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Related Party Transactions from the Perspective of Public Shareholders

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Abstract

Transactions between related parties, particularly those involving controlling shareholders, may pose a risk of financial detriment to minority shareholders while simultaneously providing a mechanism for controlling shareholders to accumulate profits in a manner that may be considered inequitable. This research seeks to examine the effects of related party transactions on shareholders from four distinct analytical angles, to enhance the investment decision-making process for investors. The study explores the relationship between related party transactions and several financial indicators of companies listed on Borsa Istanbul, including the free float ratio, stock price performance, dividend payout ratio, and Tobin's Q. The research utilized financial data from 339 companies listed on Borsa Istanbul, resulting in 1478 instances within an unbalanced panel data set. Methodologically, both fixed effects and random effects regression analyses were conducted. The analysis shows a positive relationship between debts owed to related parties and the free float ratio, as well as Tobin's Q ratio. Furthermore, a positive relationship is identified between receivables from related parties and the free float ratio, while a negative relationship is observed between receivables from related parties and Tobin's Q ratio. These findings corroborate the existence of agency costs and conflicts of interest between majority shareholders and minority shareholders. Despite the statistical significance of the findings, it is pertinent to note that the explanatory efficacy of the equations utilized is relatively modest.

Keywords: Related Party Transactions, Agency Costs, Tunneling.

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1. INTRODUCTION

Related party transactions (RPTs) involve interactions between a corporation and its associated entities, which may include partnerships, subsidiaries, shareholders, stakeholders, employees, family members, and affiliated or controlled organizations. Such transactions often exhibit a tendency for the redistribution of wealth in favor of entities or individuals possessing majority ownership (Johnson et al., 2000). Due to the diverse definitions of RPTs in the literature, several studies have categorized these transactions from various perspectives. Cheung et al. (2006) classified RPTs into three distinct groups: those precipitating the transfer of wealth away from minority shareholders, those that confer benefits upon minority shareholders, and those executed with strategic intent that do not harm the financial interests of minority shareholders.

In the broader literature, RPTs are commonly analyzed based on various theoretical foundations, with three salient theories gaining attention. Agency theory and conflict of interest theory suggest that RPTs tend to manifest as transfers of wealth from other shareholders in favor of controlling shareholders or for the benefit of managerial personnel. These theories argue that potential actions such as the misappropriation of business resources and manipulation of information may introduce biases into financial statements, raising concerns about their validity and fostering uncertainty. Dinç and Varici (2012) investigated the association between fraudulent reporting and RPTs. Their research contrasted 37 companies suspected of fraudulent reporting with 37 companies lacking such suspicions. The findings suggested that receivables from and debts to related parties are more prevalent in companies associated with suspected fraudulent reporting.

Kohlbeck and Mayhew (2017) conducted a comprehensive analysis to ascertain whether RPTs serve as indicators of inaccurate financial reporting. The research gathered data from companies listed in the S&P500 for the years 2001, 2004, and 2007. The results revealed a positive relation between the frequency of RPTs and the restatement of financial reports. This relationship appeared particularly pronounced in transactions conducted under the influence of the "tone at the top" rather than being essential commercial transactions. Conversely, the efficient transaction hypothesis asserts that these transactions are necessitated by business requirements and align with the interests of shareholders. Furthermore, this theory contends that potential benefits, such as the mutual exchange of information and risk reduction, may ensue (Huang and Liu, 2010).

RPTs may adversely impact company shareholders in several ways. Firstly, conflicts of interest and a loss of trust, as defined in the literature, can emerge when controlling partners unethically transfer wealth to themselves by exploiting the company's opportunities. Public awareness of such situations can diminish the company's stock performance and curtail its access to financial opportunities, such as bank loans. Secondly, RPTs prompt changes in the financial structure and profitability of the company. For instance, loans extended to related parties may increase the company's debt ratio, while tunneling may diminish its profitability. Consequently, this complexity hinders effective financial analysis and

obstructs a fair valuation of the company. Thirdly, RPTs can influence the company's decision-making processes, diverting attention from long-term profit maximization and compromising effective management during strategic planning. Lastly, unethical utilization of RPTs can disrupt the company's dividend distribution processes, diminishing potential earnings for shareholders.

Despite the potential negative effects, RPTs, if implemented righteously, can positively impact shareholder returns. Many holding companies, operating in diverse areas, can create synergy and enhance profitability through cooperation among their entities. Joint projects developed through strategic collaboration can mitigate risks, fostering increased profitability for all parties involved. Trust issues can be resolved in commercial relations between companies managed by the same controlling partner. RPTs can offer cost advantages, aiming to maximize joint profits rather than individual company profits, potentially leading to increased sales volume and long-term growth. Joint material purchases may lower costs and yield labor savings. Companies may also benefit from the distribution channels of related parties, providing a significant strategic advantage. Finally, obtaining financial debt from related parties in the event of financial distress will create value for the company.

According to data from Central Securities Depository &Trade Repository of Türkiye (Merkezi Kayıt İstanbul), the number of equity investors in Borsa Istanbul exceeded 8 million as of December 2023 (https://www.vap.org.tr). Understanding the impact of RPTs on stocks becomes imperative for these investors. This study endeavors to discuss the various dimensions of RPTs' impact on stock investors of Borsa İstanbul and provide critical insights for investment decisions. Additionally, it aims to offer valuable insights to regulatory authorities for prudent decisions and audits related to RPTs.

The article assesses the impact of RPTs on stock investors from four different perspectives. Firstly, the relationship between the free float ratio and RPTs is scrutinized. If controlling shareholders prioritize the interests of the company over their own, there should be no significant relationship between the free float ratio and RPTs. Secondly, the relationship between stock returns and RPTs is analyzed. If shareholder interests are prioritized in company management, a nonexistent or beneficial relationship between stock returns and RPTs is expected. Thirdly, the relationship between the dividend payment ratio and RPTs is investigated. If controlling shareholders unethically transfer free cash to their accounts, the companies' dividend payment ratio is likely to diminish. Lastly, the effect of RPTs on company valuation is assessed through the evaluation of Tobin's Q ratio.

This article advances the literature in several ways. (1) Firstly, it is compiled with the largest data set covering Borsa Istanbul, including most of the companies and spanning a wide period of seven years. (2) The research period encompasses the years 2021 and 2022, crucial for understanding market dynamics post-Covid-19, when interest in the stock market surged. (3) The study embraces a broad perspective, examining the multi-dimensional effects of RPTs, including the free float ratio, stock return, dividend distribution, and valuation.

The subsequent sections of the article are organized as follows: Section 2 reviews other studies in the literature and develops hypotheses. Section 3 details the research data set, methodology, and findings, while Section 4 concludes the article.

