Investigation about the Complex of Related Party Transactions

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Abstract: The present investigation is aiming to provide a general overview of academic literature on related party transactions topic. The study is based on the positive perspective and on fundamental (descriptive – conceptual) research type. The main investigation techniques used were: the literature review, the documents analysis, the comparative analysis, the non-participative observation. The principal result is that the literature generally provides two opposite theories based on which the related party transactions could be explained, namely: the efficiency theory and the conflict of interest theory. However, a recent investigation proposed the related party transactions to be explained under a contingency perspective, which implies the overlap of these two theories mentioned above.

Keywords: related party transaction, shareholders, earnings management, tunnelling, propping

1 Introduction

The development of intra-group transactions is facilitated by the economic globalization, whose manifestation is becoming stronger and stronger. Thus, according to statistics, more than a third of the world trade and over 80% of transactions involving technology transfer are carried out between related parties (Li, 2006: 28).

According to Golub & McAfee (2011: 75), the modern corporation is a semi-autonomous aggregation of business units that run transactions both between them and with entities outside the group. Among the most obvious reasons behind the development of intra-group trading and of company internalization, are the following: the economies of scale, the reduction of fixed costs, the existence of unused production capacity, the avoiding of negotiations and of transaction costs, the division of production process, the specific characteristics of products, the need for security, the need for commercial secrecy, the accounting policies, the tax avoidance, the regional treaty provisions (EU, NAFTA), the abolition of protectionism (Georgopuolos et all., 2007: 48).

Therefore, the transactions carried out with related parties represent a very important aspect of the present businesses, which might have an important impact on an entity as a whole. Having this regard, the present investigation is aiming to undertake a survey of academic literature on related party transaction topic, in order to provide researchers and other interested persons with an overview of the relevant literature.

The remainder of this paper is organized as follows: the first part presents the research methodology, the second generally describes the conceptual framework, then the related party transactions are analyzed under the perspective of the efficiency theory, under the perspective of the conflict of interests theory and under a perspective cumulating these two mentioned theories. The last part of the paper comprises the general conclusions of our work.

2 Research methodology

The purpose of the present investigation is to provide an overview of the relevant literature on related party transaction topic. Thus, as a starting point of our work, we selected the scientific databases that have been further used for getting articles: Emerald, Ebsco and SpringerLink. The period of research publication was set between January 2000 and October 2012. This period was random chosen, having in mind that an exhaustive research is impossible to be realized, as a very large amount of articles on this topic was published starting with the first part of 20th century. Nevertheless, we wanted to comprise in our study recent articles, in order to avoid expired information, but in the same time we wanted to comprise a period of time sufficiently large to surprise the evolution of the topic we are interested in. The research expression was “Related Party Transaction”.

This study is generally based on the positive research perspective and on fundamental research methodology (descriptive – conceptual). The main investigation techniques used were: the literature review, the documents analysis, the comparative analysis, the non-participative observation.

3 Conceptual framework

"Related party transactions" (hereinafter “RPT”) are transfers of resources, services or obligations between an entity and its related parties (IASB, 2011).

The previous idea is outlined as well by Gordon et al. (2007: 82), according to which, even if the definition of "related party transactions" varies across different accounting referential, however, such transactions generally represent operations conducted between a company and its related parties, such as subsidiaries, affiliates, shareholders, directors, managers etc.

According to Pizzo (2011: 1), the criteria for defining "related party transactions" might vary significantly across the academic studies in the area of accounting and corporate governance, or across the different accounting legislations, but in general, these criteria are built on the assumption that engaging in RPT depends on "the ability to influence the conditions and contractual terms of transactions."

In another train of thoughts, Chen et al. (2009: 286) note that "related party transactions" is a very ancient and widespread practice of business. Likewise, according to Gordon et al., (2007) cited by Lo et al. (2010: 226), the "related parties" are a natural element of businesses and many corporations undertake a large volume of such transactions, which are essential for their development.

According to the studies conducted by Gordon et al. (2004), Kohlebeck & Mayhew (2004) cited by Gallery et al. (2008: 149-151) and Pizzo (2011: 1), in the academic literature, there are two main theories explaining the rationale of "related party transactions", as follows:

a) *the efficiency theory*, in which views RPT represent effective transactions that support the economic needs of the company, and

b) *the conflict of interest theory*, according to which RPT represent possible harmful transactions, which are run in the interests of directors / majority shareholders.

