ENTRENCHMENT EFFECTS AND RELATED PARTY TRANSACTIONS IN TURKEY*

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ABSTRACT

This research aimed to understand the important powers that affect Related Party Transactions (RPTs) decisions. Agency theory perspective is used to examine the effect of corporate mechanism, comprising variables of controlling ownership, the CEOs characteristics, and independent members of board of directors, on the decision of RPTs regarding potential conflicts of interest.

A total of 310 financial reports of Turkish manufacturing companies listed on BIST in 2019 and 2020 were assessed. Subsequently, controlling shareholder and CEOs characteristics were discovered to play significant roles in the RPTs mechanism, while the independent board director variable had the highest impact.

The strength of the independent board director effect on RPTs decision represents the function of corporate governance mechanisms. Although entrenchment effects occur in RPTs, the denial or approval of independent board directors was dependent on minority interest. This also highlighted the impact of alignment on RPTs' decision, since the expropriation of ultimate power was balanced within the independent board director's role.

Keywords: Related Party Transactions, Corporate Governance, Alignment Effect.

JEL Codes: G34, M41.

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TÜRKİYE'DE YERLEŞTİRME ETKİSİ VE İLİŞKİLİ TARAF İŞLEMLERİ

ÖZ

Bu araştırma, ilişkili taraf işlemleri (RPT) kararlarını etkileyen önemli faktörleri ortaya çıkarmayı amaçlamıştır. Sahipliği kontrol eden değişkenler, CEO'ların özellikleri ve bağımsız yönetim kurulu değişkenlerini içeren kurumsal mekanizmanın, RPT'lerin potansiyel çıkar çatışmalarına ilişkin kararları üzerindeki etkisini incelemek için vekalet teorisi perspektifini kullanmıştır.

2019 ve 2020 yıllarında Türk imalat sektöründe bulunan toplam 310 şirketin tamamının finansal raporlarının değerlendirilmesi neticesinde hakim hissedar ve CEO'ların özelliklerinin RPT'ler mekanizmasında önemli roller oynadığı ve bağımsız yönetim kurulu değişkeninin en yüksek etkiye sahip olduğu ortaya konulmuştur.

Bağımsız yönetim kurulunun RPT kararları üzerindeki etkisinin gücü, kurumsal yönetim mekanizmalarının işlevini temsil eder. RPT'lerde sağlamlaştırma etkileri yaşanmakla birlikte bağımsız yönetim kurulu yöneticilerinin reddi veya onayı azınlık payına bağlıdır. İlave olarak, uyumun RPT'lerin kararı üzerindeki etkisi de önemli bir unsur olarak ortaya konulmuştur.

Anahtar Sözcükler: İlişkili Taraf İşlemleri, Kurumsal Yönetim, Uyum Etkisi.

JEL Kodları: G34, M41.

1. INTRODUCTION

According to the Turkish Statistical Institute (TUIK), the country’s GDP in the third quarter of 2020 rose by 6.7% compared to 2019. TUIK also reported growths in several sectors, such as a 41.1% increase in the finance and insurance, 15.0% rise in communications and information, alongside increments of 8.0%, 6.4%, and 6.0% in industry, construction, and agriculture. Subsequently, Borsa Istanbul (formerly Istanbul Stock Exchange, BIST) conveyed that an equity market of 2.130 billion Turkish Lira (TL), a daily average trade volume of 8.5 billion TL, a share turnover velocity of 227%, and a ranking at 3rd in the world was attained in 2019. At the end of 2020, the daily average trade volume reduced to 5.25 billion TL due to the Covid-19 outbreak (TCMB, 2021).

Generally, the capital market is an important part of the national economic growth system. It is capable of stimulating domestic and foreign direct investments, serves as a determining factor of a country’s economic position in the global perspective, and may influence the exchange rate. An increase in the equity of a country’s capital market results in a higher economic position. Therefore, the capital market must be regulated by the government to protect and support shareholders’ activities.

In Turkey, the capital market is controlled by regulations from several law enforcement institutions. These include the Capital Market Law, the Turkish Accounting Standards (TAS)/ Turkish Financial Reporting Standards

(TFRS) based on the International Accounting Standards (IAS)/International Financial Reporting Standards (IFRS) issued by the Public Oversight Board, and various tax laws. These laws and regulations are intended to control transactional activities in the capital market as well as to protect shareholders' rights. Inadequate protection will result in a highly volatile market and shareholders. These entail market risks in handling demand and supply in the capital market, non-market risks, such as economic and political issues, other market sentiments, including the Covid-19 outbreak, and expropriation risks, which may occur due to controlling shareholders' activities through cash flow or managers' opportunistic behavior.

