

**THE IMPACT OF RELATED PARTY TRANSACTIONS ON
FINANCIAL PERFORMANCE IN LISTED MANUFACTURING
COMPANIES IN SRI LANKA**

By



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Abstract

The purpose of this study is to examine the impact of related party transactions on financial performance in listed manufacturing companies in Sri Lanka. Thirty one listed manufacturing companies were selected for a period of five years starting from 2012 to 2016. Related party transactions (related party tunneling transactions and related party propping transactions), Big 4 audit firms, Debt to Asset Ratio and Independence Board Ratio are identified as independent variables and financial performance identified as dependent variable for this study. Related party transactions was obtained using content analysis in their annual financial reports. This study employed Return on Assets (ROA) to identify the finance performance. Other than the above mentioned variable of Big 4 audit firms identified by using annual financial report.

The findings indicated that a statistically significant weak negative relationship between total related party transactions and financial performance which measured by ROA and also weak negative relationship between related party propping transactions and financial performance. Further findings indicated that negative relationship between related party tunneling transactions and financial performance which measured by ROA. The results of the study proved significant impact of related party transactions on finance performance in listed manufacturing companies in Sri Lanka. In addition, there are evidence found to support significant relationship between control variable (Independent Board ratio) and related party transactions.

Keywords: Related party transaction, financial performance, manufacturing companies.

TABLE OF CONTENTS

| | |
|--|------|
| ACKNOWLEDGEMENT | I |
| ABSTRACT..... | II |
| TABLE OF CONTENTS..... | III |
| LIST OF TABLES..... | VII |
| LIST OF FIGURE | VIII |
| | |
| CHAPTER ONE - INTRODUCTION..... | 1 |
| 1.1 Background of Study..... | 1 |
| 1.2 Problem Statement | 2 |
| 1.3 Research Questions | 3 |
| 1.4 Objectives of the Study | 4 |
| 1.5 Significance of the Research | 4 |
| 1.6 Scope of the Study..... | 4 |
| 1.7 Limitations of the Study..... | 5 |
| 1.8 Chapter Summary..... | 5 |
| CHAPTER TWO - LITERATURE REVIEW..... | 6 |
| 2.1 Introduction | 6 |
| 2.2 Related Party Transaction | 6 |
| 2.2.1 Introduction | 6 |
| 2.2.2 Classification of Related Party Transactions..... | 7 |
| 2.2.3 Related Party Transaction Disclosures | 8 |
| 2.2.4 Types of Measurement of Related Party Transactions | 9 |
| 2.2.5 Related Party Transactions: Efficient Transactions or Conflict of Interest..... | 10 |
| 2.2.6 Past Studies on Related Party Transaction and Company Performance..... | 10 |
| 2.3 Characteristics of the Board of Directors..... | 11 |
| 2.4 Independence Board..... | 12 |
| 2.5 External Auditor..... | 12 |
| 2.6 Leverage Ratio and Corporate Governance | 13 |
| 2.7 Related Party Transaction and the Risk of Fraud..... | 14 |
| 2.8 Separation between Ownership-control and Related Party Transaction | 15 |

| | |
|---|----|
| 2.9 Affiliation to a Group and Related Party Transaction..... | 15 |
| 2.10 Past Studies on Related Party Transaction and Companies Valuation | 16 |
| 2.11 Related Party Transactions and the Risks to Firm Valuation..... | 16 |
| 2.12 Related Party Transactions and Corporate Governance..... | 17 |
| 2.13 Colombo Stock Exchange..... | 20 |
| 2.14 Chapter Summary..... | 20 |
| CHAPTER THREE - CONCEPTUALIZATION AND OPERATIONALIZATION. | 21 |
| 3.1 Introduction | 21 |
| 3.2 Conceptualization..... | 21 |
| 3.2.1 Conceptual Framework..... | 21 |
| 3.2.1.1 Total Related Party Transactions | 22 |
| 3.2.1.2 Related Party Tunneling Transactions | 22 |
| 3.2.1.3 Related Party Propping Transactions..... | 22 |
| 3.2.1.4 Company Performance..... | 22 |
| 3.2.1.4.1 Return on Asset (ROA)..... | 23 |
| 3.2.1.5 Measurement of Control Variable | 23 |
| 3.2.1.5.1 Big 4 Audit Firm | 23 |
| 3.2.1.5.2 Independence Board..... | 24 |
| 3.2.1.5.3 Debt to Assets Ratio..... | 24 |
| 3.3 Operationalization of Variables | 25 |
| 3.4 Chapter Summary..... | 26 |
| CHAPTER - FOUR METHODOLOGY | 27 |
| 4.1 Introduction | 27 |
| 4.2. Study Design | 27 |
| 4.3 Sampling..... | 27 |
| 4.4 Data Collection..... | 28 |
| 4.5 Formulation of Hypotheses | 28 |
| 4.6 Methods of Data Presentation and Analysis | 28 |
| 4.6.1 Univariate Analysis | 29 |
| 4.6.2 Bivariate Analysis..... | 29 |
| 4.6.2.1 Correlation Coefficient | 30 |
| 4.6.3 Regression Analysis | 30 |
| 4.6.4 Multivariate Analysis | 31 |
| 4.7 Chapter Summary..... | 32 |