Based on the study performed by Cheung et al. (2006), cited by Nekhili & Cherif (2011: 294) there are three types of "transactions between related parties", such as follows:

- transactions whose result is the reliable expropriation of minority shareholders (i.e. they may take the form of purchases / sales of assets, business dealings, etc.);
- transactions that may be detrimental to minority shareholders (i.e. collection of liquid assets, relationships with subsidiaries);
- transactions conducted for strategic purposes, that do not follow the expropriation of minority shareholders (i.e. takeover and capital investment alliances, acquisitions / sales of shares).

Sun et al. (2011: 868) consider that "related party transactions" is a double-edged sword, meaning that majority shareholders might either to misappropriate company funds, either to inject capital for the benefit of all shareholders.

This idea is also illustrated by the study conducted by Tong & Wang (2008: 187 - 201), whereby the majority shareholders are trying to take advantage of the power of control at their disposal to enhance either their own benefits or the company's overall benefits, while RPT represent a way to achieve such goals. Results of the analysis undertaken by these two researchers revealed the following:

- where the majority shareholders have a low participation rate (below 50%), they use RPT to enhance personal wealth at the expense of all shareholders wealth (negative effect on financial results);
- where the majority shareholders hold a significant ownership share (over 50%), they use RPT to enhance wealth of firm as a whole (positive effect on financial results).

Going on the same principle, the study conducted by Zhu et al. (2010: 256) concludes that capital expropriation may be bidirectional, namely:

- the majority shareholders expropriate, for personal purposes, the minority shareholders (embezzlement performed by former group);
- the company expropriates shareholders and related parties, meaning that the company is granted with support by related parties (financing means).

The study performed by Pizzo (2011: 2) points out the fact that before the financial scandals incurred in the last decade (i.e., Enron, Adelphia, Parmalat, WorldCom, Tyco, etc.), the "Related party transactions" had not represented a subject of detailed analysis for academic researchers or regulators and supervisors. Otherwise, research in the field of accounting focused more on analyzing potential transactions running biased, which do not respect the arm's length principle and deviate from the market values (Mason, 1979; Brown 1980; Goodman & Lorensen, 1985) while research in the field corporate governance often tackled topics such as: management board composition and independence, the role of audit committees, remuneration of directors etc. After these events, however, related party transactions began to be increasingly associated with the idea of powerful instruments for financial fraud and expropriation.

4 Related party transactions from the perspective of efficiency theory

Generally, the concept of efficiency is related to certain criteria which compare (report) effects to efforts regardless of their nature and complexity. The understanding of this concept is vital for all human activities. According to the principle of efficiency, people want to get maximum effect with minimum effort (Zaman & Geamănu, 2006, p.9).

From an economic point of view, the effectiveness is a fundamental principle, which is defined as the relationship between the inputs or the consumption of limited resources, on the one hand, and the amount of goods and services produced, on the other hand, at different aggregation levels of the economy (micro, mezo and macro) and different time horizons (Zaman & Geamănu, 2006, p.9). In other words, efficiency means the relationship between the effects obtained (results) and efforts (expenses) made for an economic activity in a given period of time. Therefore, economic efficiency refers to how to use the resources available so that the production of goods and services to achieve maximum possible (Sullivan & Steven, 2003, p.15). Economic efficiency concerns, as well, to the degree at which a firm is able to achieve the economic targets established for a certain period of time (Cristache, 2003).

According to researchers Zaman & Geamănu (2006, p.9), "the basic principle of economic efficiency means not only the maximization of results while using a given amount of resources or minimization of costs per unit of output, but also the compatibility of competitive market mechanisms (generating profit and profitability) with the requirements to maximize the welfare of individuals and groups of individuals, to ensure equity and social justice ".

According to theory of economic efficiency, RPT represent effective transactions that support the economic needs of the company.

Under this theory, among the most topics addressed within the literature, are (Pizzo, 2011: 9):

- reducing the transaction costs (Coase, 1937, Williamson, 1985, Fan & Goyal, 2006);
- creation of a market that are able to bring group benefits (Khanna & Palepu, 1997);
- investments in emerging markets (Fismann & Khanna, 2004);
- transfer of technology and other resources (Chang & Hong, 2000; Moscariello, 2007).

