

**THE EFFECT OF RELATED PARTY TRANSACTIONS ON
FINANCIAL PERFORMANCE OF QUOTED DEPOSIT MONEY
BANKS IN NIGERIA**

BY

EMINAH, JOY AYIBANENGIYEFA

HND/ACCTS/22/016

A PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE
REQUIREMENTS FOR THE AWARD OF HIGHER NATIONAL DIPLOMA IN
ACCOUNTANCY IN THE DEPARTMENT OF ACCOUNTANCY
SCHOOL OF MANAGEMENT SCIENCES
BAYELSA STATE POLYTECHNIC, ALEIBIRI

SEPTEMBER, 2024.

DECLARATION

I declare that this project was based on a study conducted by me, AyibanengiyefaEminah, in the Department of Accountancy, Bayelsa State Polytechnic, Aleibiri under the supervision of Mr. Anderson Obalakumo. This project report has not been submitted elsewhere for the award of a degree. The ideas and views of the research project are products of research undertaken by me. Where the ideas and views of other authors/researchers have been expressed, they have been duly acknowledged.

Name: AyibanengiyefaEminah Sign:..... Date:.....

CERTIFICATION

This project, *The effect of related party transactions on financial performance of quoted deposit money banks in Nigeria*, meets the regulations governing the award of Higher National Diploma in Accounting, Department of Accountancy, School of Management Sciences, Bayelsa State Polytechnic, Aleibiri.

Mr. Anderson Obalakumo
<i>Project Supervisor</i>	Signature	Date

Dr. Laim Isaac Odogu
<i>Head of Department</i>	Signature	Date

Dr. James BinatariPoyeri
<i>Dean of Management Sciences</i>	Signature	Date

DEDICATION

This project is dedicated to God Almighty, who is my source of inspiration and strength.

BAYELSA STATE POLYTECHNIC, ALEIBIRI

ACKNOWLEDGEMENTS

My special thanks go to all my lecturers at Bayelsa State Polytechnic, especially my project supervisor, Mr. Anderson Obalakumo, for all his effort in making me a better student, especially in respect of this work, Dean of our school, Dr. James Poyeri, our amiable HOD, Dr. Laim Isaac Odogu, Dr. Sunday Zibaghafa, Mr. Sulaiman Disu, MrTiminipreOkpobo and other lecturers, for the knowledge they have imparted in me throughout my programme.

My gratitude also goes out to all my family and friends, especially my parents and siblings who have always been there for me through thick and thin, and my colleagues and course mates whom I cannot fail to appreciate for all their effort in making me the person I am today.

BAYELSA STATE POLYTECHNIC ALFEBRI

ABSTRACT

This study was conducted to establish the effect of related party transactions on financial performance of quoted deposit money banks in Nigeria, while the specific objectives of the study were to examine how related party transactions affect return on assets, return on equity, profit after tax and earnings per share (which are the measures of financial performance used). Relevant literature was reviewed and this study was anchored on the agency theory. The research design adopted for this study is the ex-post facto research design because the data collected and analyzed were already available before the study was conducted. With respect to data collection, relevant data was collection from the 2013 to 2022 annual reports of eight deposit money banks with international authorization, which incidentally served as the population size and sample size of this study. Using multiple regression analysis with the aid of Stata 13x software, the findings of this study indicated that there is no significant effect of related party transactions on financial performance of quoted deposit money banks in Nigeria. On the basis of this finding, it was concluded that quote deposit money banks do not use related party transactions to bloat their financial performance. Therefore, one of the recommendations given as a result of the findings of this study is that the management of the Nigerian money deposit banks should be inclined towards reducing the number of related party transactions with the view to improving the quality of their earnings. Regulatory authorities should encourage and focus on making sure that Nigerian deposit money banks comply with the standard guiding related party transactions. Standard setting bodies should consider increase the disclosure requirement for related party transactions.

TABLE OF CONTENTS

TITLE PAGE	i
DECLARATION	ii
CERTIFICATION	iii
DEDICATION	iv
ACKNOWLEDGEMENTS	v
ABSTRACT	vi
CHAPTER ONE: INTRODUCTION	
1.1 Background to the Study	1
1.2 Statement of the Problem	4
1.3 Research Questions	5
1.4 Research Hypotheses	6
1.5 Aims and Objectives of the Study	6
1.6 Significance of the Study	7
1.7 Scope of the Study	8
1.8 Definition of Terms	8
1.9 Organization of the Study	9
CHAPTER TWO: LITERATURE REVIEW	
2.1 Conceptual Framework	11
2.1.1 Related Party and Related Party Transactions	11
2.1.2 Motivations behind Related Party Transactions	15
2.1.3 Auditing Related Party Transactions	16
2.1.4 Related Party Transactions and Earnings Quality	20
2.1.5 Implications of Related Party Transactions for Corporate Performance	25
2.1.6 Financial Performance	30
2.2 Theoretical Framework	32

2.2.1	Agency Theory	32
2.2.2	Efficient Transaction Theory	34
2.3	Empirical Review	34
CHAPTER THREE: METHODOLOGY		
3.1	Research Design	40
3.2	Characteristics of the Study Population	40
3.3	Sampling Design and Procedures	41
3.4	Method of Data Collection	41
3.5	Measurement of Variables	41
3.6	Method of Data Analysis	42
3.7	Model Specification	42
CHAPTER FOUR: DATA PRESENTATION AND ANALYSIS		
4.1	Data Presentation	44
4.2	Test of Hypotheses	46
4.3	Discussion of Findings	53
CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS		
5.1	Summary of Findings	55
5.2	Conclusion	55
5.3	Recommendations	56
5.4	Limitations of the Study	57
5.5	Contribution to Knowledge	57
References		58

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

One of the major purposes of accounting is to communicate information about economic activities of a firm to interested parties. However, over the years, there has been sustained controversy about how reliable and valid the information being provided by accounting has been, especially in the face of corporate failures such as the case of Cadbury, Intercontinental bank, Oceanic bank and a myriad of financial institutions in Nigeria which collapsed due to falsification of accounting reports weakened users' confidence and reliance leading to general apathy and non-reliance on accounting reports (Okerekeoti, 2021). The spiral effect was the near collapse of the stock market as share prices tumbled downwards and investors lost confidence and valuable investments. The echo of accounting fraud reverberates globally. The intent of these frauds is to present a falsified report to deceive the users thus creating a large asymmetry of information that affects plausible decision making (Okoro & Edirin, 2016). Related party transactions were fingered as one of the tools used to perpetrate these frauds thus exposing the inherent risk associated with it. A firm primarily consists of shareholders or its affiliates, directors, managers, principal officers and employees, hence a transaction that takes place between parties to the firm is referred to as related party's transactions (Okerekeoti, 2021). Lending credence to the opinion of Okerekeoti (2022), the International Accounting Standard (IAS) 24 asserts that when there is a transaction which involves transfer of resources, services or obligations between a reporting entity and another party who is directly related to the reporting entity, such a transaction is said to be a related party transaction regardless of whether a price is

charged. To IAS 24, a related party could be controlling shareholders, directors and groups with influence over the firm (subsidiary, associates, joint venture, affiliates and associated family members). A related party could also engage in transactions under any form with one another and under any economic concept. The implication is that a related party may use these transactions to transfer resources in or out of the firm (Kohlbeck & Maydew, 2017).

There are two different schools of thought in regard to the concept of related party transactions (RPT). The first school opines that RPT could either be detrimental to shareholders in that controlling shareholders may use it to their own advantage, while the second school believes that it could be beneficial by representing a strategic economic decision by the company and therefore increases shareholders value (Gordon, Henry & Palia, 2020). The first perspective views it as conflict of interest between the principal and agent and is embedded in the agency theory and leads to exploitation of firm's resources. This is otherwise referred to as tunneling or conflict of interest and is hazardous to the interest of shareholders. Conversely, the second perspective recognizes it as the genuine efforts of the managers and considers these dealings as sound business exchanges fulfilling economic needs of the firm. This is referred to as propping or efficient transaction hypothesis (Habib, Jiang & Zhou, 2015). According to Shan (2019), RPT can optimize internal resource allocation, improve return on assets and reduce transaction costs for firms, and also that appropriate related party disclosure helps to protect minority shareholders' rights; market reacts positively to the announcement of transactions when there is a transaction between the firm and controlling shareholders for firms in financial distress while Elhelaly (2016) showed that investors support the firm when there is a moderate adverse shock to ensure survival. Umobong (2017) equally reports that intergroup equity transactions create value for non-controlling shareholders. Overall, Okerekeoti (2021) submits that RPT provides a

platform for transfer of resources between different stakeholders resulting in gains to some and losses to others. This creates distortions in financial statements and information asymmetry.

By and large, identifying whether RPT is beneficial or detrimental to a business is sometimes a herculean task, leading to some prior empirical studies producing mixed and conflicting results, which could be attributed to problem of identification and measurement of variables, culture and geographical location, and firm internal factors, external influences and regulatory framework (Cheung *et al*, 2019). It is little wonder then that related party transactions have been taken advantage of by the managements of many Nigerian companies to carry out untoward activities to the detriment of the companies they represent, not excluding the banking sector.

In the opinion of Uzoigwe and Ekwueme (2021), the banking sector, regarded as one of the major sources of revenue generation in Nigeria, occupies an important position in the Nigerian economy and contributes immensely to the development of the country. This sector remains the one of the largest sectors of the economy and opportunities abound therein. As of today, there are nineteen deposit money banks, along with a good number of microfinance banks and other financial-related institutions, ranking one of the largest in Africa. The Nigerian banking sector has been a major mainstay in the economy, accounting for about 50% of its revenue. Interestingly, as important as this sector is to economic growth and development, it has had a profound adverse effect on the natural environment and has generated a host of other socio-economic problems, including human rights issues. It is these accompanying challenges that have given rise to the promulgation of regulations to guide the activities of oil producing companies with all relevant stakeholders, related parties inclusive (Uzoigwe& Ekwueme, 2021). It is as a result of the relative importance to the economy that it has undergone several reforms and recapitalization processes, all in a bid to make it more viable and strong. In all, the banking

industry can be said to be a force to reckon with in the economy. It is therefore necessary for all hands to be on deck in order to ensure that the banking industry remains the cynosure of all eyes and the envy of other sectors of the economy, hence there is continual need, from the angle of researchers, to keep making researches on how to keep the industry on its feet and as strong, if not stronger, as ever, and any factor that can forestall its overall growth and success should be nipped in the bud.

It is in view of this that this study intends to see whether or not any transaction by and from related parties can affect, in any way, the financial performance of deposit money banks in Nigeria. Therefore, the focus of this study is to examine the effect of related party transactions on financial performance of quoted deposit money banks in Nigeria.

