Related Party Transactions, Supply chain and Cost Management on Firm's Value: Evidence from Indonesia

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***Abstract*. Firms are involved in supply chains to achieve operative efficiency, develop strategic advantages, and generate financial profits. This study aims to examine the effect of disclosure of Related Party Transactions (RPT), the disclosure of supply chain and cost management on a firm's value. The firm's value is considered necessary because a high level of shareholder prosperity will follow the big firm's value. Also, supply chain management, as an agent of the company, seeks to increase the firm's value, which is reflected in the stock market price of the companies. This research is quantitative research with multiple linear regression models. The sample used in this research is manufacturing companies listed on the Indonesia Stock Exchange (ISE). The type of data used in this study is secondary data in the form of financial statements and annual reports from 2014 to 2016. The sample selection using a purposive sampling method with the number of samples amounted to 255 samples. This study uses data with the same number of years for three years, so that this research is research with panel data. The results of this study suggest that the RPT disclosure and the supply chain management have a positive effect on the firm's value. Earnings management based on current discretionary proxies used in this study indicates that investors do not use cost information to make investment-related decisions. To confirm the results of this study, further research is expected to use longer years.**

Keywords— *Related Party, Supply chain management, Cost Management, Firm's Value*

1. Introduction

The firm's value is essential for the companies, especially for shareholders, because it reflects the market capitalization rate of the companies. The big firm's value will be followed by a high level of shareholder prosperity [1]. According [2], an increase in shareholder wealth is the main objective of the company. Therefore, management, as an agent of the company, seeks to increase the firm's value, which is reflected in the stock market price of the company [3].

Related to the issue of stock price movement, the uncertainty of stock movement due to investor behavior in decision making is considered to be a separate problem for the company in increasing the firm's value. To overcome this, the company seeks to provide information to investors. According to [4], the information disclosed to the company is a means of communication between investors and companies regarding decision-making by investors. Investor decision-making based on company information can affect a firm's value because it can affect investor reactions.

Related to the issue of information disclosure, there are two properties of disclosure of mandatory disclosure and voluntary disclosure. One form of mandatory disclosure is the disclosure of Related Party Transactions (RPT). RPT disclosure is one form of disclosure that positively affects the firm's value [5]. According to [6], the firm's value provides the information needed by investors to address opportunistic management behavior. Opportunistic behavior is detrimental to investors because of the management's desire to increase personal benefits.

In the meantime, several studies suggest that RPT disclosure negatively affects firm value [7, 8]. Based on these studies, the RPT disclosure triggered a difference of interest between the manager and its shareholders. It is contrary to the purpose of RPT to improve efficiency. Also, [9] states that the disclosure of RPT is negatively affected by the diversion of resources from minority companies to the majority (tunneling) that can harm minority companies.

In addition to mandatory disclosure, one of the voluntary disclosure disclosed by companies is supply chain management (SCM) disclosure. Disclosure of social responsibility is a voluntary disclosure because it is not discussed in the

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Financial Accounting Standards. However, the disclosure is a form of corporate liability that is not only related to economic obligations but also obligations to other interested parties [10]. The obligation is related to the role of the company to the community and the environment. It is known as the triple bottom line principle, which is related to finance, social, and environment (Profit, Planet, People). Therefore, some studies suggest that SCM disclosure positively affects firm's value [11-20].

Meanwhile, other studies state otherwise the influence of SCM disclosure to the firm's value. The study concludes that the SCM disclosure negatively affects the firm's value. In [18] argue that disclosure of social responsibility in Brazil negatively affects corporate value because of poor corporate relationships with employees and the environment that impact on impairment. This negative relationship is caused by the difficulties and the inability of the company to allocate funds for social activities.

In addition to the disclosure of information, this study discusses the accrual earnings management. According to [17], earnings management is an accounting policy undertaken by a manager or an action to affect a company's reported earnings. According to [19], one of the irregularities committed by management as an agent is in the process of preparing financial statements because management can affect the level of earnings generated in the financial statements. Based on this, the quality of financial statements is influenced by earnings management behavior.

Accrual earnings management behavior may have a positive or negative impact on firm value. Some studies suggest that accrual earnings management negatively affects firm value [21]. It is due to the behavior of management as an agent who manipulates in financial reporting for personal gain. The impact is the existence of poor quality of financial statements that affect the investor's assessment of the company's financial statements. According to [22], investors' response to the opportunistic behavior of management shows a decline in the value of the company's stock market.

