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Article

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Related party transactions and firm value: The moderating role of corporate social responsibility reporting



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ABSTRACT

This study investigates the influence of related party transactions (RPTs) on firm value. Further, it examines whether a firm's corporate social responsibility (CSR) reporting reflects its corporate values and ethical concerns, therefore mitigating the value-destroying effects of RPTs. Based on 274 observations from publicly listed firms in Indonesia, our results show that RPTs (i.e., related party sales) are negatively related to firm value. Further, we find that in the presence of better CSR reporting, the relationship between RPTs and firm value becomes more positive. This is in line with the view that CSR reporting, which reflects firms' ethical concerns, may serve as a mechanism against managers' opportunism. However, we find that related party payables have a positive relationship with firm value. Further investigation reveals that, although certain RPTs show a short-term, value-enhancing effect, these transactions seem to result in subsequent tunneling activities, suggesting managerial opportunism in the long term. © 2020 Sun Yat-sen University. Production and hosting by Elsevier B.V. This is an open access article under the CC BY-NC-ND license (<http://creativecommons.org/licenses/by-nc-nd/4.0/>).

1. Introduction

Transparency is an important topic in areas such as management, finance and public relations, and it is essential to enhancing stakeholder trust in a firm (Hultman and Axelsson, 2007; Albu and Flyverbom, 2016; Schnackenberg and Tomlinson, 2016). The disclosure of information is particularly important to minimize information asymmetry, to meet the information needs of external stakeholders and to develop trust. Armitage and Marston (2008) find that managers are motivated to provide greater voluntary disclosure transparency because they want to ensure firms' reputation for openness and shareholders' confidence, which may

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result in a higher share price or other commercial benefits. Nevertheless, as firms in many Asian countries are generally characterized by a highly concentrated ownership structure (OECD, 2017) and with concern regarding agency conflict shifting toward the conflict of interest between majority and minority shareholders (Shleifer and Vishny, 1997), insiders of highly concentrated firms (i.e., managers or directors and controlling owners) with better bargaining positions and better access to information have the ability and power to appropriate minority shareholders' interests. One method for such expropriation is related party transactions (hereinafter, "RPTs").

There are two opposing viewpoints regarding RPTs. The first view considers RPTs as potentially opportunistic as they may be used by insiders to maximize self-serving interests at the expense of other shareholders (Gordon et al., 2004; Cheung et al., 2006; Kohlbeck and Mayhew, 2010). However, the second view considers RPTs as potentially efficient as they may provide benefits to firms through a simplified negotiation process, lower transaction costs (Gordon et al., 2004), strategic partnership, risk sharing and the facilitation of contracts (Kohlbeck and Mayhew, 2010).

Some prior studies suggest that firms operating under better ethical concerns, as reflected by their corporate social responsibility (CSR), tend to have less opportunistic behavior (e.g., Garriga and Melé, 2004; Kim et al., 2012; Scholtens and Kang, 2013). Nevertheless, whereas Kim et al. (2012) find that firms that are considered to be socially responsible tend to be more transparent, to have more reliable financial reporting and to be less likely to manipulate reported earnings, another view is that firms may use CSR reporting to conceal corporate misconduct based on opportunistic incentives (Muttakin et al., 2015). Accordingly, using a sample of 274 observations from firms listed in Indonesia, this study investigates whether RPTs enable manager opportunism or efficiency and whether CSR reporting mitigates opportunistic or value-destroying RPTs.

Studies suggest that RPTs in Indonesia are potentially abusive and may lead to the expropriation of wealth by controlling shareholders (Utama and Utama, 2009; Sari and Baridwan, 2014). In addition, Indonesian firms are characterized by high ownership concentration (La Porta et al., 1998; Carney and Child, 2013; Utama et al., 2017). Therefore, conflicts of interest between majority and minority shareholders are more likely to arise. Further, investor protection in Indonesia is still relatively weak compared with other countries (La Porta et al., 2006; Barokah, 2013). Although OJK, then BAPEPAM-LK, has tightened the rules to mitigate opportunistic RPTs, it cannot truly cover all such transactions (Utama et al., 2017).¹ Rule number IX.E. I excludes the obligation to disclose RPTs in relation to a firm's main business activities. However, prior studies argue that such transactions are potentially abusive and thus require more transparency for users of financial statements (Cheung et al., 2006, 2009).

Our findings indicate that concerns about RPTs being both value destroying and value enhancing are warranted. Specifically, this study finds that related party sales are negatively related to firm value. This implies that because the fairness of RPT prices may be doubtful, the market may perceive related party sales as opportunistic and less credible than other sales. However, in the presence of more CSR reporting, the relationship between related party sales and firm value becomes more positive. This finding indicates that ethical concerns may drive firms to be less opportunistic and that CSR reporting reflects firm's incentives to be trustworthy and ethical. Moreover, the relationship between related party payables and firm value is positive, suggesting that the market perceives related party payables as beneficial to listed firms. Interestingly, although these transactions show a short-term, value-enhancing effect, they seem to result in subsequent tunneling activities.

