the interests of shareholders, arguments have been made that the amount of the transactions is small to the related parties and not material to companies (Gordon, et al., 2003).

Most of the existing does not look at related party transaction based on the individual activities engaged in such as Loan and advances to Related party, borrowing from related party transactions, loss on disposal of assets from related parties transactions, transaction on sale, transaction on purchase but the used dummy variables such as if related party transaction is disclosed are recorded 1 otherwise 0 such as the study of Diab, et al. (2018), Magdalena and Dananjaya (2015) therefore, there is a need to look at the individual variables of related party transaction in the financial statement and how these variables affect firm value which is the aim of this study.

Also, most of the studies were carried out in other nations where the findings cannot be applied in Nigeria most especially industrial firms due to differences in economic activities and the policy affecting business activities in Nigeria. These studies are Chien and Hsu (2010), Tsai, et al. (2015), Huang and Liu (2010), Azim, et al. (2018), Lee (2018) and Diab, et al. (2018) thus, there is a need to investigate these activities in Nigeria industrial firms and how these activities between members of the firms affected their firm value. The specific objectives are to:

- i. determine the effect of Loan and advances to Related party transactions on firm value of listed industrial firms in Nigeria
- ii. investigate the effect of borrowing from related party transactions on firm value of listed industrial firms in Nigeria
- iii. analyse the effect of loss on Disposal of Assets from Related Parties transactions on firm value of listed industrial firms in Nigeria



- iv. examine the effect of sales from related party transaction on firm value of listed industrial firms in Nigeria
- v. evaluate the effect of loan guarantee from related party transactions on firm value of listed industrial firms in Nigeria

Literature Review

Related Party Transaction

According to US GAAP, RPTs are defined as “transactions between a company and its subsidiaries, affiliates, principal owners, officers or their families, directors or their families, or entities owned or controlled by its officers or their families. According to the International Accounting Standards (IAS), RPTs are related parties that can be a person, an entity, or an unincorporated business. This definition has two sections. The first section recognizes “in a person, or a close member of that person’s family, being a related party from the perspective of the reporting entity.” The second section ascertains “in an entity being related to the reporting entity.” Similarly, Gordon, Henry and Palia (2004) explored two alternative perspectives of RPTs. The first views conflict of interest transactions and the second views efficient transactions. First, conflict of interest transactions can be termed as abusive, which is consistent with the agency theory of Jensen and Meckling (1976) and the Model of Berle and Means (1932). This conflict is potentially harmful to shareholder interests (Aharony, Wang & Yuan, 2010; Jiang, Lee & Yue, 2010). Second, the efficient transaction view extends the transaction cost concept developed by Coase (1937) and Williamson (1975) and shows that related party transactions benefit and do not harm shareholders (Chang & Hong, 2000; Jian & Wong, 2010).

According to Huang and Liu (2010), a related party transaction is defined as a transfer of resources, services, or obligations between a reporting entity and a related party, regardless of whether a price is charged. Related-party transactions include, for example, raising capital, acquiring production materials, selling firm outputs, hiring workers, leasing assets, purchasing and divesting assets and signing franchising contracts. The related party can be a person who has control or joint control over the reporting entity; or a member of the key management personnel of the reporting entity or of a parent of the reporting entity. The related party relationship can also arise if one entity and the



reporting entity are members of the same group; both entities are joint ventures of the same third party; one entity is an associate or joint venture of the other entity; or one entity is a joint venture of a third entity and the another entity is an associate of the third entity (Huang & Liu, 2010).

Firm Value

Firm value is the value that a business is worthy of at a particular date hence, it is an economic concept that reflects the value of a business at a particular period of time. In principle, shareholders invest money in a firm by buying shares. In return, they expect the firm to use the provided capital in order to generate a return on the shareholder's investment. According to Van Hoorn and van Hoorn (2011), the faster companies can increase their revenues and deploy more capital at attractive rates of return, the more value they create. Companies can sustain strong growth and high return on invested capital only if they have a well-defined competitive advantage. This is how competitive advantage, the core concept of business strategy, links to the guiding principle of value creation.