2. LITERATURE

A review of the extant literature reveals that the impact of RPTs on firm value, firm performance and stock performance has been extensively investigated, yet consensus remains elusive. While revealing the impact of RPTs, both the regulations made in the capital markets of the country and the structure of the company play an important role. Nekhili and Cherif (2011) stated that factors such as the ownership rate of the main shareholder, the size and independence of the board of directors, audit mechanism and capital structure are effective on the impact of RPTs. Cheung et al. (2009) investigated the relation between RPTs in Chinese companies between 2001-2002. The RPTs in the research includes asset acquisitions, asset sales, asset swaps, trading goods and services and cash payments. Their findings indicated the occurrence of both tunneling and propping within several entities, with tunneling being more prevalent in the sample. Propped companies are larger in scale compared to tunneled companies. Propped companies have a higher rate of foreign shareholding and are more likely to be traded in foreign markets. Propped firms generally have worse financial performance in the year before the related party transaction. Pozzoli and Venuti (2014) investigated the relation between RPTs and financial performance in their study. In the research, data of companies traded on the Italian stock exchange between 2008 and 2011 were used. According to the research results, there is no relationship between RPTs and financial performance. Consistent with the findings in the literature, the present research endeavors to test the validity of 4 distinct hypotheses.

H_1: There is a relationship between RPTs and free float.

Ryngaert and Thomas (2012) note that RPTs Pre-IPO's are significantly detached from shareholder wealth. Kang et al. (2014) stated that RPTs negatively affect firm value, especially in cases where the ownership structure of the main shareholder is high. Byun et al. (2011) stated that the dominance in ownership structure concentration increases information asymmetry and paves the way for transactions against minority shareholders. Khalili and Mazraeh (2016) showed that as the free float ratio increases with corporate governance, RPTs decrease. It is seen that RPTs are used to make up the company, especially before going public. Chen et al. (2011) examined the earnings management in initial public offerings (IPOs) in Chinese market. Their research includes 257 IPOs during the 1999-2000 period. According to their findings, controlling shareholders use RPTs to improve operating performance of the companies during pre-IPO period. It is also found that there is a decrease in the operating performance of these companies during post-IPO periods. There are also studies arguing that in addition to going public, the ownership structure of the company is also effective in RPTs. In their study, Wan and Wong (2015) compared the impact of RPTs on performance in publicly and privately

managed companies. Their research, utilizing data from 90 companies listed on the Chinese stock exchange between 2007 and 2009, reveals that tunneling is prevalent in publicly managed companies, whereas it is absent in privately managed firms. Despite higher operational performance, publicly owned companies fall short compared to their private counterparts due to tunneling.

As the free float ratio increases, it can be expected that conflicts of interest will increase and, accordingly, RPTs carried out against shareholder value will increase. However, this trend may differ in companies where shareholder rights are safeguarded and a trustworthy environment is fostered through factors such as exemplary corporate governance, confidence in the board of directors, and rigorous independent auditing.

H_2: RPTs affect stock performance.

Gordon et al. (2006) investigated the impact of RPTs on companies listed on the stock exchange in the USA. They found an inverse relationship between above-index return and RPTs and that there may be moral hazards inherent in these transactions. In their study, Utama and Utama (2009) divided investment announcements into two groups: those involving RPTs and those that did not. In their analysis of the Indonesian stock market's response to these announcements using the cumulative abnormal return method, they observed that the market's reaction to RPTs was less pronounced than to other types of transactions, which they ascribed to insufficient public oversight of wealth transfer. Ryu (2018) and Habib et al. (2021) showed that there is a positive relation between the escalation of RPTs in China and the heightened risk of stock price collapse. As RPTs increase, the credibility of financial reports diminishes, and the asymmetry of information between controlling and minority shareholders intensifies, potentially exerting a deleterious effect on future stock prices.

H_3: There is a relationship between RPTs and dividend distribution.

Gugler and Yortuglu (2003) contend that the dividend distribution policy engender conflicts of interest between principal and minority shareholders, while Louis and Urcan (2015) suggest that dividends may be utilized to mitigate such conflicts. Similarly, El-Helaly and Al-Dah (2022) state that if there is a significant relationship between high dividend payments and RPTs, there is a conflict in the business and, in turn, the dividend payment increases. Should RPTs emit negative signals to minority shareholders, major shareholders might elect to enhance the dividend policy as a countermeasure. This dynamic could be contingent upon the presence of regulations safeguarding minority rights or specific company policies. In scenarios where principal shareholders execute RPTs with the intent of wealth transfer, indifferent to negative repercussions, they may opt for minimal or no dividend payouts. La Porta et al. (1999) assert that robust investor protections are pivotal, as dividends play a crucial role in addressing agency issues; conversely, in jurisdictions with feeble regulations, dividend relevance diminishes. Li and Zhao (2008) postulate that in environments with frail legal protections for minority

rights and pronounced information asymmetry, dividend distributions tend to be lower. Sari et al. (2017) observe a negative association between cash dividend payouts and RPTs.

H_4: RPTs affect firm valuation.

Scholars do not unanimously agree on the impact of RPTs on firm valuation. Bona-Sánchez et al. (2017), Gordon et al. (2006), and Elkelish (2017) explored the negative impact of related party relationships on firm value. In contrast, Djankov et al. (2008) emphasized their positive effects. Suryani and Putri (2019), Diab et al. (2019), Varıcı and Küçüktüfekçi (2021) found no significant effect. It is also noted that this relationship may vary depending on the type, content and purpose of the related party transaction. Wang et al. (2019) reported in their study that RPTs have a negative effect on firm value, but this effect turns positive for RPTs made with sectorally similar companies or those with a vertical relationship. Lei and Song (2011) demonstrated that RPTs positively impact firm value if information asymmetry is mitigated by proactively informing shareholders and investors about these transactions, provided the information aligns with strategic objectives. Dahya et al. (2008), considering investor protection regulations, focused on countries with low levels of such protections. They observed that the values of companies engaging in RPTs were lower than those that did not, with a consequent negative impact on market valuation.

Şendurur and Gelen (2023) analyzed the relationship between RPTs and firm value, utilizing data from 21 companies in the BIST100 index that published sustainability reports between 2015 and 2021. Their findings indicate that debts to related parties positively affect firm value, whereas related party acquisitions have a detrimental effect. Kohlbeck and Mayhew (2010) examined the relationship between RPTs and company valuations, using data from companies in the S&P500 in 2001. Following the enactment of the Sarbanes-Oxley Act (SOX), which restricted loans to related parties, the study examined the returns of companies with RPTs before and after the implementation of these restrictions. The results reveal that companies with RPTs are valued with a lower multiplier compared to others and experienced lower stock return performance post- SOX. Varıcı and Küçüktüfekçi (2021) examined the impact of RPTs on firm value, analyzing data from 41 industrial companies traded on BIST100 in 2019. This research concludes that there is no relationship between RPTs and company valuation.

The existing literature presents diverse findings regarding the relationship between RPTs and free float, stock performance, dividend distribution, and firm valuation. While some studies suggest that a higher free float ratio may lead to increased RPTs due to conflicts of interest, others argue that strong corporate governance can mitigate this effect. Similarly, research on the impact of RPTs on stock performance reveals that these transactions often contribute to stock price declines by increasing information asymmetry and financial report manipulation. Regarding dividend distribution, findings indicate that RPTs may either serve as a tool for wealth transfer at the expense of minority shareholders or, conversely, lead to higher dividend payouts as a compensatory mechanism. Finally, the impact of

RPTs on firm valuation remains inconclusive, with some studies highlighting their negative influence due to tunneling, while others emphasize their potential benefits when conducted transparently and strategically. These inconsistencies suggest that the consequences of RPTs largely depend on contextual factors such as ownership structure, regulatory environment, and corporate governance quality. These insights provide a strong foundation for testing the proposed hypotheses, while also emphasizing the need for further research to reconcile divergent findings and account for contextual nuances.

