

Related party transactions: evidence of comparability in Brazilian publicly traded companies

Transações com partes relacionadas: evidências de comparabilidade em empresas de capital aberto do mercado brasileiro

Transacciones con partes relacionadas: evidencia de comparabilidad en empresas de capital abierto del mercado brasileño

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Abstract

The objective of this study was to identify the influence of related party transactions (RPTs) on the comparability of financial statements of publicly traded companies in the Brazilian market. The similarity model of the accounting function by DeFranco et al. (2011) was used to measure comparability. The RPTs were collected in the explanatory notes of the financial statements and measured according to the studies by Hendratama and Barokah (2020) and Khuong et al. (2023). Data analysis was performed using quantile regressions at the 0.25, 0.50, and 0.75 quantiles. The results suggest that RPTs for sales and total RPTs negatively impact the quality of accounting information, reducing comparability. This research contributes to the literature by adding evidence of the relationship between RPTs and the quality of accounting information in the Brazilian context, and has implications for investors and regulators, as related transactions can be used to obscure accounting information.

Keywords: Comparability; Transactions with Related Parties; Information quality

Resumo

O objetivo deste estudo foi identificar a influência das transações com partes relacionadas (TPRs) na comparabilidade das demonstrações financeiras de empresas abertas do mercado brasileiro. Para mensuração da comparabilidade, utilizou-se o modelo de similaridade da função contábil de DeFranco et al. (2011). As TPRs foram coletadas nas notas explicativas das demonstrações financeiras e mensuradas conforme os estudos de Hendratama e Barokah (2020) e Khuong et al. (2023). A análise de dados deu-se por meio de regressões quantílicas nos quantis 0.25, 0.50 e 0.75. Os resultados obtidos sugerem que as TPRs de venda e totais impactam negativamente a qualidade das informações contábeis, reduzindo a comparabilidade. Esta pesquisa contribui com a literatura ao acrescentar evidências da relação de TPRs e qualidade da informação contábil no contexto brasileiro, além disso, traz implicações para investidores e normatizadores, visto que as transações relacionadas podem ser usadas para obscurecer as informações contábeis.

Palavras chaves: Comparabilidade; Transações com partes Relacionadas; Qualidade da informação

Resumen

El objetivo de este estudio fue identificar la influencia de las transacciones con partes relacionadas (TPRs) en la comparabilidad de los estados financieros de empresas cotizadas en el mercado brasileño. Se utilizó el modelo de similitud de la función contable de DeFranco et al. (2011) para medir la comparabilidad. Los TPR fueron recogidos en las notas explicativas de los estados financieros y medidos según los estudios de Hendratama y Barokah (2020) y Khuong et al. (2023). El análisis de datos se realizó mediante regresiones cuantílicas en los cuantiles 0,25, 0,50 y 0,75. Los resultados sugieren que las TPRs de ventas y las TPRs

totales impactan negativamente en la calidad de la información contable, reduciendo la comparabilidad. Esta investigación contribuye a la literatura al agregar evidencia de la relación entre las TPRs y la calidad de la información contable en el contexto brasileño, y tiene implicaciones para inversores y reguladores, ya que las transacciones relacionadas pueden utilizarse para oscurecer la información contable.

Palabras clave: Comparabilidad; Operaciones con Partes Relacionadas; Calidad de la información

1 Introduction

One of the ways companies find to better meet their economic needs in the challenging business world is the use of Related Party Transactions (RPTs). According to Cho and Lim (2018), RPTs can increase the efficiency of large business conglomerates when information asymmetry is severe and transaction costs are very high, also making it possible to offer mutual insurance and risk sharing, which results in better performance as a group of companies.

Despite the benefits linked to RPTs, it is worth noting that they can cause distortions in financial statements (Anastasia & Onuora, 2019). In this conception, RPTs are seen as harmful, because transactions can arise from conflicts of interest and be carried out due to the interest of controlling shareholders in expropriating wealth from minority shareholders (Jensen & Meckling, 1976; Lee et al., 2016). Furthermore, these operations can mislead users of the financial statements of affected companies (Al-Dhamari et al., 2018).

According to the Accounting Pronouncements Committee - CPC 05 R1 (2010), RPTs are transfers of resources, services or obligations, between the entity that reports the information and a related party (individual or legal entity), regardless of whether there is a financial consideration. Fooladi and Farhadi (2019) point out that RPTs are generally conducted through complex operations between the company and its related parties, thus making it difficult to discover questionable third parties or fraudulent transactions. In fact, RPTs can be warning signs for interested parties as they are part of an environment that is more conducive to a lower quality of accounting information (Kohlbeck & Mayhew, 2017).

According to the concept of conflicts of interest, RPTs can influence the quality of accounting information, more specifically, compromising the comparability of financial statements, as evidenced by the study by Lee et al. (2016). Kohlbeck and Mayhew (2017) highlight that it is possible for RPTs to promote wealth transfers to the detriment of shareholders, therefore, related parties may enter into a purchase operation in which the price paid is higher than the market price, in addition, they may provide a potential mechanism for the manipulation of information by managers, in this case, the price paid to the related party for the purchase of a good can be adjusted to increase or decrease the gross profit margin, in this way sales can be accelerated by collusion with the related party (Kohlbeck & Mayhew, 2017). Therefore, it is possible that the RPTs practiced by companies are capable of making the financial statements less comparable to their peers (Lee et al., 2016).

According to CPC 00 (R2), comparability is the qualitative characteristic of improvement that allows users of accounting information to identify and understand similarities and differences between items. Unlike other qualitative characteristics, comparability requires at least two items. To achieve comparability, there must be an economic reflection in the financial statements between two companies or the same company over time, that is, companies must have an equivalent measurement basis and presentation in their economic realities (Ribeiro et al., 2016b).