Meanwhile, Related Party Transactions (RPTs) are included in these laws and regulations. According to TAS 24, RPTs involve the transfer of resources, services, or obligations among related parties regardless of whether a price is charged. The Corporate Income Tax Law No. 5520 article 13 (2) expounded that related parties refer to corporate shareholders, such as individuals or legal entities related to, in control, or controlled by the corporation directly or indirectly in terms of management, supervision, or capital.

Prior research and experts argued that RPTs are a form of strategic dealing executed by managers to increase efficiency and firm performance. These transactions are performed to obtain trusted quality products at lower prices and may be a way to enhance the financial performance and growth of related entities. There are several advantages of RPTs, such as the increased potential of attaining lower transaction costs, higher capital allocation, greater returns on assets, and improved solutions regarding production problems. Additionally, RPTs accompanied by sufficient information may benefit both related parties (Pizzo, 2013).

Another school of thought stated that RPTs are one of the principal-principal conflicts (Shleifer & Vishny, 1997; La Porta et al., 1999). These transactions may be conducted to achieve ultimate power interest, occasionally involving the management and controlling shareholders. The management decides on fulfilling these responsibilities while controlling shareholders regulate corporate activities in General Assembly. It could also control the board of directors and CEO's election in order to achieve individual goal congruence, as voting rights based on the percentage of ownership will make the minority shareholders powerless. Although some laws of the country regulate company activities, they only minimize these conflicts by equating voting and cash-flow rights. CEOs make RPTs decisions in account receivable and payable transactions to the group companies. According to the framework of the principal-principal conflict of interest, OECD regulates the corporate governance concept, which is aimed at reducing expropriation risks during arguments about voting rights. Consequently, the existence of an independent board director should represent minority shareholders' interests in the firm, including RPT decisions. RPTs are not associated with the interest of minority shareholders but involve price differences, time schedules of payment, and other special engagements among related parties, which could impact cash flow and firm performance. This implies that potential losses from RPTs that affect firm cash flow and performance could be detrimental for minority shareholders.

Previous research on RPTs have been conducted in several countries, including Nigeria (Anastasia & Onuora, 2019), Egypt (El Madbouly, 2020), the US (Henry et al., 2012; Balsam & Puthenpurackal, 2017), Indonesia (Pratama, 2018; Suryani et al., 2019), India (Bansal & Thenmozhi, 2020), Italy (Pizzo, 2013; Pozzoli & Venuti, 2014) and South Korea (Jeon, 2019; Choi & Cho, 2021).

Consequently, this research is performed to examine the impact of controlling ownership, CEO characteristics, and the existence of independent board directors on RPTs in listed Turkish manufacturing companies. These businesses generally engage in complicated activities and dominate the capital market. According to Demirağ & Serter (2003), there are 43% of Turkish listed companies in Borsa Istanbul, and, such firms mostly possess concentrated ownership. Hence, this research is an opportunity to examine the potential conflict of interest practices while employing control variables to understand the impact of the Covid-19 outbreak and firm size on RPTs.

It was divided into various sections, namely related party transaction, literature review, research methodology, research model and hypotheses, findings, conclusion.

2. RELATED PARTY TRANSACTION

2.1 Brief Concept of Related Party Transaction

RPTs in Turkey are regulated by Capital Market Law No. 6362 issued by the Capital Market Board (CMB). This law stipulates that the definition of RPTs depends on TAS 24 and simultaneously regulates the corporate governance practices of Turkish companies. CMB No. 6362 Article 17/3 states that

> *"Publicly held corporations are required to take a board of directors decision determining the principles of the transaction to be made, before initiating transactions with their related parties that are to be determined by the Board. The approval of the majority of the independent members of the board of directors is sought in order for the said board of directors' resolutions to be implemented. If the majority of the independent members of the board of directors do not approve the transaction, this situation is announced to the public*