3. RESEARCH

3.1. Data

In this study, data from companies listed on Borsa Istanbul were utilized. Companies within the financial sector and investment trusts were excluded from the research scope. The study included 339 companies that have been actively traded on the stock exchange over the past year. A total of 1478 observations were encompassed in the study, employing an unbalanced panel data set. The data set comprises company financials published on Public Disclosure Platform (PDP) from 2016 to 2022. As company financials published on PDP adopted a standardized format starting from the second quarter of 2016, the commencement date for the financial statements data set is 31 December 2016. The year 2022 represents the most recent period for which annual financial data was available at the time the research was conducted. The study's frequency is annual. The variables employed in the research, along with their definitions, are delineated in Table 1 below.

Table 1. The Variables Employed in the Research and Their Definitions

Abbr.	Variable Name	Description of Variable Formula
RRP/TA	Receivables from Related Parties / Total Assets	Ratio of receivables from related parties to total assets
LRP/TA	Liabilities to Related Parties / Total Assets	Ratio of liabilities to related parties to total assets
TRRP/TR	Trade Receivables from Related Parties / Trade Receivables	Ratio of trade receivables from related parties to total trade receivables
TLRP/TL	Trade Liabilities to Related Parties / Trade Liabilities	Ratio of trade liabilities to related parties to total trade liabilities
ORRP/TA	Other Receivables from Related Parties / Total Assets	Ratio of other receivables from related parties to total assets
RPV	Represents each of the related party variables. Namely RRP/TA, LRP/TA, TRRP/TR, TLRP/TL and ORRP/TA	N/A
APS	Stock Price Performance	Yearly performance of shares
DPR	Dividend Payout Ratio	Ratio of dividends distributed to net income
FFR	Free Float Ratio	Ratio of publicly traded shares to total shares outstanding
TQ	Tobin's Q Ratio	Ratio of market value of assets to book value of assets
LNMF	Natural Logarithm of Market Cap of Free Float	Natural logarithm of the market capitalization of free float

3.2. Methodology

In the study, five variables were employed to ascertain the presence of RPTs, drawing upon the data in the comprehensive financial statements. Companies engaging in financial lending or sales transactions with related entities report receivables from related parties. Conversely, companies that engage in purchases or loans from related parties report debts to related parties. The analysis of receivables from related parties was conducted using three different variables. Firstly, the ratio of total receivables from related parties to total assets was calculated. Secondly, transactions exclusively between related parties were scrutinized, leading to the calculation of the ratio of trade receivables from related parties to total trade receivables. Thirdly, the ratio of receivables, excluding trade receivables, to total assets was determined. Debts to related parties were evaluated using two variables: initially, the ratio of total debts to related parties to assets was computed; subsequently, the ratio of trade payables to related parties to total trade payables was calculated.

A positive relation between the free float ratio and agency costs in Borsa Istanbul has been identified (Unal & Derdiyok, 2020). From the perspective of agency costs, an elevated free float ratio might serve as an incentive for engaging in RPTs. To examine the relationship between free float ratio and RPTs, the following Equation (1) was formulated. The variable RPV represents related party variables; specifically RRP/TA (Receivables from Related Parties / Total Assets), LRP/TA (Liabilities to Related Parties / Total Assets), TRRP/TR (Trade Receivables from Related Parties / Trade Receivables), TLRP/TL (Trade Liabilities to Related Parties / Trade Liabilities) and ORRP/TA (Other Receivables from Related Parties / Total Assets). Regression analyses were conducted for each related party variable. The natural logarithm of the market capitalization of the free float was utilized as a control variable. The acronym FFR signifies the free float ratio, LNMF represents the natural logarithm of the market capitalization of the free float, ε denotes the error term, n indicates the company number, and t denotes the year. Both fixed effects and random effects regression analyses were implemented.

$$RPV_{nt} = \beta_1 FFR_{nt} + \beta_2 LNMF_{nt} + \varepsilon \quad (1)$$

In the study, the impact of RPTs on stock investors is analyzed from three distinct perspectives. The first aspect is the association with stock returns. It is posited that if RPTs engender corporate governance challenges and incur agency costs for minority shareholders, then it may be anticipated that companies with frequent RPTs will exhibit lower stock returns. Consequently, Equation (2) was formulated to examine the relationship between RPTs and stock returns. The variable APS denotes stock price performance, and the definitions of the remaining symbols are consistent with those in equation (1).

$$APS_{nt} = \beta_1 RPV_{nt} + \beta_2 LNMF_{nt} + \varepsilon \quad (2)$$

If controlling shareholders engage in tunnelling funds through RPTs, they may lack the incentive to make decisions that would result in profit distribution to shareholders. This hypothesis

would be corroborated by a negative relation between the magnitude of RPTs and dividend payout ratios. Therefore, the regression analysis outlined in Equation (3) was conducted to investigate the potential relationship between RPTs and the dividend payout ratio (DPR). The variable DPR represents dividend payout ratio, and the definitions of the other symbols remain as delineated in equation (1).

$$DPR_{nt} = \beta_1 RPV_{nt} + \beta_2 LNMF_{nt} + \varepsilon \quad (3)$$

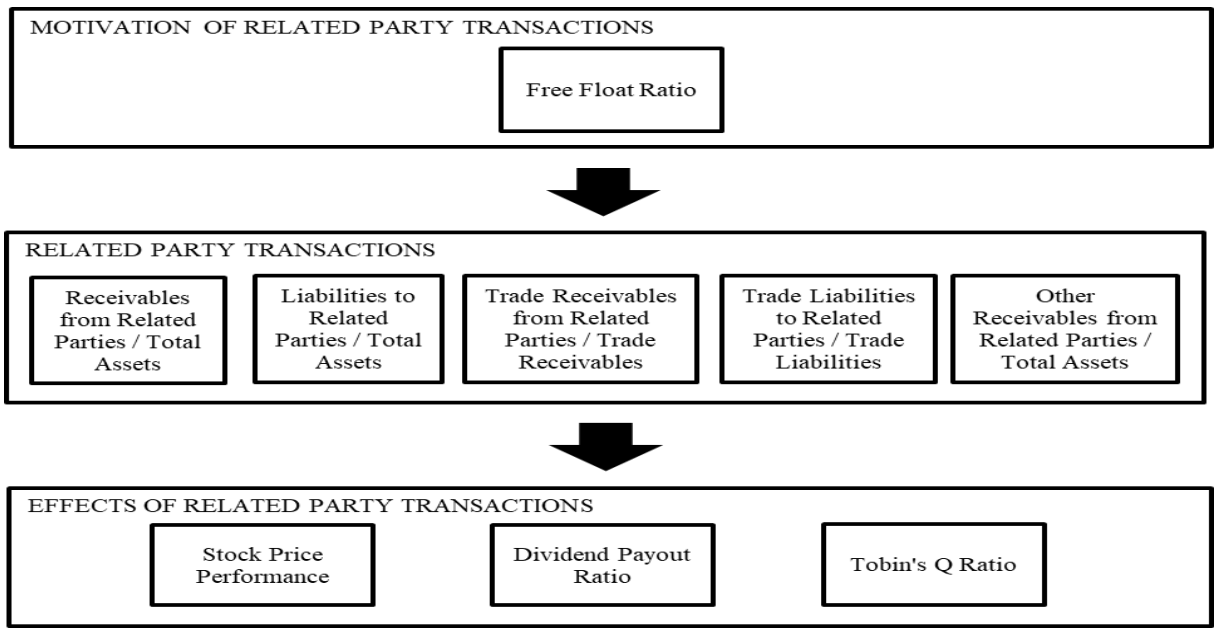
In the fourth phase of the analysis, the study explored the potential relationship between RPTs and the market's perception of the company. Should RPTs be viewed unfavorably by market participants, it is expected that the valuation of companies engaging in such transactions would be adversely affected. To assess the impact on company valuation, the association between companies' RPTs and their Tobin's Q ratios was examined. Equation (4) was developed to facilitate this investigation. The variable TQ represents Tobin's Q ratio, while the definitions of the other symbols remain consistent with those presented in equation (1).

