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On the Intersection of Expropriation, Compensation, and Ownership Structures in a Developing Economy

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Abstract: *This research aims to investigate the impact of related party transactions, executive compensation & ownership structure on firm performance and value. The research includes all registered firms in the KSE 100 index. The time frame of this study is 7 years (2016-2022). Through empirical findings, it is proved that the related party transactions, executive compensation & structure of ownership have a significant influence on the performance and value of the firm. The study finds a positive impact of financial RPTs and related party purchases on both the profitability and value of firms. Lastly, the study indicates that ownership of banks, financial institutions, and associated companies has a positive influence on performance as well as on the value of firms. The theoretical implications of this study are two-fold. Firstly, this study represents a unique perspective on a comprehensive analysis of sub-categories of related party transactions, which allows for specific identification of types of related party transactions that have an impact on either profitability or value. Secondly, the three-pronged approach is unique to this study- it allows an opportunity to determine which other factors within the environment affect value and profitability at the same time.*

Key Words: Executive Compensation, IAS 24, Ownership Structure, Profitability, Related Party Transactions, Value

Introduction

The RPTs are practices of business that are very common. If this action is performed in a positive way, then we can get profit for the firms. The misuse of RPTs may cause major losses for firms. For example, the case of the American company Enron. The case of Enron Corporation is a big story that reached its dramatic heights & faced a sprinkled fall. When it collapsed, thousands of its employees were affected and suffered in big trouble. When Enron was at its peak position, the total worth of its shares was about $90.75 billion & when Enron declared its bankruptcy on Dec 2, 2001, they were trading at only $0.26.

This big scandal of Enron tells the establishments to understand the huge importance of business ethics & the importance of internal control in corporate businesses. It also facilitated understanding the real sense of wealth maximization of stockholders and the limitations in which the basic objective of business is achieved. It does not matter whether the amount of transaction is small or large, as we see in the case of Enron or Adelphia. The misuse of RPTs could signal very serious governance issues. The RPTs represent the greatest earnings for key management personnel. In this way, capital is expropriated from other investors. Financial Accounting Standards Board or Security and Exchange Commission need full information disclosure. RPT's information should be reported in the annual financial report of all firms.

Over the last few years, companies made a good number of transactions with their related parties and paid handsome compensation to their executives. IAS-24 outlines the criteria for recognition of RPTs as well as the vital idea of the standard to disclose. Such types of transactions may cause a conflict of interest inside the business. Executive compensation is an important gadget for supporting the interest of the

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executive. In the previous literature related to corporate governance, the broad area of study links to executive payment and firm performance.

The issue of how best to pay off the executives is a typical application of agency theory. The stockholder desires the manager to enhance the stockholder's value. The aim of the directors may be dissimilar from that of the stockholders. A manager may be more concerned with buildup and protecting personal powers. And ignore the profit maximization strategies. (Bebchuk & Fried, 2003)

Ntim, Lindop, Osei, and Thomas (2013) inspect the relationship between compensation of executives and firm profitability. For this purpose, they have selected South African listed firms & after their complete analysis, they have gotten the result. The output suggests that the compensation of Chief Executives has a positive dominant influence on the firm performance.

(Raithatha & Komera, 2016) investigate the relationship between the compensation of executives and the performance of Companies that are listed in India. The performance of companies is calculated by accounting & market-based. After analysis, they found no impact of executive compensation on the company's performance. They also found that Executive compensation has an optimistic influence on the performance of companies of a larger size.

The compensation of executives is a very composite and debatable issue. However, there is already an extreme discussion among scholars on the effectiveness of current practices & the case for changes; very limited issues take flash as maximal concerns among the general public. The Statesmen, controllers, financiers, and the executives themselves have taken very strong positions, and they know very well how and when to reform the compensation policy.

A vast amount of study discusses the impact of related party transactions separately, compensation of executives & structure of ownership on firm performance & value, but the combined impact of total related party transactions, compensation of executives, and structure of ownership on firm performance and value is still open in the environment of Pakistan. Companies or the general public make huge investments in firms. Doubts regarding the performance and value of firms make them risky investments. Therefore, this paper aims to explore the influence of related party transactions, compensation of executives, and structure of ownership on firm performance and value.

The researchers argue mixed results that related party transaction has a positive association with a company's performance & value. Some scholars prove that related party transaction is positively associated with a company's performance and value.

In view of such issues of mixed results, scholars believe that Related party transactions, Executive compensation, and Ownership structure may or may not affect the performance and external value of the firm. So, the prime focus of this study is to find out the relationship between RPTs, executive compensation, and Ownership Structure that affects the financial performance and value of the firm.

Companies or the general public make huge investments in firms. Doubts regarding the performance and value of firms make them risky investments. So, it is very necessary to find out how their investments are secure and profitable. Moreover, prior research indicates this issue in developing countries, but no one pay the combined impact of related party transaction, compensation of executives and structure of ownership on company's performance & value. As per my knowledge previously very few scholar had pay attention on combined impact of Related Party Transaction, Structure of Ownership & Executive Compensation influence on performance & value of firms in the context of Pakistan by fixing time frame of 2016 to 2022.