> *within the framework of the public disclosure regulations, including sufficient information about the transaction, and the transaction is submitted for the approval of the general assembly. At the said general assembly meetings, the parties to the transaction and the persons associated with them cannot vote, and a decision is taken by voting. In the discussion of this article at the general assembly meeting, the meeting quorum is not sought, and the decision is taken by the simple majority of those who have the right to vote. The resolutions of the board of directors and general assembly that are not taken in accordance with the principles set forth in this paragraph shall not be considered valid".*

So that specific transactions in the firm must be approved by mostly the independent board, and cases of disapproval must be declared in the Public Disclosure Platform (KAP). Capital Markets Law No. 6362 article 29/5 stated that: The right to add an item to the agenda, which is granted to the minority in Article 411 of the Law No. 6102, also includes the submission of draft resolutions regarding the agenda items in publicly held corporations. While in the Capital Markets Law No. 6362 article 29/6 stated that

a) In order for the decisions regarding the restriction of the right to purchase new shares in publicly-held corporations, the authorization of the board of directors to restrict the right to purchase new shares in the registered capital system, the capital reduction and the important transactions determined in accordance with the first paragraph of Article 23, the resolutions regarding the transactions of an important nature must be adopted by the general assembly.

b) Unless heavier quorums are envisaged by specifying a quorum, two-thirds of the voting shares participating in the general assembly meeting are required to vote affirmatively, without seeking the meeting quorum.

c) However, in the event that at least half of the voting shares representing the capital are present at the meeting, a decision is taken by the majority of the voting shareholders attending the meeting, unless a heavier quorum is explicitly stipulated in the articles of association.

d) In these transactions, the partners who are parties in accordance with the first paragraph of Article 436 of the Law No. 6102 cannot vote at the general assembly meetings where these transactions will be approved. The provisions of the articles of association that mitigate the quorum specified in this paragraph are invalid.

Besides Capital Market Law No. 6362, Turkish companies are also regulated by Turkish Commercial Code (TCC) No. 6102, which was issued in 2011. According to Article 434/1 regarding voting rights, shareholders may use their voting rights at the general assembly based on the proportion of their shares' nominal value. A decrease in their nominal share values because of corrections to the financial situation should result in granting their voting right over the nominal value of the shares before preserving the discount.

Furthermore, the RPTs disclosure standard for Turkish listed companies based on the IAS 24 and translated to Turkish is regulated by TAS 24. This regulation is aimed at ensuring disclosures are included in the entity's financial statements to highlight potential profit or loss, which may be affected by the existence of or transactions with related parties, as well as available balances, including commitments with the firm.

2.2 Agency Theory in Related Party Transcation

The agency theory explains the problems between the agent and principal. These problems create agency costs (Jensen & Mecking, 1976) and are caused by the individual interests of both parties. The framework of this theory was backed by the modern corporation perspective, where share-ownership tends to be dispersed. There are several firm shareholders within a small percentage of ownership, resulting in an agency problem while handling the management as the agents and shareholders as the principal.

However, modern corporations usually practice a concentrated form of ownership, which is more powerful in these types of firms than dispersed ownership. Higher proportions of shareholding increase the voting rights required for a firm's economic activities, leading to different views in the agency theory. The problem of concentrated ownership is principal-principal, allowing the controlling ownership to posit representatives in the management in order to control the firm.

Although shareholders are not allowed to directly control the firm, the management may play double roles in the organization. Agent and principal conflicts may decrease the controlling ownership of the corporation as well as the fair mechanism regarding minority interest. La Porta et al. (1999) argued that ownership concentration increases the power of controlling shareholders to expropriate the minority. In a closely held corporation or concentrated ownership, this would indicate the maximization of the principal shareholders' utility ahead of the minority shareholders. The impact of this conflict will be the expropriation of the minority interest by the major shareholder, as the management may obtain benefits at their cost. However, the corporate governance mechanisms of the board of directors may be superseded by the controlling shareholders through the appointment of a board.

Individually dealing with RPTs during a conflict of interests will impact firm activities, as they represent a key enabler of management opportunism and an avenue for principal-agent and principal-principal conflicts. Also, RPTs could be viewed as a principal-principal conflict of interest in concentrated ownership corporations. These conflicts, which involve expropriation incentives, vary with cash flow rights (Jensen & Meckling, 1976).

3. LITERATURE REVIEW

RPTs have been discussed in previous research, such as Henry et al. (2012), which examined SEC enforcements involving RPTs by comparing related fraud cases. This research found that frauds involving RPTs had a lower effect on financial statements, obviating their requirement as mechanisms for fraud. Balsam & Puthenpurackal (2017) explored determinants of RPTs and their association with CEOs compensation in the US and discovered that weak governance caused an efficient contracting hypothesis of RPTs and was positively related to CEOs compensation in independent boards.

