DOES RELATED-PARTY TRANSACTIONS DISCLOSURE AFFECT THE VALUE RELEVANCE OF FINANCIAL STATEMENTS?

Diah Agustina Prihastiwi*
Agustina Prativi Nugraheni
Octavia Lhaksmi Pramudyastuti
Universitas Tidar, Jalan Kapten Suparman No. 39, Magelang, Indonesia
**diahprihastiwi@untidar.ac.id*

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A B S T R A C T

Research Purpose. *This study aims to provide support regarding the value relevance of the additional disclosure of RPTs and its predictive value.*
Research Method. *The sample of this research is 343 public companies listed on the Indonesian Stock Exchange from 2016 to 2020. We analyze the effect of RPTs disclosure on the value relevance of financial statement information and its ability to predict abnormal returns using regression analysis between RPTs sales, non-RPTs sales, and total costs with abnormal returns.*
Research Results and Findings. *The analysis results show that the disclosure of RPTs provides incremental information to the users of the financial statement. Furthermore, the disclosure of RPTs also has a significant positive relationship with abnormal returns. These findings show that the provision of information beyond standard requirements is beneficial to financial statement users.*

A B S T R A K

Tujuan Penelitian. *Penelitian ini bertujuan untuk memberikan bukti mengenai relevansi nilai dari tambahan pengungkapan RPT dan nilai prediktifnya.*
Metode Penelitian. *Sampel penelitian ini adalah 343 perusahaan publik yang terdaftar di Bursa Efek Indonesia dari tahun 2016 hingga 2020. Kami menganalisis dampak pengungkapan RPT terhadap relevansi nilai informasi laporan keuangan dan kemampuannya memprediksi abnormal return menggunakan analisis regresi antara penjualan RPT, penjualan non-RPT, dan total biaya dengan abnormal return.*
Hasil dan Temuan Penelitian. *Hasil analisis menunjukkan bahwa pengungkapan RPT memberikan tambahan informasi kepada pengguna laporan keuangan. Selanjutnya, pengungkapan RPT juga memiliki hubungan positif signifikan dengan abnormal return. Temuan ini menunjukkan bahwa penyediaan informasi di luar persyaratan standar bermanfaat bagi pengguna laporan keuangan.*

INTRODUCTION

Related-party transactions (RPTs) are generally considered a means of profit transfer among affiliated companies to reduce taxes, inflate revenues, and profit tunnelling (Huang, 2016). To overcome this tax evasion, the tax authorities in some countries enforce strict reporting obligations and demand companies to provide detailed information during tax audits, such as organization structure, information on the transfer pricing method used, and description analysis in deciding transfer pricing methods (Pemerintah Republik Indonesia, 2008). In addition, RPTs are also commonly used to achieve numerous financial reporting objectives, such as revenue management and funds transfers within group companies. However, investors cannot request additional information from financial statements outside legal requirements. They mainly depend on the disclosure of RPTs that must be presented in the financial statements to assess whether there exist or not and the manipulative level of RPTs. The benefit of disclosing RPTs on the relevance of information is an essential subject for investors, researchers, and regulators to properly assess the company's performance and determine the value of the company.

This study's first objective is to analyze the effect of RPTs disclosure on the value relevance of the information provided in financial statements outside comprehensive income. Previous research primarily evaluated accounting information's value relevance and content value by evaluating the relationship between accounting information reported in the financial statements and stock returns. The information includes foreign currency translation adjustments, depreciation, the fair value of assets, and other comprehensive income (Rieg & Vanini, 2023). However, what is still not resolved is the relevance of RPTs disclosure in determining firm value beyond conventional financial statement items (Organisation for Economic Co-operation and Development, 2012). The second objective of this research is to investigate whether disclosing detailed transfer pricing can improve abnormal returns prediction quality.

RPTs are very large in European countries, the United States, and Asia. Although RPTs is a legal and usual worldwide business practice that can increase the performance of related companies (Shan, 2019), investors and stakeholders are increasingly concerned with the possible misuse of RPTs (Organisation for Economic Co-operation and Development (OECD), 2012). In some cases, RPTs can enable personal profit management or controlling owners can expropriate profits from minority shareholders. Therefore, the RPTs must be correctly disclosed in the financial statements to inform investors about the risks of reporting fraud and profit expropriation. Investors are expected to be protected from expropriation to some extent if the value of equity already reflects the discount for the takeover.