Ross et al. (2020) researched the determinants of comparability both between countries and at the company level. At the country level, the study found that comparability is higher for companies in countries with rules-based accounting, with stronger requirements for auditors, stricter enforcement of accounting standards and more confidence in the stock market. At the company level, the results indicated that larger companies, with less involvement in earnings management and with lower return volatility are more comparable to each other.

Sousa et al. (2022) investigated the influence of economic cycles on the comparability and consistency of accounting information in Brazil. The findings indicated that comparability and consistency decreased in periods of economic recovery, expansion and recession, on the other hand, in periods of economic contraction the statements become more comparable and consistent. Therefore, it appears that the economic cycle has implications for comparability.

Thus, although common economic factors influence companies within the same sector or at least in a similar way, and therefore increase comparability, company-specific factors such as financial or operational characteristics and disclosure systems can reduce it. (Lee et al., 2016). In view of this, RPTs are likely to cause a reduction in comparability, because even if in practice operations of this nature do not occur between companies, the existence of this type of relationship already influences their activities (Anastasia & Onuora, 2019).

Therefore, it is assumed that RPTs harm the comparability of financial reports due to their complex nature (Gordon & Henry, 2005), due to the difference in the nature and complexity of transactions according to the use applied by managers and controlling shareholders (Kohlbeck & Mayhew, 2010), due to the

damage caused to the representational fidelity and verifiability of accounting data and, finally, by reducing the quality of accounting information (Rahmat et al., 2020).

In this way, we intend to answer the following research question: What is the influence of RPTs on the comparability of financial statements in public companies in the Brazilian market? Thus, the general objective of this research is to identify the influence of transactions with related parties on the comparability of financial statements of public companies in the Brazilian market.

The relevance of this study lies in analyzing the quality of accounting information, taking into account that RPTs can cause effects on comparability given their complexity, identification, evaluation, disclosure and red flag potential for distortion and fraud (Mano, 2020). Additionally, comparability is a measure of improving the quality of information that is at the heart of investment decisions and plays an essential role in the quality of the information environment (Sousa et al., 2021).

To carry out this research, comparability was measured using the accounting function similarity metric (DeFranco et al., 2011). The purchase, sale and total RPTs were weighted by asset, according to studies by Hendratama and Barokah, (2020) and Khuong et al. (2023).

This study contributes to the expansion of the theory by indicating a negative association between RPTs (sales and totals) and comparability in a highly concentrated property environment. It is worth remembering that the analysis was based on levels (lower, medium and higher) of comparability. In view of this, the results suggest that related transactions function as a reducer of the quality of accounting information, as they use different standards of recognition, disclosure and disclosure of economic events, however, only causes effects for companies classified at the medium and higher levels of comparability.

Likewise, it contributes to investors by suggesting that transactions between related parties harm decision-making, as financial statements cannot be compared. Finally, it cooperates with standard setters by pointing out the need for standardization that promotes transparency and boosts the quality of accounting information.

2 Literature Review

2.1 Transactions with related parties and quality of accounting information

A related party is one that has an important influence on the operational policies of the parties to the transaction or holds an equity stake in one of them (Fooladi & Farhadi, 2019). Therefore, related parties can use their influence on operations and establish terms in their favor, these are generally done through complex operations between the company and its managers, directors, subsidiaries and main shareholders, in this way, it is difficult for third parties to discover questionable transactions or fraudulent (Huang & Liu, 2010).

RPTs are considered common in business and involve the transfer of resources, services or obligations between the entity reporting the information and a related party, even if there is no financial consideration (CPC, 2010). Due to the possibility of carrying out operations that a third party would not carry out, the standard admits that relationships with related parties can have effects on the income statement and balance sheet, even if no transactions occur between them.

CPC 05 (R1) emphasizes that, regardless of the occurrence or not of RPTs, it is mandatory to disclose the relationship between the controlling company and its subsidiaries, as it allows users of the financial statements to be able to form an appropriate view of the effects of these relationships. Furthermore, this standard also provides examples of RPTs that must be disclosed, such as purchase or sale of goods; purchase or sale of properties and other assets; provision or receipt of services; leases; research and development transfers; transfers under license agreements; provision of guarantees, endorsements or guarantees.

RPTs, from the point of view of conflict of interests, based on Agency Theory (Jensen & Meckling, 1976), function as a possible expropriation mechanism by managers, majority shareholders or both to extract private benefits at the expense of shareholders minority groups (Di Carlo, 2014). Thus, when RPTs are disclosed, majority shareholders may be hiding details of these operations, depriving minorities of having clear, complete and unambiguous information about the transactions (Marchini et al., 2019), causing a reduction in the quality of accounting information.

RPTs, as they are diverse and complex operations (Gordon et al., 2004), can be used to make information less comparable, with the aim of minimizing the possibility of detecting illegal RPTs to reduce taxes and even to avoid scrutiny from other parties. interested parties (Lee et al., 2016). Therefore, implications for the comparability of financial statements are noticeable as a result of the operations and characteristics of the entities.

In view of this, as Brazil is characterized as a country that has a concentrated ownership structure and low protection for minority shareholders (Souza, 2014), this study is based on the perspective of conflicts of interest, supported by Agency Theory. However, it is worth remembering that RPTs can also function as an instrument to promote efficiency and reduce transaction costs through a transfer pricing policy, tax planning, internal resource optimization, among others (Matos & Galdi, 2014). In this way, similar

recognition patterns of economic accounting events can be formed, resulting in increased comparability.

Some studies focused on analyzing RPTs and the quality of accounting information. Rodrigues et al. (2007) researched RPTs and earnings management in Brazilian companies, the result demonstrated that there is evidence of earnings management, however, there is no evidence that it is practiced through related transactions. Research by El-Helaly (2016) investigated the accounting quality of Greek companies that engaged in RPTs, the findings suggest that there is no distinction in the quality of information between companies that practice and do not practice RPTs. Rahmat et al. (2020) examined the effect of RPTs on earnings quality in four East Asian countries (Hong Kong, Malaysia, Singapore and Thailand) and the findings indicated that earnings in these countries experience low quality when engaging in RPTs. Despite being divergent, the evidence adds varied perspectives on RPTs from the point of view of the quality of the information presented in the financial statements.