1.2 Statement of the Problem

Okerekeoti (2021) believes that recent financial scandals have highlighted weaknesses in corporate reporting and accounting disclosures. Some of the recurring areas of concern include the quality of the reported earnings which could be linked to the widespread use of related party transactions and off-statement of financial position items by Nigerian companies. Interestingly, RPT have been directly or indirectly associated with several cases of financial scandals, fraud and declined earnings quality in the banking industry. Quite alarming is the fact that some banks failures in the recent past (Savannah Bank and Intercontinental Bank, for instance) have been attributed to related party transactions, among others. One major anomaly associated with RPTs is that many companies tend to show a healthy group profit position in their financial statements while the majority of the revenue is generated by their subsidiary companies, and disclosure to that effect is not made in the notes to the accounts (Umobong, 2017).

As crucial as the issue of related party transaction is to the corporate performance and ultimately survival of companies, the majority of empirical research on related party transactions has been

conducted in other countries, resulting in findings that do not completely fit the Nigerian economy. This is in line with Umobong (2017), who opined that prior studies on the effect of related party transactions on financial reporting and performance that were recently conducted were mostly conducted in European countries, highlighting a major gap in the literature taking account of the differences that exist in culture, legal system efficiency and economy between third world and developing countries. More noteworthy is the fact that, to the best of the knowledge of this researcher, there is very little study on related party transactions and how it relates to the financial performance of deposit money banks companies in Nigeria (Uzoigwe&Ekwuemen, 2021; Okerekeoti, 2021; Umobong, 2017) despite the fact that it is on record that the banking sector is one of the biggest sectors in the economy and a major source of revenue generation to the Nigerian government. It is on this note that this study intends to investigate the effect of related party transactions on financial performance of quoted deposit money banks in Nigeria.

1.3 Objectives of the Study

The major objective of this study is to interrogate the effect of related party transactions on financial performance of quoted deposit money banks in Nigeria. The specific objectives of this study are to:

- i. Investigate the effect of related party transactions on return on assets of quoted deposit money banks in Nigeria.
- ii. Interrogate the effect of related party transactions on return on equity of quoted deposit money banks in Nigeria.
- iii. Investigate the effect of related party transactions on profit after tax of quoted deposit money banks in Nigeria.

- iv. Examine the impact of related party transactions on earnings per share of quoted deposit money banks in Nigeria.

1.4 Research Questions

On the basis of the objectives of this study, the following research questions are raised:

- i. What is the effect of related party transactions on return on assets of quoted deposit money banks in Nigeria?
- ii. What is the effect of related party transactions on return on equity of quoted deposit money banks in Nigeria?
- iii. What is the impact of related party transactions on profit after tax of quoted deposit money banks in Nigeria?
- iv. How does related party transactions impact earnings per share of quoted deposit money banks in Nigeria?

1.5 Research Hypotheses

Based on the research questions raised, the following research hypotheses are formulated:

Ho 1: There is no significant effect of related party transactions on return on assets of quoted deposit money banks in Nigeria.

Ha 1: There is significant effect of related party transactions on return on assets of quoted deposit money banks in Nigeria.

Ho 2: Related party transaction does not significantly affect return on equity of quoted deposit money banks in Nigeria.

Ha 2: Related party transaction significantly affects return on equity of quoted deposit money banks in Nigeria.

Ho 3: Related party transaction does not have any significant impact on profit after tax of quoted deposit money banks in Nigeria.

Ha 3: Related party transaction does not have any significant impact on profit after tax of quoted deposit money banks in Nigeria.

Ho 4: Related party transaction has no significant impact on earnings per share of quoted deposit money banks in Nigeria.

Ha 4: Related party transaction has significant impact on earnings per share of quoted deposit money banks in Nigeria.

1.6 Significance of the Study

The concept of related party transactions is gradually gaining prominence in the corporate world. Therefore, it is the belief of the researcher that this study will be beneficial to the following categories of parties:

A good knowledge of the concept of related party transactions will enable **potential investors** to understand the viability or otherwise of a business and also determine whether to invest in such a business or not. Similarly, this study will enable **existing investors** to realize the viability of their investment.

Corporate organizations, especially deposit money banks will find this study useful in the process of developing reporting systems, measuring performance and tracking changes over time can support the development of information systems that improve internal management of risks, stakeholders etc.

This study will equally be beneficial to other **researchers** as the findings of this study will add to existing body of knowledge as far as related party transaction is concerned.

1.7 Scope of the Study

The scope of this study is considered in three perspectives:

Content scope: The content scope of this study is related party transactions (using related party sales and purchases as a measure) and financial performance (proxy by return on assets, return on equity, profit after tax and earnings per share) of deposit money banks.

Geographical scope: The geographical scope of this study is all deposit money banks (with international authorization) listed in the Nigerian Exchange Group.

Unit of analysis: The unit of analysis of this study is the annual reports of selected deposit money banks for a period of ten (10) years from 2013 to 2022.

1.8 Definition of Terms

Related party: A related party is a person or entity that is related to the reporting entity.

Related party transaction: A related party transaction is a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged. The parties involved in the transactions could be a parent company and its subsidiaries, affiliates, employees, the principal owner, directors or management of the company and the subsidiaries, or members of their immediate families.

Financial performance: It is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. This term is also used as a general measure of

a firm's overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation.

Earnings per share: This can be defined as the net income available to shareholders divided by the total number of outstanding shares of a company.

Return on equity: This ratio is calculated as a percentage of net profit made divided by the owner's equity.

Return on assets: This is calculated as dividing profit after tax by the total assets of a company.

Profit after tax: This is defined as the net income of an organization after deducting all its expenses including taxa for the year.

1.9 Organization of the Study

The focus of this study is to examine the effect of related party transactions on financial performance of quoted deposit money banks in Nigeria. Therefore, the study is organized as follows:

Chapter one deals with the introduction of the study. Thus, it entails discussing a brief background to the study, highlighting the problem statement of the study, itemizing the aims and objectives of the study as well as formulating research question and hypotheses from the objectives of the study. This chapter concludes by stating the scope, significance and operational definition of terms.

Chapter two of this project is concerned with reviewing relevant literature on the study. Thus, the focus of this chapter is in three perspectives. The first part is the conceptual framework/ review, which focuses on discussing, in details, the independent and dependent variables of this study. The next part of this chapter is the theoretical framework, which is related with discussing the theories on which the study is anchored. The third and last part of this chapter is the empirical

review of study, which relates to giving a summary of related studies carried out by different researchers

Chapter three is the methodology of this study. It focuses attention on the research design, population of the study, sample of the study, method of data collection & analysis, as well as the measurement of variables used in the study.

Chapter four of this study deals with the presentation and analysis of the data collected in chapter three, the test of hypothesis relating to the data collected and discussion of the findings of the results of the analysis.

The last chapter of this project is concerned with the summary of the findings of this study, drawing conclusion and giving recommendations that will help improve financial performance of deposit money banks in Nigeria.

BAYELSA STATE POLYTECHNIC, ALIBIRI

CHAPTER TWO

LITERATURE REVIEW

2.1 Conceptual Framework

2.1.1 Related Party and Related Party Transactions

Okoro and Edirin (2016) emphasize that a related party is a person or entity that is related to the reporting entity. For example, a related party can be a person who has control or joint control over the reporting entity; or a member of the key management personnel of the reporting entity or of a parent of the reporting entity. The related party relationship can also arise if: one entity and the reporting entity are members of the same group; both entities are joint ventures of the same third party; one entity is an associate or joint venture of the other entity; or one entity is a joint venture of a third entity and the other entity is an associate of the third entity (IAS 24). A related party transaction can be defined as a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged (IAS 24). Related-party transactions include, for example, raising capital, acquiring production materials, selling firm outputs, hiring workers, leasing assets, purchasing and divesting assets and signing franchising contracts (Huang & Liu, 2015).

According to the US GAAP Statement of Financial Accounting Standards 57 (AS 57), RPTs are transactions between a company and its subsidiaries, affiliates, principal owners, officers or their families, directors or their families, or entities owned or controlled by the company's officers or their families. The International Accounting Standards (IAS) definition of RPs is similar to how

these parties are understood in AS 57: “As mentioned in paragraph 29.2, IAS 24 (revised) a related party can be a person, an entity, or an unincorporated business” (PricewaterhouseCoopers, 2010). IAS 24’s definition comprises two parts: the first identifies general criteria that result in a person, or a close member of that person’s family, being a related party from the perspective of the reporting entity; the second identifies the conditions that result in an entity being a related party or not.

According to Ryngaert and Thomas (2017), Jian and Wong (2015), and Cheung et al. (2019), transactions between listed companies and their controlling shareholders can be classified into five major types: sales and acquisitions of assets, asset swaps, sales of goods and services, direct cash payments (or loans or loan guarantees), and transactions with non-listed subsidiaries. In this regard, Gordon and Henry (2015) identify several major types of RPTs, such as direct transactions with employees or with board members, contract services or legal services acquired from management, sales to (purchases from) related parties and loans to (from) related parties. Further, Cheung et al., (2019) distinguished three categories of RPTs: transactions that – a priori – result in the expropriation of the firm’s minority shareholders (acquisition/sale of assets, commercial relations, etc.); transactions that may be to the advantage of the minority shareholders of the quoted company (cashing of liquid assets and relations with subsidiaries); and transactions that are carried out for strategic reasons and which therefore have no purpose of expropriation (takeover bids and alliances with equity investment, acquisitions and sales of shareholdings in shared subsidiaries) (Gordon & Henry, 2015).

RPTs are sometimes referred to as insider trading. This is when corporate insiders, like managers or members of the supervisory board, buy or sell stocks of their own company (Wang & Yan, 2017). In this regard, Jian and Wong (2015), for example, report that RPTs of companies in Chinese group businesses are directed to their largest stockholders and these

companies offer more trade credits to their related parties. Likewise, Kohlbeck and Mayhew (2017) show that companies in S&P 1500 provide more loans to their directors, officers, major stockholders and affiliates. Thus, RPTs emerge when the company does business with a related or affiliated company. In this case, one company is in a position to influence financial decisions through its control or power over the other party. This suggests that RPTs can have influences on corporate value or performance. For example, a holding company might ask an affiliated company to decrease its research and development activity, or to end its relationship with another company (Okerekeoti, 2021).

According to Munir and Gul (2016), International Accounting Standard 24 establishes the general reporting framework for related party transactions (IAS 24). Transactions between related parties might take many different forms. Many of them include transactions that occur in the ordinary course of business, such as purchases or sales of goods at market prices. Others, on the other hand, can include large one-time transactions that may be at a fair value on an arm's length basis, or at book value or another sum that differs from market values. However, the existence of provisions in the standard affords authorities to both workers participating in the preparation of the financial statements, as well as auditors, to reject any suppression of disclosure, according to IAS 24's stated objective. Regulators and other authorities can also use the standard's requirements to investigate and punish any discovered illegality. The International Accounting Standard (IAS) 24 is a disclosure standard. It specifies how related party connections, transactions, and balances should be identified, as well as when and how disclosures should be made (paragraph 2 of IAS 24). Related party transactions and balances must be disclosed in the individual financial statements of parent firms and subsidiaries, according to the standard (Munir & Gul, 2016).