Therefore, among the benefits of intra-group transactions that are conducted in good faith, are: (i) reducing transaction costs (Coase, 1937, quoted by Tong & Wang, 2008: 188) through vertical or horizontal integration which has the effect of (ii) net profit maximization and increase of operational profitability and competitiveness of the group as a whole (Chen et al., 2009: 287 - 295); (iii) increasing the return on assets (Zhuo & Hu, 2001, cited by Chen et al., 2009: 286): (iv) means for allocating internal resources (Stauropoulus et al., 2011: 156); (v) the optimal allocation of internal resources, (vi) achieving economies of scale due to markets internationalization; (vii) reduction of risks associated to foreign markets; (viii) reduction of the time needed to conduct certain transactions; (ix) reducing the tax burden (Chen et al., 2009: 295).

Gordon et al. (2007) cited by Lo et al. (2010: 226) emphasizes the idea that there are many corporations which carry a large amount of intra-group transactions not involving financial and accounting fraud. However, because very often such transactions are used fraudulently or improperly, their positive effects have come to be underestimated or overlooked (Chen et al., 2009: 286).

5 Related party transactions from the perspective of conflict of interest theory

According to this theory, each group of interest in an entity (each agent) works to achieve personal objectives and to maximize their own gain. Conflict occurs when there is discordance between the interests of the principal (shareholder, partner, manager, entrepreneur, roughly every ruler) and agent (manager, employee, subordinate). The main proponent of this theory is the well-known American economist Milton Friedman, in the view of which, the primary responsibility of organizations is to use resources to maximize long-term profits.

Managers are agents of shareholders and have an obligation to act to satisfy their interests. The specific issue of conflict of interest theory is essential in corporate governance. For companies with dispersed ownership, this theory attempts to explain "how to align managers' interests with those of shareholders" and for those with a concentrated ownership "how majority shareholders' interests can be aligned with those of minority shareholders" (Hu et al., 2009, p.193). The conflict of interest theory is rooted in utilitarian theory, according to which the outcome of an action can be considered ethical if it produces more good (i.e. more revenues) than harm (i.e. costs). In the literature, the conflict of interest theory is used as the theory of agent (or agency).

Under this theory, among the most widely discussed topics are (Pizzo, 2011, p.4):

- poor corporate governance: undermining non-executive directors functions (Vicknair et al., 1993; Weisbach, 1998; Denis & Sarin, 1999; Klein, 2002);
- manipulation of financial results ("earnings management"), (Ming & Wong, 2003; Jian & Wong, 2003, 2008, Aharony et al., 2005);
- embezzlement of assets ("tunneling") (Johnson et al., 2000; Jian & Wong, 2004, Jiang et al., 2005; Ryngaert & Thomas, 2007 ;);
- employment of relatives in family firms;
- misleading financial statements (Erickson et al., 2000, Swartz & Watkins, 2003; Targu, 2004).

The classification realized by Nekhili & Cherif (2011: 296), retain as topics most often addressed the following:

- correlation between RPT and handling financial results (Johnson et al., 2000a, b; Jiang & Wong, 2004; Thomas et al., 2004; Khanna & Zafeh, 2005);
- diversion of capital, by transferring the capital from divisions with great potential towards those with low potential (Chang, 2003, Friedman et al., 2003; Jian & Wong, 2004; Marco & Mengoli, 2004, Liu & Lu, 2007);
- transfer of wealth from minority shareholders towards the majority shareholders (Bianchi et al., 2002).

The study undertaken by Nekhili & Cherif (2011: 291) also reveals that researches on RPT opportunism are based both on the emerging markets, which are recognized for their weak governance systems (Chang, 2003; Jian & Wong, 2004, Cheung et al., 2006, Lin et al., 2010) but also on the European countries (Johnson et al., 2000a; Bianchi et al., 2002; Faccio & Lang, 2002; Marco & Mengoli, 2004) or even on American market (Shastri & Kahle, 2004, Gordon et al., 2006; Kohlbeck & Mayhew, 2010).

Although transactions between related parties may have beneficial effects for group and, more broadly, for society, however, when they are used for opportunistic purposes, their effects can be disappointing because RPT has the ability to hide different stakes, such as: (i) enrichment of a party over the other parties involved in the transaction - the expropriation of minority shareholders in the benefit of controlling shareholders, officers or directors (Nekhili & Cherif, 2011: 291), (ii) manipulation of financial results to achieve the desired level of operational performance: return on investment, return on sales, return on assets (Chen et al., 2009: 286), (iii) overestimation of earnings for various purposes, such as the right for the issuance of new shares (Ge et al., 2010 quoted by Stauropoulus et al., 2011: 156).