2.2 Comparability of financial information

One of the main sources used by accounting users to make decisions is the information presented through financial statements (Rodrigues et al., 2007). The primary objective of financial statements for general purposes is to provide useful information for decision-making (CPC, 2019).

As long as the accounting information is relevant and faithfully represents the information, the qualitative characteristics of improvement (comparability, verification capacity, timeliness and comprehensibility) increase the quality of the information (CPC, 2019). In this sense, specifically, the comparability of accounting information, according to Simmons (1967), enhances the usefulness of financial statements by external users, as it helps investors compare information between companies to assist their resource allocation decisions (Lee et al. al., 2016).

Comparability is understood as a characteristic of the quality of accounting information that allows users to identify and understand similarities and differences between items, for this purpose, at least two items are used (CPC, 2019). In this way, more comparable financial statements provide better references to each other, making it easier to acquire and process information (Chen & Gong, 2019).

The economic and financial performance of one company with another or itself over a period can only be compared by users if the companies are subject to the same economic event and the same institutional conditions, are able to recognize and measure equity facts similarly (Simmons, 1967). This means that given the same economic event and similar institutional characteristics, similarities and differences between companies will be more evident.

Furthermore, according to Ribeiro et al. (2016b) "genuine" comparability lacks the economic event and the translation of this event into accounting. In this sense, companies are more comparable when they are subject to the same economic event and present similar results.

To capture comparability, DeFranco et al. (2011) developed a metric based on results or outputs, called accounting function similarity. The authors emphasize that, as it is a more dynamic measure, it can map the consequences of accounting events over time. Ribeiro et al. (2016a) clarify that, as it is a measure of outputs, the comparability obtained by this model presents greater reliability in data collection, greater robustness and less researcher bias.

Thus, resulting from its advantages, the metric by DeFranco et al. (2011) has been used in several works that involve comparability on the most diverse topics, such as increased analyst forecasts (DeFranco et al., 2011), increased capital allocation between countries (Yip & Young, 2012; Fang et al., 2015), ease of information content between users from different countries (Wang, 2014), and comparability and audit risk (Zhang, 2018).

RPTs can distort reality and lead to a lack of knowledge of critical issues on the part of minority investors, so, faced with a lack of clear information, users can make decisions that may harm their own interests (Marchini et al., 2019). Furthermore, due to the nature of having different market conditions, related transactions can function as a potential mechanism for manipulating financial information (Kohlbeck & Mayhew, 2017).

Therefore, Lee et al. (2016), in a study on the Korean stock market, investigated the association between RPTs and comparability of accounting information. The study period covered the years 2006 to 2010 with a sample of 2,427 company-year observations. To measure comparability, the model by DeFranco et al. (2011) was used. The authors used three main measures to capture three different aspects of RPTs: size, volatility, and size of non-monetary RPTs.

The results achieved suggest the existence of a strong negative association between the magnitude of RPTs and comparability. The study revealed that the comparability of financial statements decreases as RPTs increase in the three measures analyzed. Furthermore, the authors found that comparability decreases as a result of RPTs, as management discretion will likely be involved in determining the volume and terms of these transactions and companies involved with RPTs make accounting choices that are less comparable to their peers to avoid detection. of illegal RPTs.

The study by Li et al. (2021), in turn, analyzed the influence of the quality of internal controls on the comparability of accounting information and RPTs in China. The sample comprises shares of companies

listed on the Shanghai and Shenzhen stock exchanges, from 2015 to 2019. In this study, only operations involving the quantity of goods and services provided or received by a company were used as the RPT measurement index. The authors classified RPTs into normal and abnormal transactions. For normal RPTs, they used the annual value of goods and services operations divided by operating revenue. For abnormal RPTs, they applied the model by Jian and Wong (2010). Finally, comparability was measured using the model by DeFranco et al. (2011).

The findings of this research proved that normal and abnormal RPTs are negatively correlated with the comparability of accounting information. However, only abnormal RPTs are significant and impair comparability; conversely, the quality of internal controls has a positive influence, as the better the quality of internal control, the stronger the restrictive effect on abnormal RPTs.

As applied in the work of Khuong et al. (2023), this study makes use of related transactions involving the sale and purchase of goods and/or services. To measure them, the annual value of these transactions weighted by asset was used (Hendratama & Barokah, 2020; Khuong et al., 2023). We chose to work with these two types of RPTs because they are common in companies and the manipulation of these operations is less likely to be identified (Wong et al., 2015). There is also the possibility that such transactions occur at prices different from those practiced in the market, in addition, the relationship between related parties can interfere with this type of operation (McCahery & Vermeulen, 2005).

It should also be noted that sale and purchase RPTs are more likely to be used in the expropriation of wealth in favor of the group's controlling shareholders to the detriment of minority shareholders (Black et al., 2015). Therefore, RPTs can be adopted to manipulate results and cause implications for the comparability of financial statements. Sousa et al. (2020) argue that manipulation of results is harmful to the comparability of accounting information.

When taking into account the national environment, since the impact of RPTs on comparability depends on the local context (Lee et al., 2016), added to the aspects that related operations are diverse and complex (Gordon et al., 2004), the following research hypothesis is raised:

H1: RPTs reduce the comparability of financial statements.

The hypothesis of this study is verified based on proxies of related purchase and sale transactions, as highlighted below:

- Purchasing RPTs reduce the comparability of financial statements.
- Sales RPTs reduce the comparability of financial statements.
- Joint purchase and sale RPTs reduce the comparability of financial statements.