However, market participants must determine if existing RPTs disclosures reflect and identify RPTs manipulation. Even if accounting standards promote disclosure of RPTs, this information may need to be presented clearly and easily understood by investors. Worldwide accounting frauds involving Enron, Adelphia, and Tyco are proof of that. Investors need help interpreting the drive for the RPTs of the financial statements and cannot make appropriate investment decisions accordingly. Cho & Lim (2018) found that historical information about affiliated party relationships helps detect profit tunneling through RPTs. However, gathering this historical data takes time and effort. Therefore, investors tend to count on mandatory disclosure of RPTs in current financial statements. The substance of the information in this disclosure is a matter of concern significant for investors and market participants, and disclosure of RPTs is appropriate for being thoroughly researched and investigated. Research on the value relevance of the RPTs can benefit our understanding of the relevance and reliability of RPTs disclosure concerning the value of equity. Based on the discussion above, this research investigates whether additional disclosure of related relationship transactions/RPTs increases the value relevance of information from financial statements published by companies listed on the Indonesian Stock Exchange and is beneficial to predict abnormal returns. In doing so, this study uses data from 343 companies. The novelty of our research is in the usage of this extensive data, which will deliver comprehensive results from the Indonesian capital market.

LITERATURE REVIEW

Agency Theory

This study applies the agency theory initiated by Jensen & Meckling (2019) to explain the need to disclose RPTs and its effect on abnormal returns (Rahman & Nugrahanti, 2021). Agency problems arise when agents operate in their own interests, instead of the principal. In most cases, management act as agents, and the principal is the investor as company's owner. When managers make decisions to enrich themselves instead of the owner of the company, type I agency problems arise (Sumiyana & Setyowati, 2021).

On the other hand, there are companies whose share ownership is concentrated in a group. The majority shareholders have a concentration of ownership that is large enough to influence managerial decisions that can benefit the group. One of the mechanisms is through wealth expropriation from minority to majority shareholders by utilizing RPTs. This is known as a type II agency problem (Rahman & Nugrahanti, 2021).

Related-Party Transactions and Its Disclosure

Transactions with affiliated or related parties are common in Asia, especially Indonesia. Cultural factors that support the existence of family-owned companies. In addition, political circumstances are the background of the kinship-based nuanced economic environment (Ariff & Hashim, 2013).

Many listed companies have significant RPTSs with unlisted holding companies and related affiliates. Most RPTs are regarded as inevitable, beneficial, and occurring in business operations ongoing. In Indonesia, disclosure regarding transactions with related parties is regulated by Statement of Financial Accounting Standards (Pernyataan Standar Akuntansi Keuangan/PSAK) 7 concerning Parties with Special Relationships which are aligned with IAS 24 regarding Related Party Disclosures. PSAK regulates companies to disclose the characteristics of relationships and transactions with related parties, as well as balances with associated parties, including the number of committed commitments (Ikatan Akuntan Indonesia, 2015). The purpose of this disclosure is so that users of financial statements become more aware of the potential impact of RPTs transactions on the company's financial position and profit and loss (Anggala & Basana, 2020).

Furthermore, the Financial Services Authority (Otoritas Jasa Keuangan/OJK) has also regulated related-party transactions for the benefit of the capital market and financial institutions in Indonesia through OJK regulations (Peraturan OJK/POJK) number 42/POJK.04/2020 (OJK, 2020). Public companies are required to disclose affiliated transactions broadly, which include the characteristics and amount of transactions for each category of assets, liabilities, sales and purchases or expenses; as well as a comparison of transactions to total assets, total debt, total sales, or total costs/purchases (Habib et al., 2017). In addition, the regulation also requires companies to have adequate procedures to ensure that transactions are carried out following generally accepted business practices. Companies are also required to seek approval from independent shareholders in conducting transactions with affiliated parties (OJK, 2020).