$$TQ_{nt} = \beta_1 RPV_{nt} + \beta_2 LNMF_{nt} + \varepsilon \quad (4)$$

RPTs present a heightened risk in small-scale companies; however, this risk may be mitigated in well-institutionalized companies with robust internal control systems and a diversified controlling shareholder base among various large holding entities. Consequently, foreign companies and those associated with Koç Holding, Sabancı Holding, Anadolu Group and Oyak – Turkey's four major holding companies with a combined market value of their publicly traded firms surpassing 100 billion TL as of 01 December 2023 - were excluded from the research scope. The analyses delineated in Equations (1), (2), (3) and (4) were subsequently conducted to gain more precise understanding of the impact of RPTs.

The relationships among the variables tested in the study are illustrated in Figure 1.

Figure 1. Research Model



4. FINDINGS

Descriptive statistics for the variables utilized in the study are presented in Table 2. The variables Receivables from Related Parties / Total Assets (RRP/TA), Liabilities to Related Parties / Total Assets (LRP/TA), and Other Receivables from Related Parties / Total Assets (ORRP/TA) exhibit very low average values, while their maximum values approach 1.0, indicating significant variability.

Table 2. Descriptive Statistics

	RRP/TA	LRP/TA	TRRP/TR	TLRP/TL	ORRP/TA	APS	DPR	FFR	TQ	LNMF
Mean	0.05	0.04	0.15	0.10	0.02	0.98	0.22	0.38	1.84	19.57
Median	0.01	0.01	0.01	0.01	0.00	0.51	0.00	0.34	1.00	19.49
Maximum	0.93	0.69	1.00	1.00	0.84	14.31	15.67	1.00	61.21	25.31
Minimum	0.00	0.00	0.00	0.00	0.00	-0.81	0.00	0.01	0.02	14.16
Std. Dev.	0.10	0.08	0.26	0.19	0.06	1.64	0.62	0.22	3.33	1.88
Skewness	3.56	3.33	2.01	2.69	5.48	3.45	14.13	0.78	8.40	0.15
Kurtosis	20.4	16.5	5.9	10.5	44.0	20.3	301.7	3.0	109.9	2.9
Probability	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.06
Observations	1,478	1,478	1,478	1,478	1,478	1,478	1,478	1,478	1,478	1,478

Note: RRP/TA: Receivables from Related Parties / Total Assets, LRP/TA: Liabilities to Related Parties / Total Assets, TRRP/TR: Trade Receivables from Related Parties / Trade Receivables, TLRP/TL: Trade Liabilities to Related Parties / Trade Liabilities, ORRP/TA: Other Receivables from Related Parties / Total Assets, APS: Stock Price Performance, DPR: Dividend Payout Ratio, FFR: Free Float Ratio, TQ: Tobin's Q Ratio, LNMF: Natural Logarithm of Market Cap of Free Float.

The correlation matrix for the study's variables is presented in Table 3. As anticipated, there is a positive correlation among the variables associated with receivables and liabilities. Notable, a negative correlation exists between Trade Liabilities to Related Parties / Trade Liabilities (TLRP/TL) and Other Receivables from Related Parties / Total Assets (ORRP/TA). The natural logarithm of the market capitalization of the free float (LNFM), serving as a control variable, demonstrates a weak correlation with the other variables.

Table 3. Correlation Matrix

	RRP/ TA	LRP/ TA	TRRP/ TR	TLRP/ TL	ORRP/ TA	APS	DPR	FFR	TQ	LNMF
RRP/TA	1.00	0.04	0.63	0.04	0.67	-0.02	0.01	-0.03	-0.03	-0.09
LRP/TA	0.04	1.00	0.06	0.43	-0.02	-0.01	-0.02	-0.02	0.06	-0.03
TRRP/TR	0.63	0.06	1.00	0.19	0.15	-0.03	0.06	-0.05	0.01	-0.01
TLRP/TL	0.04	0.43	0.19	1.00	-0.01	-0.03	0.02	-0.18	0.06	-0.03
ORRP/TA	0.67	-0.02	0.15	-0.01	1.00	-0.01	-0.03	0.02	-0.05	-0.10
APS	-0.02	-0.01	-0.03	-0.03	-0.01	1.00	-0.04	-0.01	-0.03	-0.16
DPR	0.01	-0.02	0.06	0.02	-0.03	-0.04	1.00	-0.12	-0.01	0.08
FFR	-0.03	-0.02	-0.05	-0.18	0.02	-0.01	-0.12	1.00	-0.12	0.03
TQ	-0.03	0.06	0.01	0.06	-0.05	-0.03	-0.01	-0.12	1.00	0.06
LNMF	-0.09	-0.03	-0.01	-0.03	-0.10	-0.16	0.08	0.03	0.06	1.00

Note: RRP/TA: Receivables from Related Parties / Total Assets, LRP/TA: Liabilities to Related Parties / Total Assets, TRRP/TR: Trade Receivables from Related Parties / Trade Receivables, TLRP/TL: Trade Liabilities to Related Parties / Trade Liabilities, ORRP/TA: Other Receivables from Related Parties / Total Assets, APS: Stock Price Performance, DPR: Dividend Payout Ratio, FFR: Free Float Ratio, TQ: Tobin's Q Ratio, LNMF: Natural Logarithm of Market Cap of Free Float.

Table 4 displays the outcomes of both random effects and fixed effects regression analyzes concerning the relationship between the free float ratio (FFR) and RPTs. The findings indicate no significant association between the total receivables from related parties variables in PANEL A and the trade receivables variables in PANEL C. Conversely, PANEL D illustrates a positive correlation between other receivables from related parties and the FFR. This suggests that high FFR is not associated with a higher likelihood of controlling shareholders engaging in trade with affiliated companies. Instead, it indicates an elevated propensity to extend loans. Examination of total debts to related parties in PANEL B and trade payables to related parties in PANEL E shows a positive relation with the free float ratio. It is important to note, however, that the explanatory power of these models is relatively limited.