The study employed Tobin's Q as the measure of firm value. Tobin's Q is a forward-looking measure, based on the evaluation of investors about the growth and profitability of the firm, and thus influenced by the market mood and accounting practices. It represents the excess value to the replacement value (Bozec, Dig & Bozec, 2010). According to Kapopoulos and Lazaretou (2007), a high Q ratio shows success in the way that the firm has leveraged its investment to develop a company that is valued more in terms of its market value compared to its book value.

Empirical Review

Tsai, et al. (2015) examined the relationship between related party transactions and corporate value for the firms listed on the Taiwan Stock Exchange and in the GreTai Securities Market in Taiwan for the period from 2006 to 2012. The empirical results reveal that through related party sales or purchase transactions, the business groups could offer benefits to their affiliated firms and resolve the problems arising from the imperfections in the markets. Therefore, this study shows that the institutional perspective of business groups is supported and the affiliated firms seem to be propped up and demonstrate higher corporate values. However, when the related party sales of the affiliated



firms are bigger than their related party purchases, the firm value of the affiliated firms is more likely to be lower than those of non-affiliated firms and demonstrates the tunneling motivation of related party transactions.

Azim, et al. (2018) assessed the impact of corporate governance (CG) (independent non-executive directors, family directorship, family ownership) and related party transactions (RPTs) on firm performance in 150 listed Pakistani family-owned firms from 2004 to 2014. Different Panel least-squares Models i.e. Model 1, Model 2 and Model 3 are employed to examine the effect of related party transactions and corporate governance variables on firm performance. It has developed an index of independent non-executive directors (IDI) of family-owned firms comprising three dimensions for measurement of independency of Independent director i.e. composition, financial expertise, and tenure. Results of IDI showed that more than 90% of family-owned firms fall in the lowest category of IDI. This study found empirically that corporate governance variables, particularly the independent director index (IDI) have a positive relationship with firm performance. This shows that Pakistani family-owned firms have a low ratio of independent directors on board. This weaker corporate governance in family-owned firms creates opportunities for Major shareholders who expropriate resources through RPTs. Similarly, this study also found that RPTs in Model 1, Model 2 and Model 3 have a significant relationship with Firm Performance. While it has also been found that RPTs have a positive significant relationship with firm performance. It has also provided empirical evidence to show that both family directors and family ownership are negatively related to firm performance.

Diab, et al. (2018) determined the impact of related party transactions (RPTs) on the firm value of listed companies on the Egyptian stock market using a sample of EGX 30 from 2012 to 2017. Data are collected manually from the company's annual reports. The study found no significant relationship between RPTs and market value. The reported different findings of this study assure the intermediary role of the context and the local culture in the relationship between RPTs and firm value, in contrast to the negative view that is mostly reported in the literature. Despite that the objective of the study was achieved, the finding from Egypt cannot be applied in Nigeria.



Rasheed, et al. (2019) investigated the effect of related party transactions on firm performance based on 2002 firms listed in BSE for the period of 2011–2017 and it shows that RPTs positively affects firm performance. Considering various types of RPTs, total revenue income from related parties and revenue expenses by them positively affect firm performance. Also, the results underline that promoters' holding does not have any interaction effects on the association between RPTs and firm performance. The study from Indian firms cannot be used for proper decision in insurance firms in Nigeria because the data used differ based on the country activities

Agency Theory

The agency theory was developed by Jensen and Meckling (1976) which states the relationship between principals (shareholders) and agents (managers) of the firm. The principal delegates work to an agent. The theory attempts to deal with first, the agency problem where there is a conflict of interests between a firm's managers and firm's stockholders, and second, that the principal and agent settle for different risk tolerances. Therefore, there are two main agency relationships in a firm that are normally in conflicts; those between the firm's managers and stockholders and between the stockholders and the debt-holders. These agency conflicts have implications on corporate governance and business ethics. Such relationships have expensive agency costs that are incurred so as to sustain an effective agency relationship. Incentive fees paid to agents to encourage behavior consistent with the principal's goals are common examples of agency costs (Bowie & Edward, 1992).

One of the ways of reducing agency, problems are debt financing which helps those problems that are normally related to free-cash-flow and asymmetric information problems especially in the case of privately held debt. Secondly, conflicts of interest between managers and shareholders also arise from the divisions between ownership and control. Managerial ownership can align the interests between them and owners, hence; reduce the total agency costs. The relationship between managerial ownership and agency costs is linear and the optimal point for the firm is achieved when the managers acquire all of the shares of the company according to Jensen and Meckling (1976). This is however dependent on the amounts of their equity stakes. The more the investor's stake, the more motivated they are to monitor and protect their investment (Gilson & Lang, 1990).



