The Impact of Related Parties' Transactions to Market Valuation of Firms

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Abstract- Related parties' transactions, which are not arm-length transactions, usually make investors perceived that it is connected to opportunistic transactions. Those transactions are seen as tools to execute accounting scandals that can affect market valuation of firms. On the other hand, related parties' transactions also can be done in consideration to increase the efficiency in the company (efficient transactions). The objective of this research is to examine the impact of related parties' transactions to market valuation of firms. In this research, market valuation of firms is proxied by Tobin's Q, market value of equity and annual shareholders' return. Researcher used 309 firms as sample of this research and hypothesizes are tested by multiple linear regression. Result of this research are (1) related parties transactions have no significant impact to market valuation of firms proxied by Tobin's Q and annual shareholders' return; (2) related parties' transactions have significant impact to market valuation of firms proxied by market value of equity.

Keywords: related parties' transactions, firm valuation

1. INTRODUCTION

After the bankruptcy of big companies (e.g.: Enron, Adelphia, Tyco, WorldCom, etc), people give more attention about accounting fraud. The condition of company will affect investors in making investment decision. Based on Jian and Wong (2004) that taken from Kuan et al (2010), earnings management and related parties' transactions are important aspects of financial reporting over the years and have been under intense media after a series of spectacular corporate collapses. The collapse of Enron is caused by related parties' transactions with special purpose entity (SPE). Although related parties' transactions may sometimes be initiated for genuine business purposes, they are generally viewed as instruments for financial frauds and shareholder expropriation (Jones (2011) in Bennouri, 2011). Reflect from case of Enron and Adelphia, related parties transactions were used for fraudulent financial reporting.

Related parties' transaction is an important point in financial statement. Refer to Scott (1999) in Feliana (2007), more than half sample of Indonesian companies had related parties transactions. However, research about related parties' transactions is very limited. So, researcher is interested to examine about the impact of related parties' transactions to market valuation of firms. This research is adapted from research of Kohlbeck and Mayhew (2010).

There are also several researches that examine related parties' transactions. Ge et al (2010) analyzed impact of related parties' transactions to value relevance. The result of this research is similar with Kohlbeck and Mayhew (2010) that related parties' transactions give impact to market valuation of firms. On the other hand, based on research of Lei and