Table 4. The Relationship Between the Free Float Ratio and RPTs

	Fixed Effects		Random Effects	
PANEL A	(1)	(2)	(3)	(4)
Dependent Variable: Receivables from RP / total assets				
Ratio of free float	0.00	0.00	0.00	-0.01
Logarithm of free float market capitalization	0.00	0.00	0.003***	0.003*
R^2	0.00	0.00	0.00	0.00
PANEL B				
Dependent Variable: Debts to RP / total assets				
Ratio of free float	**0.02***	**0.03****	**0.03*****	**0.04*****
Logarithm of free float market capitalization	-0.01***	-0.01***	-0.01***	-0.01***
R^2	0.02	0.02	0.01	0.02
PANEL C				
Dependent Variable: Trade receivables from RP / total trade receivables				
Ratio of free float	-0.03	-0.01	-0.03	-0.01
Logarithm of free float market capitalization	0.00	0.00	0.00	0.00
R^2	0.00	0.00	0.00	0.00
PANEL D				
Dependent Variable: Other receivables from RP / total assets				
Ratio of free float	**0.02****	0.01	**0.02****	0.01
Logarithm of free float market capitalization	0.00	0.00	0.00*	0.00
R^2	0.00	0.01	0.00	0.00
PANEL E				
Dependent Variable: Trade debt to RP / total trade debt				
Ratio of free float	**0.07****	**0.09*****	-0.01	0.01
Logarithm of free float market capitalization	0.00	-0.01**	0.00	0.00
R^2	0.02	0.01	0.00	0.00

Notes: The research dataset encompasses 339 companies, excluding entities within the financial sector companies and investment trusts, that are listed on Borsa Istanbul. The timeframe of the study spans from 2016 to 2022, with an annual frequency of data collection. Results pertaining to the complete dataset are articulated in columns (1) and (3). For columns (2) and (4), companies associated with Koç Holding, Sabancı Holding, Anadolu Group, Oyak Group, and foreign companies were exluded from the analysis. Significance levels are denoted as follows: *** indicates significance at the 1% level, ** at the 5% level, and * at the 10% level.

Table 5 shows the relationship between the stock price performance and RPTs. While the relationships predominantly appear negative, aligning with expectations, they lack statistical significance.

Table 5. The Relationship Between the Stock Price Performance and RPTs

Dependent Variable: Stock price performance				
	Fixed Effects		Random Effects	
PANEL A	(1)	(2)	(3)	(4)
Receivables from RP / total assets	-1.01	-0.28	-0.35	-0.28
Logarithm of free float market capitalization	-1.16***	-0.21***	-0.18***	-0.20***
R^2	0.43	0.25	0.04	0.04
PANEL B				
Debts to RP / total assets	-0.14	-0.43	-0.39	-0.42
Logarithm of free float market capitalization	-1.15***	-0.21***	-0.19***	-0.21***
R^2	0.43	0.25	0.04	0.04
PANEL C				
Trade receivables from RP / total trade receivables	-0.17	-0.12	-0.12	-0.12
Logarithm of free float market capitalization	-1.15***	-0.21***	-0.18***	-0.21***
R^2	0.43	0.24	0.04	0.04
PANEL D				
Other receivables from related parties / total assets	-0.34	-0.23	-0.34	-0.24
Logarithm of free float market capitalization	-0.18***	-0.21***	-0.18***	-0.20***
R^2	0.24	0.25	0.04	0.04
PANEL E				
Trade debt to RP / total trade debt	0.03	-0.15	-0.13	-0.16
Logarithm of free float market capitalization	-1.15***	-0.21***	-0.18***	-0.20***
R^2	0.43	0.25	0.04	0.04

Notes: The research dataset encompasses 339 companies, excluding entities within the financial sector companies and investment trusts, that are listed on Borsa Istanbul. The timeframe of the study spans from 2016 to 2022, with an annual frequency of data collection. Results pertaining to the complete dataset are articulated in columns (1) and (3). For columns (2) and (4), companies associated with Koç Holding, Sabancı Holding, Anadolu Group, Oyak Group, and foreign companies were exluded from the analysis. Significance levels are denoted as follows: *** indicates significance at the 1% level, ** at the 5% level, and * at the 10% level.

Table 6 explores the relation between the dividend payout ratio (DPR) and RPTs. A positive relationship is observed between DPR and trade receivables from related parties, potentially attributable to the related party's intent to settle trade debts using received dividends. Conversely, a negative correlation is found between other receivables and DPR, indicating a preference by the related party to extract cash through loans rather than through dividend distribution. The explanatory powers of these models are notably weak.

Table 6. The Relationship Between the Dividend Payout Ratio and RPTs

Dependent Variable: Dividend payout ratio				
	Fixed Effects		Random Effects	
PANEL A	(1)	(2)	(3)	(4)
Receivables from RP / total assets	-0.07	-0.14	0.04	-0.11
Logarithm of free float market capitalization	-0.03	0.04***	0.04***	0.03***
R2	0.34	0.03	0.01	0.01
PANEL B				
Debts to RP / total assets	0.05	-0.01	-0.06	-0.07
Logarithm of free float market capitalization	-0.03	0.04***	0.04***	0.03***
R2	0.34	0.03	0.01	0.01
PANEL C				
Trade receivables from RP / total trade receivables	0.12**	0.02	0.12**	0.02
Logarithm of free float market capitalization	0.05***	0.04***	0.04***	0.03***
R2	0.03	0.03	0.02	0.01
PANEL D				
Other receivables from related parties / total assets	-0.31	-0.43**	-0.27	-0.38*
Logarithm of free float market capitalization	0.05***	0.04***	0.04***	0.03***
R2	0.03	0.04	0.01	0.01
PANEL E				
Trade debt to RP / total trade debt	0.09	0.05	0.09	0.06
Logarithm of free float market capitalization	0.05***	0.04***	0.04***	0.03***
R2	0.03	0.03	0.01	0.01

Notes: The research dataset encompasses 339 companies, excluding entities within the financial sector companies and investment trusts, that are listed on Borsa Istanbul. The timeframe of the study spans from 2016 to 2022, with an annual frequency of data collection. Results pertaining to the complete dataset are articulated in columns (1) and (3). For columns (2) and (4), companies associated with Koç Holding, Sabancı Holding, Anadolu Group, Oyak Group, and foreign companies were exluded from the analysis. Significance levels are denoted as follows: *** indicates significance at the 1% level, ** at the 5% level, and * at the 10% level.

Finally, Table 7 presents the regression analysis results assessing the impact on Tobin's Q (TQ). In PANEL A, the influence of Receivables from RP / Total Assets (RRP/TA) on TQ is negatively characterized. PANEL B observes a positive impact of Debts to RP / Total Assets on Tobin's Q. PANEL C indicates negative relationship with Trade Receivables from RP / Trade Receivables (TRRP/TR). PANEL D suggests a negative impact of Other Receivables from Related Parties / Total Assets (ORRP/TA), while PANEL E demonstrates a positive and statistically significant effect of Trade Debt to RP / Trade Debt (TLRP/TL) on TQ. Consequently, it is discerned that debts to related parties positively influence company valuation, whereas receivables from related parties exert a negative effect. Nonetheless, given the models' low overall explanatory power, it is imperative to consider that additional factors may influence these relationships.