This study makes a number of contributions. First, although CSR has received public attention worldwide, there are relatively few empirical studies on CSR in the context of developing countries, such as Indonesia. This study provides evidence regarding whether RPTs in Indonesia are opportunistic or efficient. Second, this study provides evidence regarding whether ethical concerns drive firms to engage in value-enhancing RPTs instead of opportunistic RPTs. Third, this study sheds light on how CSR reporting affects other corporate behavior besides earnings management and financial performance, namely RPTs. Fourth, this study may be useful to current and potential investors making investment decisions. In particular, as the results confirm the view that firms with more CSR reporting are less likely to behave opportunistically, investors can be assured that resources provided to such firms will be managed efficiently. Lastly, in light of CSR reporting,

¹ BAPEPAM-LK, *Otoritas Jasa Keuangan (OJK)*, is the regulator of Indonesia's capital market.

the findings of this study may help regulators and policymakers better understand firms' business practices and the motives for using RPTs and CSR reporting.

The remainder of this paper is organized as follows: [Section 2](#) presents a literature review and the research hypotheses. [Section 3](#) discusses the study's research design. [Section 4](#) presents and discusses the results. [Section 5](#) provides additional analysis on the potential occurrence of subsequent tunneling. [Section 6](#) summarizes the key findings and provides conclusions.

2. Literature review and hypotheses

There are two alternative viewpoints about RPTs: The first considers them to be abusive (opportunistic) transactions, whereas the second view considers them to be efficient ([Gordon et al., 2004](#)). [Kohlbeck and Mayhew \(2017\)](#) suggest that RPTs contain potential self-dealing between directors, material owners, officers and investors. Several studies support this view and suggest that as RPTs can be an indicator of agency problems, investors consider them to be opportunistic (e.g., [Jian and Wong, 2004](#); [Cheung et al., 2006](#); [Kohlbeck and Mayhew 2010](#)). As insiders of highly concentrated firms, such as managers, directors and controlling owners, have better access to information, they are in a better bargaining position than outsiders, such as non-controlling (minority) shareholders and corporate creditors. Consequently, expropriation by insiders against outsiders' interests are more likely to occur. In such a setting, [La Porta et al. \(1999, 471\)](#) argue that controlling owners tend to have more power to expropriate minority shareholders' interests.

Several other studies, however, argue that RPTs can be beneficial as they may result in saving transaction costs and improving a firm's resource utilization ([Chang and Hon, 2000](#); [Chen et al., 2009](#); [Chien and Hsu, 2010](#)). Accordingly, RPTs do not necessarily represent transactions based on fraudulent or deceptive purposes. Instead, RPTs may represent ordinary trade and business activities ([Wong et al., 2015](#)). Studies indicate that socially responsible firms tend to be more trustworthy and are more likely to engage in ethical operating decisions. [Kim et al. \(2012\)](#) and [Scholtens and Kang \(2013\)](#) find that socially responsible firms are less likely to engage in earnings management. Similarly, [Bénabou and Tirole \(2010\)](#) argue that CSR can reduce the likelihood of short-term opportunistic behavior by managers. [Gao et al. \(2014\)](#) contend that executives of socially responsible firms are less likely to engage in trading prior to news announcements and profit significantly less from insider trading. Consequently, it is expected that, on the basis of ethics, firms that are perceived as socially responsible are less likely to engage in opportunistic behavior such as value-destroying RPTs; although studies also suggest that firms may be presenting socially responsible behavior to shift stakeholders' focus ([Salewski and Zülch, 2014](#); [Muttakin et al., 2015](#)).

Related party sales are undertaken to improve resource allocation efficiency ([Wong et al., 2015](#)). However, as the prices charged in related party sales transactions may be unfair compared with industry average prices ([Kang, et al., 2014, 277](#)), expropriation may occur. Therefore, RPTs allow shifting earnings between firms, particularly from listed firms to their related parties ([Cheung et al., 2006](#)). Several studies have explored the relationship between related party sales and market reactions and contend that the market responds less positively to related party sales transactions (e.g., [Jian and Wong, 2004](#); [Cheung et al., 2009](#)). Specifically, in the Chinese context, [Aharony et al. \(2010\)](#) find an association between tunneling in the post-IPO period and upward earnings management through abnormal related party sales in the pre-IPO period. Further, although there may be indications that related party purchases may be conducted at prices higher than independent transactions, studies argue the value-enhancing effect of related party purchases. [Chen et al. \(2009\)](#) argue that RPTs may lower transaction costs, which may in turn improve operational performance and maximize profit. In the same way, [Tambunan et al., \(2017\)](#) provide evidence of the value-enhancing effect of related party purchases, although only in the short term. Accordingly, the following hypotheses are proposed:

H1a. Related party sales negatively influence firm value.

H1b. Related party purchases positively influence firm value.

Prior studies by [Jiang et al. \(2010\)](#) and [Tambunan et al. \(2017\)](#) argue that controlling shareholders may expropriate through related party receivables transactions as they may affect a firm's productive assets and firm value negatively. Stated differently, transactions that involve the payment of cash to related parties (in-

cluding loans and cash assistance) are likely to result in the expropriation of minority shareholders' interests (Cheung et al., 2006). Hence, it is expected that the higher the related party receivables, the worse the firm value. In contrast, cash assistance or loans received from listed firms from related parties are likely to benefit non-controlling shareholders (Cheung et al., 2006, 358). Unsurprisingly, listed firms that are in severe financial difficulty generally receive cash assistance from related parties. Accordingly, we test the following hypotheses:

H1c. Related party receivables negatively influence firm value.

H1d. Related party payables positively influence firm value.

