THE EFFECTS OF RELATED PARTIES TRANSACTIONS ON THE ORGANISATION PERFORMANCE
THE EFFECTS OF RELATED PARTIES TRANSACTIONS ON
THE ORGANIZATION PERFORMANCE

By

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A dissertation submitted in partial fulfilment of the requirements for the award
of the Degree of Master of Science in Accounting and Finance. (MSc. A&F) of
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2018
CERTIFICATION

We, the undersigned, certify that we have read and hereby recommend for the acceptance by the Mzumbe University, a dissertation titled THE EFFECTS OF RELATED PARTY TRANSACTIONS ON THE ORGANISATION PERFORMANCE in partial fulfillment of the requirements for the degree of master, Master of Science in Accounting and Finance.

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AKNOWLEDGEMENT

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Distinguished appreciation goes to the Municipal Director for Ubungo Municipal Council who permitted me to pursue the study. I also extend my thanks to management of Dar es Salaam Stock Exchange (DSE) for their cooperation and support during data collection exercises.

I wish to thank my family, Ester my wife for taking care of our children while I am away, my daughters and sons for their patient they had when I was preparing my work.

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It is not easy to recognize all individuals for the kind of assistance provided to me. Thus, I ask every individual who helped me in one way or another, to recognize my appreciations this acknowledgement and let God honour you all.

Despite all that, I remain fully responsible for any errors in this research work.

Thank
DEDICATION

I dedicate this dissertation to my father Muyabi Magesa, my mother Bertha, my children and wife who contributed to my well-being. It is also dedicated to my brothers and sisters. Thanks to them for enabling me to finish this dissertation.
**LIST OF ABBREVIATIONS AND ACRONYMS**

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>CMSA</td>
<td>Capital Market Security Authority</td>
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<tr>
<td>DSE</td>
<td>Dar es Salaam Stock Exchange</td>
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<tr>
<td>EM</td>
<td>Earning Management</td>
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<td>EV</td>
<td>Enterprise value</td>
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<td>FV</td>
<td>Firm Value</td>
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<tr>
<td>IAS</td>
<td>International Accounting standards</td>
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<td>IFRS</td>
<td>International Financial Reporting Standard</td>
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<tr>
<td>IPO</td>
<td>Initial Public Offering</td>
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<tr>
<td>MCCG</td>
<td>Malaysian Code of Corporate Governance</td>
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<tr>
<td>OECD</td>
<td>Organization of Economic Co-operation and Development</td>
</tr>
<tr>
<td>PSAB</td>
<td>Public Sector Accounting Board</td>
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<tr>
<td>ROA</td>
<td>Return on Assets</td>
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<td>ROE</td>
<td>Return on Equity</td>
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<td>ROI</td>
<td>Return on Investment</td>
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<td>RP</td>
<td>Related party</td>
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<td>RPTs</td>
<td>Related party transactions</td>
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<tr>
<td>SEC</td>
<td>Security and Exchange Commission</td>
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<tr>
<td>TEV</td>
<td>Total Enterprise Value</td>
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<td>US</td>
<td>United State of America</td>
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ABSTRACT

The study investigated related part transactions and their effect on organization performance. Specifically, the study evaluated the effect of related party transactions on the organization performance of 28 Tanzanian companies listed in Dar es Salaam Stock Exchange market during the period 2012 through 2016. Data were collected through document review method downloaded from Dar es Salaam Stock Exchange website database. Data were analyzed using ordinary least square method and descriptive statistics techniques. The findings through regression analysis showed that, related party transactions have significant negative effects on organization performance. It was further found that, related party transactions is negatively related to organization performance Sales to related party transactions is negatively related to return on assets, purchase from related party transactions is positively related to return on assets and loans to related party transactions are negatively related to return on assets. The study recommended that managements are advised to cut down the quantity of related party transactions so as to achieve a better return on assets and directors of the companies are advised by setting oversight committee with competent and experience in exerting good corporate governance structure, strong domestic controls, to offer guidance for a decline of related party transaction.
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CHAPTER ONE

PROBLEM SETTING

1.1 Introduction

This chapter describes introduction, background of the study, statement of the problem, main research objective, specific research objectives, research questions, and significance of the study, organization of the study, as well as delimitations of the study.

1.2 Background to the study

A related party transaction is a passage of goods, services or obligations of an entity or organization to another related party, in spite of whether a price is charged (IASB, 2015). The related party transaction relationships are normal in business and commerce features (PSAB, 2011). Some organizations perform some of their transactions through subsidiaries, joint ventures, associates and any other type of business relation (Okoro and Jeroh, 2016). In other aspects, “the organization is able to influence the financial performance and operating policies of the investee through the presence of significant control, joint control or significant effect prevailing at a time within the organization (Gan, 2017)”. However, a related party transaction relationship might have an impact on the outcomes of an organization. Related party may establish transactions that are not in arm length, that unrelated parties would not (Manaligod, 2012). According to IASB (2015), IAS 24 emphasizes transparency of the presence of the related party transactions. Thus, “the organization shall report fairly the financial position, financial performance and cash flows statements in the financial statements which disclose the related party transaction (IASB, 2015)”.

All companies in Tanzania furnish financial statements under International Financial Reporting Standards (IFRS) once registered as limited company (URT, 2002). According to IFRS requirements every entity must disclose all its transactions and its effect for a period (IASB, 2015). Related Part Transactions (RPT) allows window
dressing in preparation of financial statements because market price or arm’s length principal is not considered during the course of business transactions under RPT. Goods or services can be transferred from parent to a subsidiary company or vice versa at low or higher price compared to the market price; sometime no cash transaction is excised.

A related party transactions relationship some time could have an impact on the financial performance of which will also affect the financial position of the organization once it is practiced with immoral intention (Venut, 2013). Related parties may transact with unrelated parties in a normal cause of business, but the third party will never enjoy that benefits. For instance, the firm that vends products to its parent organization at cost may not vend the similar products with the similar price to another customer in a normal cause of business. Arm’s length principal is in most cases violated when the intention of the related parties’ transactions is evil (Gordon, Henry, and Palia, 2004). Business transactions among which are related may not be transacted at the similar prices as parties which are not related (Okoro and Jeroh, 2016).

The financial performance as well as the financial position of the organization may be exaggerated by related party transactions relationships even if related party transactions was not practiced or occur (Gordon et al., 2004). The attendance of the relationship of related parties may be adequate to have an effect on the transactions of an organization with other non-related parties involved in the business. For example, “one related party might restrain the relationships with a trading partner on acquisition or doing similar business (Gordon et al, 2014)”. In some other case, one related party may be limited from performing for the reason of the significant effect of another related party. For instance, a complementary can be directed by its parent not to entertain in research and development activities with other unrelated party (Venut, 2013).

Previous literatures have shown that different countries have experienced effect of related party transactions once misused (Gan, 2017). Tanzania cannot be isolated since its institutions are also preparing its financial statements through IFRS and
International Public Sector Accounting Standards (IPSAS). However, not all related part transactions have negative effect to a firm’s; some have positive effect (Okoro and Jeroh, 2016). It depends on the intention and integrity of the preparer and how the transactions are manipulated (Okoro and Jeroh, 2016).

The previous corporate scandals from 1997 through 2000 have raised a large apprehension among those who are engaged in regulation and the participants of stock market about related party transactions. A number of scandalous events in the United States and other places of the world have cited related party transactions as a means of wealth transferring and diverting resources from organizations (Gan, 2017). Scandals of cheats in Enron, Tyco, WorldCom, Palmalat and Satyam computers are examples of the same (Srinivasan, 2013). Thus, “misusage of related party transactions in most instance happen with a detrimental of business opportunities in listed organizations, overpayment of an asset, or simply making use of financial services in a way that places the listed organizations at risk which such transaction is known as tunneling (Cheung, Jing, Lu, Rau, & Stouraitis, 2009)”.

These dealings could also comprise vending an asset at enlarged price to the programmed organizations or purchase an asset at cut down price from planned organization (Berkman, Cole, and Fu, 2009).