The related party transactions undertaken for opportunistic purposes usually have one of the following forms: goods sold or purchased at different prices from the market values (higher priced); loans obtained on preferential terms; assets sold to benefit of controlling shareholders; fictitious sales.

Given the above, it is not unusual the fact that that RPT is described by some researchers, including Seetharaman et al. (2004: 1063), as a form of fraud. On the other hand, the study realized by Gordon et al. (2007: 82) reveals that RPT is not more common in companies that commit fraud than in companies that do not occur in such practices. But, while RPT does not usually represent an indicator of fraud, however, when fraud exists, RPT is one of the main reasons behind it. Likewise, the results of empirical research undertaken by Stauropoulus et al. (2011: 161), shows that investors are more aware of the RPT involving actives than those involving products (because the former are more susceptible to fraud) while Noronha et al. (2008: 367) consider that it is difficult to assess whether a particular decision was taken for the real purpose of business or for other opportunistic purposes.

Summarizing and quoting Chen et al. (2009: 295), the main negative goals of RPT are: expropriation of minority shareholders, misleading the financial results (earning management), misappropriation of assets (tunnelling), overestimation of income (propping). These goals are presented in more detail in the paragraphs below.

A) Related party transactions and minority shareholders expropriation

Hu et al. (2009: 191) points out that, in the academic literature there are numerous studies that examine the way in which shareholders engage in activities with the main purpose to expropriate the minority shareholders (Shleifer & Vishny, 1997, La Porta et al., 2000, Bertrand et al., 2002, Brockman et al., 2002, Cheung et al., 2006).

According to the research conducted by Stauropoulus et al. (2011: 158), in the previous literature, there are two relevant currents quantifying the degree of expropriation of minority shareholders:

- the indirect measurement of expropriation degree, by using various representative factors, such as: the legal system (La Porta et al., 1998, 2000a, 2000b, 2002, Johnson, 2000; Brockman & Chung, 2003; Djkanov et al. 2008) or changes on cash flow control (Faccio et al., 2001, Claessens et al., 2002, Bertrand et al., 2003, Joh, 2003, Lemmon et al., 2003, Baek et al., 2004). The studies based on the indirect method do not examine whether the expropriation is due to specific actions of company management.
- the direct measurement of expropriation degree, by examining the behavior of majority shareholders that may have direct impact on the company. The academic literature recognizes three types of actions: “earnings management”, “tunnelling” and “propping” (“flip side of tunnelling” - Friedman et al., 2003). These will be explained in the next subsections.

Chen et al. (2009: 285, 295) concludes that the financial performance and the company's market value increase proportionally with the volume of transactions with related parties, while the operational performance decreases (where they can draw the conclusion that shareholders use RPT for their own interests).

The study undertaken by Ameer & Azizan (2012: 790) emphasizes the idea that minority shareholders activism (such as, for example, setting up at government level, an association representing minority interests) is an effective tool to reduce expropriation techniques (including RPT) used by shareholders.

B) Related party transactions and "earnings management" (financial results manipulation)

In the academic literature there is no an universally accepted definition of "earnings management" (i.e. financial results manipulation techniques).

In their study, Noronha et al. (2008: 367-369) present certain of the most representative definitions for the expression "earnings management" given by researchers interested in this subject, such as follows: "deliberately engaging in transactions within the constraint of generally accepted accounting standard in order to achieve the desired financial results" (Davidson et al., 1987); "intervention in the process of external financial reporting in order to get some private gains" (Shipper 1989); "manipulation of financial results occurs when during the financial reporting process, managers use their judgment to structure transactions so as to alter certain earnings or misinform stakeholders about the real economic performance of the company or to influence certain future contracts which depend on the financial result" (Healy & Wahlen, 1999).

According to Nekhili & Cherif (2011: 294), although the academic literature of the past 15 years has written extensively on financial results manipulation and on creative accounting, however, the relationship between RPT and earnings management has received less attention from researchers. In this regard, the studies performed by Gordon et al. (2006) and Henry et al. (2006) are useful for understanding the challenges of RPT in terms of manipulating financial results and providing fraudulent financial statements. Therefore, the transactions between related parties may be considered an "instrument of earnings management, with the purpose of presenting financial statements acceptable or favorable, or meeting the requirements of managers reporting results that are impelled, in their turn, to meet the expectations of investors / creditors".