Additionally, Pizzo (2013) examined RPTs in Italy using a contingency perspective despite conflicts of interest or efficient transaction hypothesis views. He underlined that effectiveness and efficiency were strongly associated with organizational contexts, institutional environments, and governance practices. Pozzoli & Venuti (2014) also evaluated RPTs procedures in Italian listed companies and discovered a dissociation from firm performance.

Pratama (2018) discovered the effect of RPTs and tax avoidance on firm value using 184 manufacturing companies in Indonesia from 2012-2015. Meanwhile, Suryani et al. (2019) examined listed firms in the country between 2015 and 2018 via path analysis to highlight the absence of an influence by RPTs. Anastasia & Onuora (2019) also evaluated Nigerian conglomerate companies in 2008-2015, where they discovered that RPTs affect ROE and Net Worth.

Moreover, Bansal & Thenmozhi (2020) found a positive association between concentrated founder ownership and RPTs in Indian firms as well as a correlation between RPTs and higher firm value. They argued that reputation incentives were a key role in founders' decisions, based on the practice of RPTs from an efficient transaction hypothesis view.

El Madbouly (2020) also assessed the determinants of RPTs in the Egyptian Stock Market. This research discovered that governmental ownership, the number of the non-executives in the board, and the separation between the board chairman and the CEOs negatively affected the firm's RPTs, while the ownership concentration had a positive relationship.

Jeon (2019) examined the association between RPTs and corporate governance in Korean listed companies, where the board of directors was discovered to play a significant role in effectively monitoring transactions between related parties. Choi & Cho (2021) found that greater RPTs led to lower cash holding value in Korean listed firms between 2011-2018. The research also suggested that a unique and complex corporate governance structure in Chaebol firms challenged the monitoring activities of external investors regarding internal cash management decisions, resulting in a negative valuation of cash holdings.

4. RESEARCH METHODOLOGY

4.1 Research Data and Sampling

In this research, secondary data is used to examine the concerned variables. The data were collected from Borsa Istanbul listed companies and downloaded from Public Disclosure Platform (KAP) website, www.kap.org.tr. Table 1 below shows the details of the data collection process. Although there were 170 manufacturing companies listed on Borsa Istanbul, the 2019 and 2020 financial reports for 12 manufacturing companies listed on BIST were not found. Also, 3 companies did not have related party transactions in the observations from both years, leading to their exclusion from the sampling process. Finally, 310 financial reports were examined using the E-views version 10.

Table 1: Sample selection

	2019	**2020**
Manufacturing companies listed in Borsa Istanbul	170	170
Less: Unfound financial reports	(12)	(12)
Less: Incomplete information needed for this research	(3)	(3)
Subtotal	155	155
Total	**310**	

Source: kap.org.tr

4.2 Research Variables

Table 2 below describes variables in this research.

Table 2: Variable Description

Variables	Abbrev.	Description	Source
Dependent Variable			
Related parties transactions	RPTs	Logarithm of total related parties transactions	FR
Independent Variables			
Controlling ownership	OWN	Percentage of controlling ownership in the firm	FR
CEO characteristic	CEO	1 if CEO has firm share ownership, connections with group firms, family, board director relationship, dual role as board of director 0 if not	FR, AR
Independent Board director	INDEP	Amount independent board director in the firm	FR, AR
Control Variables			
Firm size	SIZE	Logarithm of firm's total assets	FR
Covid-19 outbreak period	COVID	1 for Covid-19 outbreak period data, 0 for other	FR

Note: FR: Financial Report, AR: Annual Report

5. RESEARCH MODEL AND HYPOTHESES

Figure 1 below shows the conceptual framework.