According to Scott (2006), agency conflict can be expanded into a conflict between majority and minority stockholders. Ryngaert and Thomas (2007) also concluded that the majority of stakeholders will try to absorb all the company profit and financial resources for themselves, an activity known as 'tunneling'. Tunneling activities are organized mainly through related party transactions. Off-the-market transactions usually do not reflect the fair price of the transactions. They lack the appropriate arm's length, a core principle for tax planning and reporting (Jones, 2012). According to Aggrawal and Knoeber (1996), agents such as company managers will highly unlikely venture into behaviors that are strictly profit-maximizing where shareholders are not strictly monitoring their activities. The implication, therefore, is that, if owner-controlled firms are higher performing than manager-controlled firms, the assumption is that the ownership structure of firms provides better monitoring which leads to better performance.

Methodology

The study adopts a longitudinal research design. Longitudinal research designs describe patterns of change and help establish the direction and magnitude of causal relationships between related party transactions and firm value. The population of the study is 13 listed industrial companies on NSE from 2015 to 2024 while filter was used to filter the population and only companies that are listed from 2015 and remain listed to 2024 were used as the sample of the study. The sample list is hereby attached

The technique of data analysis in this study used a panel multiple regression model. This is because the objective of the study is to determine the effect of related party transactions on the firm value of listed industrial firms in Nigeria. And, this technique is effective in providing the cause-effect of independent variables on the dependent variable. Therefore, a panel multiple regression technique was used to determine this relationship between the variables. The study also conducts a test of correlation, variance inflation factor, heteroskedasticity, panel fixed and random model as well as Hausman specification test that enable the selection between fixed or random models. The model for the study is thus:



$$TQ_{it} = \beta_0 + \beta_1 LARP_{it} + \beta_2 BRPT_{it} + \beta_3 LDARPT_{it} + \beta_4 SRPT_{it} + \beta_5 LGRPT_{it} + e_{it}$$

Where:

TQ = Tobins Q

LARP = Loan and advances to Related party

BRPT = Borrowing from Related party transactions

LDARPT = Loss on Disposal of Assets from Related Parties transactions

SRPT = Sales from related party transaction

LGRPT = Loan guarantee from related party

_i = Firm

_T = time

α = Constant term

e = error term

β_1 - β_5 = estimate parameters

Table 1: Variables Measurement

Variables	Symbols	Measurement
Tobins Q	TQ	Measured as a ratio of book value of assets to market values of the assets
Loan and advances to Related party	LARP	Log of total amount of Loan and advances to Related party
Borrowing from Related party transactions	BRPT	Log of total amount of Borrowing from Related party transactions
Loss on Disposal of Assets from Related Parties transactions	LDARPT	Log of total amount of Loss on Disposal of Assets from Related Parties transactions
Sales from related party transaction	SRPT	Log of total amount of sales from related party transaction
Loan guarantee from related party	LGRPT	Log of total amount of Loan guarantee from related party



Result and Discussion

Table 2: Descriptive Statistics

Variables	Obs	Mean	Std. Dev.	Min	Max
TQ (Tobin's Q)	130	1.6942	0.8437	0.5210	4.9023
LARP (Loan & Advances to Related Parties)	130	12.0834	2.1749	8.4500	16.7923
BRPT (Borrowing from Related Parties)	130	11.5930	2.0011	7.9300	15.6621
LDARPT (Loss on Disposal of Assets to Related Parties)	130	9.8274	1.9446	5.1932	13.8851
SRPT (Sales to Related Parties)	130	10.9048	2.2843	6.8215	15.9340
LGRPT (Loan Guarantee from Related Parties)	130	11.0226	2.0917	6.3023	15.5019

Source: Stata, 2025

The descriptive statistics provide insights into the behaviour and distribution of firm value and related party transactions among listed industrial firms in Nigeria over the period 2015 to 2024. The proxy for firm value, Tobin's Q (TQ), has a mean value of 1.6942, suggesting that, on average, industrial firms are valued above their book value. This implies that investors generally place a premium on these companies, likely due to their perceived growth potential or profitable industry positions. The standard deviation of 0.8437 reflects a moderate spread in valuation, indicating that some firms are significantly more valued than others, which is expected in a diverse industrial sector. The minimum and maximum values (0.5210 and 4.9023) further confirm that firm value varies considerably, implying different levels of market confidence across firms.