Noronha et al. (2008: 368) shows that, according to the literature, there are four reasons underlying techniques of "earnings management": acceptable indebtedness, the pressure of capital markets, tax considerations and management remuneration.

Ortega & Grant (2003) cited by Noronha et al. (2008: 369) classify the financial results manipulation techniques into four categories: the moment of revenues recognition, the moment of expenses recognition, using unrealistic assumptions to estimate liabilities, real trading operations.

In the studies conducted by Lo et al. (2010: 227) and Stauropoulus et al. (2011: 158) there are presented two ways in which financial results might be manipulated:

- manipulating the moment of recording a transaction into the accounting evidences, which involves moving profits from one year to another, being therefore a manipulation technique with temporary effects;
- manipulation of transfer prices, which do not affect future profits, being therefore a manipulation technique with permanent effects.

As a result of the empirical study conducted on China market, Noronha et al. (2008: 367) conclude that financial results manipulation techniques are influenced by ownership structure and size of company. Thus, public companies manipulate the results for purposes relating to the remuneration of managers, while private companies pay more attention to reducing tax expenditures.

C) Related party transactions and "tunnelling" (asset misappropriation)

The term "tunnelling" was introduced by Johnson (2000), cited by Hu et al. (2009: 191) and means the "deviation of resources between companies in order to expropriate the minority shareholders". Thus, Ameer & Azizan (2012: 777), quoting Johnson et al. (2000) argue that asset misappropriation techniques favor redistribution of resources, through improper means, between group companies instead of dividend payments.

Lo et al. (2010: 227) believes that asset misappropriation disguises the actual performance of the company and hides to minority shareholders the private benefits that control bring to majority shareholders, which usually translate to losses for the firsts. The diversion of resources as a result of running RPT usually triggers a decrease in the value of minority shares, which then transforms into a significant reduction in firm value. Stauropoulus et al. (2011: 158) consider that the techniques of assets misappropriation are of a significant importance for corporations with concentrated ownership.

D) Related party transactions and "propping" (income overvaluation)

The term "propping" refers to techniques used by some companies in order to get a certain level of profits. According to some researchers (i.e. Pizzo, 2011), "propping" represents the "pre-tunnelling" phase, meaning that through propping techniques there is temporarily helped a company in bankruptcy, which in the future can be a source of embezzlement (assets misappropriation or tunnelling). In other words, those using techniques of "propping" hope that by saving a company from bankruptcy, they may misappropriate more funds in the future. Therefore, on short-term, the "propping" techniques are beneficial to minority shareholders, being a kind of guarantee for them (Pizzo, 2011: 8).

The techniques of "profits overvaluation" (or "propping") are often used in jurisdictions where economic institutions are weakly developed. The study undertaken by Jian & Wong (2010: 70) shows that Chinese companies listed on stock exchanges ensure a certain level of gains ("propping") by conducting abnormal transactions with shareholders. This evidence suggests that RPT can be used for purposes specific to capital markets, namely for achieving a sufficient level of profits (whether in order to qualify for listing, or in order that, after listing, to avoid the imminent de-listing in cases where a company registered losses).

As the “tunnelling” techniques, the “propping” techniques are of a significant importance for corporations with concentrated ownership (Stauropoulus et al., 2011: 158) because the majority shareholders use intra-group transactions with the purpose to transfer income to related parties (Chang, 2003; Jian & Wong, 2004 cited by Tong & Wang, 2008, p.188).

Relationship of mutual influence between the company and related party transactions

According to the study conducted by Nekhili & Cherif (2011: 291,) related party transactions are influenced by: the majority shareholders voting rights, the size of the steering committee, the independence of the audit committee, the indebtedness ratio, the fact to be listed on the capital market. The research conducted by Hu et al. (2009: 190) emphasizes that related party transactions are more common: within companies with concentrated ownership, within companies where the function of chairman of general meeting and the function of executive director is satisfied by same person and within companies where the external directors' remuneration are consistent. According to Gallery et al. (2008: 147), the decision of a company to engage in RPT is dictated by its financial condition and is associated with low performance.