3 Methodological procedures

In order to identify the influence of RPTs on the comparability of financial statements, companies with shares traded in Brazil, Bolsa e Balcão (B3) and with data available for calculating the comparability of financial reports were selected from the Economática database, considering the initial year of adoption of the IFRS - International Financial Reporting Standards - standard in Brazil. Therefore, the research period covers the years 2010 to 2020, totaling 128 companies.

Subsequently, to determine the final sample, the companies were analyzed depending on the sector and activity, according to the sectoral classification of the North American Classification System (NAICS) level 2. Such classification is necessary, since to measure comparability the companies they need to be segmented according to similar activities, in addition, this is the most used segregation in studies on comparability (DeFranco et al., 2011; Yip & Young, 2012; Ribeiro et al., 2016a; Sousa, 2020).

Soon after, only sectors with at least four or more companies were chosen. The selection of a minimum number of companies per sector is essential, because it avoids increasing degrees of freedom, in addition to this restriction avoiding losses in the calculation of the comparability measure of companies in a specific sector (Ribeiro, 2014). Therefore, the final research sample is made up of 53 companies, as shown in Table 1.

Table 1

Description of Sample Selection

Sample selection step	Nº companies
(=) Companies with shares traded on B3	479
(-)Exclusion of credit intermediation institution and related activities	(26)
(-)Companies with missing data to measure comparability	(203)
(-)Companies with missing data that do not have sell or buy RPTs	(197)
(=) Final Sample	53

The data analysis period begins in 2013, since to measure comparability it is necessary to use information relating to 16 quarters, that is, 15 previous quarters plus the current one (Sousa, 2020). Therefore, data from the first quarter of 2010 to the last quarter of 2013 are used to calculate comparability.

Similarly to Ribeiro (2014), comparability in this study is measured individually for each company, for

this reason non-consolidated data were used, disregarding the economic group in which the companies are inserted. The same measure was applied in several studies (Ribeiro et al., 2016a; 2016b; Sousa et al., 2021; Sousa, 2020) and does not imply bias in comparability.

The necessary data on related sales and purchase transactions were collected in the individual Explanatory Notes on the B3 website or on the company's own website, as adopted by Gonçalves (2021). Finally, using Economática, the financial statements were extracted to compose the models used in this study.

The measurement of comparability in this research was done using the similarity of the accounting function, a metric developed by DeFranco et al. (2011). To this extent, market value was replaced by total assets (Lang et al., 2010; Yip & Young, 2012; Ribeiro et al., 2016b; Sousa et al., 2020). According to Ribeiro (2014), the purpose of deflating profit to measure comparability is to exclude any model size effect. Furthermore, considering that comparability is a relative measure, the most important thing is not which denominator to use, but to use the same parameter in all companies.

To measure comparability, the first step was to estimate the accounting function of each company, considering the time period of the last 16 quarters (4 years), as used in the work of DeFranco et al. (2011), Zhang (2018) and Sousa (2020), according to the following equation:

$$ROA_{it} = \alpha_i + \beta_i \text{Retorno}_{it} + \varepsilon_{it} \quad \text{Equation (1)}$$

In which:

ROA_{it} = Quarterly net profit on final total assets of company i in period t unconsolidated.

Retorno_{it} = Average quarterly return of company i in period t , calculated based on the closing price of the shares with the largest presence adjusted for earnings and splits.

Regarding the return, this research follows the same procedure used by Ribeiro et al. (2016a), in which the shares with the greatest presence were used in order to avoid possible distortions in the comparability measure, given the lack of trading of some common shares.

The next step was to estimate the parameters of the individual functions based on the results of Equation (1), in this way, the Expected ROA [$E(ROA)$] of each company was projected according to Equation 2:

$$E(ROA)_{iit} = \hat{\alpha}_i + \hat{\beta}_i \text{Retorno}_{it} \quad \text{Equation (2)}$$

In which:

$E(ROA)_{iit}$ = ROA forecast of company i with the individual parameters of the accounting function of company i and the return of company i for quarter t .

Subsequently, in a similar way, the Expected ROA of the same company was calculated with the estimators of other companies in the same sector, according to the equation below:

$$E(ROA)_{ijt} = \hat{\alpha}_j + \hat{\beta}_j \text{Return}_{it} \quad \text{Equation (3)}$$

In which:

$E(ROA)_{ijt}$ = ROA forecast of company j with the individual parameters of the accounting function of company j and the return of company i for quarter t .

Such procedures were used in studies by Yip and Young (2012), Ribeiro et al. (2016b) and Sousa et al. (2020). When considering the economic event of a company through the estimators of another company in the same sector, the idea is that the economic event remains constant. Therefore, the comparability of companies comprises the average distance between the results of Equation (2) and (3) taking into account each quarterly period, that is, [$E(ROA_{iit}) - E(ROA_{ijt})$]. Thus, we have Equation 4:

$$\text{Comp}_{ijt} = -\frac{1}{16} \sum_{t=15}^t |E(ROA_{iit}) - E(ROA_{ijt})| \quad \text{Equation (4)}$$

In which:

Comp_{ijt} = Measure of relative individual comparability of company i based on company j in period t ;

$E(ROA)_{iit}$ = predicted ROA of company i with the individual parameters of the accounting function of company i and the return of company i for quarter t ;

$E(ROA)_{ijt}$ = Predicted ROA of company j with the individual parameters of the accounting function of company j and the return of company i for quarter t .

Since comparability is measured by the distance between functions, the closer the two functions are, the greater the comparability between companies (DeFranco et al., 2011). Following the procedures used by

DeFranco et al. (2011), the result of Equation 4 was multiplied by -1, so that the curve of the comparability measure was ascending and facilitated graphical visualization, as well as its interpretation.