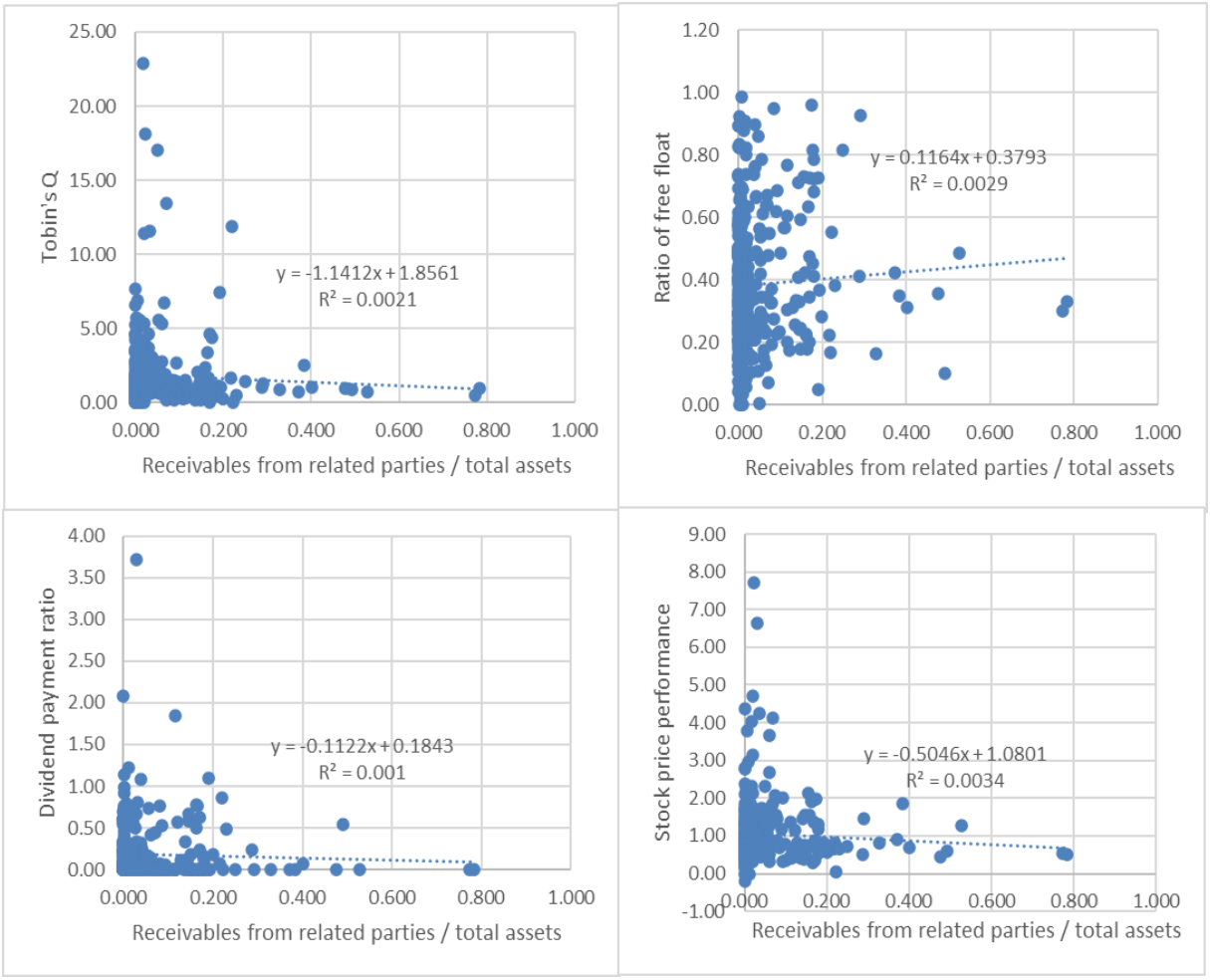
Table 7. The Relationship Between Tobin's Q Ratio and RPTs

Dependent Variable: Tobin's Q				
	Fixed Effects		Random Effects	
PANEL A	(1)	(2)	(3)	(4)
Receivables from RP / total assets	**-1.04***	**-1.16****	**-1.15***	**-1.33*****
Logarithm of free float market capitalization	-0.12***	-0.07*	-0.02	0.06
R^2	0.07	0.08	0.00	0.01
PANEL B				
Debts to RP / total assets	**2.10*****	**2.23*****	**2.35*****	**2.50*****
Logarithm of free float market capitalization	-0.10**	-0.04	-0.01	0.07*
R^2	0.07	0.09	0.01	0.02
PANEL C				
Trade receivables from RP / total trade receivables	0.07	**-0.43***	0.04	**-0.46***
Logarithm of free float market capitalization	-0.12***	-0.07*	-0.03	0.05
R^2	0.06	0.08	0.00	0.00
PANEL D				
Other receivables from related parties / total assets	**-1.73****	**-1.19***	**-1.86****	**-1.43****
Logarithm of free float market capitalization	-0.12***	-0.07	-0.01	0.06
R^2	0.07	0.09	0.00	0.00
PANEL E				
Trade debt to RP / total trade debt	**0.95*****	0.38	**0.91*****	0.27
Logarithm of free float market capitalization	-0.12***	-0.07*	0.02	0.18***
R^2	0.07	0.08	0.00	0.02

Notes: The research dataset encompasses 339 companies, excluding entities within the financial sector companies and investment trusts, that are listed on Borsa Istanbul. The timeframe of the study spans from 2016 to 2022, with an annual frequency of data collection. Results pertaining to the complete dataset are articulated in columns (1) and (3). For columns (2) and (4), companies associated with Koç Holding, Sabancı Holding, Anadolu Group, Oyak Group, and foreign companies were exluded from the analysis. Significance levels are denoted as follows: *** indicates significance at the 1% level, ** at the 5% level, and * at the 10% level.

To understand the relationship of RPTs with other variables in the study, a seven-year average of data from the period 2016-2022 was calculated for each company. The data derived within the study are depicted in Figure 2, 3, and 4. Figure 2 indicates that receivables from related parties are inversely related to Tobin's Q, the dividend payout ratio and stock price performance, while showing a positive relationship with the free float ratio. Companies with receivables from related parties tend to have lower valuations, reduced dividend payout ratios, and diminished stock price performance. An increase in RPTs is observed in companies with a higher free float ratio, supporting the hypothesis that investors holding publicly traded shares incur agency costs. However, the graphical representations exhibit only a slight slope, indicating weak explanatory power.