Gordon et al. (2020) add that subsidiaries and parent firms that submit consolidated financial statements with their individual financial statements are not exempt from disclosing intra-group transactions. There is also no "confidentiality" exception, even if a legal duty of confidentiality is imposed on a corporation. The IASB has indicated that disclosure of related party transactions and balances is critical information for external parties who need to know the extent of support offered by related parties when it comes to intra-group transactions between parents and subsidiaries (IAS 24). Many subsidiaries, for example, rely on their parents for financial support, and those who extend credit to such subsidiaries should be aware of the level of support provided by the parent, or the absence thereof (Gordon et al., 2020).

The first benefit of related-party transactions, according to the Asia-Pacific Office of the CFA Institute Centre for Financial Market Integrity (2019), is contracting efficiency. Related parties can avoid the stumbling blocks and delays that often accompany contract negotiations with third parties. Related parties may theoretically be able to draft contracts with each other more swiftly than they can with nonrelated businesses. Dealing with related businesses can help them avoid the delays sometimes faced with third-party suppliers, which is especially beneficial for those in the industry of delivering a variety of services (Umobong, 2017). Connected transactions, for example, might be a critical component in the development of a vertically integrated business model for a contract manufacturer. These organizations, as well as their clients, see the ability to control inventory and operations without the danger of surprises from unreliable suppliers as a strategic and cost advantage. Strategic feedback is a second potential benefit of related-party transactions. If they represent particular organizations with whom the company does business, people associated with the company may be able to share important knowledge. A firm with a wide number of suppliers, customers, and advisers may need to appoint people to the board of directors who are aligned with these groups in order to guarantee that the company has the

experience it needs to make sound decisions. The convenience of investment is a third benefit of related party transactions. For example, a stock market-listed distressed medium-sized company could be in trouble (Okerekeoti, 2021).

2.1.2 Motivations behind Related Party Transactions (RPTs)

According to Cheung et al. (2019), two competing views explain the economic incentives for conducting RPTs. On one hand, the efficient contracting perspective assumes that close interactions among related parties enable them to reduce transaction costs compared to arm's length transactions. Following this view implies that RPTs could be beneficial for firm performance, especially in emerging markets with less developed intermediary institutions. Also, prior literature suggests that RPTs are not necessarily a mechanism for fraud and not all types of RPTs are associated with fraud cases. By contrast, according to the opportunistic perspective, RPTs provide direct opportunities for managers, directors and related parties to extract resources from minority shareholders, or represent an earnings management mechanism by which managers manipulate earnings towards desired targets (Gordon & Henry, 2015; Ryngaert & Thomas, 2017).

The objective of externally auditing financial statements as a control mechanism designed to mitigate agency conflicts is to protect minority shareholders from opportunistic RPTs and ensure that whenever RPTs are conducted, they are motivated by an efficient contracting intention rather than an opportunistic or manipulative intention. In this context, an assessment of what we know about the relationship between RPTs and the external audit function is warranted to better identify salient avenues for future research on the link between RPTs and auditing (Uzoigwe & Ekwuemen, 2021).

2.1.3 Auditing Related Party Transactions

History and development

Kohlbeck and Maydew (2017) opine that although not all RPTs are improper or fraudulent, there lies the potential for opportunistic behaviours by managers and controlling shareholders like self-dealing and shareholder wealth expropriation under the umbrella of RPTs. Given this potential, Kuan et al. (2015) noted that RPTs have always been under the regulatory spotlight of accounting oversight bodies, especially in the United States of America (USA) and China. In the USA, Section 10a (2) of the Securities Exchange Act 1934 (as amended) requires either auditors to identify RPTs that are material to financial statements or issuing companies to disclose such transactions. In 1974, the SEC censured Touche Ross for deficiencies in auditing the financial statements of U.S Financial Incorporations where the client materially overstated its 1970 and 1971 net income through real estate sales to RPs. Subsequently, the AICPA issued Statement on Auditing Standards (SAS) No. 6, Related Parties that explicitly required auditors to identify non-arm's length transactions between clients and affiliated entities. The requirements of SAS No. 6 were codified into Accounting Update (AU) 334 in 1983. However, years later, in 2001, accounting and auditing practices were still such that RPTs were highlighted as requiring more attention from auditors due to the inherent difficulties associated with auditing these transactions. This was evident in the difficulties that existed in auditing RPTs in certain high profile accounting scandals like Adelphia, Enron, and Tyco. More broadly, an SEC examination between 1997 and 2003 revealed that there were several incidences where clients had failed to disclose material RPTs (Shan, 2019).

Given the persisting difficulties in auditing RPTs, the Public Company Accounting Oversight Board (PCAOB) decided to issue a new auditing standard, AS 18, Related Parties, which became effective for audits of financial statements from December 15, 2014. AS 18 requires

auditors to provide reasonable assurance that RPTs have been properly identified, accounted for, or disclosed in financial statements. AS 18 provides guidance to auditors on how to improve their procedures for auditing RPTs (Shan, 2019).

RPTs and audit risks

Okerekeoti (2021) point out that the fact that recent accounting fraud scandals, such as Adelphia, Enron, Tyco, and WorldCom, were linked to RPTs raised concerns regarding RPT audit practices. In some cases, RPTs might be conducted for deceptive, rather than business purposes. However, a major problem is that RPTs are difficult to audit. For auditors, it is not straightforward to identify related parties and transactions that require examination. Moreover, the sole source of information for auditors about RPTs is the management of the auditee, and internal controls cannot easily track RPTs. This implies that difficulties related to auditing RPTs could coincide with legitimate or opportunistic RPTs (Okerekeoti, 2021).

Regarding the difficulties faced with auditing RPTs, Rafizadeh (2016) finds that RPTs are among the top 10 audit deficiencies in cases of SEC fraud-related enforcement actions. They concluded that auditors are often unaware of related parties or appear to cooperate in the client's decision to obscure a transaction with this party. In another study, Moataz (2019) reveals that impaired auditor independence was a factor in 50 per cent of cases where RPTs were named as a major audit deficiency. Perhaps unsurprisingly, and to minimize the likelihood of detection, the research synthesis on RPTs by Gordon et al. (2020) suggest that companies that use RPTs for fraudulent purposes are more likely to enlist the services of auditors with whom they already have a relationship. Other studies have investigated how the presence of RPTs can impact the auditor's risk assessment of the client (Gordon et al., 2020). In this vein, Pizzo (2018) finds that RPTs are considered among the less important fraud risk factors. By contrast, Elhelaly (2019)

found that the presence of RPTs that are not part of the ordinary course of business rank third most important out of six opportunity risk factors evaluated. Whilst, Pozzoli and Venuti (2019) found no significant difference between fraud cases and non-fraud cases when various fraud risk factors were assessed.

The findings of these studies showed that in some cases, auditors might not be aware of the risks associated with RPTs or they might underestimate the challenges and risks associated with auditing RPTs. However, from a regulation and oversight perspective, the link between RPTs and audit risk is clear. For example, Okerekeoti (2021) defines audit risk as “the risk that the auditor expresses an inappropriate audit opinion when the financial statements are materially misstated.” The fact that RPTs could be significantly related to audit risk is confirmed by their recommendation that auditors identify “incentives and pressures that could cause management to use RPTs or significant unusual transactions to obscure a company’s financial position or operating results”. Moreover, Auditing Standard (AS) 18 requires auditors to provide reasonable assurance that the client has accounted for or disclosed RPTs. Therefore, the difficulties associated with RPTs represented by failing to identify a related party or an auditor’s underestimation of the risks associated with RPTs, could lead to the issuance of an unqualified audit opinion. It can be argued that RPTs, although not always conducted for opportunistic intentions, represent significant risks to the auditor. Those risks are manifested in the possibility of failing to issue an unclean audit opinion for a client that conducted RPTs for manipulative or opportunistic purposes. This is supported by the findings of Habib and Muhammadi (2018) who report evidence that both types of RPTs, operating and loan-type, are associated with a longer audit report lag. This evidence indicates that in some contexts, auditors are aware of the risks and complexities related to auditing RPTs, hence they need more time to complete the audit engagement.

Okerekeoti (2021) noted that the negative implications of RPTs on auditors are two-fold. First, the risk of material misstatement and reduced quality of reported earnings could trigger significant regulatory responses such as enforcement actions and delisting from stock exchanges. This imposes a significant litigation and reputational damage risk for auditors. Second, RPTs are one of the financial reporting schemes that are connected to opportunistic behaviour and fraudulent reporting. Prior evidence shows that auditors are more likely to be held responsible for detecting commonly occurring frauds (Okerekeoti, 2021). Since RPTs were emphasized as a principal mechanism in several financial scandals prior to the Sarbanes-Oxley Act, RPTs that result in declined accounting quality, shareholder expropriation, or that might eventually diminish firm value or minority shareholders' wealth could represent significant risks to auditors (Kohlbeck & Maydew, 2017).

The main argument is that whenever RPTs are associated with shareholder expropriation, declining earnings quality or declining firm value, this indicates that it is more likely that such RPTs were conducted for opportunistic purposes. However, this argument is subject to two main caveats. First, there is non-trivial evidence that cannot be ignored showing that RPTs are not always conducted for fraudulent or opportunistic purposes (Ryngaert & Thomas, 2017). Second, although considerable evidence has been accumulated regarding the negative effects of RPTs, in several cases this represents observed associations and does not necessarily imply causality. In other words, the extant research does not provide convincing evidence that declining earnings quality or negative firm valuations have been directly caused by RPTs (Kohlbeck & Maydew, 2017).

2.1.4 Related Party Transactions and Earnings Quality

The results of studies on relationship between related party transactions and earnings quality are inconclusive. Regarding related party transactions, Cheung et al. (2019) conducted a study on

tunneling, propping and expropriation in Hong Kong. Secondary data from published annual reports covering the period 2010-2014 were obtained and analyzed using both univariate and multivariate generalized linear model. Abnormal returns were used as dependent variable to proxy earnings quality, while ownership structure, corporate governance and information disclosure as the independent variables. The results revealed that on average, firms that announce connected transactions earns significant negative excess return; on the other hand, firm announcing similar arm's length transaction earns significantly lower (negative) excess return.

To link RPT to the earnings quality of reported earnings, some studies have used return on assets as a measure of earnings quality. Aharony, Wang, and Yuan (2015) investigated tunneling as an incentive for earnings management during the IPO process in China. Data from 185 Chinese IPO firms' annual reports were obtained from listed firms on the Shanghai stock exchange during the period 2005-2010 and analyzed using multiple regression model. Using ROA as dependent variable, while related party sales and related party purchases as the independent variables. The result revealed that RP sales of goods and services could be used opportunistically to manage earnings upward in the pre-IPO period; such behavior may be motivated by the prospect of tunneling opportunities in the post-IPO period.