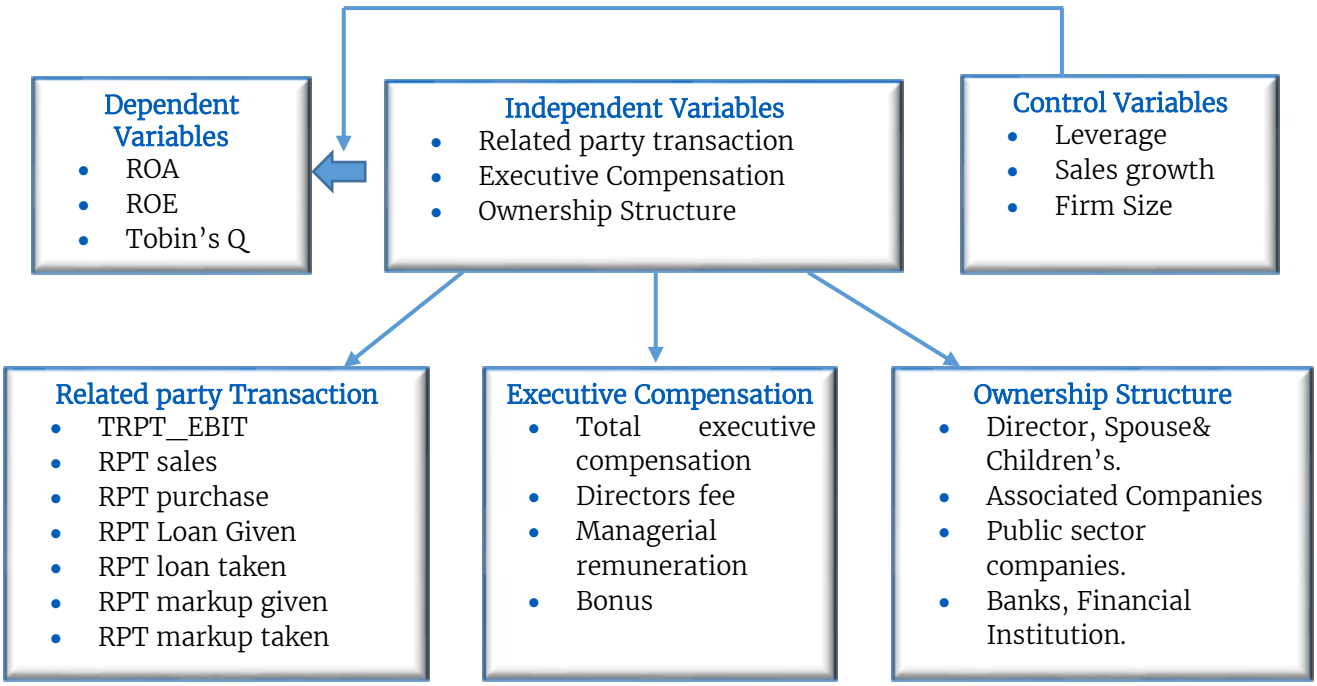
The basic purpose of this research is to inspect the effect of Related Party Transaction, Structure of Ownership & Executive Compensation on financial performance & value of the companies. A very few researchers capture the impact of RPT's on firm performance and value in the emerging countries in the context of Pakistan. This research deeply focus on Pakistani companies which were registered on Pakistan Stock Exchange which would be worthwhile as it will identify the weaknesses and will be able to give recommendations. For this purpose, the data is collected from all listed companies in KSE-100 index. The considered dependent performance variables are (ROA, ROE) and dependent variables for value is (Tobin's Q) and independent variables are RPT's (TRPT_EBIT, RPLG, RPLT, RPMG, RPMT, RPS, RPP), Executive

Compensation (TEC, Managerial Remuneration, Director Fee, and Bonus) and Ownership Structure (OWNDSC, OWNAC, OWNBFI, OWNPSC).

Q: *Do Related Party Transactions, Compensation of Executives & Ownership Structure have a dominant influence on the financial performance & value of the companies?*

This study focus on all companies which were registered on KSE-100 index. This study cover period of 7 years from 2016 to 2022. One company is eliminated due to missing of data. Hence the final data consist of 97 companies. Data is manually gathered from yearly financial reports of selected companies. Generalized method of moment (GMM) is used in order get the appropriate results and test the hypothesis. I have selected two dependent variables, Financial Performance & Value. The Financial performance is calculated by the return on total assets (ROA). That is used to measure the organizational performance & the proxy of ROA is the proportion of net income to the total book value of assets. The second is the Return on Equity (ROE). It is also used to observe the profitability of stockholder's investment. Whereas Return on Equity is the proportion of net income of a business to its equity of stockholder. Firm value is measured by the Tobin's Q. the Tobin's Q is calculated by the ratio of the market value of the Assets of company to the Book value of Assets of the company. There are three models have used in this study. The first one is with Related Party Transaction, the second one is with Ownership Structure and the third one is with Compensation of Executives. There are so many other Independent variables used in this study which includes related party Transactions, Structure of Ownership and compensation of Executives. The RPT's are measured by seven proxies and these are total related party transaction, loans given, loans taken, markup given, markup taken, Sales with related party and purchases with related parties. The Ownership structure includes Ownership Concentration of Director Spouse and their Children's, Ownership Concentration of Associated Companies, Ownership Concentration of Public Sector Companies and Ownership Concentration of Banks or Financial Institutions. Executive compensation will be measured by four proxies. These are Total Executive Compensation, Director Fee, Managerial Remuneration and Bonus. In the last some control variables are selected for model of this study. There are three control variables which were considered in this research. The first one is leverage, the second one is Firm size & the last one is Sales Growth.

