Connected transactions, corporate governance and firm value

Narges Hosseinyan, Fathyah Hashim, Salmi Mohd Isa
Universiti Sains Malaysia, Penang, Malaysia

Keywords
Connected transaction, Corporate governance, Firm value

Abstract

The aim of this study is to explore the effect of connected transactions on firm value, and to investigate the moderating effect of corporate governance on the relationship between connected transaction and firm value after financial crises in ASEAN. The study applies the fixed effect model on a sample of 386 companies listed on the Malaysia Stock Exchange (Bursa Malaysia) from 2010 to 2012. The results indicate that sales or purchases of good through RPTs have a significantly negative relationship with firm value. This study also discovered that external auditor size plays a moderating role on the relationship between RPTs and firm value. In contrast, institutional ownership does not moderate the relationship between RPTs and firm value. The results of this study indicate that the frequency of connected transaction can be detrimental to companies by negatively affecting firm value. This finding is consistent with prior studies on connected transaction. In summary, the results support the view of connected transaction being conflict of interest between controlling shareholders and minority shareholders, rather than efficient transactions. In general, this study adds to the mixed empirical evidence of connected transactions. In future studies, it is suggested that the impact of the amount of connected transactions on the value of a firm should be evaluated.