In general, previous studies have shown the following aspects:

- the existence of an inversely proportional relationship between the development of RPT and the market value of companies (Gordon et al., 2004a; Jian & Wong, 2004; Gordon et al., 2004b cited by Gallery et al., 2008: 149; Claessens & Fan., 2006, Murphy et al., 2009: 57; Nekhili & Cherif, 2011: 291; Kohlebeck & Mazhew, 2010 cited by Stauropoulus et al., 2011: 157) and between RPT and return on assets (Kohlebeck & Mayhew, 2004, quoted by Gallery et al., 2008: 150);
- the existence of a directly proportional relationship between the development of RPT and profitability (Cheung et al., 2006; Kohlebeck & Mazhew, 2010 cited by Stauropoulus et al., 2011: 157);
- the association of RPT with a weaker corporate governance (Gordon et al., 2004b cited by Gallery et al., 2008: 149; Kohlebeck & Mayhew, 2004, quoted by Gallery et al., 2008: 150).

Therefore, we can conclude that RPT is useful to achieve objectives such as: remuneration of managers, profitability, external contracts, reducing tax costs. In such a context, RPT may include: a weak usage of resources (moral hazard problem) or a weak presentation of information (adverse selection), (Pizzo, 2011: 5).

Monitoring and disclosure of related party transactions

Due to the fact that, before the great financial scandals erupted in the past decade, RPT din not represented an area of detailed analysis neither for researchers from academia, nor for regulators, the European corporate governance rules existing before the years 2002-2003 have ignored the RPT topic. Thus, details of such transactions could be found only in financial reports, which were used both for accounting purposes and for purposes of corporate governance.

Therefore, in order to curb the negative effects associated with RPT, the legislators have proposed certain solutions, such as (Pizzo, 2011, p.6):

- monitoring the activities, by using internal monitoring mechanisms: internal control, internal audit committee evaluation, approvals from the board of directors, the existence of independent directors, approvals of the General Assembly (Gallery et al., 2008: 153) and also external monitoring mechanisms: financial audit, monitoring by creditors, financial inter-mediators, media (Gillan, 2006 cited by Gallery et al., 2008: 153);
- detailed disclosures (with respect to: the transaction type, the amount, the terms and conditions, the fit with the market principles, etc.);
- classification of certain transactions as "harmful" (such as "employee loans").

Gallery et al. (2008: 147) believe that in order to reduce the negative effects associated to RPT, external monitoring is more effective than the mechanisms specific to internal corporate governance (by conducting an empirical study on small businesses in Australia, these researchers found no direct correlation between the mechanism specific to corporate governance and RPT, unlike other studies as Gordon et al. (2004b), which shows exact the contrary).

In the academic literature, the non – identification of RPT is considered a key factor of an audit failure. However, the major financial scandals demonstrate that the problem is not the non – identification of RPT (i.e. Enron or Adelphia auditors were aware about the existence of RPT), but deficiency of information regarding such transactions. In the terms of cost / benefit, an auditor is trying to find the related parties and the transactions undertaken with them, as long as the expected benefits brought by the discovery of such transactions is greater than the cost involved by a detailed analysis procedure (Gordon et al., 2007: 96).

Although the academic studies, including Chen et al. (2009: 295) emphasized the idea that the introduction in legislation of a more complex requirements disclosure regarding RPT (especially in terms of transfer pricing) should be an urgent priority, however, the research conducted by Nekhili & Cherif (2011: 294) shows that there is currently no standardized procedure by which companies can inform the market if and how the related party transactions are verified. Moreover, according to Gordon et al. (2006), internal checks are not enough. The financial reporting standards, the capital market authorities and the legislation require information that is sometimes doubled, sometimes contradictory. However, the general purpose is to improve the quality of information available to all stakeholders and to impose the obligation of information disclosure regarding RPT (where they may affect the results and financial position of a company).

Notwithstanding the above, researches in the area of capital markets shows that legislation requiring detailed presentation of related party transactions is associated with the developed capital markets (Djankov et al., 2008, La Porta et al., 2006, quoted by Stauropoulus et al. , 2011: 157).

In another train of thoughts, it is necessary to mention that the rules on monitoring and disclosure of RPT were strongly influenced by conflicts of interest theory and agency perspective, while efficient transaction theory has little influence on these rules (Pizzo, 2011: 10).