This study further investigates whether CSR reporting, as the reflection of a company's ethical concerns, can explain the negative relationship between a firm's CSR and corporate opportunistic behavior. As pointed out by Kim et al. (2012) and Scholtens and Kang (2013), a firm's CSR generally has an inverse relation to its earnings management. Although this study focuses on the ethical implications of CSR, other motivations might also explain a negative relation between CSR and opportunistic behaviors. Several studies (Verschoor, 2005; Linticum et al., 2010; Choi and Moon, 2016) argue that as social responsibility may provide positive signals regarding a firm's reputation, firms that value their reputation want to protect it, and therefore, they avoid socially unacceptable activities that may potentially damage their reputation.

In contrast, although ethical and reputational motivations for CSR may explain a negative association between CSR and corporate opportunistic behaviors, other studies argue the opposite. For example, Prior et al. (2008) argue that firms may use CSR to overshadow their value-destroying practices. Similarly, Muttakin et al. (2015) contend that CSR reporting may be used to divert stakeholders' attention and reduce the likelihood of opportunistic practices being scrutinized. Accordingly, if firms engage in CSR reporting in the context of a moral imperative, firms may be less likely to engage in value-destroying (opportunistic) RPTs and more likely to engage in value-enhancing (efficient) RPTs. Nevertheless, if firms engage in CSR reporting to disguise value-destroying practices as a means to pursue self-interest, then firms are likely to engage in value-destroying RPTs. Thus, this study proposes the following hypotheses:

H2a. CSR reporting moderates the relationship between related party sales and firm value.

H2b. CSR reporting moderates the relationship between related party purchases and firm value.

H2c. CSR reporting moderates the relationship between related party receivables and firm value.

H2d. CSR reporting moderates the relationship between related party payables and firm value.

3. Research design

We tested the hypotheses by using multiple regression analysis. The required data are collected from the Indonesia Stock Exchange (IDX) website and BvD Osiris database. Data on RPTs and CSR are hand-collected from annual reports.

3.1. Sample selection

This study includes firms listed on the IDX in 2014 and 2015 because the first phase of the IFRS convergence process in Indonesia was completed in 2012, and the second phase was completed in 2015.² This

² The first phase of the IFRS convergence process in Indonesia was completed in 2012; in this phase the Financial Accounting Standards Board (i.e., DSAK) endorsed 35 financial accounting standards (PSAKs) adopted from IFRS, including PSAK 7 Related Party Disclosures (Maradona and Chand, 2018; Ikatun Akuntan Indonesia, 2012). PSAK 7 was then adjusted in 2014 and amended in 2016 (effective January 1, 2016). Based on the timeframe of adjustment and amendment to PSAK 7 Related Party Disclosures, we choose 2014–2015 to have a consistent applicable standard on related party disclosures (i.e., the period before the standard was amended) (Ikatun Akuntan Indonesia, 2015).

progress is essential to enhance the quality of Indonesian accounting standards and to convince external stakeholders of the quality of the financial reporting practices of Indonesian firms. The study sampling method includes the following criteria: (1) the firm must issue an annual report; (2) it must not be part of the financial industry; (3) its accounting cycle must end on December 31; (4) it must not have negative book value of equity; (5) it must engage in RPTs; and (6) it must disclose social responsibility activities.

3.2. Variables and research models

The independent variables include four types of RPTs. Following previous studies (Cheung et al., 2006, 2009; Chen et al., 2009), this study uses related party sales (*RP_Sales*), purchases (*RP_Purchases*), receivables (*RP_Rec*) and payables (*RP_Pay*). Each type of RPT is measured by the total of transactions (i.e., sales, purchases, receivables, and payables) scaled by total assets. Firm value is measured by Tobin's q and PBV. Subramanyam (2014, 628) and Ahmad and Jusoh (2014, 480) contend that accounting-based valuation methods are more likely to contain management manipulations and distortions as personal goals and interests may depend on the reported accounting data. Therefore, market-based measures are considered to be superior. CSR reporting indices are gathered from content analysis using the checklist proposed by Gunawan et al., (2009) with eight themes: environment, energy, human resources, community involvement, products, sustainability, external relations and others. Each category is elaborated into a few items with 45 disclosure items in total, which are scored for both quantity and quality of CSR reporting.

Several control variables commonly found in the literature are included in the analysis. This study includes firm age, size, leverage, profitability and RPT disclosure as determinants of firm value and controls for industry and year fixed effects. The regression equations are described as follows:

$$FValue_{i,t+1} = \beta_0 + \beta_1 RP_Sales_{i,t} + \beta_2 RP_Purchases_{i,t} + \beta_3 RP_Rec_{i,t} + \beta_4 RP_Pay_{i,t} + \beta_5 FAge_{i,t} + \beta_6 FSize_{i,t} + \beta_7 Lev_{i,t} + \beta_8 ROA_{i,t} + \beta_9 RPD_{i,t} + \beta_{10-16} Ind_{i,t} + \beta_{17} Year_{i,t} + \varepsilon \dots \dots \dots \quad (1)$$

$$FValue_{i,t+1} = \beta_0 + \beta_1 RP_Sales_{i,t} + \beta_2 RP_Purchases_{i,t} + \beta_3 RP_Rec_{i,t} + \beta_4 RP_Pay_{i,t} + \beta_5 CSRI_{i,t} + \beta_6 RP_Sales * CSRI_{i,t} + \beta_7 RP_Purchases * CSRI_{i,t} + \beta_8 RP_Rec * CSRI_{i,t} + \beta_9 RP_Pay * CSRI_{i,t} + \beta_{10} FAge_{i,t} + \beta_{11} FSize_{i,t} + \beta_{12} Lev_{i,t} + \beta_{13} ROA_{i,t} + \beta_{14} RPD_{i,t} + \beta_{15-21} Ind_{i,t} + \beta_{16} Year_{i,t} + \varepsilon \dots \dots \dots \quad (2)$$