Conceptual Framework of Variables



Related Party Transactions

RPTs can be measured by either the number of transactions or the amount of transactions. In my main analyses, I adopt the number of RPTs as I consider that several small RPT transactions likely reflect more

severe agency problems than a single larger transaction if the aggregate transaction amounts are similar. However, in additional analyses I use the transaction amount of RPTs as an alternative measurement.

$H1_a$ = RPT's has a positive significant influence on Return on Assets.
$H1_b$ = RPT's has a positive significant influence on Return on Equity.
$H1_c$ = RPT's has a positive significant influence on TOBINS'Q.

Executive Compensation

The next age group tried to investigate the managerial inducements by concerning changes in managerial pay to performance of stock price (Murphy, 1985; Coughlan and Schmidt, 1985; Adut, et. al., 2013; Asadi, 2015; De Angelis & Grinstein, 2014). Though these investigations found the significant positive relationship among pay and stock returns, hence their predictions come in true. (Benston, 1985; Murphy, 1985).

$H2_a$ = Executive Compensation has a positive significant influence on ROA.
$H2_b$ = Executive Compensation has a positive significant influence on ROE.
$H2_c$ = Executive Compensation has a positive significant influence on TOBINS'Q.

Ownership Concentration

(Shleifer and Vishny 1986; Huddart 1993; Al-Dhamari, 2017; Banker, et. al., 2012; Bennett, et. al, 2017; Chung, et al., 2015; Elkelish, et al., 2017; Habib, et al., 2017) investigation prove that the firms having very low institutional ownership face very less pressure of monitoring. They also prove that the RPT's& firms ownership structure has a positive dominant influence on the firm performance & value.

$H3_a$ = Ownership Structure has a positive significant influence on ROA.
$H3_b$ = Ownership Structure has a positive significant influence on ROE.
$H3_c$ = Ownership Structure has a positive significant influence on TOBINS'Q.

Control Variables

In this multivariate analysis, the control variables include firm size, which is measured by the natural logarithm of total Assets, Leverage, which is measured as the ratio of total debt to total Assets and Sales growth, which is measured by difference in earning period t_1 and t_0 to earning in the year t_0.

Methodology

Research Paradigm

Quantitative research is used in order to conduct our research. Secondary data of Pakistan Stock Exchange (KSE 100 Index) is used in order to get analysis of this study with different assumptions.

Population

- Population of this research includes all firms which are listed in Pakistan Stock Exchange (PSX).

Sample

- Sample of this research includes KSE 100 index.

Data Sources

In order to collect data, following data source are used in this research

- Annual Reports of the companies.

Period of Study

- Period of study consist of 7 years from 2016-2022.

Data Analysis Techniques

- Panel data (cross-sectional and time series) is used in this study. Analysis is conducted using GMM in STATA

GMM Regression Tests

PRE-TESTS

- Multicolliniarity

- Heteroskedasticity
- Normality

Post Tests

- Auto Correlation
- Over identifying test

Research Software

Following research Software is considered in order to conduct the research;

- STATA

Data Structure

- Panel Data
- Cross-sectional and time series

Research Design

In the information structure of this study, data is collected from Annual Financial Reports of the companies. Hence, this study is called as Quantitative Research. In this research All collected data is used in order to achieve objectives and test the hypothesis of this study. The data covers both cross-sections and time series. Hence, this data is called as cross sectional pooled data. After collection of data, GMM (Generalized Method of Moment) Regression model is used in STAT in order to get the results which show significance or insignificance impact of Independent or Control variables on Dependent Variables. The population of this study consists of all listed companies in PSX (Pakistan Stock Exchange). The sample of this research is KSE 100 index in which 98 companies are registered. One company is eliminated due to missing data. Hence, the final sample consists of 97 companies (figure 1).

Table 1

Sample Size (KSE-100 INDEX)	
Number of companies	100
LESS: Missing Data	3
Companies that are not defaulter	97
Total selected companies who's data are available	97

Statistical Model

Functional Form

Financial Performance and Firm Value = f (Related Party Transaction, Executive Compensation, Ownership Concentration and Control Variables)

MODEL 1 WITH ROA

ROA= $\alpha_{0+}\beta_1 TRPT\_EBIT+\beta_2 FSZ+\beta_3 LEV+ \beta_4 SGR+\varepsilon$

ROA= $\alpha_{0+} \beta_1 RPTS+\beta_2 RPTP+\beta_3 FSZ+\beta_4 LEV+ \beta_5 SGR+\varepsilon$

ROA= $\alpha_{0+} \beta_1 LG+\beta_2 LT+\beta_3 MT+\beta_4 MG +\beta_5 FSZ+\beta_6 LEV+ \beta_7 SGR+\varepsilon$

ROA= $\alpha_{0+} \beta_1 TEC+\beta_2 Dirfee+\beta_3 MngRem+\beta_4 bonus+ +\beta_5 FSZ+\beta_6 LEV+ \beta_7 SGR+\varepsilon$