Since the comparability measure in Equation 4 represents a relative measure, that is, the comparability of company *i* in relation to company *j*. In this sense, to achieve the general individual comparability measure, it was necessary to calculate the comparability for the different possible combinations of pairs of companies belonging to the same sectoral classification, as demonstrated in the equation below:

$$\text{COMPM}_{it} = \frac{\sum \text{Comp}_{jit}}{n} \quad \text{Equation (5)}$$

In which:

COMPM_{it} = Measure of average individual comparability of company *i* in relation to peer companies of the same sectoral classification for period *t*;

Comp_{jit} = Measure of relative comparability of each pair of companies belonging to the same sectoral classification for period *t*;

n = Number of possible pairwise combinations of company *i* in relation to companies belonging to the same sector classification.

Both the processes used to measure relative comparability and average individual comparability were used in the research by Ribeiro et al. (2016a; 2016b), Sousa et al., (2021) and Sousa et al. (2020).

This study adopted as independent variables the RPTs for the purchase and sale of goods and/or services, and the combination of purchase+sale (total RPT) weighted by the asset, based on studies by Khuong et al. (2023) and Hendratama and Barokah (2020), which adopted the same measure for related transactions. Information regarding these variables was collected from the Explanatory Notes of companies that disclosed related transactions (sale and/or purchase) in the financial statements.

Using the accounting function similarity model by DeFranco et al. (2011) and the asset-weighted sale and purchase RPTs (Khuong et al., 2023; Hendratama & Barokah, 2020), the final empirical model used in this research is presented in Equation 6. This model has comparability as its dependent variable (COMP). The independent variables are the three measures of RPTs: RPTV (sale), RTPC (purchase) and RPTT (sale + purchase); and as independent control variables: size, leverage, growth, audit, degree of operational leverage and year, as shown in Table 2.

$$\text{COMP}_{it} = \alpha + \beta_1 \text{RPT} + \text{Variáveis de Controle} \quad \text{Equation (6)}$$

Regarding data analysis, three different analysis techniques were used. Initially, univariate analysis was carried out by describing the sample, for this purpose the mean, median, standard deviation, minimum and maximum values were used. Bivariate analysis involves two variables together with the objective of defining the correlation between them; in this research, Spearman's non-parametric test was used.

Finally, the multivariate analysis was carried out using quantile regression, as the aim is to identify the impact of the purchase, sale and total RPTs on the levels (lowest, medium and highest) of comparability, as this technique enables the analysis in the extreme quantiles and can assist in research related to the quality of accounting information (Li et al., 2015). It should be noted that data estimation was carried out using the Stata 16® statistical software.

The use of quantile regression is justified, taking into account the characteristics of the sample, as the variability of the data is noted. Furthermore, this method reduces the problem related to the effect of possible outliers that can affect the average behavior of the dependent variable in Ordinary Least Squares (OLS) regression models, as it does not require constancy in the regression coefficients (Li & Hwang, 2019).

Given this, quantile regression makes it possible to observe the sample through a variety of conditional percentiles and, therefore, allows the heterogeneity of a sample to be analyzed in various ways. Therefore, a continuous and smooth function method is employed to measure the non-uniform relationship between dependent variable and independent variables (Feng & Huang, 2021). Therefore, quantile regression is appropriate when applied to a heterogeneous distribution, that is, when changes in variable *X* will have different impacts on the levels of variable *Y*, so there is no need to exclude outliers (Marioni et al., 2016, Duarte et al., 2017, Fávero & Belfiore, 2017).

It is noteworthy that quantile regression does not require the presence of normality of residues as in OLS regression, generating a more robust estimation of the analytical-empirical model and increasing the possibilities of analyzing results due to the presence of more detailed data, mainly through the use of median, however, a test must be carried out for the presence of multicollinearity (Fávero & Belfiore, 2017).

Table 2
Variáveis da Pesquisa

Variables	Description	Collection	Measure	Reference
Dependent Variable				
COMP	Comparability individual average by sector	Economática ®	$ROA_{it} = \alpha_i + \beta_i \text{Retorno}_{it} + \epsilon_{it}$	DeFranco et al. (2011)
Independent Variables of Interest				
RPTV	Sale between related parties	Explanatory note	Asset-weighted Sales RPTs	Khuong et al. (2023); Hendratama e Barokah (2020)
RPTC	Purchase between related parties	Explanatory note	Asset-weighted Purchase RPTs	Khuong et al. (2023); Hendratama e Barokah (2020)
RPTT	total RPT	Explanatory note	Asset-weighted sell+buy RPTs	Khuong et al. (2023); Hendratama e Barokah (2020)
Independent Control Variables				
TAM	Size	Economática ®	Natural logarithm of total assets at the end of the period	Lee et al. (2016), Sousa et al. (2022), Fang et al. (2018)
ALAV	Leverage	Economática ®	Total Liabilities / Total Assets	Lee et al. (2016); Zheng (2019)
CRES	Measures business growth expectations for the market	Economática ®	Market Value / Accounting PL	Lee et al. (2016); Sousa et al. (2020)
AUD	Audit Company	Independent auditor's report	Dummy: 1 for companies audited by Big Four and 0 otherwise	Moura et al. (2017); Zhang (2018)
GAO	Degree of operating leverage	Economática ®	Gross Profit / (Gross Profit - Selling Expenses and Administrative Expenses)	Ribeiro et al. (2016a); Ribeiro et al. (2016b); Sousa et al. (2022)
ANO	Annual period	Economática ®	Annual periods from 2013 to 2020	Sousa et al., (2021); Sousa et al. (2020); Sousa (2020)

4 Analysis of Results

Firstly, the data were subjected to a descriptive analysis with the aim of understanding the behavior of the variables in this research, being analyzed based on the quartiles at the lowest, medium and highest levels of the dependent variable (COMP), as shown in Table 3.

The results achieved for the average comparability measure (COMP) are different in the quartiles presented, considering that the lowest, medium and highest comparability levels are exposed (-0.0493, -0.0164, -0.0093). This finding differs from other research such as that by DeFranco et al. (2011) and Ribeiro et al. (2016b), who found average comparability of -2.70 and -2.63 respectively. The divergence of results may be linked to the period analyzed, as well as the number of companies in each sector.