Regarding related party transactions, the results show substantial financial relationships between firms and their related parties. Loan and Advances to Related Parties (LARP) has a mean of 12.0834, with a relatively wide spread (std. dev. = 2.1749), indicating that some firms provide substantial financial support to related parties, while others do so at a lower level. The minimum and maximum values (8.4500 to 16.7923) reveal significant differences in how firms engage in such financing practices, which may stem from ownership structure, internal governance, or strategic alliances.



Similarly, Borrowing from Related Parties (BRPT) averages 11.5930, signifying that firms also obtain financial backing from their affiliates. The moderate variation (std. dev. = 2.0011) implies that while some firms rely heavily on related party borrowing, others do so minimally. The behaviour of this variable may reflect liquidity considerations, parent-subsidary financing strategies, or attempts to bypass external financing costs.

The average value of Loss on Disposal of Assets in Related Party Transactions (LDARPT) is 9.8274, with a minimum of 5.1932, suggesting that asset disposal to related entities is common, although some firms incur larger losses than others. Since such losses can be intentionally inflated to transfer economic benefits, the variation may reflect strategic earnings management practices.

Sales to Related Parties (SRPT) shows an average of 10.9048, indicating that sales to related parties constitute a material portion of firm transactions. With a relatively high standard deviation (2.2843), it is evident that some firms generate considerable revenue from related entities, while others rely less on such relationships. This suggests sales-related RPTs could significantly influence reported earnings and market valuation. Finally, Loan Guarantees from Related Parties (LGRPT) has a mean of 11.0226, suggesting that related party guarantees play a substantial role in financing decisions. The spread indicates variability in how firms secure guarantees, possibly due to differences in group membership, corporate structure, or ownership concentration.

Table 3: Correlation Matrix

Variables	TQ	LARP	BRPT	LDARPT	SRPT	LGRPT
TQ	1.000					
LARP	0.214	1.000				
BRPT	0.173	0.612	1.000			
LDARPT	-0.098	0.321	0.354	1.000		
SRPT	0.286	0.475	0.428	0.227	1.000	
LGRPT	0.241	0.524	0.587	0.193	0.438	1.000

Source: Stata, 2025



The results reveal that TQ has positive but weak-to-moderate correlations with LARP (0.214), BRPT (0.173), SRPT (0.286), and LGRPT (0.241). These suggest that firms with more related-party loans, borrowings, sales transactions, and loan guarantees tend to have slightly higher market valuations. This may imply that investors sometimes view certain RPTs as value-supporting mechanisms, potentially because they offer financial flexibility and support expansion without strict market constraints. The correlation between TQ and LDARPT is negative (-0.098), though weak, signifying that losses incurred from asset disposal to related parties tend to reduce firm valuation, which aligns with expectations that unproductive or manipulative disposals erode investor confidence.

Among the independent variables, the highest correlation exists between LARP and BRPT (0.612), followed by BRPT and LGRPT (0.587), indicating that firms that extend loans to related parties also tend to borrow from them or receive loan guarantees. These relationships reflect interconnected financing patterns within business groups, subsidiaries, and closely held industrial firms. However, none of the correlations exceed 0.80, indicating no multicollinearity risk that could distort regression estimates.

Table 4: Variance Inflation Factor (VIF) Test for Multicollinearity

Variables	VIF	1/VIF
LARP (Loan & Advances to Related Parties)	2.74	0.3648
BRPT (Borrowing from Related Parties)	3.16	0.3164
LDARPT (Loss on Disposal of Assets to Related Parties)	1.87	0.5348
SRPT (Sales to Related Parties)	2.42	0.4132
LGRPT (Loan Guarantee from Related Parties)	2.95	0.3389
Mean VIF	2.62	

Source: Stata, 2025

The Variance Inflation Factor results reveal that the independent variables in the model do not pose any multicollinearity threat. With a mean VIF of 2.62, and individual VIF values ranging between



1.87 and 3.16, all are well below the commonly accepted thresholds of 5 or 10. This shows that the explanatory variables representing different forms of related party transactions—do not excessively overlap or explain each other.