ROA= $\alpha_{0+} \beta_1 OWNCDSC+\beta_2 OWNCAC+\beta_3 OWNCPSC+\beta_4 OWNCBF+\beta_5 FSZ+\beta_6 LEV+ \beta_7 SGR+\varepsilon$

MODEL 2 WITH ROE

ROE= $\alpha_{0+}\beta_1 TRPT\_EBIT+\beta_2 FSZ+\beta_3 LEV+ \beta_4 SGR+\varepsilon$

ROE= $\alpha_{0+} \beta_1 RPTS+\beta_2 RPTP+\beta_3 FSZ+\beta_4 LEV+ \beta_5 SGR+\varepsilon$

ROE= $\alpha_{0+} \beta_1 LG+\beta_2 LT+\beta_3 MT+\beta_4 MG +\beta_5 FSZ+\beta_6 LEV+ \beta_7 SGR+\varepsilon$

ROE= $\alpha_{0+} \beta_1 TEC+\beta_2 Dirfee+\beta_3 MngRem+\beta_4 bonus+ +\beta_5 FSZ+\beta_6 LEV+ \beta_7 SGR+\varepsilon$

ROE= $\alpha_{0+} \beta_1 OWNCDSC+\beta_2 OWNCAC+\beta_3 OWNCPSC+\beta_4 OWNCBF+\beta_5 FSZ+\beta_6 LEV+ \beta_7 SGR+\varepsilon$

MODEL 3 WITH TOBINS'Q

$$TOBINS'Q = \alpha_{0+}\beta_1 TRPT\_EBIT+\beta_2 FSZ+\beta_3 LEV+ \beta_4 SGR+\varepsilon$$

$$TOBINS'Q = \alpha_{0+}\ \beta_1 RPTS+\beta_2 RPTP+\beta_3 FSZ+\beta_4 LEV+\ \beta_5 SGR+\varepsilon$$

$$TOBINS'Q = \alpha_{0+}\ \beta_1 LG+\beta_2 LT+\beta_3 MT+\beta_4 MG\ +\beta_5 FSZ+\beta_6 LEV+\ \beta_7 SGR+\varepsilon$$

$$TOBINS'Q = \alpha_{0+}\ \beta_1 TEC+\beta_2 Dirfee+\beta_3 MngRem+\beta_4 bonus+\ +\beta_5 FSZ+\beta_6 LEV+\ \beta_7 SGR+\varepsilon$$

$$TOBINS'Q = \alpha_{0+}\ \beta_1 OWNCDSC+\beta_2 OWNCAC+\beta_3 OWNCPSC+\beta_4 OWNCBF+\beta_5 FSZ+\beta_6 LEV+\ \beta_7 SGR+\varepsilon$$

Results and Discussion

Table 2

Descriptive statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
ROA	679	0.08038	0.09529	-0.47690	0.66964
ROE	679	0.20154	0.19111	-0.82635	0.97548
TOBINSQ	666	0.50367	0.29668	-0.57911	0.99747
TRPT_EBIT	613	0.35827	0.30619	-0.00035	0.99893
LG	81	0.54833	0.38894	0.00036	0.99940
LT	95	0.41293	0.37506	0.00017	0.99694
MT	119	0.02425	0.03080	-0.00046	0.11121
MG	110	0.02234	0.02667	0.00002	0.09808
RPTS	467	0.15478	0.16476	0.00054	0.73249
RPTP	460	0.19299	0.19269	0.00068	0.74437
TEC	646	0.17337	0.23166	0.00067	0.38520
Dirfee	535	0.07058	0.09494	0.00068	0.75184
MngRem	646	0.23223	0.09389	0.10347	0.79008
bonus	361	0.25513	0.20269	0.00129	0.72090
OWNCDSC	421	0.19459	0.21466	0.00050	0.97671
OWNCAC	542	0.40506	0.27048	0.00071	0.91775
OWNCPSC	300	0.11035	0.16767	0.00051	0.92449
OWNCBFI	576	0.11478	0.13433	0.00052	0.95635
FSZ	675	18.30358	2.20904	14.15937	24.83951
LEV	672	0.56159	0.25633	0.00374	0.99874
SGR	673	0.08741	0.24163	-0.99883	0.96947

"Table 2 reports the descriptive statistics for the company's performance and value. The independent variables selected in this study. In the above table, ROA is the Return on Assets, ROE is the Return on Equity, Tobin's Q is the total market value of assets into the total book value of the asset. TRPT_EBIT is the total related party transaction into earnings before income tax, LG is the loan given to the related parties, LT is the loan taken from related parties, MG is the markup given to the related parties, MT is the markup taken from related parties, RPTS is the related party transaction sales, RPTP is the related party transaction purchase, TEC is the total executive compensation, Dirfee is the directors fee, MngRem is the managerial remuneration, Bonus is the Bonus that is given to the executives, OWNCDSC is the ownership concentration of directors, spouse, and their children's, OWNCAC is the ownership concentration of associated companies, OWNCPSC is the ownership concentration of public sector companies, OWNCBFI is the ownership concentration of banks and financial institutions, FSZ is the firm size, LEV is the leverage and SGR is the sales growth.