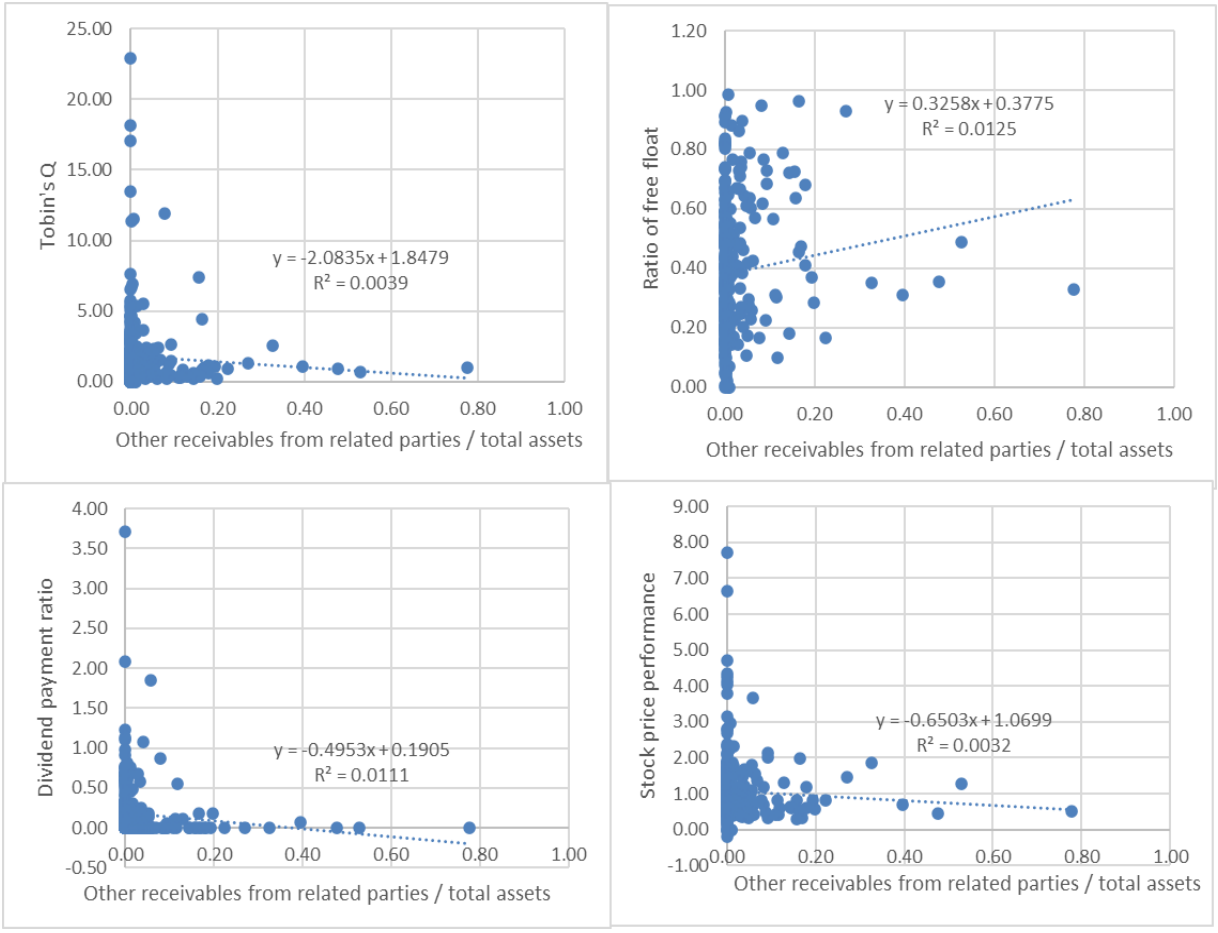
Figure 2. Relationship Between Receivables from Related Parties and Depended Variables in the Study



Notes: The research dataset encompasses 339 companies, excluding entities within the financial sector companies and investment trusts, that are listed on Borsa Istanbul. For the chart creation, the average of the year-end values for each company was calculated over the period 2016-2022.

While companies with high institutional standards may conduct sales through holding companies, such as Koç Holding's subsidiaries Ford Otosan, Tofaş, and Türk Traktör, which exhibit significant levels of RPTs, the presence of international partnerships and jointly developed control mechanisms in these companies can mitigate agency cost risks. Additionally, receivables from related parties may arise from non-trade activities like financial lending. Lending by a company to a related entity poses challenges in controlling and potential agency costs due to the difficulty in determining fair interest rates and the uncertainty of the related company's risk level. Hence, non-trade related party receivables are becoming increasingly significant. Figure 3 presents the relationship between non-trade receivables from related parties and the study's variables, showing similar directiononal relationships as in Figure 2 but with greater explanatory power and steeper slopes, albeit still limited.

Figure 3. Relationship between other Receivables from Related Parties and Depended Variables in the Study



Notes: The research dataset encompasses 339 companies, excluding entities within the financial sector companies and investment trusts, that are listed on Borsa Istanbul. For the chart creation, the average of the year-end values for each company was calculated over the period 2016-2022.

Debts to related parties may take the form of commercial obligations or financial borrowings to fulfill capital needs. Financial debts, unlike commercial debts, are less significant due to fixed interest rates, with associated risks borne by the related party, not the company. The analysis thus focuses on how total debts to related parties influence other variables, as demonstrated in Figure 4.

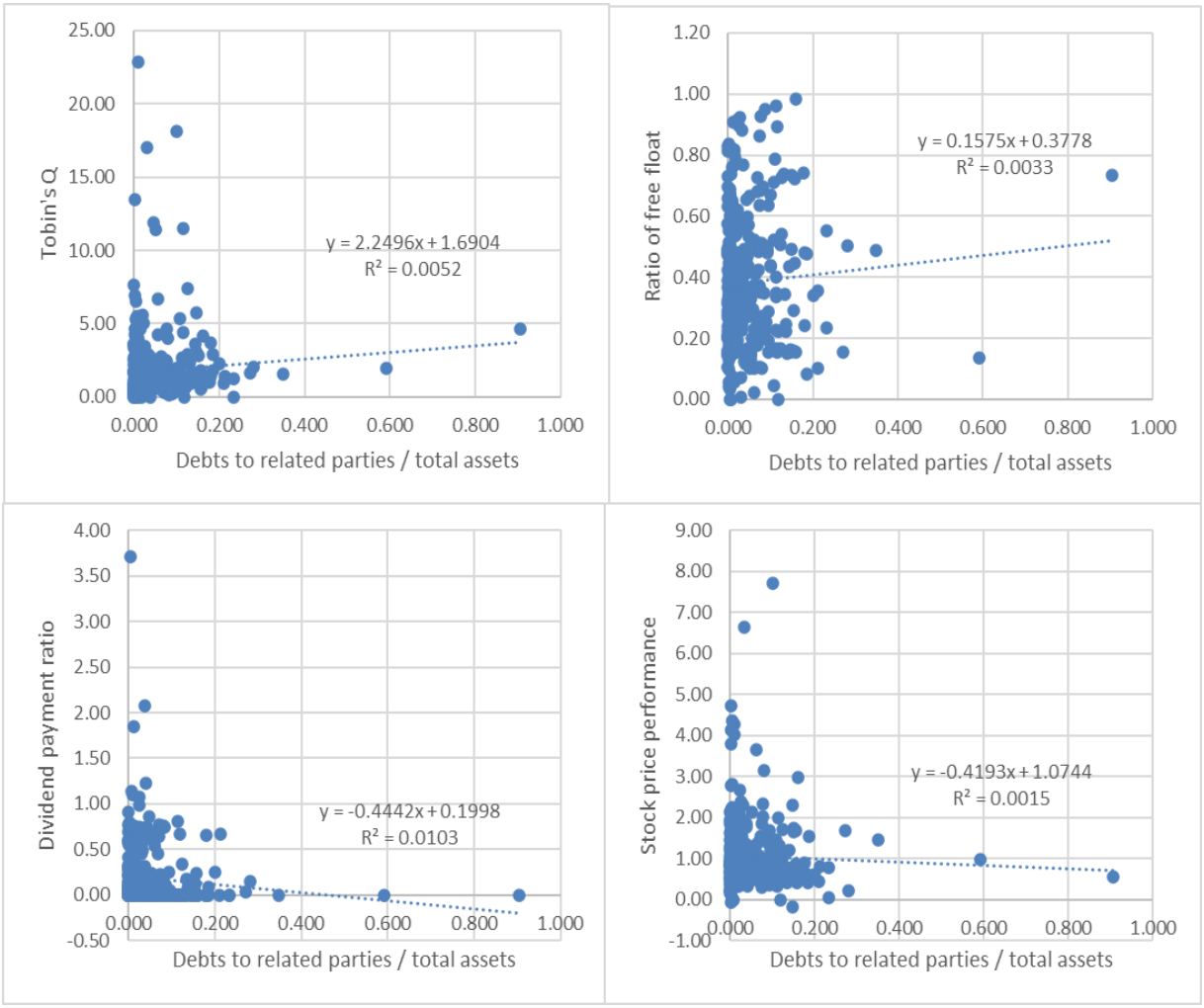
Surprisingly, a positive correlation exists between Tobin's Q ratio and debts to related parties, possibly due to companies with borrowing needs from related parties having lower book values. Interestingly, the market does not perceive debts to related parties as detrimental. An increase in the free float ratio is associated with higher debts to related parties, defying initial expectations. This anomaly could be explained by a reduced tendency of the controlling shareholder to finance the company as the free float expands, or it might indicate that loans from related parties signal an upcoming capital increase. Therefore, a higher free float ratio could lead to less participation by the controlling shareholder in the capital increase, explaining the positive correlation between the free float ratio and debts to related parties.