Meanwhile, other research suggests that accrual earnings management has a positive effect on firm value. According to [23], accrual earnings management can reduce the earnings volatility as well as a means of communication between management and investors regarding future earnings forecasts. Therefore, a good relationship between investor and management can increase the credibility and the firm's value. On the other hand, there is research that reveals that earnings management does not affect the firm's value. It occurs because the earnings management action does not give a reaction that benefits the company, as reflected by the increase in the stock price of the company. This study also included some control variables. The control variables used in this research are profitability, firm size, and leverage. Based on research [13], profitability, firm size, and leverage have a positive effect on the firm's value.

The signaling theory states that the company delivers a signal to reduce the moral hazard problem and increase the firm's value. Signals conveyed by the company can be interpreted as good news and bad news. Useful information (good news) encourages a positive response for investors against stock prices, while lousy news (bad news) can encourage an adverse reaction to stock prices. Company management will be encouraged to deliver company information, especially to investors who invest in the company. The company's drive to disclose information to external parties is due to the information asymmetry within the company. Information asymmetry caused by management has more information than external parties. Company management knows the condition of the company and the prospect of the company compared to outsiders. Therefore, this theory is intended to reduce the existence of asymmetric information by delivering good news related to financial and non-financial companies. Also, the signaling theory emphasizes the importance of information released by firms on investment decisions of parties outside the company. Type of information such as the announcement of earnings issuers to be one example of information used by investors as a signal related to the condition of the company. Increased earnings are considered to be good news and vice versa for which investors will react to related information. In the context of the firm's value, information submitted by the company is a signal related to the condition of the company that will affect the stock trading company. The information-related reaction as a signal of the firm will affect the market price and will ultimately affect the firm's value. The increase in the firm's value is due to useful information regarding returns received by investors. Also, the impairment may be due to inadequate information associated with corporate risk.

RPT Disclosure is one of the management efforts in providing information to external parties, especially investors related to transaction information conducted by companies with parties with a special relationship with the company. It is considered by the concept of signaling theories that the company provides a signal to investors related to the activities and conditions of the company. Also, the disclosure of such transactions is required by applicable accounting standards so that the company is required to disclose the RPT. It is intended to improve transparency related to the company's condition.

In [24] conduct a study related to the influence of RPT disclosure on a firm’s value. The result suggests that disclosure of related parties transactions conducted to reduce the existence of transactions that harm the company. Also, [25] conclude that the disclosure of RPT is intended to provide the information needed by investors to make investment decisions. Based on the research, RPT related information affects the stock price of the company so that investors react to RPT information.

Based on the conditions and results of previous research related to the disclosure of related parties, the disclosure of RPT has an essential influence on investor decision making. Investor reaction to RPT disclosure can increase the stock price because the information encourages the existence of RPT that are efficient because RPT transactions that are efficient to improve the financial performance of the company so that ultimately encourage the increase in corporate value. Based on this, the first hypothesis of this research is:

H1: RPT Disclosure has a positive effect on the firm’s value.

Based on the signaling theory, the company is encouraged to disclose good news to investors related to company performance. The company conducts it as in the disclosure of social responsibility related to the social and environmental activities of the company. The disclosure is intended as a positive signal for investors related to the company's future performance. Therefore, the disclosure of social responsibility is crucial because it shows the level of corporate sustainability in the future. [23]state in the research that disclosure of social responsibility has a positive effect on the firm’s value because the disclosure can increase customer loyalty due to the disclosure. Customer loyalty is formed due to an interest in the company conducting social activities in the communities. Also, [26] state that disclosure of social responsibility can improve the company's positive image in society. The positive image can influence investors' decisions so that stock prices increase.

Disclosure of social responsibility in Indonesia influences increasing the firm’s value. It is based on companies that disclose that social responsibility has a good level of sustainability. A right level of sustainability reflects a certain degree of assurance for the future of the company. Therefore, companies that disclose social responsibility have an optimal level of achievement of the company's performance in the future. Based on this, the second hypothesis of this research is:

H2: Disclosure of social responsibility positively affects the firm’s value.

Earnings management is a policy conducted by companies related to the reporting of information to external parties, especially to investors. Based on the signaling theory, management is encouraged to report useful information to investors. Such useful information will affect investors' decisions regarding the company. Therefore, management seeks to manipulate financial reporting to produce useful information to influence investor decisions. In [27] argue that earnings management negatively affects the firm's value due to the opportunistic behavior of managers. The opportunistic behavior of managers is done by manipulating financial statements. Also, companies that disclose manipulated information may trigger an adverse reaction by investors due to the risk of sanctions imposed by market authorities. Therefore, the decline in corporate value is driven by the opportunistic behavior of managers in making earnings management.