The other misuse of related party transactions is through Multinational corporations. They maximize developing countries’ wealth by using transfer pricing methods and eventually their statements mislead users since they are not fairly presented (Berkman et al, 2008). Sometimes Multinational corporations transfer funds to avoid high tax or make a temporary transfer of fund to rescue its subsidiary which may delisted in the capital market (Berkman et al.,2009). However, in Asian financial difficulty of 1997-1998 recommended that controlling shareholders can also use personal resources to “prop up” the organization that is in trouble. Temporary transfer of resources to enhance the organization performance so that delisting is abstention by enhancing solution to the delisting case (Peng et al, 2006). For the reasons stated above and studies conducted by various scholars, indicated that “knowledge of organization’s related party transactions, outstanding balances, including commandments and relationships with related parties may affect
assessments of its financial performance and financial position of the organization (Pozzoli and Venuti, 2014). In the same way, Kohlbeck & Brian (2010) examined the firm that discloses the related part transaction and those that do not. They found that, related party firm have lower performance than nonrelated parties firms. In contrary, Chatterjee, Zaman, and Farooque (2009) examined the characteristics of related party transaction of a sample of Indian organization for the fiscal years 2002 through 2006. They found that there was no relationship between related party disclosures with organization performance. This argument is cemented by Abdullah (2004) who argue that “there is no relationship between related party transactions and organization performance in Kuala Lumpur Listed Stock Exchange (KLSE) main Board organizations for the year 1994 through 1998 in Malaysia”.

The related party transactions can have double nature of either positive or negative effect to organization performance. in due regard, these transactions may consider good business transactions by satisfying the economic condition of the organization once used in good intention (Pozzoli and Venuti, 2014). The RPTs represent internal dealing for minimizing cost and increase organization efficiency and effectiveness due the internal market created within the group. For this type of market the organization become certain with fixed revenue from its partners for goods and service produced. Wahab, Haron, and Yahya (2011) argue that “there was negative effects association between related party transactions and organization performance on the basis of 448 entities sampled in year 2005 through 2007 in Malaysia”. Additionally, other scandals in the organizations which have raised a great apprehension among regulators and stock market participants about related party transactions. A number of scandals in the United States and the rest of the world have considered related party transactions as a means of wealth exportation and diverting resources from organizations. Financial frauds in Enron, Tyco, WorldCom, Palmalat and Satyam computer are example of the similar (Padmini, 2013).

This type of related party transaction is termed as “propping or efficient transaction hypothesis (Pozzoli and Venuti, 2014)”. In that regard, the related party transactions may be considered a means to exploit organization resources as an outcome of existing conflict of interests. In that aspect “such type of transaction may be carried
out in the interest of insiders, i.e. managers and controlling shareholders, for the purpose of expropriating wealth from investors who are outside, i.e. non-controlling shareholders” (Pozzoli and Venuti, 2014).

According to Berkman et al., (2009), “the related party transactions may imply the misusage of organization’s resources and the misrepresentation of organization’s information for the benefit of group of people in that respective organization”. The issues of related part transaction has been issue of discussion among different researcher on how does it affect organization performance. Despite, literature shows that studies in Tanzania context particularly on related party transactions and organizational performance are limited hence creating empirical gap on effect of related party transactions on organizational performance. This study tried to bridge the gap by assessing the effect of related party transactions on organization performance.

1.3 Statement of the problem

Different studies on effects of related party transaction on performance of organization have been conducted but they have revealed different results. Gordon et al (2004) indicated that “there is mix and contradicting results related with effect of related party transaction on organization performance, that related party transactions may either be loss to shareholders or it may benefit shareholders through a representation of a strategic economic decision by the organization and therefore may enhance the value of related shareholders at large (Gordon et al, 2004)”.

The literature shows that, there are various incidences that clarify on how related party transactions relate with the organization performance. These incidences “either positively or negatively effects and no effects of related party transactions on the organization performance as indicated by scholars and theoreticians; thus, outcomes are contradicting as described Black (1976)”.

This controversy puts the issue to organization stakeholders in practice and needs to be sorted out. Thus, this study was aimed at contributing to the discussion of related party transaction and organization performance using context and data from
Tanzania. The investigation of related party transactions and its effect was based on listed companies in DSE of Tanzania. Tanzania capital market is like other capital markets in the world and its participants are not isolated in this universe. Due high globalization, Tanzania market cannot be safe in related party transactions practices.

But there is scanty empirical evidence known in the literature in Tanzania context about the effect of related party transactions in organization’s performance. It is within these statements the study bridged the empirical gap by assessing effect of related party transactions on organization performance. This study added stock of knowledge about effect of related party transactions on organization performance in Tanzania context.

1.4 Research Objectives

1.4.1 Main Objective

The main objective of the study was to evaluate effect of related party transactions on organization performance

1.4.2 Specific Research Objectives

i. To assess the impact of related party transactions of sales, purchase and loans on return on assets.

1.5 Research Questions

i) What is the impact of related party transactions of sales, purchase and loans on return on assets?

1.6 Significance of the study

“The significance of this study is for the purpose of ensuring that, the financial statements of the organization consists of the disclosures which are essential for drawing attention to the possibility that its position in financial matters and financial performance may have been affected by the presence of related party transactions”.
The research findings and conclusion may be used for Analysis and other users of financial statement to be in good position in making rational decisions regarding investments, performance comparison and actual financial position is known with certainty when related party transactions outstanding or transfers are excluded.

This study is significance it contributes to the related party transactions literature examining the association between related party transactions and organization performance in Tanzania context.

1.7 Scope of the study

The research covered listed companies in DSE of Tanzania. The thematic scope of the study was based on assessing impact of related party transactions of sales, purchase and loans on return on assets. The study was conducted for six month from the formulation of problem, research proposal and report writing.

1.8 Limitation of the study

The limitation of research was based on assessing the impact of related party transactions of sales, purchase and loans on return on assets. It covered only listed companies in DSE of Tanzania. In addition to that, the study was limited access of data on time which resulted into delays in submission of final reports. The conducted study has several limitations. First limitation is about sample of this study was small; the sample contained only 28 public company for each examined period. Second limitation was that, some annual reports did not cover all information which we required for the study. Third limitation in the related party transactions and organization performance study it lack national and international companies’ comparison, it has the insufficient coverage of related party database in the country of Tanzania.

1.9 Organization of thesis

The dissertation is arranged into six chapters. Chapter one gives a background to the study, outlining the statement of the problem, research objectives, research questions and intended contribution of the study.
Chapter two reviews the literature on related party transaction and organization performance. The chapter starts with a discussion on definition of key terms which are related party transactions and organizational performance. Then I presented theoretical reviews on theories underpinning the study was discussed. Further, I presented the empirical studies of literature related to the title of the study. Also we discussed critiques to the theories.

Chapter three dealt with the issues related to methodology thus important concepts like: research the way in which the data was collected and analyzed. The chapter also explains the population, sample size, data collection method as well as the data analysis techniques employed.

Chapter four gives the presentation and interpretation, chapter five presented the discussion of results of the study and chapter six provided summary, conclusion and recommendations.
CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter analyses the literature related with related party transaction on organization performance. The review is organized into five sections so as to show easy progress of knowledge. The chapter begins with explaining meaning of different key concept related with related party transactions and organization performance which are the key terms under this study. Section 2 demonstrated theoretical literature.

Section three presented empirical studies related with related party transaction guidance in relation to organization performance. Section 4 provides the demonstrated empirical gap identified from the previous studies and were the basis for conducting this study. The last section presented conceptual analysis of the effect of related party transactions on organization performance.

2.2. Description of terms

2.2.1 Related party transaction

2.1 Definitions of related parties

According to Williams (2014), related party transaction is described as “the transactions between an organization and its related management, related board members as well as the related principal owners or members which come from the immediate families of any of these groups indeed”. Furthermore, it comprises of the transactions between an organization and its affiliates, where affiliates are described as “organizations with any of the following relationships: they control the organization, or they are controlled by the organization or are controlled by another entity which also tends to control the organization”. It is difficult for those who are outside to find out fraudulent or questionable transactions.
IASB (2015) considered that “related party transaction is related with when an organization assesses whether two parties are related, it would treat significant influence as equivalent to the relationship that exist between an organization and a member of its key personnel, two organization are both subject to control by the same organization or person, the two organizations are related to each other, if one organization or person controls a second organization and the first organization or individual person has the major influence over the third entity or person, the second and third organization are related to each other at large”.

US GAAP (1982) defines related party transactions as “transaction between organizations and are subsidiaries, affiliates, principal owners, personnel or their families, or organizations owned or controlled by its personnel or their families”.

For the purpose of this study by following US GAAP (1982), “related party transaction is transaction between organizations and is subsidiaries, affiliates, principal owners, personnel or their families, or organizations owned or controlled by its officers or their families (US GAAP, 1982)”.