Disclosure of RPTs and Value Relevance of Financial Statements

Transactions conducted with related parties can have a negative or positive impact on the company (Anggala & Basana, 2020). Based on the type II agency problem, companies that carry out RPTs tend to expropriate wealth from minority owners (Jatiningrum et al., 2023). The takeover of this wealth is manifested in various ways, such as sales transactions that apply higher than market prices, debt transactions with negotiated terms, transactions of transfer of assets between companies under control, and even reduction of minority ownership (Jatiningrum et al., 2023). These adverse RPTs are often referred to as “tunneling” and “propping” (Cho & Lim, 2018).

To mitigate the negative effects of RPTs and protect the interests of shareholders, companies are required to disclose transactions made with affiliated parties. This information disclosure’s objective is to provide sufficient information for financial statements users on the potential negative consequences of RPTs carried out by the company (Lo & Wong, 2016).

Based on the information disclosed, investors will be able to distinguish between transactions conducted with related parties and those that are not. In addition, investors can also analyze the impact of the RPTs transaction on company performance (Lo & Wong, 2016).

On the other hand, companies that are involved in earnings management practices do not voluntarily disclose more information in their financial statements. Especially information related to RPTs (Shan, 2019). In fact, investors will respond positively to companies that are willing to make voluntary disclosures. Investors will view the company as having lower uncertainty so that it can reduce the company's cost of capital (Wang et al., 2022). In addition, the company's actions that deliberately manipulate by disclosing abnormal RPTs transactions also have a negative effect on the value relevance of the published financial reports (Shan, 2015). Furthermore, study conducted by Haß et al. (2016) found that regulations enforced by the Chinese government to reducing "tunnelling" were successful in decreasing the practice.

Companies might not completely disclose information due to associated expenses (i.e., the preparation, dissemination, and, most significantly, the consequences of disclosure). According to this idea, companies are unlikely to supply information that is valuable and are more likely to provide information that is comparable to other businesses. Nevertheless, this information might lead investors to make inaccurate inferences (such as that managers ignore hazards that they do not disclose). Therefore, they must routinely update their disclosures to reflect any changes that result in varying degrees of risk exposure. Managers who are worried about this possibility are likely to notify any potential misleading information (Elshandidy & Zeng, 2022). They believe that if an accounting measurement is value-relevant, it must have the accuracy and quality of data that could be valuable to financial report users. Especially those who need this information to predict companies’ future performance (Elbakry et al., 2017). Based on the results of previous research, the first hypothesis therefore:

H1: Disclosure of RPTs has a positive impact on the value relevance of financial statements.

Disclosure of RPTs and Value of the Firm

Following the research conducted by Lo & Wong (2016), this study analyzes the effect of RPTs disclosure on firm value, especially the reaction from the market as measured by abnormal returns. Based on previous research, the market reacted negatively to the practices of RPTs which were used as a means of "tunneling" and "propping" (Cheung et al., 2021; Diab et al., 2019).

Based on agency theory, RPTs do not support the achievement of corporate goals, namely maximizing firm value. The reason is that RPTs are closely related to embezzlement of company resources which results in losses to minority shareholders (Abigail & Dharmastuti, 2022). Transferring resources to affiliated parties can have a negative impact on company performance and result in abnormal stock dividends (Pratama, 2018b).

Previous research found that listed companies use RPTs as cash receipts to increase profits and achieve specific revenue targets (e.g., propping) (Sumiyana & Setyowati, 2021). RPTs can also be utilized to transfer earnings to state-owned enterprises (SOEs) to subsidize loss-making operations or expropriate the company's wealth to major shareholders through an asset purchases, asset sales, equity sales, trade relations, and cash loans (e.g., tunneling) (Sumiyana & Setyowati, 2021). Maigoshi et al. (2016) found that Chinese companies are propping up affiliate sales to meet targets of certain income as determined by the regulator. Habib et al. (2015) found that companies registered in China benefited through loan collateral to related parties. Aharony et al. (2010) found that the company earns profit through sales with associated parties in the period pre-IPO and then tunneling profit to their parent company in the post-IPO period.