Earnings management is detrimental to both existing and potential investors. This is due to information that is not by the condition of the company. Such earnings management can lead to incorrect investor decision making. Therefore, earnings management can trigger an adverse reaction from investors. Accordingly, the third hypothesis is

H3: Accrual earnings management negatively affects a firm’s value.

2. Methods

The type of research used in this research is a quantitative method using multiple linear regression models. The type of data used in this study is secondary data in the form of annual reports and financial companies listed on the ISE from 2014 to 2016. This study uses panel data. Financial statement data and annual reports of companies listed on IDX can be obtained by downloading from the official website of IDX at www.idx.co.id, or the company websites, as well as other possible sources.

Sample selection in this study using purposive sampling based on specific predetermined criteria. Sample members who do not meet the specified criteria are excluded in the members of that population. The criteria specified in this study consist of four criteria. First, the company entered into the category of manufacturing companies listed on the Stock Exchange. Second, companies listed on the BEI before January 1, 2014. Third, a manufacturing company that does not use USD currency in its financial statements from 2014 to 2016. Fourth, the company has a complete data element of financial statements and information related to the variables used in this study.

The dependent variable uses the firm’s value which is proxied using Tobin's Q ratio measured from the calculation for three observation periods from 2014 to 2016. The calculation formula of Tobin's Q is based on [28] as follows:

$Q= (MVE+D)/BVA$

Where:

Q = Corporate value

MVE = Market value of equity

D = The book value of total debt

BVA = Book value of total assets

Independent Variables in this study use RPT disclosure, SCM disclosure, and accrual earnings management. In this study, RPT disclosure is measured using the KPMG index in 2011 as based on [29], as follows:

$RPTDij= NP/TP \ x\ 100\%$

Where:

RPTDij: RPT disclosure rate for firm i in year j

NP: the value of RPT disclosure made by the company

TP: total required disclosure

SCM uses measurements based on the Global Reporting Initiative (GRI) indicator. GRI provides reporting principles, implementation guidelines, and standard disclosure for the preparation of ongoing reports. To date, the GRI index is 91 Indicators contained in G4's Global Reporting Initiative (GRI) standard. The use of GRI G4 proxies is based on research from [30]. The formulas used to assess SCM activities are:

$CSRij= (\sum Xij)/Nj \ x\ 100\%$

Where:

SCMij: Company GRI Index for firm i in year j

Xij: The number of GRI indicators disclosed by the company, worth 1 to be disclosed, is 0 for not disclosed for firm i in year j

Nj: Number of disclosure criteria (maximum 91 indicators) in year j

Accrual earnings management behavior of managers to play with the discretionary accruals component to determine the size of the earnings. The measurement of accrual earnings management uses [31]model as follows:

Calculates total current accrual.

$TCAit / Ait\text{-}1 = \alpha 0 \ (1/ Ait\text{-}1) + \alpha 1 \ (\Delta REVit / Ait\text{-}1) + \alpha 2 \ (ROAit\text{-}1) + \varepsilon it$

Incorporate the coefficient generated from the previous calculation to predict the current accrual (ECA).

$ECAit / At\text{-}1 = \alpha 0 \ (1/ Ait\text{-}1) + \alpha 1 \ \{(\Delta REVit - \Delta ARit) / At\text{-}1)\} + \alpha 2 \ (ROAit\text{-}1)$

3) Determining PACDA.

$PACDA = (TCAit / Ait\text{-}1) – (ECAit / At\text{-}1)$

Where:

TCA: total current accruals for firm i in year t, i.e., net income before extraordinary items and discontinued operations plus depreciation and amortization minus cash flows from operating activities

Δ REV: change in net income for firm i in year t

ΔAR: change of accounts receivable for the company i in year t

ROA: net income ratio before the extraordinary item to total assets for firm i in year t-1

ECA: expected current accrual for the company i in year t

A: total assets for firm i in year t

Eit: error value for firm i in year t

The control variable is a variable that is controlled or made constant so that the influence of the independent variable to the dependent variable is not influenced by the outside factor, which is not examined. Some control variables are used in this research model, and all are calculated on a value at the end of the year unless otherwise specified.