where *FValue* = firm value as measured by Tobin's q and PBV; *RP_Sales* = the value of sales of goods and provision of services to related parties divided by total assets; *RP_Purchases* = the value of purchases of goods and receipt of services from related parties divided by total assets; *RP_Rec* = related party receivables divided by total assets; *RP_Pay* = related party payables divided by total assets; *CSRI* = CSR reporting as measured by observing a firm's CSR disclosure quantity (*CSRI_Quan*) and quality (*CSRI_Qual*); *FAge* = natural logarithm of the number of years since listing; *FSize* = natural logarithm of a firm's total market value of equity; *Lev* = total debts scaled by total assets; *ROA* = net income scaled by average total assets; *RPD* = RPT disclosure regarding terms and conditions, pricing policy and arm's length condition of RPTs.

4. Results

This section presents the data analysis, including the descriptive statistics and regression analysis. The final number of observations in the sample is 274 firm-year observations. The sample selection is described in Table 1.

4.1. Descriptive statistics

Table 2 provides a summary of the descriptive statistics of the variables. It shows that although loans provided to and given by related parties are less prevalent, related party sales transactions are common in firms

Table 1
Sample Selection.

Criteria	Number of Firms		Number of Observations
	2014	2015	
Firms listed on Indonesia Stock Exchange (IDX)	514	533	1,047
Less: Firms in the financial industry	(87)	(90)	(177)
Less: Firms with a different fiscal year	(6)	(6)	(12)
Less: Firms with a negative book value of equity	(18)	(20)	(38)
Less: Firms with incomplete data	(272)	(274)	(546)
Total	131	143	274

listed in Indonesia. The results also show that the market value of firms listed on the IDX is generally higher than their book value as indicated by the mean values of 1.7749 and 2.7771 for Tobin's q and PBV, respectively. Moreover, the results indicate that Indonesian firms may put more emphasis on CSR reporting quantity than CSR reporting quality; nevertheless, the disclosure of CSR is still not a common practice among firms, and therefore, CSR reporting by Indonesian firms is still relatively limited.

4.2. Main results

Table 3 presents the analysis of the influence of RPTs on firm value. The results show that the first hypothesis, which states that related party sales negatively influence firm value, is supported ($p < .01$ and $p < .05$, respectively). These findings are consistent with studies suggesting that related party sales are value destroying (e.g., Cheung et al., 2006, 2009). This implies that the market views related party sales figures to be less credible and such transactions to be opportunistic (Jian and Wong, 2004); therefore, the market responds negatively to RPTs.

Contrary to expectation, Hypothesis 1b, which predicts a positive influence of related party purchases on firm value, is not supported because the coefficients of related party purchases are not significant in either model. This implies that related party purchase transactions are not used by related parties to prop up listed firms. A possible explanation for this non-significance may be that as the last-in-first-out (LIFO) method is not allowed, related parties may prefer other methods, which may be more timely and efficient, to prop up listed firms (Jian and Wong, 2010).

In addition, the results show that Hypothesis 1c is not supported, as there is no statistically significant association between related party receivables and firm value, suggesting that the market does not discount firms with high related party receivables. This may be due to the nature of related party receivables, which contain all types of receivables, including loan receivables that may be perceived negatively and sales receivables that may signify an increase in earnings and market confidence in the collection of related party credits (Jiang et al., 2010; Utama and Utama, 2014). According to Wang and Ye (2014), receivables represent the reallocated resources of a firm, namely operational and non-operational reallocated resources. Whereas operational resources are derived from activities such as the sale of goods and services, non-operational receivables may arise from non-operating activities such as loans. Consequently, receivables generated from the sale of goods and services are viewed as part of a firm's normal operating activities; whereas other receivables are non-operational and are often used opportunistically. Therefore, the efficiency and expropriation effects of related party receivables may offset each other, leading to non-significant results.

Regarding H1d, the empirical results show that related party payables positively influence Tobin's q and PBV ($p < .01$); therefore H1d is supported. This is in line with Cheung et al. (2006) who suggest that related party payables are viewed as beneficial by the market. Hence, related party payables tend to have a value-enhancing effect.

The empirical results in Tables 4 and 5 show that the coefficients of the interaction terms between CSR reporting (quantity and quality) and *RP_Sales* on Tobin's q as well as PBV are significant at the 1% and 5% levels, respectively. Hence, Hypothesis 2a, which states that CSR reporting moderates the relationship between related party sales and firm value, is supported. This confirms the view that CSR reporting reflects

Table 2
Descriptive Statistics.