Habib et al. (2017) also found that politically affiliated companies in Indonesia use RPTs as a means of "tunneling" resources to related parties. Furthermore, these politically affiliated companies use debt transactions with RPTs as a mean of earnings management. In these circumstances, RPTs are used as a tool to expropriate minority shareholders with the intention of benefiting the prosperity of the majority shareholders (Huang, 2016). Therefore, based on previous study findings, the second hypothesis is:

H2: Disclosure of RPTs has a negative impact on abnormal returns.

Based on the explanation of the two previous hypotheses, the following two research models can be defined.

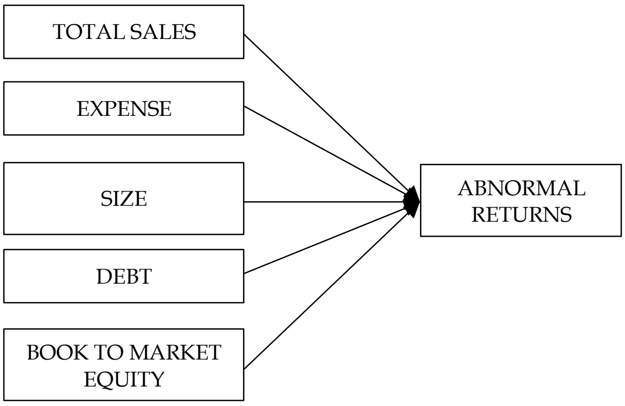

Figure 1. Financial Statement with No Additional Disclosure Regarding RPTs and Its Impact on Value Relevance and Predictive Value

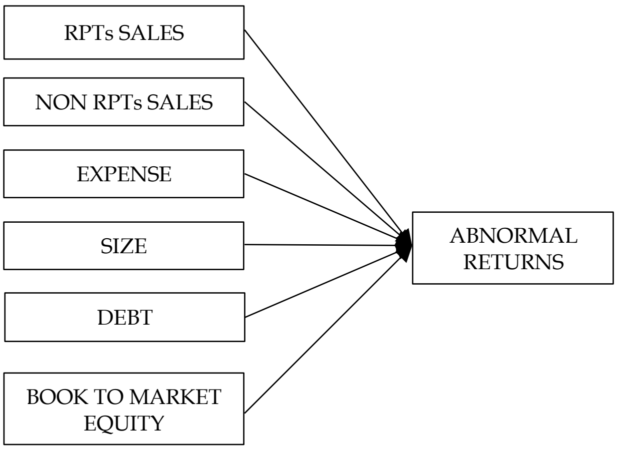

Figure 2. Financial Statement with Additional Disclosure Regarding RPTs and Its Impact on Value Relevance and Predictive Value

Figure 1 depicts the relationship between RPTs' disclosure and the value relevance of financial reports and firm value, while Figure 2 illustrates the impact of greater RPT disclosure. The first hypothesis will be drawn by contrasting the R-squares of the research model in Figures 1 and 2. A larger R-square value is anticipated to be influenced by greater disclosure. Whilst the association between the variables shown in figure 2 is used to support the second hypothesis.

RESEARCH METHODOLOGY

The population of this study is companies listed on Indonesian Stock Exchange from 2016 to 2020. The type of data used in this study is secondary data obtained from RPTs' disclosure of the company's financial statements. The data required is obtained from the content analysis of the financial statements.

This study posits the research of Lo & Wong (2016). The purposes of this study are, first, to analyze the effect of the incremental value from the disclosure of RPTs on the value relevance of financial statement information. The value relevance of the financial statement information is measured using abnormal returns. The elimination of any confounding effects is necessary to examine the value relevance of RPTs disclosure (Hawn et al., 2018). Therefore, this study used event study analysis to determine abnormal return. Abnormal return (AR) is the difference between the actual return (R) and the expected return (ER), calculated following equation 1. The event windows selected to estimate AR are four days before and after the annual report announcement.

$$ARt = Rit - E(Rit) \text{……………………………………(1)}$$

Meanwhile, the expected return is calculated using the Capital Asset Pricing Model (CAPM) following equation 2 (Strong, 1992). The CAPM is also estimated using market data four days before and after the annual report is released.

$$E(Rit) = RFt + (RMt - RFt)\beta RMt \text{ ………..……..(2)}$$

Notes:
RF = risk free rate of interest
RM = return of the market
β = beta coefficient