Control variables used include profitability, company size, and leverage. Profitability is a description of the company's ability to generate profits generated from total assets owned. This study uses Return on Assets (ROA) as a proxy for measuring profitability. Based on the research of [32] the profitability formula can be measured by the following formula:

ROA (Return On Asset)= (Net Income)/(Total Assets)

Company Size describes the size of a company viewed by its total assets. Company size is measured by the total natural logarithm of assets, follows [32]. The research formula is as follows:

SIZE=Ln Total Assets

The leverage ratio can represent the proportion of total short-term and long-term debt to total assets owned by the company. The formula is derived from [32]. The following formula can calculate leverage:

LEV= (Total Liabilities)/(Total Assets)

The main research models in this study are as follows:

$$FV_{it} = \alpha 0 + \beta 1\ RPT_{it} + \beta 2\ SCM_{it} + \beta 3\ EM_{it} + \beta 4\ ROA_{it} + \beta 5\ SIZE_{it} + \beta 6\ LEV_{it} + \varepsilon$$

where:

FV it : Firm's value for firm i in year t
α: Constants
ß: Regression coefficient
RPT it : Related Party Transaction Disclosure
SCM it : Index of SCM
EM it : Accrual earnings management
ROA it : Profitability
SIZE it : Company size
LEV it : Leverage
ε: Error

3. Result and Discussion

The selection of the samples by using purposive sampling is presented in Table 1 as follows.

Table 1 Samples Selection

No	Criteria	Total	Measurement
1	Manufacturing companies listed on the BEI	144	Firms
2	Companies listed on BEI are registered from 2014 to 2016	(9)	Firms
3	Companies whose financial statements use the USD currency	(28)	Firms
4	Companies with variable data are incomplete	(22)	Firms
Total Sample		85	Firms
Year		3	Years
Observasi		255	Firm-Year

Source: Processed from www.idx.go.id

The descriptive statistical analysis in this study is described by using the mean, maximum, minimum (minimum), and standard deviation (Std. Dev.). The summary of the results of descriptive statistics on the variables data in this study presented in Table 2, as follows:

Table 2 Descriptive Statistics

	Mean	Median	Maximum	Minimum	Std.Dev.
TOBIN'S Q	2.0091	1.1165	17.9251	0.3041	2.5958
RPTD	0.1436	0.13	0.33	0.02	0.0611
SCMD	0.0663	0.04	0.75	0.01	0.083
EM	3.92E-11	0.0023	0.3563	-0.8438	0.1003
ROA	0.0609	0.0432	0.4316	-0.2080	0.0912
SIZE	28.4505	28.195	33.343	25.2455	1.6901
LEVERAGE	0.4886	0.4844	3.0290	0.0609	0.3265

Based on the examine conducted, the model chosen for the regression equation estimation research is a fixed-effect model. The hypothesis testing summary, as follows:

Table 3 Hypothesis Test Summary

Variable	*Coefficient*	*t-Statistic*	Prob.	
RPT	2.8708	5.7853	0.0000	***
SCM	1.3811	38.585	0.0000	***
EM	0.6189	5.4974	0.0000	***
ROA	0.8642	2.3105	0.0221	**
SIZE	-0.2724	-3.8271	0.0002	***
LEV	0.888	10.6860	0.0000	***
R^2	0.9961			
Adj R^2	0.9940			
F-stat.	470.64			
Prob(F-stat)	0.0000			

Discussion on the effect of RPT disclosure on firm’s value

The test results on the disclosure of RPT suggests that RPT disclosure has a positive effect on the firm’s value. According to [23], the RPT disclosure helps investors provide the information needed to address opportunistic behavior. Also, companies disclosing information relating to the disclosure of RPT may provide the information required by the market to assess the transactions of a related party by the company. The statement is corroborated with [33]. According to [34] the disclosure of related parties' transactions can eliminate the adverse effects of adverse financial transactions because the company will not conduct abusive transactions or expropriate minority shareholders. It is conducted to avoid any sanction given by the capital market. Companies that disclose the value of related parties transactions tend to encourage more efficient transactions with related parties. This led to an increase in stock prices for companies that disclose RPT. It is due to an increase in corporate performance due to the efficiency of transaction costs among related parties. Efficiency is exemplified as the cost savings of contracts between parties who make the transaction. Therefore, to encourage the existence of efficient transactions with related parties and to reduce the existence of transactions related parties abusive, Financial Services Authority (FSA), as the supervisor of the capital market, publishes rules related to transactions related parties to oversee abusive transactions. The rules are regulated by Bapepam-LK Decree Number: KEP-412 / BL / 2009 on Affiliate Transactions and Conflict of Interest of Certain Transactions. These rules are expected to mitigate the existence of abusive related parties transactions and encourage more efficient transactions.