Table 5: Hausman Specification Test Result

Test Statistic	Value
Chi-square (χ^2)	12.84
Degrees of freedom (df)	5
Prob > χ^2	0.0254

Source: Stata, 2025

Based on the Hausman test result ($\text{Prob} > \chi^2 = 0.0254 < 0.05$), the study accepts the Fixed Effects model as the more consistent and unbiased estimator for analysing the effect of related party transactions on firm value.

Table 6: Regression Result

R-squared (within): 0.412

F-statistic: 9.86

Prob > F: 0.0000

Variable	Coefficient	Std. Error	t-Statistic	p-Value
LARP	0.1184	0.0492	2.41	0.018
BRPT	-0.2073	0.0815	-2.54	0.012
LDARPT	-0.0945	0.0379	-2.49	0.014
SRPT	0.1637	0.0670	2.44	0.016
LGRPT	0.1021	0.0475	2.15	0.034

Source: Stata, 2025



The results of the Fixed Effects regression reveal that the five types of related-party transactions have a collectively significant influence on firm value. This conclusion is supported by the overall F-statistic of 9.86 and a corresponding probability value of 0.0000, which indicates that the model is both robust and well-fitted. The within-firm R-squared value of 0.412 further suggests that approximately 41.2% of the variations in firm value over time are explained by these related-party transactions.

Loans and advances to related parties were found to have a positive and significant impact on firm value. This implies that when firms extend financial support to their related entities, it strengthens the firm's financial position, enhances operational efficiency, and improves market valuation. Investors are likely to view such internal financing arrangements positively, especially when they are managed transparently and effectively.

In contrast, borrowing from related parties exhibits a negative and significant effect on firm value. Firms that rely extensively on loans from related entities may be perceived as financially constrained or dependent, raising concerns about governance and financial risk. As a result, excessive related-party borrowing can undermine investor confidence and reduce market valuation.

Similarly, losses from the disposal of assets to related parties are negatively associated with firm value. Disposing of assets at a loss to related entities may signal poor financial management or opportunistic behaviour, which can erode shareholder wealth. The market tends to interpret such transactions as value-reducing, leading to lower firm valuation.

On the other hand, sales to related parties demonstrate a positive and significant effect on firm value. Revenue generated through related-party sales can improve firm performance by providing stable income streams, leveraging internal synergies, and enhancing operational efficiency. The market perceives such transactions as beneficial and value-enhancing.

Finally, loan guarantees from related parties are positively and significantly related to firm value. Guarantees from related entities help reduce financial risk, improve the firm's creditworthiness, and reassure investors of the firm's stability, all of which contribute to higher market valuation.



Conclusion and Recommendations

The study finds that related-party transactions have a significant and nuanced impact on the value of listed industrial firms in Nigeria. Specifically, loans and advances, sales, and loan guarantees to related parties positively influence firm value, indicating that well-structured intra-group transactions can enhance liquidity, operational efficiency, and investor confidence. Conversely, borrowing from related parties and losses from the disposal of assets to related parties negatively affect firm value, highlighting the risks associated with excessive reliance on related-party debt and opportunistic transactions.

Based on the findings, it is recommended that listed industrial firms in Nigeria carefully manage and strategically structure their related-party transactions to enhance firm value. Companies should prioritise loans, sales, and guarantees that support operational efficiency and liquidity, as these have been shown to positively influence market valuation.

Conversely, firms should exercise caution in borrowing from related parties and in disposing of assets at a loss, as such transactions may signal financial vulnerability or opportunistic behaviour, which can undermine investor confidence and reduce firm value.

To ensure that related-party transactions contribute positively to shareholder wealth, companies should strengthen governance frameworks, enhance transparency in reporting, and maintain rigorous internal controls over such transactions. Regulators and stakeholders should also monitor these transactions to safeguard against misuse and promote practices that enhance firm performance and investor confidence.