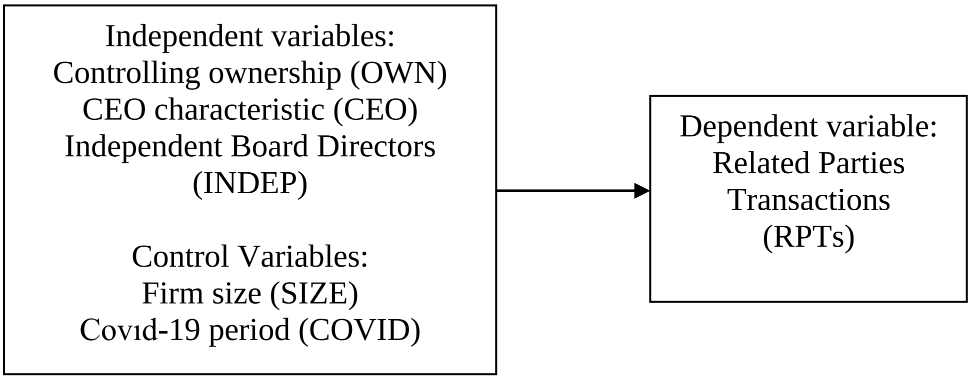

Figure 1: Research Framework

Figure 1 describes the conceptual framework, which consisted of related party transactions as the dependent variable, controlling ownership, CEOs characteristics, and independent board director as the independent variables, with firm size and Covid-19 period as the control variables. According to the conceptual framework, the econometric model for this research is:

$$\boxed{RPTs_{it}=\alpha+\beta_1 OWN_{it}+\beta_2 CEO_{it}+\beta_3 INDEP_{it}+\beta_4 SIZE_{it}+\beta_4 COVID_{it}+\varepsilon_i}$$

5.1. Controlling ownership on RPTs

Ownership is one of a firm's financial resources and could be a source of agency conflict (Shleifer & Vishny, 1997). Generally, agent-principal conflict of interest occurs due to personal interest in corporate incentives (Eisenhardt, 1989). Although opportunistic behaviors in management could be a common agency problem in dispersed ownership corporations, it is slightly different in firms practicing concentrated ownership. The power of highly concentrated shareholders could control parts of a corporation, including the management. Therefore, conflicts of interest could be a principal-principal problem. The most common form of concentrated corporations is owned by groups, holdings, and family members. Controlling shareholders have the power to dominate corporations in many ways and may own numerous subsidiaries as well as other connections obtained with money.

Controlling shareholders could gain incentives to protect their investments, including appointing management staff and expropriating minority shareholders (Shleifer & Vishny, 1997; Claessens et al., 2000). There could be asymmetric information of minority shareholders, where withholding investments may prevent their protection. The controlling shareholder has more connections in maintaining their incentives by appointing, monitoring, and rewarding management based on their voting rights (Shleifer & Vishny, 1997). Higher proportions of ownership may enhance the ease of control among parts of the corporation, and by acting as service providers, the management will decide firm activities according to the cash flow rights incentives of the controlling shareholders. The ownership of at least 5% of the firm will also allow the management to substitute for these shareholders, thereby promoting an alignment of the agent-principal (controlling shareholder). Meanwhile, profit maximization is key in motivating alignment despite rising agent-principal conflicts (Eisenhardt, 1989).

A tactic employed by controlling shareholders to increase their private benefit involves directing the management to make decisions that can support their interests (Claessens et al., 2000). This consists of several benefits that can be created by management policies, including RPTs. These transactions are linked with self-dealing by the management to maximize their utility at the expense of shareholders, resulting in expropriation and a conflict of interest (Jensen & Meckling, 1976). The reason for these issues is that large shareholders represent their interests, which may contradict the benefits of the minority shareholders (Shleifer & Vishny, 1997). Meanwhile, previous studies have suggested a positive relationship between RPTs and ownership concentration, such as Bansal and Thenmozhi (2020) and El Madbouly (2020). Therefore, the hypothesis below was proposed.

$\mathbf{H_1}$: There is a positive effect of controlling ownership on RPTs.

5.2. CEOs characteristic on RPTs

CEOs are the executive chairman of the firm in which the job involving the management and strategic decision-making in the company. Managing a firm as an agent means they must implement firm strategies to acquire profit, which will be divided among shareholders as their investment return. This mechanism is normal in dispersed ownership. In principle, CEOs are prohibited from becoming shareholders and obtaining interest on the investment incentives. However, agent-principal problems may occur due to the possession of personal financial goals. CEOs that directly manage cash flows for the firm can also handle personal funds, such as earning managements and other transactions. The principal also expects the achievement of investment growth, such as future high returns in the market and dividend acquisition.