| | |
|---|----|
| CHAPTER FIVE- DATA PRESENTATION AND ANALYSIS | 33 |
| 5.1 Introduction | 33 |
| 5.2 Data Presentation..... | 33 |
| 5.3 Univariate Analysis | 33 |
| 5.3.1 Descriptive Statistics | 33 |
| 5.3.1.1 Descriptive Statistics for Independent Variable for 31 Listed Companies..... | 33 |
| 5.3.1.2 Descriptive Statistics for Dependent Variable for 31 Listed Companies..... | 34 |
| 5.3.1.3 Descriptive Statistics for Related Party Tunneling Transactions and Related Party Propping Transaction for 31 Listed Companies..... | 35 |
| 5.4 Bivariate Analysis | 36 |
| 5.4.1 Correlation Analysis | 36 |
| 5.4.2 Relationship between Related Party Transactions and Return on Assets (ROA) of Manufacturing Sector in CSE..... | 36 |
| 5.4.2.1 Relationship between Total Related Party Transactions (TRPT) and Return on Asset (ROA) of Manufacturing Sector in CSE | 36 |
| 5.4.2.2 Relationship between Related Party Tunneling Transactions (RPTT) and Return on Asset (ROA) of Manufacturing Sector in CSE | 37 |
| 5.4.2.3 Relationship between Related Party Propping Transactions (RPPT) and Return on Asset (ROA) of Manufacturing Sector in CSE | 37 |
| 5.4.2.4 Relationship between Control Variables and Return on Asset (ROA) of Manufacturing Sector in CSE..... | 38 |
| 5.4.3 Summary by Indicators..... | 39 |
| 5.5 Regression Analysis | 39 |
| 5.5.1 Simple Regression Analysis | 39 |
| 5.5.2 Simple Regression Analysis between Related Party Tunneling Transactions (RPTT) and Return on Assets..... | 40 |
| 5.5.3 Simple Regression Analysis between Related Party Propping Transactions (RPPT) and Return on Assets..... | 41 |
| 5.6 Multivariate Analysis | 42 |
| 5.6.1 Multiple Regression Analysis..... | 42 |
| 5.6.1.1 Regression Analysis for Total related Party Transactions and ROA | 42 |
| 5.7 Chapter Summary..... | 45 |

| | |
|---|----|
| CHAPTER SIX - DISCUSSION | 46 |
| 6.1 Introduction | 46 |
| 6.2 Discussion on Relationship between Related Party Transactions and Financial Performance | 46 |
| 6.2.1 Relationship between Total Related Party Transactions and Financial Performance in Manufacturing Companies | 46 |
| 6.2.2. Relationship between Related Party Transactions Dimensions and Financial Performance | 47 |
| 6.2.3 Relationship between Control Variables and Financial Performance | 47 |
| 6.3 Impact of Related Party Transactions on Financial Performance | 48 |
| 6.3.1 Impact of Total Related Party Dimensions on Financial Performance | 48 |
| 6.3.2 Impact of Total Related Party Transactions (TRPT) and ROA | 49 |
| 6.4 Chapter Summary | 50 |
| CHAPTER SEVEN - CONCLUSION AND RECOMMENDATION | 51 |
| 7.1 Introduction | 51 |
| 7.2 Conclusion | 51 |
| 7.3 Recommendation | 52 |
| 7.4 Suggestions for the Further Researcher | 53 |
| 7.5 Limitation of the Study | 53 |
| 7.6 Chapter Summary | 53 |
| References | 54 |
| Appendix-I | 59 |
| Appendix- II | 67 |