While the disclosure of RPTs is measured based on sales of RPTs. The following are the research equations.

$$ARit = \alpha 0 + \alpha 1SALEt + \alpha 2EXPt + \alpha 3SIZEt + \alpha 4DEBTt + \alpha 5BMt + e \text{ …………………………..(3)}$$

$$ARit = \beta 0 + \beta 1RPTt + \beta 2NONRPTt + \beta 3EXPt + \beta 4SIZEt + \beta 5DEBTt + \beta 6\, BMt + e \text{……………..(4)}$$

Notes:
AR = abnormal returns
SALE = natural log of total sales
EXP = natural log of total expenses
RPT = natural log sales of related parties
NONRPT = natural log of sales to non-related parties
SIZE = natural log of total assets
DEBT = debt-to-asset ratio
BM = book-to-market equity ratio

The first objective of this study is to provide evidence whether providing better RPTs disclosures will add value relevance to financial reports rather than standard disclosures. This is done by comparing the R-square of equation 3 and equation 4. If the RPTs sales increase the value relevance of information, then the R-square value of equation 4 must be significantly greater than the R-square value of equation 3 (Lo & Wong, 2016). In equation 3, the independent variables used are total sales and total costs, which means that it does not differentiate between RPTs and non-RPTs. In equation 4, the independent variables used are sales to related parties and sales to non-RPTs. These variables were chosen because the net income represents RPTs sales plus non-RPTs sales minus total costs.

Furthermore, the second objective of this research is to examine how the disclosure of RPTs can be useful for investors to evaluate company performance. This is achieved by observing the results from the fourth equation. If the separation of information regarding RPTs has a negative impact on abnormal returns, then the RPTs information is useful for investors in predicting firm value.

In accordance with previous studies regarding the value relevance of financial statement disclosures, this study uses several control variables. Size is included as a control variable because the larger the size of the company, the risk will increase so the size of the company also affects company returns (Kohlbeck & Mayhew, 2017). The same as size, debt can also affect the risk assumed by the company (Bae & Kwon, 2021). Meanwhile, the book-to-market equity ratio is the book value of a company's shares compared to its market value (Lo & Wong, 2016).

RESULTS AND DISCUSSION

The data in this study are from companies listed on Indonesian Stock Exchange. Subsequently, we employ purposive sampling technique to screen the data with the following criteria:

1. The companies do not engage in financial service activities.
2. The companies provide financial reports from 2016 – 2020.
3. The companies report the financial statements in IDR.

The exclusion of financial firms is because these companies maintain above-average levels of leverage which may not be corresponding with high "distress". Therefore, omitting these companies may prevent the results to be bias (Andreou et al., 2021). Based on the above criteria, 343 companies were successfully obtained. The next step is to collect financial data, stock price data of each company, and stock exchange index price. Table 1 presents descriptive statistics results from sample.

Table 1. Descriptive Statistics of the Samples

Variables	Mean	Standard Deviation	Minimum	Maximum
AR	0.002	0.051	-0.208	0.646
SALE*	937,000,000,000	3,525,000,000,000	0	50,000,000,000,000
RPT*	246,797,000,000	1,587,160,000,000	0	24,500,000,000,000
NONRPT*	648,431,000,000	2,114,660,000,000	0	27,040,000,000,000
EXP*	3,406,345,871	12,259,700,000	928	203,000,000,000
SIZE*	3,270,187,879	10,777,500,000	290	186,800,000,000
DEBT*	1,340,175,923	4,286,968,778	532	67,570,000,000
BM	4.444	31.823	0	1,000.670

*SALE, RPT, NONRPT, EXP, SIZE, and DEBT are in IDR

Following are some of observations worth to note. The average of abnormal returns is 0.002. This indicates that investors barely have opportunity to gain abnormal return from RPTs announcement. RPTs average is around IDR247 million whereas the average sales are around IDR937 million. This means that RPTs transactions account for almost a quarter of the total transactions made by companies. This is evidence that a substantial amount of RPTs are carried out by Indonesian companies.