However, in more recent studies, the use of discretionary accruals to measure earnings quality has become even more prevalent. Kuan et al. (2016) examined the impact of related party transactions on earnings management. Secondary data were collected from annual reports of Indonesian public listed companies for the periods ending 2014-2015. The authors used discretionary accruals as dependent variable, while lagged total amount of related party transactions as the independent variables; the study employed OLS multiple regression model. The result revealed that there is no statistically significant evidence of the association between

related party transactions and earnings management. Similarly, Gordon and Henry (2015) investigated the impact of related party transactions on earnings management. Firm data were obtained from COMPUSTAT for the periods 2010-2011 and analyzed using regression technique. They used adjusted abnormal accruals as dependent variable, while related party transactions as the independent variable. The result revealed that there is a positive and significant relation between the adjusted abnormal accruals and limited types of transactions such as fixed-rate financing from related party. Overall, it appears that concerns about related party transactions as a factor associated with earnings management are warranted, but only for certain related party transactions.

However, other studies have linked the use of RPT to corporate governance on how it affects earnings quality. Furthermore, they explain the use of RPT from the purview of tunneling and or propping of financial benefits by controlling shareholders. Cheung et al. (2019) investigated tunneling and propping using related party transaction by Chinese listed companies. Data were obtained from Chinese publicly listed firms for the period 2011–2012 and were analyzed using multiple regression technique. They investigated the effects of corporate governance and information disclosure on firms' performance as a proxy for earnings quality. The result of the study revealed that related party transactions representing tunneling are accompanied by significantly less information disclosure compared to related party transactions representing propping. Propped up firms tends to have worse operating performance in the fiscal year preceding the announcement of related party transactions.

Similarly, Tsai et al. (2015) examined the relationship between related party transactions and corporate value. Secondary data from annual reports were obtained from firms listed on the Taiwan stock exchange and in the Gre Tai securities market in Taiwan during the period 2006–2012. They used book value of debt and market value of equity to total assets as dependent

variables while absolute value of RPT, RPT dummy and Affiliation of the business groups as independent variables. The result revealed that both of the related party sales and purchases increase value of the affiliated firms. The institutional perspective is supported and business group affiliated firms seem to be propped up. However, when the related party sales of the affiliated firms are bigger than their related party purchase, the firm value of the affiliated firm is more likely to be lower than those of non-affiliated firms and demonstrates the tunneling motivation related party transactions.

Some other studies focus on tunneling and propping but looking at their role of family owned firms. Munir et al. (2016) conducted a study on family ownership, related party transactions and earnings quality. They employed regression analysis while data was collected from listed firms' Malaysia for the period 2014. They examined the effect of family shareholdings and related party transaction as the independent on earnings quality of the sampled firms. The result of the study revealed that at a low level of family ownership, the positive effect of familial value are likely to outweigh the negative effects of related party transactions, however in the presence of a high level of family ownership the negative effect of related party transactions are likely to be more substantial and reduce the benefits of familial value. Also shows that there is no linear relationship between family ownership and earnings quality after accounting for related party transactions. This finding suggests that certain firms are likely to report high earnings quality if they have small level of family ownership despite low level investor protection in Malaysia. When a family has a significant ownership stake in a firm, expropriation activities appears to negatively affect earnings quality of the firm.

Whereas, others studies like Ge et al. (2015) investigated value relevance of disclosed related party transactions in manufacturing firms. Secondary data from annual reports were obtained from 52 manufacturing industries listed in the "2002 Ranking" of New youth fortune, a Chinese

financial Magazine during the period 2007–2013. Using price level as dependent variable while sales of goods and sales of assets as independent variables, the study employed regression analysis. The result revealed that the reported earnings of firms selling goods or assets to related purchases exhibit a low valuation coefficient than those of firms in China without such transactions, but this result is not observed during 2011–2013 after a new fair value measurement rule of related party transactions came into effect. Therefore, the new related party transactions regulation in China is perceived to be effective at reducing the potential misuse of related party transactions for earnings management purposes.

Although most studies cover single measure of the earnings quality, Huang and Liu (2015) conducted a multivariate study of the relationship between related party transactions and firm value in high technology firms in Taiwan and China. Data were obtained from annual reports of listed high technology firms in Taiwan and China during the period 1998–2008. In a multivariate equation they investigated the effect of family shareholdings and related party transaction as the independent on return on equity (ROE), return on assets (ROA), market value added (MVA) and economic value added (EVA). The study employed multivariate ordinary least square method to test the hypothesis. The result revealed that the accounts receivable and account payable from related party transactions of high technology firms in Taiwan exhibit a significant positive relationship with performance. However, the sales or purchases of goods from related party transactions of high technology firms in China have a significant negative relationship with performance.

Some other studies did not find significant relationship between RPT and earnings quality. Pozzoli and Venuti (2019) investigated the relationship between related party transactions and financial performance companies and also to verify whether there is an association between these kinds of transactions and earnings management. Data from annual reports of listed Italian

Companies for the period 2013–2016. Using returns on assets as dependent variable while profit (or loss) from related party transactions as the independent variables, the study employed Pearson correlation. The result of the study revealed that the related party transactions and companies' financial performance are not correlated and that there is no evidence of a cause – effect relation. Therefore, related party transactions do not appear as a means used by Italian listed companies to realize earnings management, especially earning smoothing.

Likewise, Elhelaly (2019) conducted study on related party transactions, corporate governance & accounting quality in Greece. Among his investigation, he investigated the impact of related party transactions on accounting quality in Greece and association between related party transactions and earnings management. Data were obtained from annual reports of listed firms on the Athens stock exchange during the period 2014–2016. Using earnings management as dependent variable while related party transactions and corporate governance as the independent variables, the study employed multiple regression technique. The result revealed a negative significant relationship between earnings management and related party transactions. The finding does not support the conclusion that related party transactions are necessarily conducted to mask fraud or the extraction of firm resources. There is no significant difference in accounting quality between related party transactions firms and non-related party transactions firms.

Wang and Yuan (2017) conducted a study on the impact of related party sales by listed Chinese firms on earning informativeness and earnings forecasts. Secondary data were collected from the annual reports of listed firms on Shanghai stock exchange covering the period of 2007–2014 using return as the dependent variables while net income (market value) and related party sales of goods and services as the independent variables, the study employed regression analysis. The result revealed that earning of firms engaged in related party sales are at least 33% less informative after controlling for factors known to affect earnings informativeness. Financial

analysts are overly credulous in their acceptance of earnings numbers that are contaminated by unreliable related party sales and provide less accurate and more optimistic earnings forecast for firms with more related party sales. Therefore, strong empirical evidence on the negative impact of related party transactions on the usefulness of accounting earnings data used by investors and financial analysts.

2.1.5 The Implications of Related Party Transactions for Corporate Performance

Uzoigwe and Ekwueme (2021) state that related party transactions (RPTs) can have a significant impact on business transactions or business performance. Several studies have investigated the influence of RPTs on corporate performance or economic value. However, the findings regarding the real influence of RPTs on corporate performance are so far mix and sometimes contradictory. That is, extant academic studies provide inconsistent evidence regarding the effect of RPTs on firm value. Noticeably, a large portion of the studies notes that RPTs imply serious or negative connotations. This view is, in part, related to the exclusive information that insiders or related parties can have. Previous empirical studies on insider trading/RPTs highlight the ability of insiders to earn significant abnormal returns (see e.g., Lakonishok and Lee, 2011; Aktas et al. 2010). Thus, RPTs can increase the risks that those parties obtain exclusive information to make abnormal returns (see also Lei & Wang, 2011). In this regard, Elhelaly (2019) indicates to the existence of a significant relationship between RPTs and earnings management practices perpetrated by majority shareholders. Gordon and Henry (2020) showed that abnormal accruals are positively associated with RPTs. They imply that RPTs may reduce earnings quality. In this sense, knowing and addressing RPTs can help us evaluate a company's performance, the risks it faces, and the opportunities it can get.

Here, RPTs are often viewed as being inconsistent with shareholders' wealth maximization. For example, Gordon et al., (2020) find that industry-adjusted returns are negatively associated with

RPTs. In particular, they find a negative relationship between industry-adjusted returns and the number and dollar amount of loans to executives and non-executive directors, and a similar relationship between other types of RPTs with non-executive directors. Gordon et al. (2020) examined the relationship between RPTs and the value of companies quoted in the USA over the period 2010-2011. They found that abnormal stock market yields are negatively related to RPTs. They stated that RPTs can imply moral hazards, and can be carried out in the interest of directors in order to expropriate wealth from shareholders. Relatedly, Osakuni and Onuora (2019) document that loans to executives are made at lower than market rates, and that loans made to managers related to stock and option transactions are relatively inefficient in increasing managers' stock ownership. Further, while examining a sample of companies from countries where investor protection is low, Dahya et al. (2010) found that, in general, the companies that do not use RPTs have a higher value than those companies that engage in this kind of transactions: they show firms that use RPTs are associated with lower market values. Chen et al., (2019) showed that Chinese listed companies controlled by a related party engage in a higher the level of related party transactions, and this has a negative influence on the operational performance of the listed company. Rafizadeh (2016) reports that related party sales distort financial statements leading to greater information asymmetry and a general erosion of confidence in the firm. Similarly, Habib et al. (2015) show that the frequency of RPTs can be damaging to companies and can destroy their market value. Wang and Yan (2017) show an adverse impact of related party sales of goods and services on the usefulness of accounting earnings to investors and on the quality of earnings forecasts by financial analysts.

As outlined earlier, this reported negative impact of RPTs on a firm's value or its financial performance is based on the idea that they can be used by management to achieve personal

benefits away from the shareholders' interests. Apart from their declared motives, RPTs are noted here to be exploited to the enrichment of one party at the expense of other parties that are not involved in the transaction. In other words, these transactions will lead to the expropriation of minority shareholders, to the benefit of controlling shareholders, directors or administrators. These latter dominating groups can make profits by selling to the firm (or buying from it), assets, goods or services, at prices higher (lower) than the market price (Chen et al., 2019). They can also obtain loans on favorable terms, use the firm's assets as security for their personal loans, or even dilute the interest of minority shareholders by acquiring additional shares at preferential prices (Huang & Liu, 2015). In a study, Chen et al. (2016) revealed that financial, operating and investment dimensions of RPTs negatively affect firm value due to the presence of an expropriation effect whereby RPTs are driven by insiders' opportunism.