Variable	Data Type	Min.	Max.	Mean	Std. Dev.
<i>RP_Sales</i>	Ratio	0.0000	5.4671	0.1909	0.4436
<i>RP_Purchases</i>	Ratio	0.0000	2.3090	0.1487	0.3432
<i>RP_Rec</i>	Ratio	0.0000	0.4958	0.0434	0.0742
<i>RP_Pay</i>	Ratio	0.0000	0.9515	0.0541	0.1127
<i>Tobin_{t+1}</i>	Ratio	0.2268	18.6404	1.7749	2.3531
<i>PBV_{t+1}</i>	Ratio	0.0500	62.9311	2.7771	6.6006
<i>CSRI_Quan</i>	Ratio	0.0844	0.6089	0.2622	0.1032
<i>CSRI_Qual</i>	Ratio	0.0635	0.5556	0.2147	0.0873
<i>FAge</i>	Year	1	45	15	10
<i>FSize</i>	Mil. Rupiah	64,716	437,355,969	18,483,212	53,726,170
<i>Lev</i>	Ratio	0.0401	1.2486	0.5012	0.2070
<i>ROA</i>	Ratio	-0.2253	0.4470	0.0553	0.1011
<i>RPD</i>	Ratio	0	1.0000	0.4197	0.3090

N = 274. *RP_Sales*, *RP_Purchases*, *RP_Rec* and *RP_Pay* = firms' RPTs (sales, purchases, receivables and payables, respectively) scaled by total assets. Tobin = Tobin's Q. PBV = Price-to-book value. *CSRI_Quan* = CSR disclosure quantity. *CSRI_Qual* = CSR disclosure quality. *FAge* = natural logarithm of the number of years since listing. *FSize* = natural logarithm of a firm's total market value of equity. *Lev* = total debts scaled by total assets. *ROA* = net income scaled by total assets. *RPD* = disclosure regarding terms and conditions, pricing policy and arm's length condition of RPTs.

Table 3
RPTs and Firm Value.

Variable	Predicted Sign	Model 1		Model 2	
		Unstd. Coeff. B	<i>t</i> -Statistic (<i>p</i> -value)	Unstd. Coeff. B	<i>t</i> -Statistic (<i>p</i> -value)
(Constant)		-1.140	-8.925***	-1.909	-8.088***
<i>RP_Sales</i>	-	-0.023	-2.926***	-0.034	-2.274**
<i>RP_Purchases</i>	+	-0.001	-0.196	0.001	0.113
<i>RP_Rec</i>	-	0.006	0.837	0.007	0.504
<i>RP_Pay</i>	+	0.021	2.951***	0.040	2.999***
<i>FAge</i>		-0.035	-2.536***	-0.068	-2.718***
<i>FSize</i>		0.075	11.156***	0.130	10.430***
<i>Lev</i>		0.285	4.404***	0.534	4.459***
<i>ROA</i>		1.262	8.446***	1.431	5.184***
<i>RPD</i>		-0.003	-0.064	0.001	0.018
Industry Dummy	Included			Included	
Year Dummy	Included			Included	
Adjusted R ²			0.598		0.508
Fvalue			24.921		17.564
Sig. (F)			0.000		0.000
Dependent Variable	Tobin _{t+1}			PBV _{t+1}	

***, **, * indicate significance at the 0.01, 0.05 and 0.1 levels, respectively.

a firm's corporate values and ethical concerns (Garriga and Melé, 2004; Kim et al., 2012). As a result, firms with strong ethical values as reflected by high quantity and quality CSR reporting tend to have less opportunistic RPTs. However, we do not find support for the moderating effect of CSR reporting on the relationship between other types of RPTs on either firm value measure. Although the coefficients are generally positive, the results are not significant. Nonetheless, this may provide initial but mild support for the negative relationship between CSR reporting and abusive behavior. Overall, our findings suggest that on the basis of ethics, firms with better CSR reporting tend to engage in more responsible operating decisions. Therefore, such firms are less likely to engage in opportunistic and value-destroying transactions that may harm the interests of minority shareholders, but rather they engage in efficient (value-enhancing) transactions.

The empirical results also show that the control variables, namely, firm age (*FAge*), firm size (*FSize*), leverage (*Lev*) and profitability (*ROA*) affect both Tobin's q and PBV with *p*-values less than 1%. More specifically,

Table 4
RPTs, CSR Reporting Quantity and Firm Value.

Variable	Predicted Sign	Tobin		PBV	
		Unstd. Coeff. B	<i>t</i> -Statistic (<i>p</i> -value)	Unstd. Coeff. B	<i>t</i> -Statistic (<i>p</i> -value)
(Constant)		-1.071	-6.962***	-1.917	-6.663***
<i>RP_Sales</i>	-	-0.420	-3.713***	-0.505	-2.387***
<i>RP_Purchases</i>	+	0.001	0.112	-0.003	-0.163
<i>RP_Rec</i>	-	0.008	0.939	-0.000	-0.015
<i>RP_Pay</i>	+	0.016	1.735**	0.042	2.454***
<i>CSRI_Quan</i>	+/-	-0.230	-1.565	-0.492	-1.791*
<i>CSRI_Quan*RP_Sales</i>	+/-	0.866	3.198***	1.048	2.069**
<i>CSRI_Quan*RP_Purchases</i>	+/-	-0.153	-0.602	0.050	0.106
<i>CSRI_Quan*RP_Rec</i>	+/-	0.230	0.242	1.017	0.573
<i>CSRI_Quan*RP_Pay</i>	+/-	0.697	1.011	0.110	0.086
<i>FAge</i>		-0.034	-2.450***	-0.068	-2.644***
<i>FSize</i>		0.077	9.440***	0.137	8.994***
<i>Lev</i>		0.361	4.183***	0.660	4.081***
<i>ROA</i>		1.266	8.354***	1.378	4.863***
<i>RPD</i>		0.003	0.067	0.003	0.034
Industry Dummy	Included			Included	
Year Dummy	Included			Included	
Adjusted R ²			0.600		0.498
<i>F</i> -value			19.637		13.299
Sig. (<i>F</i>)			0.000		0.000
Dependent Variable	Tobin _{t+1}			PBV _{t+1}	

***, **, * indicate significance at the 0.01, 0.05, and 0.1 levels, respectively.

Table 5
RPTs, CSR Reporting Quality and Firm Value.