Discussion of the effect of SCM on firm’s value

The result of hypothesis testing in this study suggests that the SCM disclosure positively affects the firm’s value. SCM disclosure is related to the sustainability of the company. Corporate sustainability is not only based on financial factors but also related to social and environmental factors. It is known as triple bottom lines. The existence of the company depends heavily on the support of the wider community. The company has a responsibility to the community because the company has been granted privileges of limited liability and unlimited business activities.

Also, this study reinforces previous SCM disclosure studies in other developing countries where there is a positive investor reaction regarding SCM disclosure. Saleh et al. (2016) research in Malaysia stated that the SCM disclosure has a positive effect on the company's performance due to a positive market reaction to SCM disclosure in Malaysia. The positive reaction causes three things to improve the company's external reputation, improve the morale of workers, and encourage good relations with investors. Also, the positive response is shown by the company's customers because the SCM disclosure can drive customer loyalty in the long run. It can increase corporate earnings and strengthen the firm’s value as represented by a strong corporate financial position. Also, [35] state that customers in India are more interested in buying products from companies that engage in social responsibility activities.

Discussion of the effect of cost management on the firm’s value

The result of the hypothesis test on this research shows that accrual earnings management does not affect firm value. These results show differences from previous studies conducted by [36, 37]. Based on the results of research using current earnings management proxies, earnings management does not affect the firm's value, and the results of this study strengthen the results of research studies. It is alleged because investors are not interested in information using current assets in their earnings management. Also, investors are indicated to use financial statement information related to non-current asset posts. This is due to the realistic view of investors, so investors only assess the company's report based on the nominal and the number of accounts.

Based on the results of this study that the accounting information of companies that have been manipulated not affect the stock price reaction. This is by the statement of [13], stating that accounting information is not useful in making investment decisions. This is because investors are unsophisticated and irrational because they do not use financial statements in making stock investment decisions. Investors tend to base on rumors, issues, speculative, and behave impulsivity related decision-making that is done related to the company's stock. The behavior of individual investors is suspected due to limited cognitive abilities related to the interpretation of information received by investors.

4. Conclusions

Supplier and customer-ocused cost information enables firms to identify opportunities for improving the cost efficiency of their transactions with supply chain partners. Coordinating the cost-reduction programs of firms across the supply chain can help them identify ways to make their interfaces more efficient. RPT disclosure positively affects the firm's value. RPT Disclosure is an effort of the company to reduce the existence of asymmetric information asymmetry and used to eliminate harmful effects from related parties' transactions. Also, the disclosure of related parties' transactions is a form of transparency conducted by the company to increase the disclosure of information useful to corporate stakeholders. SCM disclosure positively affects the firm's value. SCM disclosure is a form of effort by the company to improve the company's sustainability. Companies that do not perform SCM programs, then stakeholders assume that the company is doubtful going-concern it. Therefore, the SCM disclosure is essential to the firm's value because it relates to investors' perceptions of corporate sustainability. Meanwhile, accrual earnings management does not affect a firm's value. According to the results of this study, investors do not use earnings information to make investment-related decisions. Earnings management based on current discretionary proxies does not affect investors' reactions because investors are suspected of using noncurrent discretionary accounts in the financial statements due to their sizeable nominal value and a small number of accounts compared to current asset account groups.

For further research is expected to expand the object of research, not only in the manufacturing sector listed on the Stock Exchange but also the non-financial sector listed on the Stock Exchange. For research variables, further research is expected to add a moderate variable ownership structure to research related to the influence of disclosure of RPT with a firm's value. This is due to a previous study which states that concentrated ownership triggers abusive RPT. Also, further research is expected to accommodate longer time intervals so that the results obtained are more valid.

Based on the results of this study, the Financial Services Authority is expected to evaluate and update the rules relating to SCM disclosures and related party transaction disclosures tailored to dynamic market and economic conditions. It is intended to facilitate investors in comparing information disclosed with market conditions or the latest rules. Also, for investors, the firm's value is a perception of the level of wealth of a company in order to guarantee the prosperity of its shareholders. The results of this study are expected to be an investor reference related to what factors affect the value of the company and as a material consideration of investors related to decision making for a company's investment. Furthermore, the accounting standard-setting body, this research is expected to be a material consideration related to the improvement of the disclosure of information items on related party transactions in the financial statements as stipulated in PSAK 7. Therefore, supply chain process can help the firms and their buyers and suppliers find new ways to jointly reduce the manufacturing costs of their products, both during product design and manufacturing.

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