As explained earlier, these serious effects of RPTs on firm value arise from the conflicts of interests between controlling shareholders and minority shareholders and that these transactions are carried out in the interest of controlling shareholders to expropriate wealth from minority shareholders (Ryngaert & Thomas, 2017). For example, Kohlbeck and Maydew (2017) indicate to the tendency of the owners to move profits from a firm where they have low cash flow rights to a firm where they have high cash flow rights so that the controlling owner would have higher claim on the profits. Cheung et al. (2019) indicate that companies acquire assets from related parties at a higher price and also sell at a lower price in comparison to similar arms' length transactions. Expropriation of resources could be realized through channels such as unreliable related party sales (Wang & Yan, 2017), abnormal accruals associated with certain types of transactions such as those involving fixed-rate financing from related parties (Gordon & Henry, 2015), extension of loan guarantees to related parties (Berkman et al., 2019), loans which have below market interest rates (Kuan et al., 2015) private securities offerings by industrial groups

Chen et al., 2016), excessive executive compensation (Shan, 2019) and generous credits provided when the company has exceeding cash (Jian & Wong, 2015).

On the other hand, other scholars have reported a positive influence of RPTs on corporate financial performance: they note that RPTs can enhance corporate value. The positive influence of RPTs can emerge through using the company's available resource in a way that maximizes owners' interests. In this regard, Gina (2017) notes that no country completely bans RPTs, supporting the notion those RPTs, can be value enhancing. Linvanik et al. (2015) show how markets react favorably to the announcement of RPTs. Scholars representing this camp argue that RPTs can promote and preserve the company's assets. And that a company can obtain better or more effective services through RPTs than the services they get through hiring an outsider. This is because, they argue, insiders possess an extensive knowledge of the firm. And this, in turn, would reduce information asymmetries and enhance contracting (Gordon et al., 2020). In this regard, Padmini (2017) shows that the size of internal transactions depends on the information available to internal parties before the company makes the necessary disclosures. And that internal parties make intensive purchases when the information related to revenues are positive and on the other hand, they make intensive selling when this information is negative. That is, these transactions are motivated by the information known exclusively to its parties; an issue that results in abnormal returns to them. Thus, here, transactions between related parties and firms are noted to involve less information asymmetry between the two parties, than is typically the case when the transaction occurs between the firm and a third-party. The resultant elimination of asymmetry of information available to management and stockholders would result in positive influences of RPTs on organizational performance (Pizzo, 2018).

As outlined in the preceding paragraphs, according to the efficient transaction perspective, RPTs are considered sound business exchanges, resulting in lower dealer cost and economically

fulfilling the needs of the firm. The proponents of this perspective see that RPTs can be used as efficient contracting mechanisms under incomplete information achieving shareholder value maximization. And this, in turn, is argued to reduce transaction costs and thereby achieve economies of scale (Moataz, 2019). In this context, Gordon et al. (2020) find that executives benefit from related party loans, which, on average, have below-market interest rates. Chen et al., (2019) point out that RPTs are beneficial to mutual monitoring. And that the monitoring implied in RPTs suggests a difference in the agency cost.

Finally, other scholars reported that the influence of RPTs on corporate value is conditioned upon some factors with special reference to corporate governance. For example, Ullah and Shah (2015) see that the independence of the board of directors has a positive influence on RPTs. On the other hand, ownership interests of the executives have negative influence on RPTs. Others reported that the negative influence of RPTs on corporate performance is mitigated with the existence of effective corporate governance mechanisms, that is, the existence of governance mechanisms is noted to rationalize the motives behind RPTs (Yeh et al., 2017). For example, investigating companies listed on the Paris Stock Exchange during the period 2007-2010, Nekhili and Sherif (2016) find that RPTs are mainly influenced by the voting rights held by the main shareholder, the size of the board of directors, the degree of independence enjoyed by the audit committee and the board of directors, the choice of external auditor, the debt ratio and the fact of being listed in the USA. They also find that the transactions carried out directly with the main shareholders, directors and/or managers have a negative influence on firm value. Investigating Korean chaebol (conglomerates) firms, Kang et al., (2019) find that RPTs to reduce firm value, but this value destruction is observed only when the control–ownership wedge is high and is more pronounced with the top five (5) firms.

2.1.6 Financial Performance

The concept of financial performance has been an interesting one among scholars and researchers alike in various areas of business and strategic management. Despite the importance of this discourse, performance is still an uneasy concept to define and measure. The opinion of Agu and Amedu (2018) on this is that financial performance refers to a financial benefit that a business derives from investing in a business venture. It is the bottom line that indicates how efficient an organisation is in relation to managing the wealth of its shareholders. Ihimekpen (2021) views it as indication of the overall financial health of an organisation over a period of time, while at the same time helping to compare its performance across the industry at the same time. It can also be described as a general measure of how well an organisation generates revenues from its capital, and as well uses its resources to create more wealth for itself and its owner(s) (Ibrahim et al., 2021). In their own contribution to the concept of financial performance, Syder et al. (2020) added that in order to assess financial performance, there are variety of indicators which could be considered, some of which include Return on Asset (ROA), Return on Equity (ROE), Return on Capital Employed (ROCE), Earnings per Share (EPS), Profit after Tax (PAT) and so on.

2.1.6.1 Profit, Profitability and its Measures

According to Uzoigwe and Ekwueme (2021), profit can be seen as an excess of revenues over associated expenses for an activity over a period of time. Terms with similar meanings include earnings, income and margin. Profit is the main goal for establishing a business concern. It is the engine that drives the business enterprise. The survival of any business depends upon its earning capacity. Profit is the soul of business without which it is lifeless. Indeed, the efficiency of a business concern can be measured by the amount of profits earned. The larger the profits the more efficient and profitable the business is deemed to be. Profit should be earned on a regular or continuous basis. Business concerns that are unable to generate

sufficient profit from their operations cannot remunerate the providers of their capital and this makes it difficult for them to maintain the continuity of their existence. Profits are needed not only to remunerate capital but also to finance growth and expansion (Uzoigwe & Ekwueme, 2021).

On the other hand, Aliu (2015) asserts that the word “profitability” is composed of two words “Profit” and “Ability”. Profit is the bottom line of the financial statement, the meaning of profit is derived according to the purpose and usages of figures in the financial statement while the term ability indicates the power of the business organization to generate profits. Ability is also referred to as earning power or operating performance of the concerned investment. The word “Profitability” may be defined as the ability of a given investment to earn a return from its use. It can also be remarked that profitability is helpful in providing a useful basis for measuring business performance and overall efficiency. Gibson and Boyer (2015) define profitability as the ability of the firm to generate earnings. The profitability of a firm can also be defined as the ability of a firm to use its resources to generate revenues in excess of its expenses. The concept of profitability is a controversial issue in finance largely due to its multidimensional meanings. In analyzing a firm's profitability, emphasis should be made in formulating an adequate description of the concept of a firm's profitability which will uncover the different dimensions upon which firm's profitability should be evaluated (Aliu, 2015).

2.2 Theoretical Framework

2.2.1 Agency Theory

This study is underpinned by Berle and Means (1932) and later Jensen and Meckling's (1976) agency theory which explains the problems that occur in agency relationships when either the interest of agent and principal conflict or when it becomes difficult or expensive for the principal

to verify what the agent is actually doing (Elhelaly, 2019). Agency Theory is embedded on the concept of 'principal-agent relationship wherein a party defines the duties and responsibilities of the other party while the second party (agent) discharges the responsibilities entrusted by the other party (principal), engages the services of the other party (agent), defines the terms of the service, duties, responsibilities and delegates the operation of the entity to the agent to perform tasks on their behalf. The theory proposes that parties are self-motivated and pursues self-aggrandizements. This assumption of self-interest dooms agency theory to inevitable inherent conflicts. The self-interested motives by parties' lead to a deviation of the agent from the set goal of the principal and even conflicts with expectations. The expectation is that agents will act to satisfy the interest of their principals. To confirm when an agent acts in the best interest of the owner or acting to the contrary, the standard of Agency Loss" is deployed. Agency loss is the disparity between the best possible expected consequences by the principal and the results derived from the acts of the agent. When an agent satisfies expected results of the principal, agency loss is zero; conversely an increase in the violation of principal agents' covenants increase agency loss. Prior empirical research suggests that agency loss is minimized when principal and agent goals are similar. This implies expectation of similar outcome by both parties'. Secondly, agency loss is minimized when the principal has full understanding of the agent activities and consequences of his actions. It must be clear to the principal if action of the agent best serves his interests. Bruce et al (2015) stressed that agency theory is based on the assumption that agents are motivated by self-interest and therefore strive to maximize their personal economic wealth. To mitigate these problems, agents must obliterate self-interest; execute tasks in a way to achieve congruence in wealth maximization for both parties. This necessitates 'standardization of agency duty because of the potential differences. An agent has a moral responsibility for her actions, which cannot be abdicated simply because she acts as an

agent for another. It is this self-interest assertion that motivates agents (managers) to manipulate earnings to achieve desired goals which are myriads and according to the whims and caprices of the manager.

2.2.2 The Efficient Transaction Theory

This theory, propounded by Coase (1937), is premised on assumptions that related party transactions encourage excellent business transactions and fulfils the economic expectations of the firm. It is presumed not hazardous to the firm in contrast to the conflict of interest hypothesis. The hypothesis predicts that RPT have the advantages that parties' representatives are appointed to board as members and this ensures improved co-ordination of activities, encourages familiarity amongst members and results in rapid feedback mechanisms, insightful and reciprocal exchange of ideas that are not obtainable in arm's length transactions. It creates convenience, mitigates delays and compensates parties for increased risks. According to Umobong (2017), RPT mitigates transaction costs and overcome impediments impairing production. Prior empirical research lends credence to the advantages of RPT. Gordon et al. (2020) and Ryngaert and Thomas (2017) observed that RPT enhances speedy and reliable information to suppliers in contrast to that obtained from unrelated parties.

2.3 Empirical Framework

Several studies have reviewed the relationship between related-party transactions and financial performance of companies, although, majority of these studies were carried out in developed countries.

Chung (2015) investigated the relationship between related party transaction and firm performance of public companies listed on Taiwan stock exchange within years 2001 - 2011. Collecting information of a sample of 6,041 companies from the Taiwan Economic Journal

(TEJ) data. The dependent variable was the operating performance which was measured by Return on Assets (ROA). The independent variables were Related Party Sales (RPSales) measured by related party sales divided by total sales, Related Party Purchase (RPPurch) measured by related party purchase divided by cost of goods sold, Gain on Disposal of Assets from Related Parties (RPAG) measured as gain on disposal of assets from related parties divided by total sales, Loss on Disposal of Assets from Related Parties (RPAL) calculated as loss on disposal of assets from related parties divided by total sales, Related Parties Interest Revenue (RPIR) calculated as related parties interest revenue divided by total sales, Related Party Interest Expense (RPIE) measured by related party interest expense divided by total sales calculated as net income divided by average total sales. Multiple regressions were used to test the relationship between the variables. The result revealed that related party sales, interest revenue and interest expense though negative, were statistically significant and the other variables were negative and insignificant thus it was shown that no relationship exists between related party transactions and firm performance. Their findings support the conflict of interest hypothesis that related party transactions are harmful to the company's interest.