2.2.2 Organization performance

Santos and Brito (2012) explain organizational performance is the method or means of satisfying investors and in that case, can be represented by growth, profitability, and market values. This considers customers and employees’ satisfaction. According to Kaplan and Norton (1993), organizational performance is the change of inputs into outputs for the purpose of achieving the objectives of organization. Neely (2007) defines organization performance as dependent variable is assumed to represent profits, market value, growth, environmental performance, social performance, customer satisfaction and employees’ satisfaction.

Following Santos and Brito (2012) the organizational performance in this study is defined “as the means to satisfy shareholders and investors and can be represented by way of profitability, by way of growth, and by way of market values as well”. These definitions consider customers and employees’ satisfaction as fundamental.
2.3 Theoretical literature review

Various theories are available to explain, to describe and even to predict the association among constructs of interest. Nevertheless, in this research, three theories that direct link to related party transactions and the organizational performance of public listed organizations are described, explained and predicted. The effect of related party transactions has been researched by researcher of several disciplines such as matters related to the economics, matters related to the finance, matters related to the sociology and matters related to the organizational behaviour as well (Bathula, 2008).

The existing literature is fundamentally centered on the related party transactions effect on organization performance in developed economies. In due regard, two theories were reviewed namely:-

2.3.1 The agency theory

The agency theory construct was stipulated by Coase, (1937), but the application of theory started in early 1980s. According to Jensen and Meckling (1976) organizations have owners called the principals engage another person individual to provide service on the interest that involves delegation of some desion making authority to members such as employees who act as agents (Jensen and Meckling, 1976).

The theory posits that, there should have governance structure which shall separate the organization governance from management. This argument is centered on the notion that “in the organization, there is division of principal and agent , and this tends to lead to cost related to resolve the conflict of interest between those who own and their respective agents (Jensen and Meckling ,1976)”.

The basis of agency theory is that “the management act out of self interest and are self centred, therefore, putting less emphasis on principals’ interests as the related party who posses better knowledge, information and expertise in relation to the
organization are in a position to conduct self-interests tasks rather than principals’ interest (Jensen and Meckling, 1976).

The theory maintains that, there should be managers to run the entity in the interest of the principal (Kiel & Nicholson, 2003; Eisenhardt, 1989) suggest that, there should be separation of powers in order to solve issues that occur in the relationship between principal and personnel. The agency theory suggest that, there sholud be clear respected lines authority between principal and agents or management. The theory further indicates that collaboration between owners and management have significant effects on organization performance.

The theoretical concept of the theory depend on the agent-principal relationship where the owner dictate the duties and responsibilities of the managers and employees, on the other hand, employees perform the responsibilities delegated by the principal (Jensen and Meckling, 1976).

Eisenhardt (1989) argues that “agency issues come when, the the objectives of the the owner and related party transactions diverge and it is very hard for the owner to check what the related party is actually doing”. Ultimately, the monitoring of related party transactions is taken as a basic obligation of a oversight board, so that the problems of related party can be eradicated and enhanced organizational performance can be attained.

To mitigate the problem of self-motivated “agent must avoid self-interest and executes tasks in a way that focuses in achieving goal congruence in profit maximization for both parties as this necessitates ‘standardization of agency duty because of the potential differences (Jensen and Meckling, 1976)” “The theory establish that there should be good governance in order to reduce the possibilites for managers to act contrary to the principal interests”. “If there is no good governance structure managers may seek to fulfill their own self-interests as opposed to shareholder’s interest or worth”. Therefore “managers cannot be trusted, even though they are often thought to be rational as in line with this theory, that managers do not constantly pursue shareholders interest, and corporate governance is therefore an
effective tool in solving the agency problem with the establishment of board (Sarpong-Danquah, Gyimah, Afriyie, & Asiamah, 2018). The governance devices are designed to protect owner interests, minimize agency costs and ensure related party-principal interest alignment. Many scholars and PR actioners have depended on agency theory to assess the effect of related party transaction in affecting organizational performance (OECD, 2012). Principal agent framework is summarized in Figure 2.1.

Figure 2.1 Concept of agency theory

Agency theory is criticized that “positivist’s agency researchers have only concentrated on the agent side of the principal and agent problem as the problems may arise from the principal side (Panda & Leepsa, 2017)”. Also, the agency theory “only emphasizes on the principal and agent conflict, agency cost and realignment of both the parties interest for the purpose of minimizing the agency problem (Panda and Leepsa, 2017)”.

![Diagram of agency theory concept](image-url)
Wiseman & Gomez-Mejia (1998) have criticised agency theory by three features: “the Eisenhardt agency model does not assess the association between the agency cost and relationship and cost incurred due to it, also, the agency theory does not consider agent as rational, anti-risk takers and they trade off between the external and internal interests”. Similarly, the agency theory does not assume linear relationship between what agent performs and motivation, the focus only on the principal’s objective and the cost of agency (Panda and Leepsa, 2017).

“Critique on applicability of agency theory, the agency theory developed in a private sector settings, agency theory is unfit for public sector and non profit organizations”. The theory also occurs on accountability and efficiency aspects is a more distinct and diverse issue in public sector and non profit organization (Kivisto, 2007). “The agency theory is popular and pragmatic, but it despairs from several obstacles and this has been documented by several researchers for instance Eisenhardt (1989), Panda and Leepsa (2017)”. “The theory presumes a contractual agreement between the principal and agent for a specified or unspecified future period, where the future is unpredictable”.

**Relevance of agency theory on explaining the study problem**

The significant of agency theory is generally relied on how it is put into practice and what categories or type of study setting it is utilized. In fact, agency theory has provided a generic and relatively simple and broad framework, which is linked and applied by several scholars in variety of disciplines within the related party transactions.

The theory of agency is useful specifically in establishing the incentives and interests to, board, directors and managers on effect of related party transactions on organization performance (Kivisto, 2007). Also assists better understanding of the relationship between related party transactions and organizational performance of public company where shareholders own the company but do not manage the company.
2.3.2 Stakeholder theory

Stakeholder theory is an extension of the agency view, which tends to expect related party for taking care of the interest of shareholders. Nevertheless, the related party has now expected to consider the interest of several groups of stakeholders, including interest groups like social, political, environmental and ethical consideration.

The stakeholder theory describes how the stakeholders of the organization should be engaged in the company’s management. The stakeholders are people who have stake or interest in existence of the organization. The kind of stakeholders includes shareholders, management, staff, vendors, creditors, governments and the community (Freeman, Wicks, & Parmar, 2004). Stakeholder’s theory assumes that “several groups have networks with the organization and are affected by the organization’s decision making and performance”. Many organizations do struggle to make the most of shareholders interest, at the same time, trying into account the interest of the stakeholders.

Relevance of the stakeholder theory on study problem

The stakeholder theory has been very relevant on demonstrating organization performance. The major interest of shareholders is to make sure interest of putting their investment in the business are realised by the management.

Thus, the theory has been useful in demonstrating outcomes of related party transactions on organization performance as important interest of stakeholders. Therefore, stakeholder theory is assumed to better prepare related party and management to articulate and foster the shared purpose of the organization. Thus through this theory, it has well managed to link how related party transactions has an effect on organization performance.
2.3.4 Integration of different theories

Each of the theories reviewed above provide primacy to a particular view on how related party should deal with the organization. Agency theory focuses on the conflicting interest between the owners and managements, while stakeholder theory views the dilemma regarding the interests of different groups of stakeholders. On the other hand, the transaction efficient hypothesis explores proposes the alignment of interest between related party and organizational goals.

The agency theory is the most popular theory and has received useful attention from academics (Jensen & Meckling, 1976). This theory is the basis of various standard setting, code and principles developed by various organizations (US-GAAP, 1982). However, Boyd (1995) criticizes both agency theory and efficient transactions hypothesis, he urge that organization operate under different environment, thus suggested that organization should rely on contingency approach.

In due regard, “the review of different theory clarifies that there is useful to take an integrated approach to understand the effect of related party on organizational performance”. at the same time as stakeholder theory places the importance of taking care of interest of relevant stakeholders and not just stockholders , the agency theory places emphasis on shareholders.

2.4 Empirical literature review

In relation to this study the following empirical literature were reviewed:-
Cheung, Rau and Stouraitis (2006) “examined a sample of 328 filing of connected transactions” between Hong Kong listed companies and their controlling shareholders during 1998-2000”. Data collected through database published annually by Hong Kong Stock Exchange. This study used abnormal returns to measure organizational performance.

Multivariate analysis was used to analyze data. Variables of related party transaction were audit committee members, ownership, independent and non-executive director, CEO duality, corporate governance and main shareholders. The result found that ”
the main shareholders have a negative and statistically significant in relation to organizational performance”. The audit committee and non-executive directors appear to have small impact on organizational performance.