Table 3

Correlation with related party transaction

	ROA	ROE	TOBINSQ	TRPT_EBIT	LG	LT	MT	MG	RPTS	RPTP	FSZ	LEV	SGR
ROA	1.000												
ROE	-0.939	1.000											
TOBINSQ	-0.516	0.365	1.000										
TRPT_EBIT	-0.167	-0.027	0.468	1.000									
LG	0.625	-0.792	-0.136	0.182	1.000								
LT	0.948	-0.806	-0.574	-0.293	0.345	1.000							
MT	0.594	-0.579	-0.293	-0.100	0.557	0.483	1.000						
MG	-0.978	0.936	0.466	0.168	-0.692	-0.894	-0.738	1.000					
RPTS	-0.087	0.374	-0.405	-0.412	-0.318	0.026	0.047	0.088	1.000				
RPTP	0.196	-0.381	-0.305	0.405	0.415	0.070	-0.262	-0.099	-0.420	1.000			
FSZ	0.949	-0.977	-0.461	-0.144	0.784	0.824	0.593	-0.946	-0.264	0.324	1.000		

	ROA	ROE	TOBINSQ	TRPT_EBIT	LG	LT	MT	MG	RPTS	RPTP	FSZ	LEV	SGR
LEV	1.000	-0.944	-0.520	-0.161	0.639	0.942	0.607	-0.981	-0.093	0.204	0.953	1.000	
SGR	-0.559	0.765	-0.078	-0.358	-0.692	-0.391	-0.327	0.581	0.713	-0.469	-0.640	-0.566	1.000

"Table 3 reports the Correlation among dependent and independent variables. In the above table, ROA is the Return on Assets, ROE is the Return on Equity, and Tobin's Q is the total market value of assets into the total book value of the asset.'' TRPT_EBIT is the total related party transaction into earnings before income tax, LG is the loan given to the related parties, LT is the loan taken from related parties, MG is the markup given to the related parties, MT is the markup taken from related parties, RPTS is the related party transaction sales, RPTP is the related party transaction purchase, TEC is the total executive compensation, Dirfee is the director's fee, MngRem is the managerial remuneration, Bonus is the Bonus that is given to the executives, OWNCDSC is the ownership concentration of directors, spouse, and their children, OWNCAC is the ownership concentration of associated companies, OWNCPSC is the ownership concentration of public sector companies, OWNCBFI is the ownership concentration of banks and financial institutions, FSZ is the firm size, LEV is the leverage and SGR is the sales growth.

Table 4

Correlation with Executive Compensation

	ROA	ROE	TOBINSQ	TEC	Dirfee	MngRem	bonus	FSZ	LEV	SGR
ROA	1.000									
ROE	0.704	1.000								
TOBINSQ	-0.080	-0.053	1.000							
TEC	0.081	0.031	0.014	1.000						
Dirfee	0.170	0.066	-0.013	0.149	1.000					
MngRem	0.124	0.159	-0.018	0.258	0.189	1.000				
bonus	0.122	0.144	-0.023	0.094	0.170	-0.030	1.000			
FSZ	-0.271	-0.126	0.049	0.677	0.141	0.417	-0.043	1.000		
LEV	-0.494	0.047	0.083	0.037	-0.173	0.055	0.005	0.352	1.000	
SGR	-0.027	0.099	-0.023	-0.021	0.059	0.070	0.024	-0.021	0.071	1.000

"Table 4 reports the Correlation among dependent and independent variables. In the above table, ROA is the Return on Assets, ROE is the Return on Equity, and Tobin's Q is the total market value of assets into the total book value of the asset.'' TRPT_EBIT is the total related party transaction into earnings before income tax, LG is the loan given to the related parties, LT is the loan taken from related parties, MG is the markup given to the related parties, MT is the markup taken from related parties, RPTS is the related party transaction sales, RPTP is the related party transaction purchase, TEC is the total executive compensation, Dirfee is the director's fee, MngRem is the managerial remuneration, Bonus is the Bonus that is given to the executives, OWNCDSC is the ownership concentration of directors, spouse, and their children, OWNCAC is the ownership concentration of associated companies, OWNCPSC is the ownership concentration of public sector companies, OWNCBFI is the ownership concentration of banks and financial institutions, FSZ is the firm size, LEV is the leverage and SGR is the sales growth.

Table 5

Correlation with Ownership Concentration

	ROA	ROE	TOBINSQ	OWNCDSC	OWNCAC	OWNCPSC	OWNCBFI	FSZ	LEV	SGR
ROA	1.000									
ROE	0.724	1.000								
TOBINSQ	-0.057	-0.026	1.000							
OWNCDSC	0.031	0.133	-0.143	1.000						
OWNCAC	0.010	0.055	0.110	-0.378	1.000					
OWNCPSC	0.160	0.039	-0.018	-0.241	-0.171	1.000				
OWNCBFI	0.008	0.116	-0.004	-0.113	-0.120	0.183	1.000			
FSZ	-0.224	0.065	0.099	0.082	-0.075	0.105	0.084	1.000		
LEV	-0.403	-0.006	0.100	-0.002	0.027	-0.196	0.095	0.471	1.000	
SGR	0.088	0.159	0.072	0.141	-0.114	-0.097	-0.118	-0.079	0.078	1.000