Huang and Liu (2015) in its study of relationship between RPTs and firm value in high technology firms in Taiwan and China between the periods of 1998-2008. The study measured firm value by ROA, ROE, MVA, Tobin's Q. and EVA. Using ordinary least squares method to test its hypothesis, the empirical results show that the account (notes) receivables and account (notes) payables from related-party transactions of high-technology firms in Taiwan exhibit a significant (positive) relationship with performance. However, the sales or purchases of goods from related party transactions of high-technology firms in China have a significant (negative) relationship with performance. The study found that the link between RP sale and purchase of goods in Taiwan companies is insignificant in relation to the variables of performance however

accounts (notes) receivable and accounts (notes) payable from RPTs of high-technology firms in Taiwan exhibit a significant (positive) relationship with performance (Q, ROE, ROA, MVA, EVA) While for Chinese companies it was found that the sale or purchase of goods from RPTs of high technology firms in China has a significant (negative) effect on performance (Q, ROE, ROA, MVA, EVA).

Examining the link between RPTs and firm performance measured by Tobin's Q (book value of assets minus book value of common equity plus market value of common equity market value of common equity) and ROA of one hundred and sixty-two (462) Malaysian companies, Munir and Gul (2016) discovered through regression analysis that RPT is negatively associated with firm performance. Furthermore, that this association is stronger for family firms than non-family firms.

Cheung (2016) examined transaction between 232 publicly-listed firms in Hong Kong and their controlling shareholders and directors where expropriation might occur and shows their incidence and valuation effect. Using data obtained from a sample of 328 connected transactions of these listed companies within 2008-2010 as published by the Hong Kong Stock Exchange and testing the statistical significance of the results collected using bootstrap method it was shown that on average, firms announcing connected transactions earn significant negative excess returns, significantly lower than firms announcing similar arm's length transactions. Companies experienced decreasing profitability when they performed tunneling transactions.

Chen, Cheng and Xiao (2016) analyzed related party transaction as a source of earning management by addressing the issue of RPTs during a firms Initial Public Offering (IPO) in China. Using 257 Chinese A and B shares of listed companies during 1999-2000 found that controlling shareholders structure operating RPTs in pre-IPO period and these RPTs are

positively associated with firm's operating performance. The decline in operating RPTs after IPO contributes to firm's post-IPO long-term underperformance and negatively affects firms' stock return. Thus RPTs does affect the performance.

Kohlbeck and Maydew (2017) examined that stock market's valuation of U.S. firm's that disclose related party (RP) transactions are more developed when compared to those that do not. Using a sample taken from the 2001 S&P 1500, their examination suggested that RP firms have significantly lower valuations and marginally lower subsequent returns than non-RP firms. Market perceptions differed based on partitioning firms by RP transaction type and parties. The results were consistent with the market discounting firms that engage in simple RP transactions.

The study of Umobong (2017) investigated related party transactions and firm's financial performance using Secondary data obtained from Nigeria stock Exchange. The study tried to determine whether RPT is used by firms to manipulate and bloat Return on Asset, Return on Equity and Earnings per share of manufacturing firms. RPT was subjected to Hausmann test for selection of appropriate model and regressed against performance variables. Test of causality was conducted to determine whether causal relationship exist amongst variables of study. Result showed RPT has no significant effects on ROA and EPS and not used to manipulate ROA and EPS. Conversely, RPT has significant relationship with ROE without any causal relationship which may be attributable to the shareholding structure of the firms. The study confirmed positive relationship of RPT with ROA, ROE and EPS implying that increases in RPT increases performance and in contrast decreases in RPT decreases performance. Based on findings, we concluded that firms are currently not using RPT to bloat earnings but probably use it to enhance its effectiveness in collaboration with efficient transaction hypothesis. However, positive relationship espoused by the study indicates its potential of being used for manipulative motive.

Henry, Louwers, Reed and Gordon (2017) examined 83 SEC enforcement actions involving fraud and related party transactions of U.S companies and documented the role of related party transactions in each case. Loans to related parties were the most frequent type of related party transaction, followed by payments to company officers for either unapproved or non-existent services. The relative frequency of disclosed related party transaction combined with the relative infrequency of financial reporting fraud suggested that their co-occurrence was rare. Based on the above literature, issues on related party transactions and its disclosures are receiving attention.

Chen, Chen and Chen (2019) investigate the influence of comprehensive types of RP transactions on the operational performance of sampled 763 listed companies in Shanghai and Shenzhen Stock Exchanges during 2012 –2016. They find negative relationships between RP_Sales, RP_Loan, RP_Guarantee, and RP_Lease and financial performance (Tobin's Q) when the listed company is the controlled party, However, when the listed company is the controlled party, they find significant positive relationships between RP_Purchase and operating performance (ROA and Tobin's Q).

The study of Osakuni and Onuora (2019) examined the relation between related party transactions (RPTs) and financial performance of listed conglomerates in Nigeria. Our research specifically sought to determine whether related party transactions has an effect on return on equity (ROE) and net worth (NW) of conglomerates listed on the floors of Nigeria Stock Exchange for a period of 8 years (2008-2015). The data required to calculate the various performance indicators as well as the data on related party transactions were obtained from the audited annual accounts of the companies. The Pearson correlation method was used to examine the correlation between the dependent and the independent variable while the simple regression analysis was used in analyzing the data. The data analysis suggests that related party

transactions, does not significantly influence return on equity with the exception of net worth (NW) which proved to be significantly influenced by related party transactions. Our correlation result revealed that most related party transactions correlate positively with the net worth of the companies.

This study carried out by Okerekeoti (2021) examined the effect of related party transactions on return on total equity of quoted commercial banks in Nigeria. Data for the study were analyzed with descriptive statistics and ordinary least squares (OLS) analysis was used to test the hypothesis using Statistical Package for Social Sciences (SPSS). The findings show that related party transaction has statistical positive relationship on the return on equity of the quoted Nigerian commercial banks. Based on the findings of this study, the researcher recommends that equity shareholders must always ensure that dividend declared are not based on falsified profit especially when related party transactions which has inherent risk of corporate failure are involved.

Uzoigwe and Ekwueme (2021) examined the relationship between related party transaction revenue on group profitability of quoted deposit money banks in Nigeria. The variables used for the study as the dependent variables are return on total asset and return on capital employed, as a measure for group profitability and independent variable is related party transaction revenue ratio. Secondary data were sourced from the annual reports of nine commercial banks in Nigeria from 2008-2020. Data collected were analyzed using Statistical Package for Social Sciences (SPSS) version 2017 and ordinary least squares (OLS) method of econometric analysis. The findings showed that related party transaction revenue has statistical positive relationship on the return on total assets and return on capital employed of the quoted Nigerian commercial banks. Hence, the study recommended that the stakeholders of quoted commercial banks should always

be conscious of the extent to which related party revenue is represented in the group profit; this will assist them in early detection of poor performance in the bank as an individual entity.

CHAPTER THREE

METHODOLOGY

3.1 Research Design

The design of this study is directed at analyzing the impact of related party transactions on financial performance of deposit money banks listed in the Nigerian Exchange Group in relation to return on assets, return on equity and earnings per share. In view of this, the research design used in this study was ex-post facto. This is because it is used to analyze historical data and analyzes the effect of one variable on another, the ex-post facto technique was deemed appropriate (dependent and independent variables) and it seeks to establish the factors that are associated with certain occurrence or type of behaviour by analyzing data contained in financial statements.

3.2 Characteristics of the Study Population

This study is on related party transactions and financial performance of deposit money banks in Nigeria. Therefore, the population of this study is the entire deposit money banks (with international authorization) listed in the Nigerian Exchange Group (NXG). As at the time of this study, the number of deposit money banks (with international authorization) listed in the NSE is eight.

3.3 Sampling Design and Procedures

The sample size of this study is the same as the population size. Therefore, the entire eight deposit money banks with international authorization listed in the Nigerian Exchange Group is considered adequate for as the sample size of this study. The reason for considering only the deposit money banks with international authorization as the population size and sample size of this study is that all of them have the data required in this study.

3.4 Instrument of Data Collection

Secondary data relating to the annual reports of the selected deposit money banks listed in The Nigerian Stock Exchange as at 2024 served as the sole data collection instrument. In addition to this, secondary data from data sources- The Nigerian Stock Exchange Factbook, Cash Craft Website and Capital Asset Limited Website were obtained.

3.5 Operational Measure of Variables

The independent variable in this study is related party transaction (RPT) measured as total of business transacted for firm i in period t between directors and related parties to the firm.

The dependent variables in this study are financial performance variables:

Return on Assets (ROA) – Calculated as Net profit divided by total assets.

Return on Equity (ROE) – Calculated as Net profit divided by total equity.

Profit after tax (PAT) – Obtained directly from the annual reports of banks under study.

Earnings per share (EPS) – Calculated as Net profit divided by number of ordinary shares outstanding.

3.6 Method of Data Analysis

Using Stata 13.x software, the study generates both descriptive statistics and correlation matrix for the dataset to examine the main characteristics of the data and understand the

direction and extent of relationship between and among the variables. The study also conducts normality test for the dataset to see its behaviour. Furthermore, the study runs three sets of panel regression; pooled regression based on ordinary least squares (OLS), fixed effect (FE) and random effect (RE) which are both based on Generalised Least Square (GLS) methods. Relevant diagnostic and robustness tests that include Heteroskedasticity, Multicollinearity, Hausman specification, and Breusch-Pagan Lagrange Multiplier (LM) were conducted to determine the most suitable model for analysis as well as determine whether or not the estimated models satisfy the conditions for acceptance.

3.7 Model Specification

The functional relationship between the dependent and independent variable, the disturbance, coefficient and intercepts for RPT and financial performance for the purpose of the research is as stated below:

$$\begin{aligned}
 \text{FP} &= f(\text{RPTXNS}) \\
 \text{FP} &= \text{ROA, ROE, PAT and EPS} \\
 \text{ROA} &= f(\text{RPTXNS}) \quad (\text{i}) \\
 \text{ROE} &= f(\text{RPTXNS}) \quad (\text{ii}) \\
 \text{PAT} &= f(\text{RPTXNS}) \quad (\text{iii}) \\
 \text{EPS} &= f(\text{RPTXNS}) \quad (\text{iv})
 \end{aligned}$$

From the above functional relationship, the econometric models are specified thus

$$\begin{aligned}
 \text{ROA} &= w_0 + \beta_1 \text{RTPXNS} + U_{1,t} \quad (\text{v}) \\
 \text{ROE} &= w_0 + \beta_1 \text{RTPXNS} + U_{2,t} \quad (\text{vi}) \\
 \text{PAT} &= w_0 + w_1 \text{RTPXNS} + U_{3,t} \quad (\text{vii})
 \end{aligned}$$

$$\text{EPS} = w_0 + w_1 \text{RPTXNS} + U_{4,t} \quad (\text{viii})$$

Where ROA is Return on Assets, ROE is Return on Equity, PAT is Profit after tax and EPS is Earnings per share. On the other hand, RPTXNS is Related Parties Transactions,

$U_{i,t}$ = Error term

α_0, β_0, w_0 = intercept

α_1, β_1, w_1 = slope coefficients

From equations, vi to ix, it is expected that α_0, β_1 and $w_1 > 0$. It is also expected that an increase in related party transaction increases return on asset, Return on equity, profit after tax and earnings per share respectively.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 Presentation of Data

Table 4.1: Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
RPTR	80	-.1716	1.0000	.257658	.3240152	1.558	.254	.791	.503
ROA	80	-.2422	.1125	.015742	.0334849	-5.163	.254	40.780	.503
ROE	80	-.5401	1.2219	.146796	.1768318	1.655	.254	16.981	.503
PAT	80	-.4320	1.1291	.138102	.183920	1.644	.254	15.809	.503
EPS	80	-.4912	1.2112	.148291	.167281	1.566	.254	16.893	.503
\Valid N (listwise)	80								

Source: SPSS 21 Output, 2024.