The standard deviation in the three quartiles (smallest, medium and largest) of comparability follows a decreasing trend, the opposite occurs for the minimum and maximum values, in this aspect, it is noted that the greater (smaller) the standard deviation, the smaller (higher) it is. comparability, so this variable may suffer different impacts depending on the quartile analyzed.

For the three independent variables (RPTV, RPTC and RPTT) it is noted that the mean is reduced as comparability increases, suggesting variability in the quartiles. To confirm this observation, as indicated by Fávero and Belfiore (2017), the Kruskal Wallis test was performed, suitable for comparing k-means when the sample is small or when the variable does not have a normal distribution, which is the case with RPT variables, in order to verify the significance between the differences in the RPT means, according to the comparability quartiles. The results indicated that, for sales and total RPTs, the means differ significantly between the quartiles (sigs of 0.03 and 0.08, respectively). However, for purchase RPTs, the effect was non-significant (0.68). The results already seem to preliminarily indicate the possible distinct effects of the RPT types in relation to the different levels of comparability.

Table 3
Descriptive statistics of variables by quartiles

Panel A: Descriptive Statistics of the smallest quartile of Comparability						
Variable	Obs.	Average	Median	Standard deviation	Minimum	Maximum
COMP	121	-0.0493	-0.0323	0.0550	-0.5228	-0.0220
RPTV	114	1.1061	0.0138	0.1960	6.33e-06	1.1036
RPTC	85	0.0697	0.0107	0.1352	0.0000	0.6969
RPTT	121	1.1490	0.0237	0.2623	0.0000	1.3362
TAM	121	14.9193	15.0967	1.7917	10.6929	18.5024
ALAV	121	0.6982	0.5714	0.6106	0.0095	3.0279
MB	121	1.4275	1.1803	3.8923	-18.2549	33.0629
GAO	121	0.9417	1.0675	2.7279	-19.2638	9.2370
Panel B: Descriptive Statistics of the average Comparability Quartile						
Variable	Obs.	Average	Median	Standard deviation	Minimum	Maximum
COMP	121	-0.0164	-0.0159	0.0029	-0.0219	-0.0122
RPTV	108	0.0488	0.0175	0.0891	0.0001	0.7753
RPTC	86	0.0376	0.0159	0.0737	7.74e-06	0.5521
RPTT	121	0.0704	0.0250	0.1367	0.0002	1.3275
TAM	121	15.9917	16.1951	1.1619	13.0774	18.4983
ALAV	121	0.4209	0.4301	0.2674	0.0007	1.0236
MB	121	2.0548	1.1239	4.5638	-6.1835	36.4239
GAO	121	1.6800	1.2853	4.5181	-6.0807	44.1527
Panel C: Descriptive Statistics of the largest quartile of Comparability						
Variable	Obs.	Average	Median	Standard deviation	Minimum	Maximum
COMP	121	-0.0093	-0.0097	0.0020	-0.0122	-0.0035
RPTV	114	0.0356	0.0129	0.0528	0.0000337	0.2283
RPTC	87	0.0497	0.0142	0.0980	3.35e-06	0.6143
RPTT	121	0.0693	0.0288	0.1164	0.0001	0.7929
TAM	121	15.9912	15.9630	0.9294	13.9237	17.7895
ALAV	121	0.4477	0.4995	0.2141	0.0052	0.9444
MB	121	1.8774	1.3204	3.5765	0.2315	39.0338
GAO	121	1.0139	1.4920	4.9514	-25.658	27.1958

Concerning the TAM control variable, it is clear that there is variety in the size of companies within all quartiles. However, when considering the total sample, it is noted that, in general, the size does not present discrepancies between one quartile and the other. The ALAV variable proves that, when analyzing the average of the minimum (0.6982) and maximum (0.4477), an inverse relationship is denoted, that is, companies that are more leveraged have a lower comparability, while less leveraged companies have a higher level of comparability.

When it comes to CRES, it appears that in the minimum and average quartile, companies fluctuated between business growth and loss, considering that the minimum value is negative and the maximum positive. On the other hand, companies belonging to the maximum quartile only show growth, although it shows discrepant values, as some companies had exponential development, while others only had a reduced increase.

As for GAO, the average in all quartiles is similar (0.9417, 1.6800 and 1.0139), however, when analyzing the minimum values, a negative number is identified while for the maximum values a positive number, this pattern is repeated for all observed quartiles. This result may be an indication that the operational cost structure of companies is different. Subsequently, the data were subjected to the Spearman correlation test with the aim of verifying the association between the variables. Table 4 shows the results.

According to Table 4, sales (RPTV), purchase (RPTC) and total (RPTT) transactions have a negative relationship with comparability, but there is no statistical significance in any of them. When it comes to the three independent variables (RPTV, RPTC and RPTT), it was observed that there is a positive and statistically significant association between them, being an indication of multicollinearity, however, this evidence does not cause harm to the models, since the data were estimated separately depending on each of them.

Regarding the control variables, the absence of multicollinearity stands out, as the correlation coefficients, despite being significant, are much lower than 0.70 as indicated by Fávero and Belfiore (2017). Furthermore, the VIF test was applied taking into account related sales, purchase and total transactions. The results obtained are 1.65, 1.69 and 1.64 respectively and corroborate the absence of significant effects of multicollinearity in the data.