Variable	Predicted Sign	Tobin		PBV	
		Unstd. Coeff. B	<i>t</i> -statistic (<i>p</i> -value)	Unstd. Coeff. B	<i>t</i> -statistic (<i>p</i> -value)
(Constant)		-0.747	-5.180***	-1.347	-4.966***
<i>RP_Sales</i>	-	-0.436	-4.077***	-0.527	-2.621***
<i>RP_Purchases</i>	+	0.002	0.255	0.000	0.009
<i>RP_Rec</i>	-	0.007	0.856	-0.001	-0.089
<i>RP_Pay</i>	+	0.015	1.610*	0.041	2.370***
<i>CSRI_Qual</i>	+/-	-0.318	-1.804*	-0.722	-2.181**
<i>CSRI_Qual*RP_Sales</i>	+/-	1.054	3.468***	1.267	2.217**
<i>CSRI_Qual*RP_Purchases</i>	+/-	-0.255	-0.828	-0.099	-0.170
<i>CSRI_Qual*RP_Rec</i>	+/-	0.815	0.660	2.049	0.882
<i>CSRI_Qual*RP_Pay</i>	+/-	1.101	1.290	0.575	0.358
<i>FAge</i>		-0.032	-2.378***	-0.065	-2.546***
<i>FSize</i>		0.077	9.477***	0.140	9.098***
<i>Lev</i>		0.102	4.014***	0.172	3.611***
<i>ROA</i>		1.248	8.296***	1.321	4.674***
<i>RPD</i>		0.006	0.163	0.013	0.175
Industry Dummy	Included			Included	
Year Dummy	Included			Included	
Adjusted R ²			0.602		0.495
<i>F</i> -value			19.765		13.157
Sig. (<i>F</i>)			0.000		0.000
Dependent Variable	Tobin _{t+1}			PBV _{t+1}	

***, **, * indicate significance at the 0.01, 0.05, and 0.1 levels, respectively.

firm age affects firm value negatively; whereas firm size, leverage and profitability affect firm value positively. This suggests that firms may become less valuable with age (Chay et al., 2015; Fauver et al., 2017). Moreover,

the market values larger firms more positively (Dang et al., 2017), perceives increased leverage as a signal of stability in future cash flows (Ararat et al., 2017; Kang et al., 2017) and values firms with better performance more highly (Xia, 2008; Chen et al., 2009). In contrast, the coefficients of RPD are insignificant, implying that RPD does not influence firm value.

5. Test of subsequent tunneling

Further testing examines whether RPTs are of a propping nature and indeed add real value to a firm or merely boost performance temporarily and, in turn, enable subsequent tunneling. Ying and Wang (2013) posit that although there is a motivation to support the long-term interests of listed firms, when firms engage in RPTs for short-term purposes, such as to obtain a refinancing qualification, subsequent tunneling may occur in the year after such propping. Moreover, although certain RPTs improve current performance, due to subsequent tunneling, firm performance significantly declines in the following year. This study follows Ying and Wang (2013) and uses a model to test whether RPTs represent temporary propping transactions and enable subsequent tunneling activities.

$$Tunnel_{i,t+1} = r_0 + r_1 Prop_{i,t} + State_{i,t} + \varepsilon \dots \dots \dots \quad (3)$$

$Prop_{it}$ represents the possible propping (value-enhancing) transactions found in this study. $State_{it}$ is a control variable measured by a dummy variable that takes the value of 1 for state-owned enterprises and 0 otherwise. Following Ying and Wang (2013), who find that state-owned enterprises display significantly more subsequent tunneling behavior than non-state-owned enterprises, this study includes $State_{it}$ as a control variable. Similarly, Cheung et al. (2009) examine RPTs between state-owned Chinese firms and find that minority shareholders seem to be subject to expropriation through tunneling, negatively affecting firm value.

$Tunnel_{i,t+1}$ is a dummy variable derived from the residual term of Eq. (4), which indicates possible abnormal tunneling in the following period. As Eq. (3) considers only possible abnormal tunneling transactions, this study removes the normal components of RPTs that are associated with firm characteristics and industry classifications following Jian and Wong (2010, 84) and using the following regression equation.

$$Tunnel_rate_{i,t+1} = r_0 + r_1 FSize_{i,t+1} + r_2 Lev_{i,t+1} + r_3 MBRatio_{i,t+1} + r_j \sum Ind_{i,t+1} + r_j \sum Year_{i,t+1} + \varepsilon \dots \dots \dots \quad (4)$$

This regression model removes the normal components of RPTs by adding variables associated with firm characteristics and industry classifications, such as size as measured by the natural logarithm of total assets, leverage as measured by total debt over total assets and growth as measured by market-to-book equity. This study also adds industry and year dummy variables. $Tunnel_rate_{i,t+1}$ represents the ratio of the following period's possible tunneling arising from the purchase of goods or assets, guarantees, mortgages and other projects that generate income for related parties (Ying and Wang, 2013).