Kohlbeck and Mayhew (2010) “examined the organization performance of entities that disclose related party transactions compared to those that do not, as data were collected from the firm included in 2001 S&P 1500”. Sample were 148 financial entities whose primary related party transactions are loans. Also, 298 entities sample had both simple and complex related party transactions.

The used method of documenting the association between related party transactions and the organization’ s performance as measured by Tobin’s Q, with the variables: Total assets, market value of organization ‘s asset replacement costs. But due the difficulties of computing fair value of the assets, the used variable measure Q as ratio of the sum of the market value of ordinary shares less working capital to total assets. Results of their analysis suggest that related party transactions have negatively significantly relationship with organization performance.

Ibrahim and Samad (2011) conducted and examine the relationship of corporate governance and organizational performance between family and non-family ownership of public -listed organization in Malaysia from 1999 -2005. Data were collected from sample of total of 474 entities of the Bursa Malaysia and all financial entities were eliminated from the sample due to differences in regulatory requirements. Variables which were used are this study is: Firm risk, firm age, and firm size.

This study used market measure namely Tobin’s Q to measure organizational performance. Overall results suggest that related party transactions of family ownership have lower organizational performance than non-family organization. Furthermore, the corporate governance structures such as independent director, duality for family and non-family ownership has a strong significant effect on organization performance.
Huang & Chia Liu, (2010) examined a list of high-technology organization in Taiwan and China. Variable of organizational performance were return on equity and earning per share. The sample of this research included a list of high-technology organization in Taiwan and China from 1998 through 2008 in the TEJ database. The study used the ordinary least square method to test hypothesis. Dependent organizational performance was operationalized by variables of return on equity, economic value added (EVA) and earning per share. The independent variables were sales and purchase of goods from related party transactions. This study there is no results as to whether related party transactions enhance or destroy organizational performance.

Table 2.1: Summary of Empirical results by country

<table>
<thead>
<tr>
<th>Author</th>
<th>Country</th>
<th>Methodology</th>
<th>Dependent Variable</th>
<th>Independent Variable</th>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cheung, Rau and Stouraitis</td>
<td>Hong Kong</td>
<td>Ordinary least square method</td>
<td>ROE</td>
<td>audit committee members, ownership, independent and non-executive director, CEO</td>
<td>-ve</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>duality, corporate governance and main shareholders</td>
<td></td>
</tr>
<tr>
<td>Kohlbbeck and Mayhew (2010)</td>
<td>USA</td>
<td>Tobin’s q analysis</td>
<td>ROA</td>
<td>Total assets, Deferred taxes, Common equity</td>
<td>-ve</td>
</tr>
<tr>
<td>Ibrahim and Samad (2011)</td>
<td>Malaysia</td>
<td>Tobin’s q analysis</td>
<td>ROA</td>
<td>Firm age, Firm size, Duality</td>
<td>-Ve</td>
</tr>
<tr>
<td>Sarpong-Danquah, Gyimah, Afriyie &amp; Asiama (2018)</td>
<td>Ghana</td>
<td>Tobin’s q analysis</td>
<td>ROA</td>
<td>gender diversity, board independence and board size</td>
<td>-Ve</td>
</tr>
<tr>
<td>Umobong (2017)</td>
<td>Nigeria</td>
<td>Multiple regression</td>
<td>ROA</td>
<td>Business, Transactions of related Firms</td>
<td>+ve</td>
</tr>
<tr>
<td>Huang &amp; Chia Liu, (2010)</td>
<td>Taiwan and China</td>
<td>Ordinary least square method</td>
<td>ROA, ROE, MVA, EVA</td>
<td>Sales of goods from related party, Purchase of goods from related party</td>
<td>No relationship</td>
</tr>
<tr>
<td>Rafizadeh (2016)</td>
<td>Iran</td>
<td>Common and random effects model</td>
<td>ROA</td>
<td>related party transactions, firm size, industry and age</td>
<td>+Ve</td>
</tr>
</tbody>
</table>
2.5 Research gap

The following are the gaps which need to be filled in the literature about relationship between related party transactions and organization performance. Organization performance as considered by Panda and Leepsa (2017) is a key variable in the relationship between principal and agent in the literature. Eisenhardt, (1989) that that the to include performance in the model introduces variation and errors in the coefficients of the model. Therefore there is a need to include these quantities in the model as to improve the model.

There is no clear evidences indicated there is either positive or negative effect of related part transaction on organization performance which has raised a need for more studies to be conducted on it. Under these situations it is difficult to describe the effect of related party transaction on organisation performance with confidence.

2.6 Conceptual Framework

The conceptual framework shows the relationship between variables. The theoretical background of related party transaction originated from the stakeholder theory. The stakeholder theory is an extension of the agency view, which expects related party to take care of the interest of shareholders.

The theory considered that related party transaction associated with sales to related party, purchase from the related party and loan to related party should always focuses on maximizing interest of stakeholders including bringing return on assets. Therefore related party transaction associated with sales to related party, purchase from the related party and loan to related party have positive relationship or impacts on return on assets. The relationship between related party transaction and organization performance is conceptualized as follows;
2.7 Description of Variables from the Conceptual Framework

2.7.1. Return on Assets (ROA)

The product of net profit margin and total asset turnover equals to ROA, Net profit after tax divided by the total assets (Rafizadeh, 2016). Return on assets tells us ability of an organization to use its assets to create profit. This shows the degree of
effectiveness to which the management tasked with running the organization in creating profit of the organization.

Return in total assets = profit/loss divided by average total asset from the beginning and the end of year or period times 100.

Generally, return of assets less than 5 % is seen as weak, return on assets of 5 to 10 is term as satisfactory, and return on assets above 10% is regarded as good.

2.7.2. Sales to related party transaction (RPTs)

This is when an organization sells goods to its parent at cost might not sell on those terms to arm’s length customer (IASB, 2015), regardless of whether a price is charged.

2.7.3 Purchase from RPTs

This is when an organization purchase goods from its parent at cost might not sell on those terms to arm’s length customer (IASB, 2015), regardless of whether a price is charged.

2.7.4 Related party loans

“Is the loan that is not widely available to people who are key management personnel and loans whose availability is not widely known by members of the public for each individual member of key management personnel and each close member of the family key management personnel”.

This include the amount of loan advanced, repaid and balance remained annually (IPSASB, 2017). The related party loans are an allocation of funds and assets of whether a fee is charged or not (IASB, 2015). Organization management such as director, managers and officers are allowed to receive cash loan from the organization they work and supervise. The distinctive relationship between the related parties causes to a possible conflict of interest and clash with interest of the shareholders. This argument is supported in the case of Enron scandal where it was established that illegal insider dealings with related party transactions with
organizations that had been created as special purpose instruments but in fact was an avenue to conduct fraud (Ongore, 2011).

2.8 Measurement of variables

In this study, organization performance was measured using one variable which is the organization revisit on property, measured by net profit ratio to total assets. Related party transactions in this study will be measured by three variables which are Sales to related party transaction (RPT)s, Purchase from RPTs and Loan to RPT (Nekhili & Cherif, 2011).

Sales to related party transaction (RPTs)
This is measured by annual sales in Tshs to related party transaction

Purchase from RPTs
This is measured by annual purchase in Tshs to related party transaction

Loan to RPT
This is measured loan received or paid to related party from beginning to the end of the year.

2.9 Hypothesis

This section develops the testable research hypotheses on related party transaction organizational performance of listed companies in Dar es Salaam Stock Exchange. The research hypothesis refers on the agency theory, conceptual and theoretical frameworks above.

2.9.1 Related party transaction and the organizational performance

As in Table 2.1 above in Kohlbeck and Mayhew (2010), in a sample of 1261 USA organizations, that related party transaction with organization top management, managers and key shareholders results in negative organization performance. The Kohlbeck and Mayhew (2010) found that, in general, organizations that do not use related party transaction have higher organization performance than those having no related party transactions. Thus, the first testable hypothesis is as follow:
H1: Related party transactions is negatively related to organization performance

2.9.2 Sales to related party transaction (RPTs) and the return on assets

Kohlbeck and Mayhew (2010) found that, in general, organizations that do not use related party transaction have higher return on assets than those having no related party transactions. The annual return on assets associated with sales of goods and services to the related party are lower than on those associated with sales to unrelated parties (Nekhili & Cherif, 2011). Thus, this leads to the following alternative hypothesis:

H2: Sales to related party transactions is negatively related to return on assets

2.9.3 Purchase from related party transaction (RPTs) and the return on assets

Kohlbeck and Mayhew (2010) found that, in general, organizations that do not use related party transaction have higher return on assets than those having no related party transactions. The annual return on assets associated with sales of goods and services to the related party are higher than on those associated with purchase to unrelated parties (Nekhili & Cherif, 2011).