Conversely, a negative correlation is identified between the dividend payout ratio and debts to related parties. When the related party possesses receivables from the company, it is expected that the

related party would prioritize settling debts over distributing dividends. Furthermore, if a company's borrowing from a related party is due to an insufficient capital structure, a decrease in the dividend payout ratio is deemed justifiable. Lastly, a negative link is established between stock performance and debts to related parties, which may be attributed to companies with related party debts having weaker capital structures or experiencing losses from such transactions, suggesting the presence agency costs.

It is crucial to recognize the limited explanatory power of the equations employed in these analyses.

Figure 4. Relationship Between Debts to Related Parties and Depended Variables in the Study



Notes: The research dataset encompasses 339 companies, excluding entities within the financial sector companies and investment trusts, that are listed on Borsa Istanbul. For the chart creation, the average of the year-end values for each company was calculated over the period 2016-2022.

Table 8 summarizes the statistically significant relationships identified in the study. It reveals a positive relationship between debts to related parties and both the free float ratio and Tobin's Q ratio; a positive relationship between receivables from related parties and the free float ratio, and a negative relationship between receivables from related parties and Tobin's Q.

Table 8. Summary of Statistically Significant Relationships in The Research

	Receivables from Related Parties / Total Assets	Liabilities to Related Parties / Total Assets	Trade Receivables from Related Parties / Trade Receivables	Trade Liabilities to Related Parties / Trade Liabilities	Other Receivables from Related Parties / Total Assets
Free Float Ratio		+		+	+
Stock Price Performance					
Dividend Payout Ratio			+		-
Tobin's Q Ratio	-	+	-	+	-

5. CONCLUSION

This study aims to inform stock market investors about the significance of RPTs. The research examined the relationship between transactions with related parties and the free float ratio, stock price performance, dividend payout ratio, and Tobin's Q for companies listed in Borsa Istanbul.

The findings indicate a positive relationship between the free float ratio and RPTs, including both receivables from and debts to related parties. This suggests that an increase in the free float ratio may alter the alignment between the interests of controlling shareholders and the company. RPTs offer a means for controlling shareholders to utilize company resources for their own benefit, increasing the risk of agency costs for public shareholders. The positive link between the free float ratio and RPTs contrasts with the results reported by Khalili and Mazraeh (2016), which may be due to differences in capital market structures and the representation efficiency of publicly traded shares across countries.

The analysis of the relation between stock performance and RPTs shows a negative trend, though it is not statistically significant. The complexity of identifying this relationship is compounded by numerous factors influencing stock returns and the historical occurrence of RPTs in similar companies, which may have previously influenced stock prices. However, the negative relation supports the notion that RPTs may contribute to agency costs. Notably, other studies in the literature have also highlighted the adverse relationship between RPTs and stock returns (Gordon et al., 2006; Habib et al., 2021; Ryu, 2018).

The research results indicate a negative relationship between the dividend payout ratio and RPTs. When controlling shareholders can improperly transfer funds from the company through procurement or other means, their incentive to distribute dividends on behalf of the company decreases. This negative association between RPTs and dividend distribution increases the likelihood of agency costs. Conversely, a positive relation was identified only between trade receivables from related parties and dividend distribution, which may be due to the related party’s intent to use the dividends received to settle its debts. The study's findings align with the existing literature (Sari et al., 2017).

Finally, a positive relation exists between debts to related parties and Tobin's Q ratio, and a negative relation is noted between receivables from related parties and Tobin's Q ratio. When companies extend loans to related parties, they assume the associated risk, whereas borrowing shifts the risk to other entities within the related party. Considering the shift in risk, the impact on market pricing appears consistent with research findings. The literature presents diverse findings regarding the influence of RPTs on firm valuation (Bona-Sánchez et al., 2017; Djankov et al., 2008; Elkelish, 2017; Gordon et al., 2006).

It is important to comment that although some research findings are statistically significant, the overall explanatory power of the equations is limited. This limitation may stem from the influence of numerous factors that cannot be included in the study and the variable effects of RPTs across different companies. For instance, RPTs in ethically managed companies may not be detrimental, whereas in firms governed by controlling shareholders who disregard ethical standards, the situation differs markedly. The challenge of conducting meaningful comparisons arises from the limited implementation of RPTs in numerous companies, coupled with a left-skewed distribution that tends toward the lower end.

In conclusion, this study highlights that RPTs can negatively impact public shareholders in certain companies. Therefore, investors should carefully analyze RPTs and incorporate them into their investment decisions. Given these potential risks, it is crucial for regulatory authorities to enhance oversight and impose restrictions on such transactions. Moreover, when RPTs receive regulatory approval, safeguarding the interests of public shareholders should remain a priority. However, it is important to recognize that many of the relationships examined in this study exhibit modest coefficients, and the explanatory power of RPTs on performance metrics is limited. Future research could provide deeper insights by conducting detailed case studies on company-specific RPTs.

Ethics Committee approval was not required for this study.

The authors declare that the study was conducted in accordance with research and publication ethics.

The authors confirm that no part of the study was generated, either wholly or in part, using Artificial Intelligence (AI) tools.

The authors declare that there are no financial conflicts of interest involving any institution, organization, or individual associated with this article. Additionally, there are no conflicts of interest among the authors.

The authors affirm that they contributed equally to all aspects of the research.

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