On the basis of the quoted deposit money banks in Nigeria, Table 1 evaluates the statistical properties of the variables of this study. The descriptive statistics of the data collected as carried out in Table 1 indicates that the average value of the related party transaction revenue (RPTR) of the samples quoted deposit money banks in Nigeria is 25.77 percent (0.257658), which implies that the sampled quoted banks on average related party revenue is 25.77 percent with the maximum and minimum value of 1.0000 and -0.1716 respectively. The standard deviation is 0.3240152. The average value of return on assets of the sampled banks is 1.57 percent (mean= 0.015742). This reflects that these banks operate with 1.57 percent level of returns on assets and

the maximum and minimum value of 0.1125 and -0.2422 respectively. It deviates by 0.0334849 from the mean value of the sample of quoted Nigerian deposit money banks. Also, the group profitability measured as return on equity (ROE) of the sampled banks has on average 14.68 percent (mean= 0.146796) which indicates the banks' returns to equity. The maximum value of returns to equity among the sampled banks is 1.2219 and the minimum value is -0.5401. It shows a standard deviation of 0.1768318 from the mean value. Similarly, the average value of profit after tax of the sampled banks is 13.8 percent (mean= 0.138102). This reflects that these banks operate with 13.8 percent level of profit after tax and the maximum and minimum value of 1.1291 and -0.4320 respectively. It deviates by 0.183920 from the mean value of the sample of quoted Nigerian deposit money banks. Furthermore, the average value of earnings per share of the sampled banks is 14.8 percent (mean= 0.148291). This reflects that these banks operate with 14.8 percent level of earnings per share and the maximum and minimum value of 1.2112 and -0.4912 respectively. It deviates by 0.167281 from the mean value of the sample of quoted Nigerian deposit money banks.

In this case, Skewness coefficient of the variables of this study ROA, ROE, PAT, EPS and RPTR showed positive which implies that the distributions are positively skewed and moderately distributed. Kurtosis coefficient support the result of Skewness as it relates to all the variables since Kurtosis coefficient has shown positive on all the variables. On the other hand, these positive values of Kurtosis coefficient indicate the possibility of a leptokurtic distribution (meaning too tall distribution). In all, the skewness and kurtosis results indicate that the variables were moderately distributed.

4.2 Test of Research Hypotheses

Test of Hypothesis 1: There is no significant relationship between related party transactions and return on assets of quoted deposit money banks in Nigeria.

Table 4.2: The Relationship between RPT and ROA

Random Effect Model

Dependent Variable: ROA

Method: Panel EGLS (Cross-section random effects)

Sample: 2013-2022

Periods included: 10

Cross-sections included: 8

Total panel (balanced) observations: 80

Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.291759	0.356531	-0.818328	0.4159
RPT	0.493005	0.834172	0.591011	0.5564

Effects Specification

	S.D.	Rho
Cross-section random	0.000000	0.0000
Idiosyncratic random	2.614062	1.0000

Weighted Statistics

R-squared	0.004932	Mean dependent var	-
			0.185694
Adjusted R-squared	-0.009283	S.D. dependent var	2.610821
S.E. of regression	2.622911	Sum squared resid	481.5765
F-statistic	0.346941	Durbin-Watson stat	2.210348
Prob(F-statistic)	0.557746		

Unweighted Statistics

R-squared	0.004932	Mean dependent var	-
			0.185694
Sum squared resid	481.5765	Durbin-Watson stat	2.210348

There are two approaches to panel data analysis and they are fixed effect (FEM) and random effect models (REM). In order to apply the more appropriate approach; Hausman test must be conducted on the data set. The hypothesis is stated thus:

Ho: Random effect model is more appropriate than fixed effect model.

From Hausman test result, p-value is 0.1794; this is far greater than 0.05 significance level and we accept assumption that REM is more suitable than FEM in analyzing impact of RPT on ROA. From Table 4.2, regression of ROA on RPT using REM showed an intercept of -0.291759; this means average level of ROA is less than zero when RPT is zero. Positive coefficient means increases in RPT raise average level of ROA by 0.49. Coefficient of determination is 11 percent revealing RPT explain 11 percent of the variation in ROA. A positive relationship exists between RPT and ROA in terms of slope with coefficient of 0.493005, and p-value of 0.5564 which is far greater than 0.05 level of significance.

Based on this finding, the hypothesis that related party transactions do not significantly affect return on asset is accepted.

Test of Hypothesis 2: Related party transaction does not significantly affect return on equity of quoted deposit money banks in Nigeria.

Table 4.3: The Relationship between RPT and ROE

Random Effect Model
Dependent Variable: ROE
Method: Panel EGLS (Cross-section random effects)
Sample: 2013-2022
Periods included: 10
Cross-sections included: 8
Total panel (balanced) observations: 80
Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.259965	0.265387	-0.979569	0.3307
RPT	3.420107	0.567536	6.026234	0.0000
Effects Specification				
			S.D.	Rho
Cross-section				
random			0.327435	0.0341
Idiosyncratic random			1.741452	0.9659
Weighted Statistics				
R-squared	0.344181	Mean dependent var		0.414446
Adjusted R-squared	0.334812	S.D. dependent var		2.122926
S.E. of regression	1.731438	Sum squared resid		209.8515
F-statistic	36.73677	Durbin-Watson stat		1.702911
Prob(F-statistic)	0.000000			
Unweighted Statistics				
R-squared	0.343872	Mean dependent var		0.475833
Sum squared resid	215.8057	Durbin-Watson stat		1.655927

From Hausman test result, p-value is 0.6569 which is far greater than 0.05 significance level, we accept the assumption REM is more suitable than FEM in assessing effect of RPT on ROE. From REM result in Table 4.3, regression of ROE on RPT showed an intercept of -0.26, which means average level of ROE, is less than zero when RPT is zero. The positive coefficient means that every unit increase in related parties' transactions increases average level of return on equity by 3.42. The coefficient of determination is 34 percent which reveals that RPT explain 34 percent of the variation in ROE. A positive relationship exists between RPT and ROE in terms of slope with coefficient of 3.42 and p-value of 0.000. P-value of 0.000 is less than 0.05 level of significance, F-statistic = 36.74 > 3.84 or t-statistic = 6.0262 > 1.9939.

Based on p-value of 0.000 being less than 0.05, we reject hypothesis that RPT do not significantly affect ROE. We conclude that RPT significantly affect ROE.

Test of Hypothesis 3: Related party transaction has no significant impact on profit after tax of quoted deposit money banks in Nigeria.

Table 4.4: The Relationship between RPT and PAT

Random Effect Model

Dependent Variable: PAT

Method: Panel EGLS (Cross-section random effects)

Sample: 2013-2022

Periods included: 10

Cross-sections included: 8

Total panel (balanced) observations: 80

Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	3.395105			
RPT	1.465620	.149134	1.579755	0.1187
		.154520	1.269463	0.2085
Effects Specification				
			S.D.	Rho
Cross-section random			5.936532	0.7633
Idiosyncratic random			3.305785	0.2367

Weighted Statistics

R-squared	0.022355	Mean dependent var	0.677154
Adjusted R-squared	0.008389	S.D. dependent var	3.331002
S.E. of regression	3.317001	Sum squared resid	770.1747
F-statistic	1.600656	Durbin-Watson stat	0.804527
Prob(F-statistic)	0.210006		

Unweighted Statistics

R-squared	0.031352	Mean dependent var	3.710417
Sum squared resid	3138.168	Durbin-Watson stat	0.197448

Hausman test result shows p-value is 0.224 which is greater than 0.05 level of significance. Based on result, we accept that REM is more suitable than FEM in analyzing effect of RPT on PAT. From REM result in Table 4.4, regression of PAT on RPT reveal intercept of 3.4. This imply average level of PAT is 3.4 when RPT is zero. Positive coefficient means increase in RPT increases average level of PAT by 1.47. Co-efficient of determination is 2.24 percent indicating RPT explain only 2.24 percent of variation in PAT. A positive relationship exists between RPT and PAT in terms of slope with coefficient of 1.47 and p-value of 0.2085 is greater than 0.05 level of significance. Based on p-value, we accept that RPT do not significantly affect PAT.

Test of Hypothesis 4: Related party transaction has no significant impact on earnings per share of quoted deposit money banks in Nigeria.

Table 4.5: The Relationship between RPT and EPS

Random Effect Model
 Dependent Variable: EPS
 Method: Panel EGLS (Cross-section random effects)
 Sample: 2013-2022
 Periods included: 10
 Cross-sections included: 8
 Total panel (balanced) observations: 80
 Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	3.395105			
RPT	1.465620	.149134	1.579755	0.1187
		.154520	1.269463	0.2085
Effects Specification				
			S.D.	Rho
Cross-section random			5.936532	0.7633
Idiosyncratic random			3.305785	0.2367

Weighted Statistics

R-squared	0.022355	Mean dependent var	0.677154
Adjusted R-squared	0.008389	S.D. dependent var	3.331002
S.E. of regression	3.317001	Sum squared resid	770.1747
F-statistic	1.600656	Durbin-Watson stat	0.804527
Prob(F-statistic)	0.210006		
Unweighted Statistics			
R-squared	0.031352	Mean dependent var	3.710417
Sum squared resid	3138.168	Durbin-Watson stat	0.197448

Hausman test result shows p-value is 0.224 which is greater than 0.05 level of significance. Based on result, we accept that REM is more suitable than FEM in analyzing effect of RPT on EPS. From REM result in Table 4.5, regression of EPS on RPT reveal intercept of 3.4. This imply average level of EPS is 3.4 when RPT is zero. Positive coefficient means increase in RPT increases average level of EPS by 1.47. Co-efficient of determination is 2.24 percent indicating RPT explain only 2.24 percent of variation in EPS. A positive relationship exists between RPT and EPS in terms of slope with coefficient of 1.47 and p-value of 0.2085 is greater than 0.05 level of significance. Based on p-value, we accept that RPT do not significantly affect EPS.