Before testing the hypothesis, classic assumption testing is carried out to ensure that the data is feasible to use. The Kolmogorov-Smirnov test yields a value of 0.036 with a significance of 0.200. It can be concluded that the data is normally distributed. The test results for tolerance and variance inflation factor (VIF) are shown in Table 2. It can be seen that the tolerance value of the independent variables used is more than 0.1 and the VIF value is not more than 10. Therefore, it can be concluded that there is no correlation between the independent variables.

Table 2. Collinearity Analysis Results

Variables	Tolerance	VIF
SALE	0.424	2.361
EXP	0.424	2.360
SIZE	0.120	8.357
DEBT	0.295	3.391
BM	0.136	7.366

In addition, the Durbin-Watson test was also performed and a value of 1.953 was obtained. It can be inferred that there was no confounding error correlation. Then the Park test was also implemented and the variance of the residuals was not heterogeneous.

Hypothesis testing is done by regression analysis on both equation three and four. Table 3 shows the results of the regression analysis carried out. The equation 3 shows when information regarding RPTs is not reported separately and how the market responds to this action. While the equation 4 illustrates how information about RPTs is reported separately and its effect on abnormal returns

Based on the results presented in Table 3, the two equations have significant influence to abnormal return. Shown by F-statistic, both equations are robust with significance of less than 5 percent. However, The R-square value of the two equations differed significantly. R-square value of equation 3 is 18.1 percent while the R-square value of the equation 4 is 25.4 percent. These results indicate that RPTs disclosure have incremental information value to investors, in accordance with this research's first hypotheses. Disclosure of RPTs provides incremental information, beyond disclosing sales information alone. Therefore, information regarding sales to related parties is better separated from information on sales to third parties. The information separation between sales to related parties and sales to third parties are useful to predict the firm's market performance, in this case presented by abnormal returns.

Companies that voluntarily report information even when not obligated are valued more highly by investors. However, this can also mean that companies that are not involved in RPTs transactions that result in asset expropriation provide better disclosures to avoid bad judgment from investors (Cheung et al., 2021). Furthermore, companies that disclose RPTs better require investors to perform a more in-depth analysis of the transactions reported to ensure that expropriation by majority shareholders or parties with special relationships does not occur (Kohlbeck & Mayhew, 2017).

Table 3. Regression Analysis Results

Variables	**Equation 3**		**Equation 4**	
	Coefficient	Sign.	Coefficient	Sign.
Sale	-0.002	0.863		
RPT			**0.962**	**0.000**
NonRPT			**0.488**	**0.008**
Exp	-0.001	0.987	0.10	0.859
Size	-0.056	0.129	-0.063	0.316
Debt	0.005	0.855	-0.018	0.675
BM	0.044	0.260	-0.005	0.930
Const.	-2.924	0.000	-2.846	0.000
Adj. R^2	**0.181**		**0.254**	
F-Statistic	4.625	0.000	4.146	0.000

This finding is in accordance with study by Lo & Wong (2016) which states that disclosing the amount of RPTs transactions alone will not provide added value for financial statements users, especially investors. However, disclosure of RPTs which includes the methods used will provide higher value relevance from the financial statements. Moreover, voluntary disclosure in excess of requirements will greatly help increase the value relevance of financial statements in companies that have weak governance mechanism.

RPTs transactions are carried out by parties who have established a trust-based relationship and even share private information between the parties. Therefore, companies that perform RPTs will be able to streamline transaction costs because the parties involved have mutual trust (Fang et al., 2018). Related parties will have better knowledge regarding the needs of the company and can provide these needs with more suitable terms and conditions. In addition, transactions with related parties will make it easier to share knowledge and best practices that will help the company's performance. Therefore, users of financial statements can interpret that companies involved in RPTs are cost efficient and they can better assess these companies (Fang et al., 2018; Tambunan et al., 2017).

Based on the comparison of the two models, it can be inferred that when the company does not separate sales information regarding RPTs and non-RPTs (the equation 3), the information does not have a significant impact on abnormal returns. Even sales disclosures that do not differentiate between RPTs and non-RPTs have a negative effect on abnormal returns. However, when the company separates information on sales of RPTs and non-RPTs, the information provided has a significant and positive impact to abnormal returns. These results are inconsistent with the second hypothesis which states that the disclosure of RPTs has a negative effect on the company's abnormal returns.