H3: Purchase from related party transactions is positively related to return on assets

2.9.4 Loans to related party transaction (RPTs) and the return on assets

Loans are considered by Nekhili and Cherif (2011) as an important tool for resolving conflict between principal and agents, debt also used for expropriation of minority shareholdings. This one of hidden function of loans is contracted by management on behalf of shareholders. They use the loans as instrument of governing the organization and the risk of expropriation. The problem of loans or debts may in some instance be able to be converted through non equitable transactions between organizations that are members of the same group. The author found that the interest rate for loans is 4% below than the rates applied to the non-related parties. Therefore, this mechanism cash flow expropriation through loans burdensome of related party
subsidiaries thus the outcomes is the financial distress to them (Nekhili and Cherif, 2011). Then we may hypothesize as follows:

\textit{H4: Loans to related party transactions is negatively related to return on assets}

2.10 Summary

In this chapter, the conceptual and theoretical framework in which the study is underpinned has been described. This chapter has also discussed the key constructs of the study in their details. Justifications for different choices that have been made have also been described and discussed with the assistance of the developed conceptual framework and hypotheses.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0. Overview

This chapter elaborates the way in which the data was collected and analyzed. The chapter also explains the population, sample size, data collection method as well as data analysis techniques.
3.2. Research Design

The study used is an explanatory type. The explanatory types of research design are conducted to find the relationship between two variables (Saunders et al. 2014). This research is following positivism approach because the hypothesis is tested to get conclusion and is fallen under deductive reasoning. The study employed longitudinal or panel secondary data approach to answer research questions (Greene, 2012). The study employed this design because it is suitable to show the effect of independent variable on dependent variable.

3.3 Research approaches

Research approaches represented approached adopted on data collection, analysis and interpretation (Saunders, et al. 2014). The process involves relevant approach suitable for the topic used in the study (William, 2011). This study adopted a quantitative approach because the data were analyzed quantitatively; a number of data were collected and analyzed. Thus, this study adopted deductive research approach which were used to test the theory by employing hypothesis, operationalizing terms in expressing hypotheses, tested these hypotheses and examined the relationship of outcomes (Saunders et al. 2014).

3.3. Research design

This study is a descriptive-explanatory design by nature, the main objective of the study required describing effects of related party transactions on organization performance. I used this research design because the study wanted to describe the relationship between related party transactions and organization performance which was presented in their annual reports. Specifically, I wanted to know the effect and extent to whether related party affect organization performance.

3.4. Population

The population of the study was obtained from public companies listed at Dar es salaam Stock Exchange (DSE) which currently are 28 companies namely CRDB Bank PLC (CRDB), Acacia Mining Plc, DCB Commercial Bank PLC, DSE PLC
(DSE), East African Breweries Ltd., Jubilee Holdings Ltd, Kenya Airways Ltd, Kenya Commercial Bank Ltd, Maendeleo Bank Limited (MBP), Mkombozi Commercial Bank (MKCB), MUCOBA Bank PLC (MUCOBA), Mwalimu Commercial Bank (MCB), National Microfinance Bank PLC (NMB), National Media Group Plc, Precision Air Services PLC (PAL), Swala Gas and Oil Company Ltd (SWALA), Swissport Tanzania Ltd., TBL, TCCL, TOL Gases Ltd. (TOL) L, Tanzania Portland Cement Co. Ltd. (TWIGA), Tanzania Tea Packers Ltd. (TATEPA), Tanzania Cigarette Co. Ltd. (TCC), Uchumi Super Market and Yetu Microfinance PLC (YETU). The Dar es salaam stock Exchange Market was registered in 1996 and come into trading in 1998 when the first company was listed.

3.5. Sample Frame

A list of company from which sample for this study was drawn from DSE database. The DSE database contain list of actively trading organization in the DSE and their appropriate financial statements on annual basis. DSE data base for 2012 to 2016 provided guide for selection of appropriate sample for the goal of attaining objective of this study. This type of sampling frame has used in prior studies by (Alade, 2018)

3.6 Sample size and sampling techniques

The research period was 2012 to 2016. The period was selected purposely because most listed companies in DSE were in full operation already. Thus, this study adopted purpose sampling procedures on the targeted population; sample size is 28 listed companies. Due to few companies listed in DSE all were selected for the study, thus the whole population was selected as sample size.

3.6.1. Sampling method

Sampling techniques are the methods used to select samples from a population. In this study sample elements were selected through purposive sampling technique. This technique was used because of the fact that a researcher has prior knowledge about the population and hence it was his intention to select sample that would help him to obtain data that fit the purpose of the study.
Purposeful sampling approach was used to obtain the selected sample. A purposeful sampling approach which was used in this study excludes organizations operates under 5 years. The annual reports of listed companies in DSE for the range of 2012 to 2016 were within or above five years of operations.

3.6.2. Sample size and sample period

Israel (1992) pointed out that, one of the most difficult concerns in research is determination of the sample size. He pointed out three factors which are to be used for selecting sample size. The factors include sampling error, confidence level and the degree of variability in the variables being measured.

By selecting purposive sampling technique on the targeted population, sample size of 28 listed organizations because most of the companies were in operation already.

Therefore, the sample size of the study included 28 listed companies in the Dar es Salaam Stock Exchange Market were selected for the study.

3.7. Data sources

Data of this study were collected from secondary sources. Published financial statements and other related reports were collected from 28 listed companies for a period of atleast 5 years (2012-2016). The aim was to evaluate effects of related part transactions on firm performance. Secondary data were used because information about related part transactions, firm value, tax liability value and firm earnings are usually disclosed in the financial statements of the firm. Therefore, using secondary source to obtain data for this study was appropriate.

3.8. Data collection instruments

This study used document review for data collection because document review is the only best method for extracting secondary data. Document review involves reviewing various documents for the sake of obtaining information from them; the financial statements from DSE were used for this study.
3.8.1 Procedures of data collection

For data collection; the consultation was made to Dar es salaam Stock exchange management to seek permission to get and use data published in the website. Furthermore, the notification was made for use the data published for public in the website and more information from the office in case of difficulties.

Data collection procedure will be as follows:

- Downloading annual reports for organizations listed in DSE as sample frame of my research.
- Preparing the sample from the population
- Extracting the data from the annual reports

3.9. Data processing and analysis procedures

Data analysis in this study involved two methods; one was descriptive statistics and the other was ordinary least square method. Descriptive statistics was used to perform preliminary analysis of data set so as to test assumption of data set distribution. Ordinary least square method was used to analyses statistical data for each of the three specific objectives. The statistical package for social science (SPSS) was used to processing and analyzing data.

3.9.1 Data screening

The collected DSE data base data were reviewed for completeness and data were entered in the IBM/SPSS version 23 software. Examined data before the application of any analytical technique ensured that the data meet the requirements for given analytical technique. (Hair, Ringle, & Sarstedt, 2013) argue that once a clean dataset is attained ,the data analysis becomes quite a straight forwards exercise. In this study , data wete cleaned by examining variable scores for normality, extreme
skewness and kurtosis by using descriptive statistics such as mean, standard deviation, minimum and maximum values and histograms (Saunders, et al., 2014).

3.9.2 Assumption of multiple regression analysis

3.9.2.1 Missing data

In this study, the checking process of missing values was conducted through IBM SPSS/Descriptive/Frequency which showed that all the variables had no missing values. The absence of missing values must have been contributed to by the fact that the information from listed companies’ data set were filled in customized data sheet, where the researcher them and appropriate companies were contacted for clarification.

3.9.2.2 Normality

Normal distribution can be tested in several ways including graphical analysis and statistical tests. In this study, normality was tested by indices of skewness (asymmetry), kurtosis (peakedness) and histograms using SPSS/FREQUENCES. The measured variables were examined and verified using graphical and statistical methods and their distribution was found to be fairly normal.

3.9.2.3 Outliers

The data was screened for univariate and multivariate outliers. Outliers are the observations with unique combinations of features identifiable as distinctly different from the other observations. Univariate outliers were examined by using IBM SPSS/DESCRIPTIVES. The calculated scores for each variable did not reveal any extreme values (exceeding the threshold i.e. z <± 3).