6 Related party transactions – a contingent approach

Generally, within the academic literature, RPT are analyzed in an abstract theoretical framework, according to one of the two theories (i.e. efficiency or conflict of interest), Thus, their classification is made by certain features (the benefits - for the first mentioned theory, the risk for second one), without taking into account the specific institutional or organizational context that may affect the nature of the operations (Pizzo, 2011: 10). The traditional research methodology on RPT is presented in the below figure.

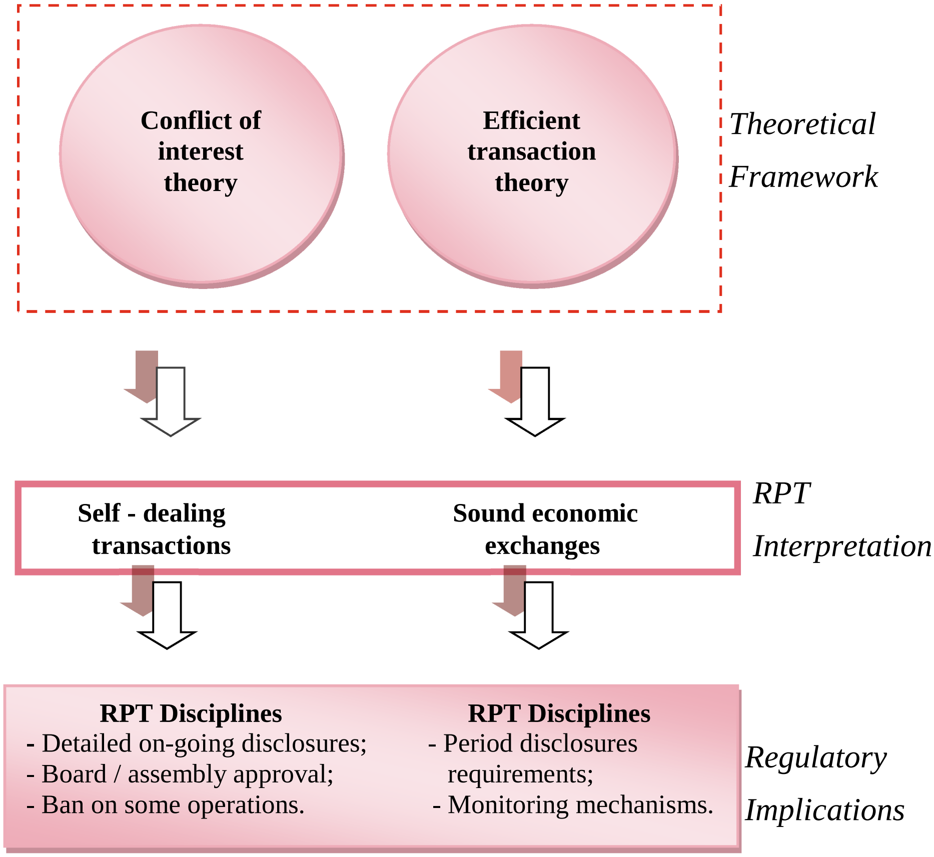

Fig.1. Traditional research methodology on RPT
Source: Pizzo (2011, p.11)

The possibility that these two theories to coexist has never taken into account. Both theories have inconsistencies or deficiencies, and sometimes offer different interpretations (Pizzo, 2011: 10). In the current reality, RPT cannot be strictly classified into one of these two categories, and the monitoring and disclosure requirements may not achieve the desired goals, may involve greater complexity and may cost to match. On the other hand, addressing the idea that RPT are always efficient transactions involves deregulation, and may ignore some risks associated with such transactions, which results in decreased investor confidence in the company. Therefore, the contingent approach is the solution.

Pizzo proposed a model for RPT analysis under a contingent perspective, by the intersection of these two theories. This model is built based on the study of Aguilera *et al.* (2008), and on further examination of the causes and consequences of RPT, which are influenced by: i) the organizational and social context, and by ii) the complementarities / substitution of corporate governance factors (Pizzo, 2011: 12). The new approach is presented in the below figure.