"Table 5 reports the Correlation among dependent and independent variables. In the above table, ROA is the Return on Assets, ROE is the Return on Equity, and Tobin's Q is the total market value of assets into the total book value of the asset.'' TRPT_EBIT is the total related party transaction into earnings before income tax, LG is the loan given to the related parties, LT is the loan taken from related parties, MG is the markup given to the related parties, MT is the markup taken from related parties, RPTS is the related party transaction sales, RPTP is the related party transaction purchase, TEC is the total executive compensation, Dirfee is the director's fee, MngRem is the managerial remuneration, Bonus is the Bonus that is given to the executives, OWNCDSC is the ownership concentration of directors, spouse, and their children, OWNCAC is the ownership concentration of associated companies, OWNCPSC is the ownership concentration of public sector companies, OWNCBFI is the ownership concentration of banks and financial institutions, FSZ is the firm size, LEV is the leverage and SGR is the sales growth.

Table 6

Performance Variables with Related Party Transactions

	Model 1: ROA	Model 1: ROA	Model 1: ROA	Model 2: ROE	Model 2: ROE	Model 2: ROE
(Constant)	0.2297365** (1.93)	0.1912161*** (5.13)	0.2989053** (1.75)	0.2917744 (0.99)	1.503423*** (8.76)	-.0469084 (-0.10)
TRPT_EBIT	0.0052986 (0.52)			0-.0401317 -(1.13)		
Loan Given		0.0201192** (2.07)			0.2665148*** (16.40)	
Loan Taken		0.0142598** (1.7)			0.1473252*** (7.29)	
Markup Given		0.0075909 (0.7)			0.3665989*** (3.59)	
Markup taken		-0.1438615*** (-4.18)			-2.046719*** (-29.88)	
Sales			0.0441574 (1.01)			-.0589241 (-0.66)
Purchases			0.002196 (0.12)			.0502191 (0.69)
Firm Size	-.0117212 (-1.34)	-0.0022147*** (-5.4)	-.0128784 (-1.04)	-.0021187 (-0.12)	-0.0413598*** (-3.47)	.0187643 (0.64)
Leverage	-.0000429 *** (-0.00)	-0.1764649*** (-6.31)	.0201843 (0.20)	-.2668903 (-1.31)	-0.6999876*** (-2.35)	-.3323822 (-1.42)
Sales Growth	.04425 *** (2.87)	0.0024459*** (3.38)	.0218006 (1.53)	.2104064*** (4.91)	0.0805258*** (7.01)	.1775277*** (5.10)

*The coefficient is reported with z-value in parentheses, and significance is denoted as follows: Sig. Level: * p<0.10, ** p<0.05, ***p<0.01*

Table 6 presents GMM (generalized method of the moment) regression where Return on Assets and Return on Equity are dependent variables and related party transactions into earnings before income tax, RPT loan given, RPT loan taken, RPT markup given, RPT markup taken, sales with a related party and total purchases with the related party are independent variables. The control variable is firm size, leverage & growth in sales. In the above table, the results show that financial related party transactions, which in RPT loan given, RPT loan taken, and RPT markup taken, have a significant influence on the return on assets of the companies along with three significant control variables of the firm size, leverage & growth in sales. Hence, in this case, the hypothesis of this study is accepted that related party transaction has a significant influence on the return on assets of the companies. While markup is given, Total related party transactions into earnings before income tax, related party sales, and related party purchases have no significant effect on the return on assets of the companies (Bennouri et al., 2015; Bona-Sanchez et al., 2017; Chizema et al., 2015; Hou et al., 2013).

In the above table, the results show that financial related party transactions, which in RPT loan given, RPT loan taken and RPT markup taken & RPT markup given have a significant influence on return on equity of the companies along with significant three control variables of firm size, leverage & growth in sales. Hence, in this case, the hypothesis of this study is accepted that related party transaction has a significant influence on the return on equity of the companies. While Total related party transaction into earnings

before income tax, RPT sales & RPT purchase has no significant impact on the return on equity of the companies (Chen et al., 2014; Erick, et al., 2014; Hwang, et al., 2013; Li, et al., 2014).

Table 7

Firm's value-related party transaction

	Model 3 Tobins'Q	Model 3 Tobins'Q	Model 3 Tobins'Q
(Constant)	.758572 (1.06)	27.06816*** (3.79)	1.251797 (1.22)
TRPT_EBIT	-.0668939 (-1.06)		
Loan Given		-1.651652*** (-4.80)	
Loan Taken		-1.829548*** (-4.10)	
Markup Given		-7.902995*** (-6.30)	
Markup taken		3.02124 (1.46)	
Sales			-.2433048 (-1.38)
Purchases			.2669586** (1.76)
Firm Size	-.0223004 (-0.58)	-.0462927 (-1.00)	-.0486858 (-0.83)
Leverage	.3632625** (1.92)	-26.42514*** (-3.73)	.2681008 (1.14)
Sales Growth	.038059 (0.55)	-.3562518*** (-2.44)	.0597777 (0.69)

*The coefficient is reported with z-value in parentheses, and significance is denoted as follows: Sig. Level: * p<0.10, ** p<0.05, ***p<0.01*

Table 7 presents GMM (generalized method of moment) regression. The results show that financial-related party transactions, which include RPT loan given, RPT loan taken &RPT markup given, and operational related party, which include RPT purchase have a significant influence on return on Tobin's Q of the companies along with significant three control variables which include the size of firm, leverage & growth in sales. Hence, in this case, the hypothesis of this study is accepted that related party transaction has a significant influence on the return on Tobin's Q of the companies. While related party markup is taken, Total related party transaction into earnings before income tax and related-party sales has no significant impact on the return on Tobin's Q of the companies (Chen & Jermias, 2014; Khan & Vieito, 2013; Liew et al., 2015; Mnif Sellami, et al., 2017).