In many corporations, CEOs are rewarded with share-ownership. Occasionally, the CEOs in this concentrated ownership are one of the controlling shareholders, functions as a member and/or chairman of the board of directors, has connections to the ultimate power, and may also be a family member of the controlling shareholder. Firms with a CEOs characteristic close to ultimate power practice improper governance mechanisms because corporate control in the executive perspective will be mixed by the controlling shareholder’s interest. Jensen (1993) argued that this dual position could result in difficulties achieving its function independently and may lead to the expropriation of minority shareholders (Jensen, 1993). This includes property rights of the firm and the mitigation of contracts (Cheung et al., 2009), which may involve RPTs, though the CEOs position should be closed to such decisions.

There are previous findings regarding CEOs and RPTs. Hu et al. (2012) found a positive relationship between CEOs duality and RPTs, while El Madbouly (2020) suggested a negative relationship. Hence, this research proposed that:

H_2: There is a positive effect of the CEOs characteristics on RPTs.

5.3. Independent members of board of directors on RPTs

Generally, an independent members of board of directors is established to minimize the risks of minority shareholders’ investment. The board is responsible for monitoring and controlling the effectiveness of firm management (Fama & Jensen, 1983) and must ensure its smooth functioning, as their commitments involve maximizing shareholders’ investment value. The independent board, also be called minority shareholders’ representatives, has the right to disapprove and provide control measures regarding potential losses and costly transactions decided by the management (Fama & Jensen, 1983). Since the board has no interest in investments or other economic issues of the firm, they will be more objective in making decisions and arguments regarding management decisions, including RPTs.

In Turkey, the monitoring rights of independent boards of directors on RPTs are regulated by Capital Market Law No. 6362. Current findings discovered a negative relationship between the proportion of independent directors and RPTs (Hu & Li, 2010; Jeon, 2019; El Madbouly, 2020). Therefore, this research proposed that:

H_3: There is a negative effect of the role of an independent members of board of directors on related party transactions.

6. FINDINGS

Table 3: Ownership percentage in Turkish manufacturing companies listed on BIST

Ownership proportion	2019		2020	
	Freq.	%	Freq.	%
5% –10 %	6	3.87	7	4.51
11% –25%	12	7.74	13	8.39
26% –50%	26	16.77	27	17.42
51% –75%	65	41.94	66	42.59
76% –100%	46	29.68	42	27.09
Total	**155**	**100**	**155**	**100**

Source: Collected data

According to the table above, Turkish manufacturing companies were dominated with 51%-75% ownership, which comprised 41.94% in 2019 and 42.59% in 2020. The second highest rank was the 76%-100% group, which owned 29.68% of the firms in 2019 and decreased to 27.09% in 2020.

Table 4: CEOs Characteristics in Turkish manufacturing companies listed on BIST

CEOs Characteristics	2019		2020	
	Freq.	%	Freq.	%
CEOs who has firm share ownership, connections with a group or family in the company, board director relationship, and/or dual role as a board director.	97	62.58	97	62.58
CEOs without any relationship to ultimate power.	58	37.42	58	37.42
Total	**155**	**100**	**155**	**100**

Source: Collected data

Table 4 above describes that 62.58% of the CEOs in Turkish manufacturing companies listed on BIST are related to the ultimate power in the firm. Consequently, such relationships may affect corporate decisions regarding firm cash flow and related party transactions. CEOs with firm share ownership and other mentioned relationships can also be found on that platform. Details of corporate governance mechanisms can be accessed at www.kap.org.tr.

Table 5: Number of Independent Board Directors in Turkish manufacturing companies listed on BIST

Number of Independent Board Director	2019		2020	
	Freq.	%	Freq.	%
0	12	7.74	12	7.74
1	3	1.93	3	1.93
2	109	70.32	109	70.32
3	22	14.19	22	14.19
4	8	5.17	8	5.17
5	1	0.65	1	0.65
Total	**155**	**100**	**155**	**100**

Source: Collected data

According to CGP article 4.3, the total number of independent members shall not be less than one-third of the total number of members and in any case, the number of independent members cannot be less than two. Table 5 shows that the firms have different numbers of independent directors, and no difference was recorded in both observation years. A total of 9.67% do not comply with TCC article 360, while the majority of 70.32% conformed to the regulation. Meanwhile, a firm with 5 independent board directors was surprisingly discovered.

Table 6 below represents the output of the unit root test of the collected data set. A unit root test is conducted to ensure the stationary nature of data, represented by the rejection of null hypotheses.