The results in Table 6 show that the coefficient of $Prop$ is positive and significant, suggesting that transactions that boost current performance may actually be subject to subsequent tunneling as pointed out by Ying and Wang (2013). Further, these results suggest that state-owned enterprises display more subsequent tunneling behavior. This provides an early indication that RPTs may be subject to subsequent tunneling after propping.

6. Sensitivity tests

We also performed sensitivity tests for possible fixed effects. We re-estimated the models controlling for individual firm and year fixed effects in each model. Table 7 reports the results for Model 1 (main effects), and Tables 8 and 9 report the results for Model 2 (moderating effects).

As shown in Table 7, RP_Sales is now positive but not significant ($p > .10$). $RP_Purchases$ has a positive and marginally significant relation with Tobin's q ($\beta = 0.016$, $p < .1$), consistent with H1b. $RP_Receivables$ shows a negative and marginally significant association with Tobin's q ($\beta = -0.015$, $p < .1$), in line with H1c. $RP_Payables$ has a positive and significant association ($p < .001$) with both measures of firm value,

Table 6
Additional Analysis Result.

Variable		B	Sig.
Step 1 ^a	Prop	0.252	0.001
	State	0.647	0.092
	Constant	0.100	0.770
Dependent	Tunnel _{t+1}		

***, **, * indicate significance at the 0.01, 0.05 and 0.1 levels, respectively.

Table 7
Regression Results for RPTs and Firm Value.

Variable		Tobin's q	PBV
(Constant)		1.925 (−8.235***)	−2.457 (−6.935***)
<i>RP_Sales</i>	−	0.018 (0.536)	0.047 (0.827)
<i>RP_Purchases</i>	+	0.016 (1.363*)	0.004 (0.179)
<i>RP_Rec</i>	−	−0.015 (−1.592*)	−0.016 (−0.925)
<i>RP_Pay</i>	+	0.023 (2.482***)	0.040 (2.494***)
<i>Fage</i>		−0.010 (−0.385)	0.016 (0.340)
<i>Fsize</i>		0.136 (10.564***)	0.183 (8.111***)
<i>Lev</i>		0.237 (1.373*)	0.003 (0.030)
<i>ROA</i>		0.254 (1.028)	−0.248 (−0.562)
<i>RPD</i>		−0.010 (−0.191)	−0.050 (−0.569)
Firm Fixed Effects		Included	Included
Year Fixed Effects		Included	Included
Adj. R ²		0.823	0.804
F-value		9.036	8.096
Sig. (F)		0.000	0.000

Presents results for RPT and firm value, with unstandardized coefficients B and *t*-statistics. ***, **, * indicate significance at the 0.01, 0.05 and 0.1 levels, respectively.

i.e., Tobin's *q* ($\beta = 0.023$, $p < .01$) and PBV ($\beta = 0.040$, $p < .01$), consistent with H1d. We re-run the model including each type of related party transaction (i.e., *RP_Sales*, *RP_Purchases*, *RP_Rec*, *RP_Pay*) separately and control for year and firm fixed effects. The results are similar. The result on *RP_Sales* differs from the main effect after controlling for firm fixed effects, indicating that there are other firm-specific factors that affect firm value that are not controlled in this study. For example, previous studies find that Indonesian firms with political connections are associated with higher firm value (Fisman, 2001). Further, Habib et al. (2017) argue that politically connected firms tend to engage more in abusive or opportunistic RPTs, which eventually affects firm value. Specifically, they find that politically connected firms in Indonesia are more likely to use related party loans to tunnel resources and to involve in earnings management. Furthermore, a study in the U.S. context finds that family firms are more likely to engage in RPTs and that their firm value premium tends to decline when they report RPTs, particularly opportunistic RPTs (Kohlbeck et al., 2018).

Hypotheses 2a-2d test the moderating effect of CSR reporting on the association between RPTs and firm value. We re-estimate Model 2 controlling for firm and year fixed effects. Tables 8 and 9 present the results for Eq. (2), considering CSR quantity and quality as moderating variables. The empirical results show that the associations between the interaction terms of CSR reporting (quantity and quality) and *RP_Purchases* with Tobin's *q* and PBV are significant at the 1% and 5% levels, respectively. The results for the moderating effects of CSR differ from the main effect after controlling for firm fixed effects, indicating that there are other firm-specific factors affecting firm value that are not controlled in this study, for example, political connections (Fisman, 2001; Habib et al., 2017) and family ownership (Kohlbeck et al., 2018).

Table 8
Regression Results for RPT, CSR and Tobin's Q.

Variable	CSR Quantity	CSR Quality
(Constant)	-1.565 (-7.635***)	-1.573 (-7.788***)
<i>RP_Sales</i>	0.018 (1.211)	0.017 (1.148)
<i>RP_Purchases</i>	0.027 (1.986**)	0.027 (2.053**)
<i>RP_Rec</i>	-0.011 (-0.909)	-0.013 (-1.029)
<i>RP_Pay</i>	0.016 (1.448*)	0.011 (0.994)
<i>CSRI_Quan</i>	0.475 (2.324**)	
<i>CSRI_Quan*RP_Sales</i>	-0.009 (-0.055)	
<i>CSRI_Quan*RP_Purchases</i>	-1.449 (-3.428***)	
<i>CSRI_Quan*RP_Rec</i>	0.315 (0.313)	
<i>CSRI_Quan*RP_Pay</i>	0.320 (0.346)	
<i>CSRI_Qual</i>		0.521 (2.272**)
<i>CSRI_Qual*RP_Sales</i>		0.007 (0.036)
<i>CSRI_Qual*RP_Purchases</i>		-1.615 (-3.151***)
<i>CSRI_Qual*RP_Rec</i>		0.606 (0.465)
<i>CSRI_Qual*RP_Pay</i>		0.847 (0.726)
<i>FAge</i>	-0.002 (-0.709)	-0.003 (-0.929)
<i>FSize</i>	0.126 (9.586***)	0.124 (9.233***)
<i>Lev</i>	0.091 (1.835**)	0.077 (1.538*)
<i>ROA</i>	0.417 (1.518*)	0.456 (1.685**)
<i>RPD</i>	0.033 (0.680)	0.018 (0.371)
Firm Fixed Effects	Included	Included
Year Fixed Effects	Included	Included
Adj. R ²	0.830	0.829
F-value	9.340	9.291
Sig. (F)	0.000	0.000