Multivariate outliers were identified using IBM SPSS/REGRESSION and Mahalanobis’ distance (MD). Mahalanobis D2 is the measure of distance in multidimensional space of each observation from the mean center of multidimensional centrally. No score have been found to have outliers doubt.
3.9.2.4 Multicollinearity

Multicollinearity is defined as the degree to which any variable’s effect can be predicted for by other variables in the analysis. Multicollinearity was examined using IBM SPSS/CORRELATION and SPSS/REGRESSION. Inter-correlations among measured variables ranged from 0.15 to .81. Therefore, no Multicollinearity problem was identified, as these values did not exceed the critical values (Hair et al., 2013). The tolerances and VIF values for predictors were all within the limits as recommended.

3.9.2.5 Linearity and Homoscedasticity

Linearity

Linearity is the degree to which change in a dependent variable is related to change in one or more independent variable (Saunders et al., 2014). The linearity was examined using IBM SPSS/GRAPHS/SCATTER which showed that the assessed variables were linearly related.

Homoscedasticity

Variance around the regression line should be the throughout the distribution. Homoscedasticity assumption is the situation that dependent variables exhibit equals variance across ranges of independent variables.

3.10 Data presentation

Descriptive data analysis was used to present data in the following approach

- Frequency and distribution table
- Histogram
- Line graph
3.11 The model Specifications

The model specification in this study originated from the theoretical background of related party transaction originated from the stakeholder theory. The theory considered that related party transaction associated with sales to related party, purchase from the related party and loan to related party should always focus on maximizing interest of stakeholders including bringing return on assets. Therefore based on that, the sales to related party, purchase from the related party and loan to related party have contribution on promoting return on assets. Therefore, the independent variables in this study are sales to related party, purchase from the related party and loan to related party and dependent variable is return on assets. This has resulted specification of model that indicate the relationship between sales to related party, purchase from the related party and loan to related party and return on assets through Ordinary Least Square model as indicated below:

\[ y = c_0 + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + \epsilon \]

Where

Y = organization performance (dependent variable)

\( \beta_1, \beta_2, \beta_3 \) = the coefficient of related part transactions on independent variables

\( x_1, x_2, x_3 \) = related part transactions

\( c_0 \) = the constant value of the equations

ROA=Co + \( \beta_1 \) RPT to sales + \( \beta_2 \) RPTpurchase+ \( \beta_3 \) RPTloan+ \( \epsilon \)

3.11.1 Study hypothesis

We made decision to reject or accept the hypothesis, a number of statistical tests were carried were carried out as indicated in Table 3.1

Table 3.1: Hypotheses and statistical tests

<table>
<thead>
<tr>
<th>Objective</th>
<th>Hypothesis</th>
<th>Type of analysis</th>
<th>Interpretation</th>
</tr>
</thead>
</table>

31
to evaluate effect of related party transactions in organization’s performance

H1: Related party transactions is negatively related to organization performance

Pearson correlation
Linear regression analysis
If p-value < .05 rejects the null hypothesis, otherwise fail to reject.

To assess the impact of related party sales on return on assets.

H2: Sales to related party transactions is negatively related to organization performance

Pearson correlation
Linear regression analysis
If p-value < .05 rejects the null hypothesis, otherwise fail to reject.

To establish impact of related party purchases on return on assets.

H3: Purchase from related party transactions is positively related to return on assets

Pearson correlation
Linear regression analysis
If p-value < .05 rejects the null hypothesis, otherwise fail to reject.

To determine impact of related party loans on return on assets

H4: Loans to related party transactions is negatively related to return on assets

Pearson correlation
Linear regression analysis
If p-value < .05 rejects the null hypothesis, otherwise fail to reject.

3.11.2 Measurement of Variables

This part demonstrated how variables were measured. It describes the nature of variable, its measurement as well as its relationship with dependent variable as it is indicated at Table 3.2.

Table 3.2: Measurement of Variables

<table>
<thead>
<tr>
<th>No.</th>
<th>Variable</th>
<th>Nature of Variable</th>
<th>Measurement of Variable</th>
<th>Relationship of variable on dependent variable</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>sales to related party</td>
<td>Independent</td>
<td>The carrying amount</td>
<td>Positive</td>
</tr>
<tr>
<td>2</td>
<td>purchase from the related party</td>
<td>Independent</td>
<td>The exchange amount</td>
<td>Positive</td>
</tr>
<tr>
<td>3</td>
<td>loan to related party</td>
<td>Independent</td>
<td>related party loan receivables are classified and measured in accordance with IFRS 9, which includes applying the expected</td>
<td>Positive</td>
</tr>
</tbody>
</table>
3.12 Reliability and validity of data

3.12.1 Validity

Validity is concerned with whether the research in fact measures what was intended to be measured and how truthfully the study results are. In our deductive research approach like this, there are two type of validity, which is internal and external validity. Internal validity is the soundness of the inferences in relationship among variables of the study.

It is attained by ensuring that the effects of measured variables are correctly attributed to the independent variables. In this study internal validity was attained by ensuring that conceptualized associations among variables underpinned by relevant theoretical framework established in financial management and corporate governance.

And other research experienced researchers in the area of corporate governance and financial management were consulted to assess the variables used in data collection. Informal review with financial managers and employees also contributed significantly to internal validity of this study. To ensure that data collected are reliable and valid, researcher ensured that data are collected from the reliable sources such as the Dar es Salaam stock exchange market database.

External validity is concerned with the extent to which results would be generalized to the entire population and relevant context (Saunders et al., 2014). External validity was achieved fundamentally by proper development of the research problem statement and research design.

Cautious selection of the relevant conceptual and theoretical frameworks and used the good established existing theoretical constructs helped this study to come up with
sensible findings. The use of large sample also contributed to increased external validity of this study.

Construct validity is related with how well the theory has been translated into actual research measurement to draw valid conclusions in the study. It requires the investigator to use the correction measures for concepts being studied. It is important the investigator to employ the correct measures for concepts being investigated.

In order to attain construct validity, paradigms for scientific research were adhered from the research problem statement stage to the stage of conducting the research. The variables and definition of them for which data were collected were developed by adopting measures that have been widely used previous study of related party transaction and organizational performance.

3.12.2 Reliability

The measurement was said to be reliable if data collection technique would yield consistent findings; if the observation would be made by other investigators and the same conclusion reached (Saunders et al., 2014). Researcher instrument is considered to be reliable if the conclusions of this study can be reproduced using similar methodology.

In this study, reliability of the study measurement instrument was enhanced by carefully adopting the research methods used in other similar studies and pretesting them before using them in the main research process.

3.13 Ethical issues

During study, all ethical guidelines of data collection from a field were followed as per Mzumbe guidelines of conducting a research. Confidentiality, objectivity and honesty were all considered and practiced during the whole process of research.

3.14 Summary

This chapter has discussed the choice of research approach, strategies, research design and the methodology used to conduct the study; including data collection
procedures, ethics issues, sample selection and measures. Data analysis from the results processed, testing hypothesis are reported and discussed in chapter four and five.

CHAPTER FOUR

PRESENTATION OF RESEARCH FINDINGS

4.1 Introduction

This chapter presents results of the study and the interpretations and analysis of that information. The results of the conducted study will explain relationship between related party transaction and organizational performance of public listed firm in Dar es Salaam Stock Exchange.
Thus the party is concerned with investigation between related party transactions, sales to related party transactions, purchases from related party transactions, loan to related party transactions and Return on Assets. The interpretation was based on testing the conceptual framework and research hypotheses. It specifically describes and presents results found, data used for analysis and interpretation of results.

4.2 Variables used

As described section 3.5 in methodology, the final sample consisted of the 28 listed public company listed in Dar es Salaam Stock Exchange from 2012 to year 2016. The data was collected Dar es Salaam Stock Exchange web site. For this sample data were collected for the calculation of return on assets, sales to related part transactions and purchase from related party transactions on those years.

4.3 Descriptive statistics

Firstly, the amount of all related party transactions are aggregated. The related party transactions disaggregated into three variables which are loans, sales and purchases. Table 4.1 presents the basic descriptive statistics from 115 observations for the financial period between 2012 and 2016.