4.3 Discussion of Findings

The following observations were made:

With respect to hypothesis one, Table 4.2 indicates that the Hausman test result shows that p-value is 0.1794, which is far greater than 0.05 significance level and we accept assumption that REM is more suitable than FEM in analyzing impact of RPT on ROA. The Table also shows regression of ROA on RPT using REM which also shows an intercept of -0.291759; this means average level of ROA is less than zero when RPT is zero. Positive coefficient means increases in RPT raise average level of ROA by 0.49. Coefficient of determination is 11 percent revealing

RPT explain 11 percent of the variation in ROA. A positive relationship exists between RPT and ROA in terms of slope with coefficient of 0.493005, and p-value of 0.5564 which is far greater than 0.05 level of significance. Based on this finding, the hypothesis that related party transactions do not significantly affect return on asset is accepted.

In relation to hypothesis two, from Hausman test result, p-value is 0.6569 which is far greater than 0.05 significance level, we accept the assumption REM is more suitable than FEM in assessing effect of RPT on ROE. From REM result in Table 4.3, regression of ROE on RPT showed an intercept of -0.26, which means average level of ROE, is less than zero when RPT is zero. The positive coefficient means that every unit increase in related parties' transactions increases average level of return on equity by 3.42. The coefficient of determination is 34 percent which reveals that RPT explain 34 percent of the variation in ROE. A positive relationship exists between RPT and ROE in terms of slope with coefficient of 3.42 and p-value of 0.000. P-value of 0.000 is less than 0.05 level of significance. Based on p-value of 0.000 being less than 0.05, we reject hypothesis that RPT do not significantly affect ROE. We conclude that RPT significantly affect ROE.

Hypothesis three reveals that Hausman test result shows p-value is 0.224 which is greater than 0.05 level of significance. Based on result, we accept that REM is more suitable than FEM in analyzing effect of RPT on PAT. From REM result in Table 4.4, regression of PAT on RPT reveal intercept of 3.4. This imply average level of PAT is 3.4 when RPT is zero. A positive relationship exists between RPT and PAT in terms of slope with coefficient of 1.47 and p-value of 0.2085 is greater than 0.05 level of significance. Based on p-value, we accept that RPT do not significantly affect PAT.

Lastly, in relation to hypothesis four, Hausman test result shows p-value is 0.224 which is greater than 0.05 level of significance. Based on result, we accept that REM is more suitable than FEM in analyzing effect of RPT on EPS. From REM result in Table 4.4, regression of EPS on RPT reveal intercept of 3.4. This imply average level of EPS is 3.4 when RPT is zero. A positive relationship exists between RPT and EPS in terms of slope with coefficient of 1.47 and p-value of 0.2085 is greater than 0.05 level of significance. Based on p-value, we accept that RPT do not significantly affect EPS.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Summary of Findings

This study examined the effect of related party transactions on financial performance of quoted deposit money banks in Nigeria. From the analysis of the data generated from the annual reports of the companies under study, with respect to related party transactions and return on assets, return on equity, profit after tax and earnings per share (which serve as the indicators of financial performance), the following findings were made:

- i. Related party transactions do not have significant effect on return on assets of quoted deposit money banks in Nigeria.
- ii. Related party transactions have significant effect on return on equity of quoted deposit money banks in Nigeria.
- iii. Related party transactions do not have significant effect on profit after tax of quoted deposit money banks in Nigeria.

- iv. Related party transactions do not have significant effect on earnings per share of quoted deposit money banks in Nigeria.

In summary, there is no significant effect of related party transactions on financial performance of quoted deposit money banks in Nigeria.

5.2 Conclusion

The study examined related party transactions (RPTs) and tried to establish if it exerts significant effect on financial performance of quoted deposit money banks in Nigeria. This was to enable us ascertain if deposit money banks used RPT to manipulate performance. The study showed that there is no significant effect of related party transactions on financial performance of the sampled banks. The implication is that deposit money banks in Nigeria do not use related party transactions to bloat financial performance. However, test result established a direction of influence between the variables of study with performance. A positive co-efficient exist between related party transactions and financial performance. This implies an increase in any of the variables has potential of increasing firm performance although firms in Nigeria are presently not using the variable to manipulate earnings. Consequently, the implication of this finding is that boosting any of the factors has the potential to improve firm performance, even though banks in Nigeria are not already manipulating profitability with the variable.

5.3 Recommendations

Based on the findings of this study, the following recommendations are made:

- i. Equity owners should guarantee that dividends issued are not based on fictitious profit, particularly when related party transactions are involved, which carries a high risk of company failure.

- ii. Management of the Nigerian money deposit banks should be inclined towards reducing the number of related party transactions with the view to improving the quality of their earnings. Regulatory authorities should encourage and focus on making sure that Nigerian deposit money banks comply with the standard guiding related party transactions. Standard setting bodies should consider increase the disclosure requirement for related party transactions.
- iii. Regulators and authorities must tighten the reporting standards and disclosure requirements of RPTs, especially RPTs related to firms' financial activities, to prevent the use of this type of RPTs as tunneling channels that can be harmful for companies as well as minority shareholders.
- iv. Management also need to implement better corporate governance practices by conducting RPTs to improve, instead of destroying, their overall shareholders' wealth.

5.4 Limitations of the Study

The major limitation of this study was the difficulty of the researcher to appropriately determine the figures of the related party transactions. The reason is that these figures were not directly available in the annual reports of the banks under study.

5.5 Contribution to Knowledge

One area in which this study has contributed to knowledge is that since it has been observed from the empirical review of literature that there is serious dearth of studies regarding related party transactions in Nigeria, this study has helped to provide more empirical and conceptual knowledge to other future researchers. Therefore, this study will serve as reference to other authors and researchers.

REFERENCES

- American Institute of Certified Public Accountants (AICPA) (2001), *Accounting and Auditing for Related Party Transactions: A Toolkit for Accountants and Auditors*, AICPA, New York.
- Chen, J. J., Cheng, P., & Xiao, X. (2016). Related party transactions as a source of earnings management. *Journal of Applied Financial Economics*, 5(3).
- Chen, Y., Chen, C., & Chen, W. (2019). The impact of related party transactions on the operational performance of listed companies in China. *Journal of Economic Policy Reform*, 12(4).
- Cheung, Y. L. Qi, Y., Rau, P. R., & Stouraitis, P. R. (2019). A “buy high, sell low.” How listed firms price asset transfers in related party transactions. *Journal of Banking and Finance*, 33(5).
- Ching, C. T., Ling, E. C., & Yuang-Lin, C. (2015). Related party transaction and corporate value. *Journal of Economics and Business Management* 3(15).
- Elhelaly, M. (2019). Corporate governance and related party transactions research: An assessment of theories and methodologies. *Corporate Ownership and Control*, 11(2).
- Elhelaly, M. (2016). Related party transactions and accounting quality in Greece. *International Journal of Accounting and Information Management*, 24(4).

- Ge W., Drury, D. H., Fortin S., Liu, F., & Tsang, D. (2015). Value relevance of disclosed related party transactions. *Advances in Accounting* (online) doi.10.1016/j.adiac. (4 March, 2010).
- Gina, T. M. (2017). Related party transactions. *American International Journal of Contemporary Research*, 2(5).
- Gordon, E. A., & Henry, E. (2015). Related party transactions and earnings management. *SSRN eLibrary*.
- Gordon, E. A., Henry, E., & Palia, D. (2020). Related party transactions and corporate governance. *Advances in Financial Economics*, 9(1).
- Habib, A., Jiang H., & Zhou, D. (2015). Related party transactions and audit fees: Evidence from China. *Journal of International Accounting Research*, 14(1).
- Huang, D. T., & Liu, Z. C. (2015). A study of the relationship between related party transactions and firm value in high technology firms in Taiwan and China. *African Journal of Business Management*, 4(9).
- Jian, M., & Wong T. J. (2015). Propping through related party transactions. *Review of Accounting Studies*, 15(1).
- Kohlbeck, M., & Maydew, B. (2017). Valuation of firms that disclose related party. *Journal of Accounting and Public Policy*, 29(2).
- Kuan, L., Tower, G. R., & Van der Zahn, J. L.W. M. (2015). Related party transactions and earnings management. *JAAI*, 14(2).
- Linvanik, T., Rusmin, W., & Mitchell, V. (2015). Related party transaction and earnings management. *JAAI* 14(2).
- Moataz, E. (2019). Related party transactions, corporate governance and accounting quality in Greece. *Journal of Accounting and Public Policy*, 12(1).
- Munir, S. A., & Gul, R. J. (2016). Related party transactions, family firms and firm performance: Some Malaysian evidence. *Finance and Corporate Governance Conference*, 2(4).
- Okerekeoti, C. U. (2021). Related party transaction and performance of quoted banks in Nigeria. *International Journal of Trend in Scientific Research and Development*, 6(1).
- Okoro, E. G., & Edirin, J. (2016). Does related party transactions affect financial performance of firms in Nigeria? (Evidence from Publicly Quoted Firms). *Business Trends*, (6)2.
- Osakuni, A. C., & Onuora, J. (2019). Effects of related party transaction on financial performance of companies: Evidenced by study of listed companies in Nigeria. *International Journal of Economics and Financial Management*, 4(3).
- Padmini, S. (2017). An analysis of related-party transactions in India, *Indian Institute of Management Bangalore, Working Papers*, 402.

- Pizzo, M. (2018). Related party transactions under a contingency perspective. *Journal of Management and Governance*, 10(3).
- Pozzoli, M., & Venuti, M. (2019). Related party transactions and financial performance: Is there a correlation? Empirical evidence from Italian listed companies. *Open Journal of Accounting*, 3(3). doi: [10.4236/ojacct.2014.31004](https://doi.org/10.4236/ojacct.2014.31004).
- Rafizadeh, H. (2016). The relationship between related party transactions and financial performance of companies listed in Tehran stock exchange. *International Journal of Contemporary Research*, 2(5).
- Ryngaert, M., & Thomas, S. (2017). Related party transactions: Their origins and wealth effects. *Working Paper. University of Pittsburgh*.
- Shan, Y. G. (2019). Related-party disclosure in China: Influences of factors identified from agency, legitimacy and signaling theories, symposium. Australia: SA University of Adelaide, 19 February 2009.
- Tsai, C., Chang, L., & Chang, Y. (2015). Related party transactions and corporate value. *Journal of Economics, Business and Management*, 3(10).
- Umobong, A.A. (2017). Related party transactions and firms' financial performance. *African Research Review*, 11(1).
- Uzoigwe, F. U., & Ekwueme, C. M. (2021). Related party transactions revenue and group profitability of quoted commercial banks in Nigeria. *International Journal of Advanced Academic Research*, 7(11).
- Wang, J. & Yan, H. (2017). The impact of related party sales by listed Chinese firms on earnings informativeness and earnings forecasts. *International Journal of Business*, 17(3).