Table 8

Performance variables with executive compensation

	Model 1 ROA	Model 1 ROA	Model 1 ROA	Model 1 ROA	Model 2 ROE	Model 2 ROE	Model 2 ROE	Model 2 ROE
(Constant)	0.333** (2.240)	0.364** (2.020)	0.334** (2.320)	0.322 (1.460)	0.944** (1.770)	0.973 (1.000)	0.723 (1.310)	-1.302 (-0.760)
Total Executive Compensation	0.000 (0.420)				0.000 (0.650)			
Director Fee		0.00 (0.010)				-0.003 (-0.980)		
Managerial Remuneration			0.000 (-0.510)				0.004 (0.730)	
Bonus				0.001 (0.600)				0.006** (1.840)
Firm Size	-0.016 (-1.570)	-0.018* (-1.650)	-0.015 (-1.470)	-0.005 (-0.480)	-0.048 (-1.460)	-0.048 (-0.890)	-0.049 (-1.350)	0.070 (0.880)
Leverage	0.029 (0.360)	0.058 (0.870)	0.028 (0.340)	-0.300 (-3.260)	0.245** (1.780)	0.259** (1.900)	0.240** (1.710)	0.417 (0.670)

	Model 1 ROA	Model 1 ROA	Model 1 ROA	Model 1 ROA	Model 2 ROE	Model 2 ROE	Model 2 ROE	Model 2 ROE
Sales Growth	0.000 (0.860)	0.000 (0.120)	0.000 (1.070)	0.000 (1.520)	0.000 (1.100)	0.000 (-0.220)	0.000 (0.590)	0.000 (-0.140)

*Coefficient is reported with z-value in parentheses and significance is denoted as follows: Sig. Level: * p<0.10, ** p<0.05, ***p<0.01*

Table 8 presents the GMM (generalized method of moment) regression. The results show that no independent variable has a significant impact on Return on Assets of the firms in the environment of Pakistan. Hence, in that case, we can reject our hypothesis that Executive Compensation has a significant influence on Return on Assets of the companies.

In the above table, the results show that Bonus has an optimistic significant influence on the Return on Equity of the firms so we can say that it rise the efficiency of the companies in the environment of Pakistan.

Table 9

Firm's value with executive compensation

	Model 3 TOBINS'Q	Model 3 TOBINS'Q	Model 3 TOBINS'Q	Model 3 TOBINS'Q
(Constant)	11.700 (0.680)	18.606 (0.740)	13.434 (0.830)	-25.208 (-0.350)
Total Executive Compensation	0.000*** (2.550)			
Director Fee		-0.351*** (-2.370)		
Managerial Remuneration			-0.082 (-1.160)	
Bonus				0.080 (0.660)
Firm Size	0.234 (0.210)	-0.153 (-0.100)	0.452 (0.420)	3.210 (0.760)
Leverage	-11.047** (-1.710)	-10.747 (-1.540)	-11.524** (-1.710)	-38.021*** (-3.560)
Sales Growth	0.000 (-1.100)	0.000 (-0.970)	0.000 (-0.150)	0.000 (-0.770)

*The coefficient is reported with z-value in parentheses and significance is denoted as follows: Sig. Level: * p<0.10, ** p<0.05, ***p<0.01*

Table 9 presents GMM (generalized method of moment) regression. The results show that Total Executive Compensation has an optimistic significant influence on Tobin's Q of the firms. So, we can say that it increases the value of the companies in the environment of Pakistan. Hence, in that case, we can accept our hypothesis that Executive Compensation has a significant impact on Tobin's Q of the companies. On the other hand, Director Fee has a negative dominant influence on Tobin's Q.

Table 10

Performance variables with the ownership structure

	Model 1 ROA	Model 1 ROA	Model 1 ROA	Model 1 ROA	Model 2 ROE	Model 2 ROE	Model 2 ROE	Model 2 ROE
Constant)	0.275 (2.200)	0.248 (1.780)	0.239 (1.330)	0.230 (1.920)	.40268 (0.99)	.37475 (1.15)	-.14154 (-0.30)	-.31105 (-0.74)
Ownership of Dir, Spouse & Children's	0.049 (1.030)				.11185 (1.27)			
Ownership of Associated Co.		-0.019 (-0.450)				.13507** (1.94)		
Ownership of Pub Sec Co.			0.020 (0.260)				.16244 (1.11)	
Ownership of Banks, Fin Inst				0.094** (1.780)				.02164 (0.36)
Firm Size	-0.013 (-1.560)	-0.010 (-1.090)	-0.014 (-1.220)	-0.011 (-1.260)	-.00836 (-0.37)	-.0131 (-0.68)	.01995 (0.59)	.03107 (1.16)
Leverage	0.031 (0.360)	0.017 (0.190)	0.071 (1.200)	0.029 (0.330)	-.24860 (-1.08)	-.09171 (-0.62)	-.22677 (-0.96)	-.29898 (-1.40)
Sales Growth	0.000	0.000	0.000**	0.000	.06629	.12344**	.16966***	.16456***