References

- Agrawal, A., & Knoeber, C. R. (2012). Corporate governance and firm performance, Chapter 26 in Thomas, Christopher R. and William F. Shughart II, eds: Oxford Handbook in Managerial Economics.
- Aharony, J., Wang, J., & Yuan, H. (2010). Tunneling as an incentive for earnings management during the IPO process in China. *Journal of Accounting and Public Policy*, 29(1), 1-26.
- Azim, F., Mustapa, M. Z., & Zainir, F. (2018). The effects of corporate governance and related party transactions on firm performance among Pakistani family-owned firms. *Arabian Journal of Business and Management Review (Kuwait Chapter)*, 7(2).
- Basalighe, A., & Khansalar, E. (2016). A review of the relationship between corporate financial performance and the level of related party transactions among listed companies on Tehran Stock Exchange. *International Journal of Economics and Finance*; 8(7).
- Berle, A., & Means, G. (1932). *The modern corporation and private property*. New York: Macmillan.
- Bona-Sánchez, C., Fernández-Senra, C. L., & Pérez-Alemán, J. (2017). Related-party transactions, dominant owners and firm value. *BRQ Business Research Quarterly*, 20(1), 4-17.
- Bozec, R., Dia, M., & Bozec, Y. (2009). Governance-performance relationship: A reexamination using technical efficiency measures. *British Journal of Management*, Published online.
- Campbell, J. L., & Yeung, P. E. (2013). Does stock price contagion reflect the information in earnings management contagion? *Working Paper*. University of Georgia and Cornell University.
- Chang, S. J., & Hong, J. (2000). Economic performance of group-affiliated companies in Korea: Intragroup resource sharing and internal business transactions. *Academy of Management Journal*, 43(3), 429-448.
- Chen, Y. M., & Chien, C. Y. (2007). Monitoring mechanism, corporate governance and related party transactions.
- Chen, Y., Chen, C. H., & Chen, W. (2009). The impact of related party transactions on the operational performance of listed companies in China. *Journal of Economic Policy Reform*, 12(4), 285-297.
- Cheng, M., & Leung, N.W. (2014). Ownership structure, ongoing related party transactions and corporate performance: evidenced from Chinese listed firms. *Corporate Ownership & Control*, 11(2).
- Cheung, Y. L., Rau, P. R., & Stouraitis, A. (2006). Tunneling, propping, and expropriation: evidence from connected party transactions in Hong Kong. *Journal of Financial Economics*, 82(2), 343-386.
- Chien, C. Y., & Hsu, J. (2010). The role of corporate governance in related party transactions. Available at SSRN: <https://ssrn.com/abstract=1539808> or <http://dx.doi.org/10.2139/ssrn.1539808>.
- Claessens, S., Fan, J.P.H., & Lang, L.H.P. (2006). The benefits and costs of group affiliation: evidence from East Asia. *Emerg. Mark. Rev.*, 39(4), 7, 1-26.
- Coase, R. H. (1937). The nature of the firm. *economica*, 4(16), 386-405.
- Diab, A., Aboud, A., & Hamdy, A. (2018). The impact of related party transactions on firm value: Evidence from a developing country.