Table 4
Spearman Correlation

	COMP	RPTV	RPTC	RPTT	TAM	ALAV	MB	GAO
COMP	1							
RPTV	-0.0295	1						
RPTC	-0.1015	0.4148 ***	1					
RPTT	-0.0281	0.7986 ***	0.8230 ***	1				
TAM	0.3017 ***	-0.0014	0.1302 **	0.0495	1			
ALAV	-0.1446 *	0.2978 ***	0.4081 ***	0.4021 ***	0.0733	1		
MB	0.0830	0.0737	0.1195 *	0.1249 **	0.2645 ***	0.0903 *	1	
GAO	0.0717	0.1398 **	0.1538 **	0.2127 ***	0.2332 ***	0.2239 ***	0.1719 **	1

Subtitle: * indicates significance at 10%, ** indicates significance at 5% and *** indicates significance at 1%.

Table 5 highlights the results of the multivariate analysis, referring to the effect of sales, purchase and total RPTs on the comparability of financial reports through quantile regressions in quantiles 0.25, 0.50 and 0.75.

Table 5
Quantile Regressions

Panel A: Comparability and Sales RPT (RPTV)

	Expected Signal	Quantile 0.25	Quantile 0.50	Quantile 0.75
RPTV	-	-0.0200	-0.0249***	-0.0205***
TAM	+	0.0053**	0.0031***	0.0017***
ALAV	-/+	-0.0048	-0.0034*	-0.0006
MB	-/+	0.0003	0.0001	-0.0000
AUD	+	0.0095	0.0089***	0.0070***
GAO	+	0.0002	-0.0000	-0.0000
Constant		-0.1150***	-0.0717***	-0.0450***
Pseudo R ²		0.1543	0.1251	0.0681
CPA		Yes	Yes	Yes
Comments		336		

Panel B: Comparability and Purchase RPT (RPTC)

	Expected Signal	Quantile 0.25	Quantile 0.50	Quantile 0.75
RPTC	-	0.0134	-0.0110	-0.0057
TAM	+	0.0036**	0.0024**	0.0014**
ALAV	-/+	-0.0218***	-0.0099**	-0.0010
MB	-/+	0.0003	0.0002	6.93e-06
AUD	+	-0.0002	0.0052**	0.0038**
GAO	+	0.0002	0.0000	-0.0001
Constant		-0.0753***	-0.0543***	-0.0373***
Pseudo R ²		0.1130	0.0835	0.0437
CPA		Yes	Yes	Yes
Comments		258		

Panel C: Comparability and Total RPT (RPTT)

	Expected Signal	Quantile 0.25	Quantile 0.50	Quantile 0.75
RPTT	-	-0.0160	-0.0161***	-0.0059**
TAM	+	0.0053***	0.0029***	0.0018***
ALAV	-/+	-0.0032	-0.0039**	-0.0011
MB	-/+	0.0003	0.0001	-0.0000
AUD	+	0.0091*	0.0082***	0.0068***
GAO	+	0.0003	0.0000	-0.0000
Constant		-0.1159***	-0.0670***	-0.0459***
Pseudo R ²		0.1446	0.1187	0.0596
CPA		Yes	Yes	Yes
Comments		363		

Legend: * indicates significance at 10%, ** indicates significance at 5% and *** indicates significance at 1%. CPA= Annual Period Control. The above regressions were estimated using the non-parametric method in quantiles (0.25, 0.50 and 0.70). The constants of these econometric models absorbed the following variable: YEAR = 2013. SIZ = company size; ALAV= leverage; MB= business growth expectation for the market; AUD= audited by BIG4; RPTV= sales transactions between related parties; RPTC= purchase transactions between related parties; RPTT= total transactions between related parties. The results obtained were based on the following equation: $COMP_{it} = \alpha + \beta_1 RPT + \text{Variáveis de Controle}$.

The results shown in Table 5 demonstrate that the sales and total RPTs have negative and statistically significant coefficients in the medium (0.50) and maximum (0.75) quantiles. This result can be justified by considering that companies with higher levels of comparability are more sensitive to RPTs, resulting in a decrease in this qualitative characteristic of improvement. It is suggested that companies have different standards for recognizing, measuring and disclosing RPTs, making financial statements less comparable to their peers. Although the study by Lee et al. (2016) used metrics different from those applied in this research to measure related transactions, the results also indicate a similar reduction in comparability.

When it comes to purchase RPTs, there is generally a negative indication, but not significant. This finding may be linked to the way related purchases are configured in companies. According to Fang et al. (2018) net profit, unlike what occurs when carrying out related sales operations, does not suffer an immediate impact as a result of manipulation in related purchases, as part of the purchases are recorded in inventories. Furthermore, this result is in line with the study by Li et al. (2021), who, even using different measurements from those applied in this study to calculate RPTs, did not show a significant relationship between purchase RPTs and comparability.

The reduction in comparability caused by the sales and total RPTs arises from characteristics intrinsic to the related operations, such as the possibility of applying different prices for these operations, in relation to those of the company's ordinary transactions (McCahery & Vermeulen, 2005), the influence derived from the existence of the relationship between companies, which implies different payment conditions, such as terms and discounts (Anastasia & Onuora, 2019) and because they are normally conducted through complex operations (Fooladi & Farhadi, 2019). Due to the singularities that permeate RPTs, given that companies have operational mechanisms and institutional incentives that are different from each other, the outputs of the economic event are divergent.

Another possible justification for these findings results from the discretion of administrators in the terms and conditions of related transactions (Lee et al., 2016) and the connection of RPTs to an environment of reduced quality of accounting information (Kohlbeck & Mayhew, 2017). In this way, it is possible for companies to use a set of different mechanisms when implementing RPTs, which may cause a reduction in similarity in the procedures for recognizing economic impacts in financial statements, reducing comparability, in line with the perspective of conflicts of interest, based on Agency Theory (Jensen & Meckling, 1976).

Therefore, based on the results of this study, the research Hypothesis (H1 - RPTs reduce the comparability of financial statements), which was tested using proxies for sales, purchase and total transactions, is not rejected, indicating the negative effect that sales RPTs and total RPTs have on the comparability of financial statements.