Table 6: Unit Root Test

Variables	Schwarz Info Criterion	Akaike Info Criterion
RPT	-12.11872 *** (0.0000)	-8.875291*** (0.0000)
OWN	-8.744975 *** (0.0000)	-5.759362*** (0.0000)
CEO	-5.085952 *** (0.0000)	-3.739975*** (0.0040)
INDEP	-4.586786*** (0.0002)	-3.100357** (0.0276)
FIRMSIZE	-8.419432*** (0.0000)	-8.247326*** (0.0000)
COVID	-179.5485 *** (0.0001)	-179.5485 *** (0.0001)

Note: Using two-tailed significance tests,

*p-Value indicates significance at the 0.10 level,

**p-Value indicates significance at the 0.05 level, and

***p-Value indicates significance at the 0.01 level.

Table 6 above is the output of The Augmented Dickey-Fuller (ADF) test using the Schwarz and Akaike Info Criteria, which indicated all the variables and the rejection of the null hypotheses. Therefore, the data was concluded as stationary.

Table 7: Model Estimation Test

Chow test	8.159885*** (0.0000)[a]
Hausman test	9.241008 ** (0.0263)[b]
Lagrange multiplier test	88.74096*** (0.0000)[c]

Note: Using two-tailed significance tests,

*p-Value indicates significance at the 0.10 level

**p-Value indicates significance at the 0.05 level, and

***p-Value indicates significance at the 0.01 level.

After conducting the unit root test, the models were estimated to select representatives fit for multi-regression analysis. The model estimation involved three stages, namely Chow, Hausman, and Lagrange Multiplier tests. Chow test was conducted to select the common and fixed effects and determined that (a) had probability values below 0.05. This implied that the fixed effect was more appropriate. Conversely, the Hausman test evaluated the fixed and random effect models to show (b) also had a probability value below 0.05, indicating that the fixed effect was more appropriate than the random effect model. The Lagrange multiplier test assessed the common and random effects and found that (c) had a probability value below 0.05, meaning the random effect was more appropriate than the common effect. According to the tests, data were analyzed based on the fixed-effect model.

Table 8: Multiple Regression Output

Variables	**Coefficient**	**t-statistics (Prob.)**
C	1.779536	2.570642*** (0.0106)
OWN	0.004935	1.901109 ** (0.0582)
CEO	0.198865	1.716683 * (0.0871)
INDEP	-0.192457	-2.544262 *** (0.0114)
FIRMSIZE	1.034841	11.67251 (0.0000)***
COVID	0.016090	0.145667 (0.8843)
F-statistic	46.85636	0.000000***
R-squared	0.380617	
Adjusted R-squared	0.372494	

Note: Note: Using two-tailed significance tests,

*p-Value indicates significance at the 0.10 level

**p-Value indicates significance at the 0.05 level, and

***p-Value indicates significance at the 0.01 level.

Table 8 above shows the result of the multi-regression test, where all the hypotheses are accepted. The first hypothesis was accepted within a probability value of 0.05, the second was 0.0871, and the third had the highest probability value of 0.01. Meanwhile, firm size as a control variable had a probability value of 0.00, while the Covid-19 period was insignificant. The F-statistic indicated that the model had a probability value below 0.05, meaning the overall model was accepted. Also, the adjusted R-squared demonstrated that other variables may affect RPTs.

According to the statistical result, the hypotheses were accepted at various levels, denoting that CEOs characteristics, controlling ownership, and independent members of board of directors affect RPTs. From the conflict of interest perspective, these findings reflect the power of controlling ownership and corporate control via management (CEO). Shleifer and Vishny (1997) and Claessens et al. (2000) stated that controlling shareholders install their connections in the corporate management level to exert power over the officials. As discovered in this research, the impact of controlling ownership followed by CEOs characteristics indicates the significance of expropriation in RPTs.

Generally, RPTs are a form of cash flow-related transactions. Cash flow rights are the shareholders' privileges in meetings and signify the power of ownership proportion in the firm. RPTs are transactions with related parties, which are made by controlling shareholders for self-dealing advantages, denoting techniques used to maximize personal interest, utilities, and investments. This usually involves an entrenchment effect, which involves activities to maximize controlling shareholders' investment. For example, a strongly-connected CEO and a strategic decision-maker being appointed as the chairman of the board of directors, and approving RPTs to optimize group corporation and wealth.