Table 4.1: Descriptive Statistics (Tshs)

<table>
<thead>
<tr>
<th>Variable description</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit</td>
<td>95,742,749</td>
<td>579,985,788</td>
<td>115</td>
</tr>
<tr>
<td>Sales</td>
<td>65,809,827</td>
<td>231,002,902</td>
<td>115</td>
</tr>
<tr>
<td>Purchase</td>
<td>312,119,552</td>
<td>951,758,282</td>
<td>115</td>
</tr>
<tr>
<td>Loan</td>
<td>19,532,509</td>
<td>51,143,449</td>
<td>115</td>
</tr>
</tbody>
</table>

Source: Field Data (2018)

As presented in the Table 4.1 the average amount of related party transactions from the 28 observations ranges from Tshs 19,532,509 to 312,119,552. The average amounts for loan to related party organizations are considerably smaller than that of purchases from related party transactions.
This value accounted approximately 15 times lower as compared Purchases from related party. But also there reasonable increase more than 2 times value of loans to related party transactions. Furthermore, the results from descriptive statistics suggest that Purchases transactions on average are approximately 78% of total amount of related party transactions.

This transaction is the highest in value, followed by sales to related party transactions (15.5%) and loan to related party transaction (5%). There is no previous known study that classifies related party transaction into three variables such as sales to related party, Purchases from related party and loan to related party for the purpose of descriptive analysis.

4.4 Correlation Analysis

Table 4.2 presents a correlation matrix between the independent and dependent, the table reports Pearson pairwise correlations coefficients. The highest correlation is between sales and profit. Some of correlation are negative correlation such as between profit and loan (-0.149) and between loan and sales (-0.016). Also there is no correlation between sales to related party transaction and profit (0.000). In general correlation between these variables is very low.

<table>
<thead>
<tr>
<th>Pearson Correlation</th>
<th>Profit</th>
<th>Sales</th>
<th>Purchase</th>
<th>Loan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit</td>
<td>1.000</td>
<td>.903</td>
<td>.124</td>
<td>-.149</td>
</tr>
<tr>
<td>Sales</td>
<td>.903</td>
<td>1.000</td>
<td>.227</td>
<td>-.016</td>
</tr>
<tr>
<td>Purchase</td>
<td>.124</td>
<td>.227</td>
<td>1.000</td>
<td>.025</td>
</tr>
<tr>
<td>Loan</td>
<td>-.149</td>
<td>.016</td>
<td>.025</td>
<td>1.000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Sig. (1-tailed)</th>
<th>Profit</th>
<th>Sales</th>
<th>Purchase</th>
<th>Loan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit</td>
<td>.</td>
<td>.000</td>
<td>.093</td>
<td>.057</td>
</tr>
<tr>
<td>Sales</td>
<td>.000</td>
<td>.</td>
<td>.007</td>
<td>.432</td>
</tr>
<tr>
<td>Purchase</td>
<td>.093</td>
<td>.007</td>
<td>.</td>
<td>.394</td>
</tr>
<tr>
<td>Loan</td>
<td>.057</td>
<td>.432</td>
<td>.394</td>
<td>.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>N</th>
<th>Profit</th>
<th>Sales</th>
<th>Purchase</th>
<th>Loan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit</td>
<td>115</td>
<td>115</td>
<td>115</td>
<td>115</td>
</tr>
<tr>
<td>Sales</td>
<td>115</td>
<td>115</td>
<td>115</td>
<td>115</td>
</tr>
<tr>
<td>Purchase</td>
<td>115</td>
<td>115</td>
<td>115</td>
<td>115</td>
</tr>
<tr>
<td>Loan</td>
<td>115</td>
<td>115</td>
<td>115</td>
<td>115</td>
</tr>
</tbody>
</table>

a. dependent variable: Profit
4.5 The impact of related party transactions of sales on return on assets

A test of the research hypothesis using regression analysis was performed using organizational performance as the dependent variable and independent variables: related party transactions; loan to related party, sales to related party, and purchase to related party were tested. The study used regression analysis to investigate the impacts of related part transaction of sales on return on assets and the results presented through Table 4.3

**Table 4.3: Model summary**

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.916*</td>
<td>.840</td>
<td>.835</td>
<td>.352</td>
<td>.000</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Loan, Sales, Purchase

Source: Field Data (2018)

Then data were analyzed through ordinary least square method to establish effect of related part transactions on value of the firm, earning of a firm and tax liability value.

Table 4.3 presents both the “adjusted R²” and R², the adjusted R² is controlled for overestimation of the population R² (0.916) which is above adjusted R² (0.835) which resulting from adjustment of sample size. The size of different between these values is reasonable.

The standard error of the estimate is the standard deviation of residuals of actual profit and expected profit. If R² will increases the standard error of the estimate will decrease as consequence will provide better fit of the model. On average the profit or return on assets will be affected by 0.352.

In the line with main objective of the study, model for the first hypothesis was tested using p-value. We provide a report of regression results of related party transactions and organization performance (return on assets) in Table 4.4.

**Table 4.4: Regression results of relationship between related party transactions and organization performance.**
The study carried out regression analysis to investigate the effect of related party transactions and organization performance of the companies listed in Dar es Salaam stock Exchange market. The findings were useful in testing hypothesis related to this study.

**H₀**: There is no significant effect between the related party transactions and organization performance of the companies listed in Dar es Salaam stock Exchange market.

**H₁**: There is significant effect between the related party transactions and organization performance of the companies listed in Dar es Salaam stock Exchange market.

The first research hypothesis of this study states that Related party transactions is negatively related to organization performance.

The results show that the model fits the data given that adjusted R-square value of .835 was obtained. This suggests that approximately 83.5 percent of explained variation in return on assets in the period 2012 through 2016 was explained by combined effects of Loan to and from related party, sales to related party, and purchase from related party.

Thus, the relation between two variables, related party transactions and organizational performance are statistically significant (p <0.05) for the model. The implication of results indicates that variable fit well in the regression model of organizational performance as dependent variable. The null hypothesis state R²=0, suggesting that there is no significant effects of related party transactions on organization performance. Thus, based on the explained variance results in Table 4.3,
the coefficients of adjusted R square is positive and significantly different from zero at .05 levels with sig .000.

With regard to this finding, it can therefore be agreed that there is statistically effect of related party transactions on organization performance on the information obtained from Database of Dar es salaam Stock Exchange from 2012 through 2016. Therefore, this study fails to accept the null hypothesis that there are no significant related party transactions has negatively effect on organization performance on the companies listed in Dar es Salaam stock Exchange.

4.6 The impact of related party transaction of purchases on return on assets.

Based on specific objective two, hypothesis was hypothesized which is presented and analysed as follow:

H02: There is no significant impact of related party transactions on sales to return on asset.

H12: There is significant impact of related party transactions on sales to return on asset.

In an attempt to statistically establish possible impact of related party sales on return on assets the relevant theory and empirical review were conducted and based on the information from Dar es salaam Stock Exchange the listed companies we hypothesized the above null hypothesis. Our H12 or alternative hypothesis is supported when β1(-.919) in negative and statisticaly significant.

4.7 The impact of related party transaction of loans on return on assets

H03: There is no significant impact of related party purchases in return on assets.

H13: There is significant impact of related party purchases in return on assets.

In an attempt to statistically establish possible impact of related party of purchase on return to assets, the relevant theory and empirical review were conducted and based on the information from Dar esa laam Stock Exchange listed companies we
hypothesized the above null hypothesis. Our $H_{13}$ or alternative hypothesis is supported when $\beta_2(-.081)$ is negative and statistically significant.

Regarding this finding; The negative scope and significant association between related party purchase and return on assets suggest that purchase from related party can explain part of variation in organization performance. The negative association shows that related party can be used to manage costs or limit expropriation of organization resources from shareholders.

**Hypothesis four**

$H_{04}$: There is no significant impact of related party loans on return on assets.

$H_{14}$: There is significant impact of related party loans on return on assets.

In an attempt to statistically establish possible impact of related party loan on return on assets the relevant theory and empirical review were conducted and based on the information from Dar es Salaam Stock Exchange listed companies we hypothesized the above null hypothesis. Our $H_{14}$ or alternative hypothesis is supported when $\beta_3(-.132)$ in negative and statistically significant.

**4.8 Variable contribution to model**

Table 4.4 presents the variable contribution to the model. If we look at $p$-value of the $t$-test for each independent variable, we can see that each of related party transaction values contributes to the model. The $B$ weight shows us that each added point on the related party transaction decreases the expected values.
CHAPTER FIVE

DISCUSSION OF RESULTS

5.1 Introduction

This chapter discusses the findings of the study basing on each specific objective. A review of the related party transaction and organization performance was provided in chapter two, where we reviewed and established that related party transactions have been associated with organizational scandals and expropriation of shareholders wealth.
5.2 Impact of related part transactions sales on return on assets

In an attempt to statistically establish possible impact of related party sales over return on assets, the relevant theory and empirical review were conducted and the information obtained from Dar es Salaam Stock Exchange for all listed companies. Then we hypothesized the above null hypothesis.