Regarding the control variables, size, consistent with Sousa et al. (2020), is positive and significant in all models, indicating that larger companies provide more comparable information, as despite dealing with more complex operations, to the same extent they have more efficient governance and internal control structures, in addition to suffering stricter checks by investors and analysts.

With regard to the control variable ALAV, it appears that there is statistical significance in the 0.50 quantile of panel A, in the 0.25 and 0.50 quantiles of Panel B and in the 0.50 quantile of panel C of Table 5, obtaining a negative relationship with comparability. In general, this result is in line with the literature, as companies that have a high leverage ratio issue less comparable reports by granting greater discretionary power to management (Lee et al., 2016).

The CRES variable does not have statistical significance in any of the models analyzed (RPTV, RPTC and RPTT), probably because the sample collected presents companies that oscillated between losses and growth. This finding is consistent with studies by Lee et al. (2016) and Sousa et al. (2022). It is noted that the AUD variable is positive and significant in the three models studied at quantiles 0.50 and 0.75. As a result of this finding, it is understood that the Big Four, due to their reputation and the adoption of a set of more efficient practices for audit execution, positively influence the comparability of financial reports, but only for companies that have an acceptable level or high comparability. The Big four according to Francis et al. (2014) have their own style that allows for increased comparability.

Finally, the GAO variable is not statistically significant in the models in Table 5. As this measure is determined by the company's cost structure, an oscillation between the indicators of this variable is noticeable. In panel A, in general, it is noted that variable costs overlapped with fixed costs, giving the manager the possibility of managing them, reducing comparability. On the other hand, in panels B and C the opposite happens. However, the outputs are not sufficient to have an effect on comparability. It is noteworthy that this finding differs from that found by Ribeiro et al. (2016a).

Therefore, the results strengthen the perspective of conflict of interest and reinforce the possibility of RPTs negatively influencing the quality of accounting information, reducing the comparability of accounting information, reinforcing the results found in international literature also for the Brazilian environment (Lee et al., 2016).

5 Conclusion

The objective of this research was to identify the influence of RPTs on the comparability of financial

statements of public companies in the Brazilian market. Comparability was measured through the similarity of the accounting function (DeFranco et al., 2011) and transactions with related parties were measured using three different proxies: sales transactions, purchase transactions and totals.

The results found indicate that sales and total RPTs reduce the comparability of accounting information, as each type of related transaction has a different complexity and nature as a result of negotiations carried out by managers and shareholders (Kohlbeck & Mayhew, 2010). Therefore, there are no similar patterns of recognition and translation of economic events.

The potential effects of using RPTs are associated with the reduction in the quality of accounting information produced by companies, in particular, by reducing the comparability of financial information between companies, which can cause harm to the decision-making process of resource allocation, since, according to DeFranco et al. (2011) and Sousa et al. (2021), comparability, in addition to improving the information environment, helps in investment decisions, as it allows comparisons to be made between different companies and/or between one and itself over time. Therefore, according to the results of this research, the use of RPTs, as they are company-specific transactions and because they normally present characteristics that differentiate them from other transactions carried out in an ordinary way by organizations, seem to compromise the comparability of financial information.

Furthermore, the evidence reinforces the concept that RPTs have the potential to distort financial statements when negotiations are not disclosed accurately (Gallery et al., 2008), in this sense, minority shareholders are deprived of obtaining complete and unequivocal information from this type of operation (Marchini et al., 2019). Therefore, the findings are important for users of accounting information, as they need to pay attention to these transactions to assess the possibility of manipulating results.

Thus, this research contributes to the literature in several ways. In Brazil, this is the first study that indicates a negative association between related sales transactions and comparability. As noted, in the national context, protection for minority investors is weak and the property structure is concentrated, so research of this nature provides information about this type of relationship and allows a better understanding of the market. A second contribution focuses on the implications for investors by suggesting that related transactions can reduce the quality of information and make comparisons between financial statements difficult, hindering the decision-making process. The research also makes practical contributions by pointing to the need for improvements in the regulation of disclosure of related transactions in favor of standardizing regulations and consequently the possibility of improvements in the comparison of statements. Finally, it is recommended that the findings be viewed with parsimony, as they only reflect sales, purchase and total transactions. When other related transactions are added, the results may differ as the nature and complexity of the RPTs are different.

As a limitation of this research, it is impossible to generalize the results, given that the companies investigated are from a non-probabilistic sample. The sample size is also another limitation, as a model was used to measure comparability and only two types of related transactions, which resulted in a decrease in the number of observations.

For future studies, it is advisable to use other types of transactions with related parties (for example, loans), in addition to applying different metrics to measure comparability and related transactions. In this way, new aspects may be considered with the aim of adding evidence that verifies the impact of RPTs on the quality of information presented in the financial statements, including the effect of RPTs on information asymmetry.

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NOTES

ACKNOWLEDGMENT

Does not apply.

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DATASET

The dataset supporting the results of this study is not publicly available.

FINANCING

The present study was carried out with the support of the Coordination for the Improvement of Higher Education Personnel - Brazil (CAPES) - Financing Code 001.

CONSENT TO USE IMAGE

Does not apply.

APPROVAL OF THE RESEARCH ETHICS COMMITTEE

Does not apply.

CONFLICT OF INTERESTS

Does not apply.

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PUBLISHER

Federal University of Santa Catarina. Accounting Sciences Course and Postgraduate Program in Accounting. Publication on the [UFSC Journal Portal](https://www.ufsc.br/portal/). The ideas expressed in this article are the responsibility of their authors, and do not necessarily represent the opinion of the editors or the university.

EDITORS

José Alonso Borba, Denize Demarche Minatti Ferreira, Carlos Eduardo Facin Lavarda.

HISTORIC

Received on: 26/07/2022 - Peer reviewed on: 02/06/2023 - Reformulated on: 15/11/2023 - Recommended for publication on: 16/11/2023 - Published on: 11/12/2023