Disclosure from RPTs gives rise to the increase of value of the company because disclosure that exceeds the standard requirements will lead to mitigate the negative implications of "self-dealing" transactions. This transaction can provide positive benefits for companies in the form of strategic long-term relationships, encourage risk sharing with partners, and facilitate project contracts to be more efficient (Fang et al., 2018). RPTs can also provide benefits for shareholders because this implies that the company can optimize company's resources allocation and increase ROA (Ariff & Hashim, 2013).

Furthermore, Utama & Utama (2014) found that the amount of related party debt has a positive effect on company value in Indonesia. However, this does not occur in related party transactions related to assets. In addition, companies that do not fully disclose their RPTs, the amount of reported RPTs assets will have a negative effect on company value. But the negative effect will be reduced when companies disclose RPTs better. This means that investors do not always evaluate the disclosure of RPTs transactions negatively (Pratama, 2018a).

The same result also found by Hendratama & Barokah (2020). In this study it was found that debt to related parties has a positive impact on firm value. However, on the other hand, disclosure of sales to related parties has a negative impact on company value. However, when companies also publish CSR reports, these negative impacts can be mitigated so that the relationship between RPTs and company value becomes positive. In addition, wider voluntary disclosure of financial statements will be able to reduce the effect of negative discretionary accruals from transactions related to RPTs on earnings management (Hwang et al., 2013). This occurs especially in companies that are not utilizing high technology in Taiwan.

On the other hand, company size has no effect on abnormal returns, which means that neither large nor small companies benefit from disclosure of RPTs (Lo & Wong, 2016). Even though company size has a negative relationship with abnormal returns suggesting that the majority shareholders in large companies can expropriate assets from the company (Bae & Kwon, 2021).

In addition, the results of this study also show an insignificant relationship between the debt-to-asset ratio or leverage and abnormal returns. However, the debt-to-asset ratio has a negative relationship with abnormal returns. This can imply that majority shareholders will generally conduct more asset expropriation activities compared to companies that have RPTs transactions in the form of debt (Ariff & Hashim, 2013).

On the other hand, in this study the book-to-market ratio does not appear to have a significant effect on abnormal returns. This may indicate that investors consider that the company has "prop-up" through RPTs transactions. Therefore investors estimate lower company value (Bae & Kwon, 2021).

CONCLUSIONS

Transactions with related parties are usually carried out with affiliated companies. Furthermore, this transaction can help corporations to allocate resources more efficiently and save transaction costs. On the downside, related-party transactions are also used as a tool for manipulating profits and transferring profits to management, controlling owners, or affiliated companies. Results from previous studies show that good governance can prevent management from conducting opportunistic related-party transactions. This research’s results also demonstrate that RPTs disclosure can increase usefulness and value relevance of the financial statements. In addition, disclosure of transactions with affiliated parties also has a significant positive effect on the company's abnormal returns. Therefore, broader RPTs disclosures can be used as a mechanism to protect the interests of minority shareholders, investors, and other public interests.

By addressing the importance of reporting transfer pricing methodologies, this study adds to the body of literature. Our research offers evidence that this kind of disclosure can give investors pertinent and reliable information that can add to the value relevance of financial reporting. Thus, the findings may provide important information to accounting standard setters and assist in the conception of a disclosure strategy that would minimize knowledge asymmetry between management and minority stakeholders. The sample of this study is non-financial services companies that are listed on Indonesian Stock Exchange. It is sufficient to say that the sample used consists of various industries. This could give arise concern that this study’s results can affect the generalization to other regional research settings. In addition, the data used to measure sales and total costs are income before tax and operating costs, respectively. Therefore, the tax effect was not taken into account in this study. Transfer pricing transactions are closely related to tax issues. This is possible because transfer pricing mechanism sometimes can be used to transfer wealth to affiliated companies, majority owners, or management. This transaction becomes even more crucial when it involves international transactions. Suggestions that can be given for further research are to analyse the disclosure of RPTS transactions by considering tax policies and international transaction treaties.

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