This table presents the results for RPT, CSR reporting quantity, CSR reporting quality and firm value, with unstandardized coefficients B and *t*-statistics. ***, **, * indicate significance at the 0.01, 0.05 and 0.1 levels, respectively.

7. Conclusion, implications and future research

This study provides evidence that concerns regarding RPTs being value destroying and value enhancing are warranted, particularly for certain types of RPTs. The results of all models show that related party sales transactions have a value-destroying effect. Further, we find that related party payables are positively related to both Tobin's q and PBV, suggesting that the market perceives loans or cash assistance provided to listed firms as beneficial. As certain RPTs are found to be abusive (value destroying), it is important that those transactions be reviewed and disclosed properly to ensure that such transactions are conducted in the best interest of stakeholders. Hence, to improve market confidence, regulators should pay more attention to the RPT types that tend to be abusive.

Further, this study provides evidence of moderating effects of both the quantity and quality of CSR reporting on the relationship between RPTs and firm value. Particularly, firms with high CSR reporting quantity and quality tend to have less abusive RPTs. Therefore, investors, policymakers and other stakeholders are encouraged to pay attention to both the quantity and quality of CSR reporting. More importantly, an assurance service and standard could be established to provide guidance for the preparation of CSR reports and to ensure the credibility of a firm's CSR reporting.

This study has several limitations and hence suggestions for future studies are offered. First, the main results differ slightly when individual firm fixed effects are included in the model. As presented in the sensitivity tests section, the statistical results show that firm value is positively influenced by related party purchases and payables, suggesting that these transactions have value-enhancing effects. In addition, firm value is negatively influenced by related party receivables, indicating a value-destroying effect. However, there is no support for

Table 9
Regression Results for RPT, CSR and PBV.

Variable	CSR Quantity	CSR Quality
(Constant)	−2.240 (−6.274***)	−2.256 (−6.441***)
<i>RP_Sales</i>	0.052 (1.978**)	0.049 (1.876**)
<i>RP_Purchases</i>	0.011 (0.477)	0.014 (0.599)
<i>RP_Rec</i>	−0.023 (−1.048)	−0.025 (−1.146)
<i>RP_Pay</i>	0.021 (1.080)	0.014 (0.720)
<i>CSRI_Quan</i>	0.746 (2.097**)	
<i>CSRI_Quan*RP_Sales</i>	−0.099 (−0.345)	
<i>CSRI_Quan*RP_Purchases</i>	−1.306 (−1.774**)	
<i>CSRI_Quan*RP_Rec</i>	−0.115 (−0.065)	
<i>CSRI_Quan*RP_Pay</i>	1.232 (0.764)	
<i>CSRI_Qual</i>		0.817 (2.055**)
<i>CSRI_Qual*RP_Sales</i>		−0.074 (−0.222)
<i>CSRI_Qual*RP_Purchases</i>		−1.493 (−1.681**)
<i>CSRI_Qual*RP_Rec</i>		0.247 (0.109)
<i>CSRI_Qual*RP_Pay</i>		2.257 (1.116)
<i>FAge</i>	−0.005 (−0.891)	−0.005 (−0.994)
<i>Fsize</i>	0.168 (7.357***)	0.165 (7.118***)
<i>Lev</i>	0.083 (0.951)	0.060 (0.695)
<i>ROA</i>	0.241 (0.504)	0.278 (0.592)
<i>RPD</i>	0.018 (0.219)	0.002 (0.020)
Firm Fixed Effects	Included	Included
Year Fixed Effects	Included	Included
Adj. R^2	0.815	0.816
<i>F</i> -value	8.522	8.557
Sig. (<i>F</i>)	0.000	0.000

related party sales. In addition, robustness tests support the negative moderating effect of CSR on the association between related party purchases and firm value. These different results, compared with the main effects, indicate that there are other firm-specific variables that explain the dependent variables. A future study could consider other firm-specific factors such as political connections (Fisman, 2001; Habib et al., 2017) and family control (Kohlbeck et al., 2018) as explanatory variables. Second, this study only considers related party sales, purchases, receivables and payables. Therefore, future studies could consider other types of RPTs or break the RPT categories examined in this study into more detailed components. Further, future studies could explore other possible determinants of opportunistic RPTs, such as the risk of expropriation arising from a firm's ownership structure, corporate governance and financial constraints. Last, this study provides an early indication of the occurrence of tunneling after propping; future studies could further confirm this indication.

Declaration of Competing Interest

The authors declared that there is no conflict of interest.

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