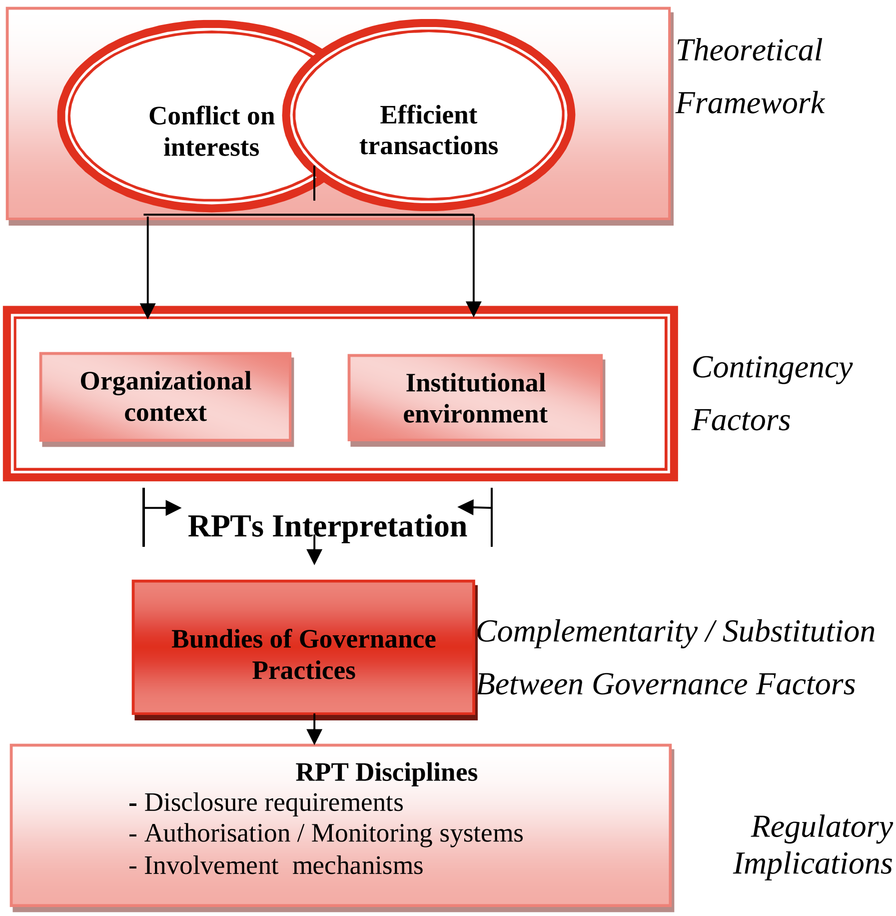

Fig.2. RPT under a contingency perspective
Source: Pizzo (2011, p.13)

The contingent approach of RPT proposed by Pizzo is based on contingency theory. According to Waweru et al. (2004, p.677), this theory was developed by Burns & Stalker (1961) and Lawrence & Lorsch (1967). The fundamental premise suggested by the contingency theory is that *there is no a single strategy that can be effective in any context* (Sousa & Bradley, 2009, p.441).

By extrapolating the previous idea, we can say that the perspective on related party transactions offered by the contingency theory can be formulated as follows: RPT cannot be strictly classified as either harmful or beneficial transactions, but their classification depends on the circumstances in which they appear (economic constraints, global competition, technological developments, size and type of organization, the real interests of the shareholders or managers, etc.).

7 Conclusion

The purpose of the present investigation was to provide an overview of the academic literature on related party transaction topic. Thus, as a result of previous researches survey, we found out that there are two opposite theories which explain the related party transaction undertaken: the efficiency theory and the conflict of interest theory.

Based on the efficiency theory, the related party transactions are viewed as faithful operations, which are essential for business development and which bring various benefits to entities, such as: reduction of transaction costs, possibility to expand on new markets, transfer of technology and other resources, increase the operational profitability, increase the competitiveness of the group as a whole etc.

Based on the conflict of interest theory, the related party transactions are viewed as harmful practices, undertaken with opportunistic purposes, such us: expropriation of minority shareholders by majority shareholders, earnings management, tunnelling, propping etc. In order to avoid the negative impact of RPT, the various authorities in charge with these practices have introduced certain disclosure requirements, which are sometimes doubled, sometimes insufficient.

The research conducted by (Pizzo, 2011), brings a fresh perspective on the way on which the related party transactions are to be interpreted. Generally, the RPT can be strictly classified neither as dealings serving only fraudulent purposes nor as sound economic operations. Thus, the researcher propose the adoption of a contingency perspective which implies an overlap of the theoretical frameworks represented by the conflict of interests and by the efficient transactions hypothesis, and obliges to interpret RPT through the lens of contingent factors concerning specific organizational contexts and institutional environments.

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