Chapter 15
Why Malaysian Companies Are Involved in Related Party Transactions (RPT) in the Context of Corporate Governance (CG)

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ABSTRACT

The regulations related to corporate governance mechanisms such as the sensitivity of pay and performance of chief executive officers, board characteristics, and watches outside of those that are well connected in related party transactions (RPTs)in Malaysia are struggling from the monitoring and enforcement of good corporate governance. The primary aims of this study are to investigate the gap that exists in Malaysian company failures due to appropriate related party transactions and to evaluate the impact of good corporate governance on shareholders' confidence in related party transaction (RPTs) disclosures from the Malaysian Accounting Standards Board (MASB) of regulations. In the year 2000, a study was done by Claessens that examined the data of 236 Malaysian public organizations. The study found the dominancy of a large block of shareholders in organizations in addition to weak institutional structures. This chapter focuses on the usage of related party transactions undertaken to benefit Malaysian companies which have led to financial reporting disclosure information.

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Figure 1. Related party transactions

INTRODUCTION

The objective of corporate governance is to maximize shareholder values legally and ethically and to ensure transparency and equity foreach stakeholder including the community, investors, vendors, employees, customers, and the government. Nevertheless, the function of corporate governance priorities is to ensure quality in the process of financial reporting disclosure. Ultimately, it is hard to separate corporate governance from related party transactions (RPTs), which are mandatory requirements for companies to follow according to Internal Accounting Standard (IAS) 24. According to the IAS 24 standard, related party transactions must disclose all information and transactions (resources and services) between a subsidiary and its parent company—otherwise, either the ultimate controlling parties or the senior parents, whichever is responsible for generating the financial statement must be disclosed (Standard, 2009).

There are numerous instances of harsh related party transactions around the world in emerging markets and developed countries (Hashim, 2014). Related party transactions attracted global attention when mega organizations such as world.com and Enron declined in early the 2000. Subsequently, scholars began to examine corporate governance from numerous perspectives (Pizzo, 2009). Then, statuary bodies were initiated to imply rules and regulations through financial reporting disclosures to resolve the problem. There are many best practices employed around the world in line with guidelines such as the Sarbanes Oxley and Cadbury reports. Moreover, the accessible literature found chief executive officer performance sensitivity and certain board characteristics to be helpful to corporate governance mechanisms for better management of agency problems, and additionally, huge shareholder possession or high leverage plays a corporate governance role in the management of serious agency problems. Therefore, the sole objective of this paper is to recognize the gap which is a failure in Malaysian companies' corporate governance due to related party transactions. The accomplishment of the study objectives; I intended for develop a framework to reduce manipulation of related party transaction earnings management and also to identify quality drivers for strengthening shareholders' confidence in related party transaction disclosure.

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