This finding also refers to the diminished agent-principal conflict in RPTs, but a rise in principal-principal disagreements. The CEO's decisions regarding RPTs may be indirectly affected by controlling ownership due to the influence of their interests and connections, and a resultant decreased friction indicates that the management is acting opportunistically (Jensen & Meckling, 1976). This is due to the CEO's participation in the group or controlling ownership connection. The opportunism may variously result in the misuse of power, overconsumption of perquisites, adverse risk-taking, and information asymmetry (Jensen & Meckling, 1976).

This finding is in line with Bansal & Thenmozhi (2020), El Madbouly (2020), which found that concentrated ownership was associated with RPTs. It also corresponds with research by Hu et al. (2012), which discovered that CEOs positively affect RPTs through the acquisition of incentives by managing company cash flows (Eisenhardt, 1989). Subsequently, Balsam & Puthenpurackal (2017) reported that their compensation was associated with RPTs, signifying that even without connections to controlling shareholders, they may perform RPTs. This is because such indirectly result in specific contracts to other firm groups and may be an opportunity to obtain incentives.

Although entrenchment effect practices were observed in this examination, the independent members of board of directors was found to exert an influential role on RPTs, which was surprisingly the highest. This finding is in line with Hu and Li (2010), Jeon (2019), and El Madbouly (2020), which observed that independent boards of directors decreased the rate of RPTs.

These findings affect the work of governance mechanism and the alignment effect perspective. The responsibility of an independent members of board of directors is well regulated in the Capital Law Market and TCC, and the approval mechanism of their RPTs decision indicates an association with minority shareholders' interests. This means that RPTs may be a form of efficiency to maximize financial performance. In the Turkish governance mechanism, RPTs are well regulated and may be denied by the independent board, which must be disclosed in the KAP.

However, a strong impact of the independent members of board of directors also implies an alignment effect in the firm. Alignment refers to the situation where controlling shareholders do not abuse RPTs for personal gain, as there are many ways to maximize their interest, including private benefit in the capital market. RPTs, in the efficiency hypotheses perspective, connote the responsibility of members of group ownership to assist the company's growth (Gordon, 2004).

Meanwhile, firm size and the Covid-19 outbreak period were evaluated as control variables. The result showed a strong effect of firm size on RPTs, denoting an association with cash flow. Therefore, larger firms tend to exert more influence on RPTs, though the focus of the controlling ownership and management on cash flow would differ according to the size of assets. The second control variable, the Covid-19 outbreak, did not affect RPTs, indicating that these practices were not limited to the pandemic period. The nearest reason is that RPTs occur for a specific purpose, such as to meet the demand of raw or complementary materials, which can only be met by a group corporation regarding the quality of a product.

7. CONCLUSION

There are two perspectives of RPTs, namely efficiency hypotheses and conflict of interest. The first perspective entails efficiency regarding price, quality, and responsibility compared to another firm in the same group or holding, which supports the maximization of group wealth. Conversely, the conflict of interest perspective argues that the controlling shareholder obtains private benefits using specially contracted transactions and expropriating minority shareholders via the entrenchment effect. This is based on the voting rights, which are naturally influenced by the proportion of shareholders in the General Assembly. This view consists of the cash flow rights that may be made by RPTs.

The findings also imply that conflict of interests may potentially occur during RPTs in Turkish manufacturing companies. The hypotheses involving the effect of controlling ownership and CEOs characteristics were accepted, demonstrating that the expropriation of the minority shareholder may occur, and the CEO may be opportunistic and support the entrenchment effect. However, the independent members of board of directors variable had a negative impact on RPTs, which was higher than the effects of controlling ownership and the CEOs characteristics, denoting the function of governance mechanisms. The alignment influence may also be stronger than the entrenchment effect of minority interests by the controlling shareholders. Finally, the control variables yielded different results, as firm size affected RPTs, indicating the increase of the latter variable by a rise in the former, which may lead to different RPTs decisions. Conversely, the Covid-19 outbreak did not affect RPTs, as they are specific contracted transactions regarding efficiency.

The limitations of this research are the absence of an examination of the CEOs and independent board directors' backgrounds. Future research could also extensively analyze the factors affecting the approval or denial of RPTs by independent board directors during general meetings. Furthermore, understanding the approval mechanism of RPTs seems important to acquire more knowledge for assisting minority shareholders to minimize information asymmetry.

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