	Model 1 ROA	Model 1 ROA	Model 1 ROA	Model 1 ROA	Model 2 ROE	Model 2 ROE	Model 2 ROE	Model 2 ROE
	(0.860)	(1.040)	(1.770)	(0.300)	(1.01)	(2.13)	(5.44)	(2.48)

*The coefficient is reported with z-value in parentheses, and significance is denoted as follows: Sig. Level: * p<0.10, ** p<0.05, ***p<0.01*

Table 10 presents GMM (generalized method of moment) regression. The results show that the Ownership concentration of Banks and Financial Institutions has an optimistic dominant influence on the Return on Assets of the Companies. So we can say that it increases the performance of firms. Hence, in that case, we can accept our hypothesis that ownership structure has an optimistic significant influence on the Return on Assets of the firms in the environment of Pakistan. While Ownership concentration of Directors, Spouse, and Their Children, Ownership concentration of Associated Companies, and Ownership concentration of Public Sector Companies has no impact on the Return on Assets of the companies in the environment of Pakistan.

In the above table, the results show that the Ownership of Associated companies has a positive significant influence on the Return on Equity of the companies in the environment of Pakistan. So, in that case, we can accept our hypothesis to some extent that the Ownership structure has a significant impact on the Return on Equity of the companies. While ownership of directors, spouses, and children, ownership of public sector companies and ownership of banks and financial institutions do not influence the return on equity of the companies.

Table 11

Firm's value with ownership concentration

	Model 3 Tobins'Q	Model 3 Tobins'Q	Model 3 Tobins'Q	Model 3 Tobins'Q
(Constant)	30.332 (1.450)	26.272 (1.400)	-4.273 (-0.200)	29.220 (1.480)
Ownership of Dir, Spouse & Children's	-6.035 (-1.380)			
Ownership of Associated Co.		9.906** (1.750)		
Ownership of Pub Sec Co.			-10.104 (-1.060)	
Ownership of Banks, Fin Inst				-4.093 (-0.700)
Firm Size	-0.607 (-0.480)	-0.794 (-0.700)	1.302 (1.000)	-0.603 (-0.510)
Leverage	-12.055** (-1.680)	-10.487** (-1.700)	-6.609 (-1.450)	-11.263** (-1.690)
Sales Growth	0.000 (-1.110)	0.000 (-1.200)	0.000 (-0.400)	0.000 (-1.220)

Table 11 presents GMM (generalized method of moment) regression. The results show that the Ownership Concentration of Associated Companies has a positive significant impact on Tobin's Q of the companies with one control variable of leverage. So, we can say that it increases the value of firms in the context of Pakistan. Hence, in that case, we can accept our hypothesis that Ownership Structure has a significant impact on Tobin's Q of the companies. While Ownership concentration of Directors, Spouse, and Their Children's, Ownership concentration of Banks, Financial Institutions, and Ownership concentration of Public Sector Companies has no impact on Tobin's Q of the companies in the environment of Pakistan.

Conclusion

This study intends to fulfill the main purpose, i.e., finding the influence of RPTs, Executive Compensation, and ownership Structure on the performance & value of the companies. The analysis is done on 97 Pakistani companies which were registered on the KSE-100 index. 7 years of data from the year 2016 to 2022 have been used in this research. Data is collected from the annual reports of the companies. In this study, the

GMM (generalized method of the moment) regression model is used in STATA to get the results. Because GMM regression is the best and most advanced technique in statistics to get more appropriate and best results. Three models are used, which require this study.

The findings of this study prove that financial RPTs, as well as operational RPTs, have a positive significant influence on the Return on Assets as well as on the Return on Equity of the companies. The investigations of this research also prove that financial-related party transactions, as well as operational-related party transaction, has a significant influence on the TOBINS'Q of the companies. Downs, Ooi, Wong, and Ong (2016) also prove that related party transactions have a significant positive influence on the performance as well as on the market value of the companies. On the other hand, no variable of executive compensation has a significant influence on the ROA of the companies in the environment of Pakistan. But one character of executive compensation, i.e. Bonus, has a significant influence on ROE of the companies. Executive compensation and directors fee have a significant influence on TOBINS'Q of the companies. (Lam, McGuinness, & Vieito, 2013; Cheng, et al., 2015; Maury, 2006; Michiels, et al., 2013) studies also support my findings that executive compensation has a significant influence on the performance as well as on the value of the companies. This study proves that ownership of banks and financial institutions have a significant influence on ROA as well as on ROE of the companies. This research indicates that ownership of associated companies with one control variable of leverage has a significant influence on TOBINS'Q of the companies hence it increases the firm value in the environment of Pakistan. Agency conflicts do not arise in family-owned firms. Family-owned Organizations are also considered by well incentive packages for key personnel. Firms having a great concentration of ownership of family are more involved in expropriation (Morck & Yeung, 2003).''

So the results of this study prove that related party transactions, executive compensation, and ownership structure can play a vital role to enhance the performance as well as the value of the companies in the environment of Pakistan.

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