Our H12 or alternative hypothesis is supported when $\beta_1(-.919)$ in negative and statistically significant.

This is the rate of return on assets when there is a sale to RPTs and all other variables are zero. This suggests that the ROA will not grow when related party transactions is conducted. This indicates that sales to related party transaction have very big impact compared to other related party transaction such as loans and purchase.

The findings from this study related with earlier study by Umobong (2017) who investigated effect of related party transactions and organization performance in Nigeria. The results were a positive relationship existed between related party transaction and organization performance but do not significantly affect return on assets, return on equity and earning per share. This current study observed that sales to related party transaction have very big impact compared to other related party transaction such as loans and purchase.

Gordon and Henry (2005) basic categories of related party transactions as purchases of goods or services from related parties, sales of goods or services to related parties and loans to related parties. According to International Financial Reporting standard (IFRS) No. 24, companies should disclose the nature of related party transactions and others.

Kohlbeck and Mayhew (2010), in a sample of 1261 USA organizations, that related party transaction with organization top management, managers and key shareholders results in negative organization performance. The study found that, in general, organizations that do not use related party transaction have higher organization performance than those having no related party transactions. This result related to the
current study which observed that related party transaction have very big impact compared to other related party transaction such as loans and purchase.

5.3 Impact of related party transactions purchase on return on assets

In an attempt to statistically establish possible impact of related party purchase on return on assets the relevant theory and empirical review were conducted and the information obtained from Dar es salaam Stock Exchange for all listed companies. Then we hypothesized the above null hypothesis. Our H13 or alternative hypothesis is supported when $\beta_2(-.081)$ in negative and statistically significant.

This is the rate of return on assets when there is purchase from LPTs and all other variables are zero. This suggests that the ROA will not grow when related party transactions is conducted. This indicates that purchases to relate party transaction has very small impact compared to other related party transaction such as loans loan and sales to related party transactions.

The finding obtained in this result related with Rafizadeh (2016) “who conducted study Iran examining effect of related party transactions and financial performance of the companies listed in listed in Tehran Stock Exchange”. To operationalise related party transactions variables used were related party transactions, firm size, industry and age, whereas, dependendt variable was financial performance measured by return on assets which was measured by net profit ratio to total assets. The results showed related part transaction has negative effect on financial performance measured through net profit to total assets.

5.4 Impact of related party transactions loan on return on assets

In an attempt to statistically establish possible impact of related party loan on return on assets the relevant theory and empirical review were conducted and the information obtained from Dar es salaam Stock Exchange for all listed companies. Then we hypothesized the above null hypothesis. Our H14 or alternative hypothesis is supported when $\beta_3(-.132)$ in negative and statically significant.
This result suggests that the ROA will not grow when related party transactions is conducted. This indicates that loans to relate party transaction has very small impact compared to other related party transaction such as sales to related party transactions. The findings in this study related with Chen, Cheng, and Xiao, (2010) who observed that organization related party transaction are conducted to manipulate costs or expropriation of organizational resources, this might affect cash flows or accruals but not necessary affect both.

Similarly, Kohl beck and Mayhew (2010) found that, in general, organizations that do not use related party transaction have higher return on assets than those having no related party transactions. The annual return on assets associated with sales of goods and services to the related party are lower than on those associated with sales to unrelated parties (Nekhili & Cherif, 2011).

When organization related party transaction are conducted to manipulate costs or expropriation of organizational resources, this might affect cash flows or accruals but not necessary affect both (Chen, Cheng, and Xiao, 2010).

CHAPTER SIX

SUMMARY, CONCLUSION, RECOMMENDATIONS

6.1 Introduction

This chapter presents an overview of the study conducted based on effects of related party transaction on organization performance. The next section provides a brief summary of the study. The remaining sections will give a recap for objectives of the
study, key findings, and contributions of the study to users, implications of the findings, limitations of the study, recommendations and suggestions for future research.

6.2 Summary

This study is about related party transactions and their effects on organization performance. In chapter one the researcher discussed the introduction and background of the study, research problem statement, significant of the study and the main objective of the study was to evaluate effect of related party transactions on organization performance. Therefore, the study is aiming in achieving three specific objectives which are to assess the impact of related party transactions on return on assets, to establish the impact of related party transactions sales on return on assets and to determine the impact of related party transactions loan on return on assets.

Chapter two is discussed literature by reviewing the theoretical background of the study which was detailed and explained. The main theories in the study were Agency theory, stakeholder theory and the efficient transaction theory. The efficient transactions theories as they are considered to be opposing theoretical underpinning that explain the opposite and nature of related party transaction. Thus, stakeholder and the efficiency transactions theory were discussed as alternative to agency theory.

In this chapter also researcher discussed empirical study, established research gap and developed conceptual and theoretical framework which was used as basis to develop and test hypotheses.

In chapter three, we outlined research methodology. This study used secondary data extracted from published financial statements of 28 listed companies from Dar es Salaam stock exchange market. Data were analyzed using ordinary least square method and descriptive statistics techniques. Data were collected through downloading documents from DSE website database.

In chapter four, we described the findings of the study showed that related part transactions have association and significant effects on organization performance. Thus, the findings of independent variable showed that related part transactions
contributed and have a negative but significant impact on organizational performance. While in chapter five, we discussed results of specific objectives by examining association between predictor variables and criterion variable

6.3 Conclusion

This dissertation was devoted to the effect of related party transactions on organizational performance. I investigated three variables of related party transactions which were sales to related party transactions, Purchases from related party transaction and loan to related party transactions. However, significant relationship between these variables and organizational performance were established. We expected negative relationship between predictors and criterion. This conclusion collaborate the previous studies as conducted by Cheung et al.(2006), Kohlbeck and Mayhew(2010). The above researchers found negative effect of related party transaction on organizational performance measured by several related party transactions variables.

Therefore, we can conclude that, there were negative relationships between the related part transactions variables and Organizational performance was established. When related part transactions are considered in organization under the study, they have a significant negative effect on organizational performance of listed companies in Dar es Salaam stock exchange market.

6.4 Contribution of study

The study makes theoretical and contextual contributions. First, the study contributes to related party transactions and organization performance by examining the association between them in a unique context in the developing countries, specifically Tanzania. Also the study help users of financial information to make decision for the organization which disclose related party transaction.
6.5 Implications of the Study

This study widens the relationship between agency theory and efficient transactions in related party transactions. The two theories on related party transactions in the existing literature can result in either positive or negative which effects on investors and minority shareholders.

The investigation on related party transactions on sales, purchases and loan issued how it affect the organization performance. Through the study policy and law makers can be able to amend and institute law and polices which suite the existence of related party transactions.

6.6 Delimitation of the study

This study focuses only the listed companies in DSE, but related party transactions is not practiced only by listed companies. It was not based on getting information of private companies not listed in stock exchanges. The Tanzania context may be considered distinctive because there DSE in at infant stage and only 28 companies till have been listed in DSE (DSE, 2016).

The analysis was made for all information published as annual reports which elaborate in detail different matters. Distinguished finance cost of RPTs and that of loan taken from other organizations are not clearly isolated, apart from that some of the companies were not clearly disclose RPTs in their financial statements.

6.7 Recommendations

The result shows that there is a significant relationship between the related party translations and organization performance of the companies listed in Dar es salaam Stock exchange. (Chen, et al., 2010) and Kohlbeck and Brian (2010) established that related party transactions are negatively correlated with organization performance. Convincingly, it can be concluded that organizations that conduct related party transactions show negative trends to their organizational performance. Accordingly, the following recommendations may be provided:
The managements are advised to trim down the quantity of related party transactions so as to attain a greater return on assets.

The boards of directors of the companies are advised by setting oversight committee with competent and experience in exerting good corporate governance structure, strong internal controls, to provide guidance for a reduction of related party transaction.

The listed companies and other organizations are recommended to develop required standard, policy and guidelines for conducting and the disclosure of related party transaction to provide a ground to more transparency.

6.8 Areas for further research

This study considered effects of related part transactions on organizational performance of the listed companies in Dar es Salaam stock exchange.

It is recommended that further studies on related party transactions for those companies not listed in Dar es Salaam stock exchange for the sake of comparison. It will be interesting if many years were included in the sample. This research covered only five years from year 2012 to 2016. It could be interesting to incorporate some years before 2012 in the sample.

However, it is suggested that further research should be conducted to examine objectives of related part transactions and their impacts on firm’s economic efficiency.
REFERENCES