- Fama, E.F., & French, K.R. (1997). Industry costs of equity. *Journal of Financial Economics*, 43, 153-93
- Fan, J. P. H., & Goyal, V. K. (2006). On the patterns and wealth effects of vertical mergers. *Journal of Business*, 79(2), 877-902.
- Feliana, Y. K. (2007). Pengaruh struktur kepemilikan perusahaan dan transaksi dengan pihak-pihak yang memiliki hubungan istimewa terhadap daya informasi akuntansi. *simposium nasional akuntansi*.
- Fisman, R., & Khanna, T. (2004). *Facilitating development. The role of business groups*. World Development, 32(4), 609-629.
- Gilson, S. C., John, K., & Lang, L. H. P. (1990). Troubled debt restructurings. An empirical study of private reorganization of firms in default.
- Gordon, E. A., Henry, E., & Palia, D. (2003). Determinants of related party transactions and their impact on firm value. *International Journal of Science*, 4 (1)
- Gordon, E., & Henry, E. (2005). Related party transactions and earnings management.
- Huang, D., & Liu, Z. (2010). A study of the relationship between related party transactions and firm value in high technology firms in Taiwan and China. *African Journal of Business Management*, 4(9), 1924-1931.
- Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of financial economics*, 3(4), 305-360.
- Jian, M., & Wong, T. J. (2010). Propping through related party transactions. *Review of Accounting Studies*, 15(1), 70105.
- Jian, M., & Wong, T.J. (2004). Earnings management and tunneling through related party transactions: evidence from Chinese corporate groups. *Annual Conference Paper, American Accounting Association*.
- Jiang, G., Lee, C. M., & Yue, H. (2010). Tunneling through intercorporate loans: The China experience. *Journal of Financial Economics*, 98(1), 1-20.
- Johnson, S., Boone, P., Breach, A., & Friedman, E. (2000a). Corporate governance in the Asian financial crisis. *Journal of Financial Economics*, 58, 141–186.
- Jones, S. (2012). *Principles of Taxation for Business and Investment Planning 14th edition*. New York: McGraw Hill.
- Kapopoulos, P., & Lazaretou, S. (2007). Corporate ownership structure and firm performance: evidence from Greek firms. *Corporate Governance: An International Review*, 15(2), 144-158.
- Khanna, T., & Palepu, K. (1997). Why focused strategies may be wrong for emerging markets. *Harvard Business Review*, 75(4), 41-51, 1997.
- Khanna, T., & Palepu, K. (2000). Is group affiliation profitable in emerging markets? An analysis of diversified Indian business groups. *The Journal of Finance*, 55(2), 867-891.
- Lee, J. M. (2018). Non-linear relationships among related party transactions, financial characteristics, corporate governance, and corporate value – Analysis of high-growth and low-growth food firms. *Agricultural Economics- Czech*, 65(3), 123-132
- Liew, C. Y., Alfian, E., & Devi, S. S. (2014). Family firms, expropriation and firm value: evidence from related party transactions in Malaysia. *Proceedings of the Australian Academy of Business and Social Sciences Conference (in partnership with The Journal of Developing Areas)*.



- Magdalena, R., & Dananjaya, Y. (2015). Effect of related parties' transactions to the value of enterprises listed on Indonesian Stock Exchange. *European Journal of Business and Management*, 7(6).
- Manaligod, G. T. (2012). Related Party Transactions. *American International Journal of Contemporary Research*, 2(5)
- Osakuni, C.A., & Joshua, O. (2019). Effects of related party transaction on financial performance of companies, evidenced by study of listed companies in Nigeria. *International Journal of Economics and Financial Management*, 4(3).
- Pozzoli, M., & Venuti, M. (2014). Related party transactions and financial performance: Is there a correlation? Empirical evidence from Italian listed companies. *Open Journal of Accounting*, 3, 28-37.
- Pratama, A. (2018). Do related party transactions and tax avoidance affect firm value? *Review of Integrative Business and Economics Research*, 7(1)
- Rasheed, A. P. C., Mallikarjunappa, T., & Thomachan, K. T. (2019). Promoter ownership, related party transactions and firm performance: A study among select companies in India. *FIIB Business Review*, 1-13
- Ryngaert, M., & Thomas, S. (2007). Related Party Transactions: Their Origins and Wealth Effects. Social Science Research Network.
- Ryngaert, M., & Thomas, S. (2012). Not all related party transactions (RPTs) are the same: Ex ante versus ex post RPTs. *Journal of Accounting Research*, 50(3), 845-882.
- Scott, W. R. (2006). Financial Accounting Theory 6th edition. New York: Prentice Hall.
- Shin, H., & Park, Y.S. (1999). Financing constraints and internal capital markets: Evidence from Korean 'chaebols. *Journal of Corporate Finance*, 5, 169-191.
- Tambunan, M. E., Siregar, H., Manurung, A. H., & Priyarsono, D. S. (2017). Related party transactions and firm value in the business groups in the Indonesia stock exchange. *Journal of Applied Finance & Banking*, 7(3), 1-20
- Tsai, C., Chang, L., & Chang, Y. (2015). Related party transactions and corporate value. *Journal of Economics, Business and Management*, 3(10).
- Umobong, A. (2017). Related party transactions and firm's financial performance. *An international multi-disciplinary Journal, Ethiopia Afrrev*, 11(1), 60-74.
- Wang, W. K. (2010). Insider trading. Oxford Press.
- Williamson, O. E. (1975). Markets and hierarchies. New York, 26-30.
- Wong, T., & Jian, M. (2003). Earnings Management and Tunneling through Related Party Transactions: Evidence from Chinese Corporate Groups. *Social Science Research Network*.