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Between Tunneling and Efficiency – A Global Empirical Review of the Impact of Related-Party Transactions (RPT) on Subsidiary Performance

ABSTRACT

Objective: The purpose of this article is to provide a review of the empirical scientific literature concerning the impact of Related-Party Transactions (RPTs) on subsidiary performance from an intercontinental perspective. The goal is to identify common patterns, regional differences resulting from institutional context, and key determinants of RPT effects.

Methodology: The article reviews empirical literature published between 2009 and 2025, incorporating classic theoretical positions. The analysis is organized regionally, sorting results across four main areas: Asia, Europe, Africa, and North and Latin America.

Findings: The RPT impact is ambivalent, driven by three factors: governance quality, ownership structure (the control/profit wedge), and motivation. Asia and Latin America demonstrate the coexistence of tunneling (expropriation) and propping (support), often utilizing RPTs as a capital market substitute. Europe and North America primarily use RPTs for tax optimization due to stricter regulations and developed markets.

Value Added: This review provides a comparative, balanced assessment of RPT influence. Its value lies in the synthetic intercontinental analysis and the integration of the conflict, efficiency, and resource theories, leading to the identification of the three main determinants of RPT effects.

Recommendations: Subsidiaries must implement procedures for assessing the arm's length nature of RPTs and strengthen board monitoring. Regulators should harmonize regulations and continue implementing OECD BEPS initiatives to limit tax base erosion. Future studies should focus on long-term RPT effects on investment and financial stability.

Key words: related parties transaction (RPT), transfer pricing, tunnelling, propping, subsidiaries



JEL codes: F23, H25, G34

Introduction

Related-party transactions (RPT) and transfer pricing are an integral part of modern capital groups operation. Because a large part of global trade takes place within corporate structures, the way those transactions are settled has a direct impact on the revenue, costs, and tax burden of subsidiaries. At the same time, with the increasing scale of transnational activities and the dominance of intangible assets, the possibilities for transferring value between jurisdictions are increasing. In the literature on the subject, two main views on RPTs, which determine the assessment of their impact on subsidiaries, clash. The efficiency perspective emphasizes that intra-group transactions can be used to improve resource allocation, reduce transaction costs and facilitate financing within conglomerates. On the other hand, the conflicting perspective indicates the risk of abuse, based on the assumption that dominant owners and managers can use RPT to redistribute value within the capital group to their advantage and to erode the tax base.

A capital group is understood as a group of entities related in terms of capital and organization in which one entity exercises control over others, and their activities are coordinated economically and decisively as a whole. A subsidiary is an entity over which another entity – the parent company – exercises control by holding a majority of votes, shares or other powers for shaping business decisions. A related party is a person or entity that, due to existing capital, organizational, or controlling links, can influence the decisions or policies of the other entity. Transfer pricing is the prices and terms of settlement used in transactions between related parties.

This article is a review of the scientific literature, focusing on empirical research on the impact of RPT on the results of subsidiaries in an intercontinental perspective. The analysis covers four main regions of the world: Asia, Europe (with particular emphasis on Poland), Africa, and North and

Latin America. The aim is to identify common regularities and differences resulting from the institutional and cultural context of individual regions, as well as to identify the key determinants of RPT effects as well as significant research gaps.

Theoretical interpretative trends. Conflict of interest vs. efficiency

In the literature, there are two competing trends explaining the motives and effects of transactions with related entities. The conflict-of-interest view assumes that related transactions are opportunistically used by majority owners (partners, shareholders) to transfer assets from subsidiaries at the expense of minority shareholders. In an environment of weak investor protection and concentrated ownership, majority shareholders can expropriate a minority through RPTs, which negatively affects the performance and value of companies. Johnson et al. (2000) introduced the concept of tunneling to describe such ex ante activities, arguing that in companies with a concentrated ownership structure, wealth transfers by related parties occur to the detriment of minorities. In practice, this means that resources (assets, including cash, profits, investment opportunities) are “pulled” from the company (often the one lower in the structure – the subsidiary) and flow to the parent company or other related companies that are controlled by the same owners. Many empirical studies have confirmed the symptoms of tunneling, e.g., in China, related transactions have been associated with a decrease in the value of companies with weaker ownership supervision (Cheung et al., 2009).

A counterweight to that is the efficiency view, whereby related entities can use intra-group transactions to support weaker entities and increase the overall value of the group. Propping means “intra-group support” of subsidiaries, e.g., through recapitalization, preferential sales, or loans – in order to improve their financial situation, especially during difficult times. The OECD (2012) report on related party transactions and minority shareholder rights indicates that companies operating within capital groups may take actions to support other entities in

the same group, even if such actions are unfavorable to the short-term interests of their own shareholders. Research confirms that in economies with imperfect capital markets (e.g., many emerging markets in Asia), business groups act as internal capital markets – allocating funds where they are most needed, which translates into better performance of subsidiaries. For example, Chang and Hong (2000) documented that companies affiliated in South Korean chaebols reaped measurable benefits from intra-group connections through resource sharing and synergies, improving performance over non-group companies.

Research review indicates that both approaches co-exist. The same instrument – the transfer price – can be used to exploit minorities or to stabilize a group (Cheung et al., 2009). The differences are due to the institutional context, ownership structure, and motives of managers. Therefore, in the analysis of RPTs, it is crucial to consider the quality of corporate governance, regulations, discrepancies between control rights and profit share, and the level of financial market development.

The conflict and efficiency perspective can be supplemented with other theoretical approaches. Gordon et al. (2004) emphasize that related-party transactions are seen either as conflicts of interest that violate managers' obligations to shareholders, or as effective transactions that meet the company's rational needs (e.g., access to service providers with unique expertise). In this vein, agency theory, as a relationship between principals (owners) and agents (managers or subsidiaries), shows that RPTs can reduce agency costs when owners and managers use them to harmonize goals and flows within the group. However, it also points out that information asymmetry and concentration of ownership are conducive to abuse, as dominant shareholders are better informed and can enter into transactions to the detriment of minorities.

The theory of resources and competencies, on the other hand, indicates that capital groups form their own ecosystem in which individual companies exchange competencies, know-how, and capital to achieve a competitive advantage. Aliyev and Lee (2025) confirmed that affiliates benefit from privileged access to technology, know-how, and capital within the entire group. In this respect, transfer pricing reflects the real costs of resource use and should support long-term investments. In practice, companies often combine both

approaches: aligning RPT policies with corporate strategy, taking advantage of tax loopholes where legal, and supporting subsidiaries when market conditions require it. On the other hand, a report by the CFA Institute (Kha Loon & De Ramos, 2009) shows that capital groups often use asset leasing, joint purchasing to take advantage of economies of scale, shared services, and intra-group financing, which allows them to control inventory and processes. Such solutions reduce transaction costs and confirm that the group acts as an ecosystem for the exchange of resources and competencies.

In recent years, the growing importance of knowledge-based assets and the reorganization of global value chains, resulting from digitalization and the concentration of intellectual property, among others, enable the transfer of profits and functions between entities in the group. Global intellectual flows and digitalization increase the importance of competences and knowledge as key resources within capital groups. These phenomena complicate the assessment of the effectiveness of related-party transactions, but at the same time emphasize the relevance of the classic division into efficiency and conflict perspectives. In the following parts of the article, these concepts are confronted with the results of empirical research conducted in various countries.

Research review methodology

The review includes empirical literature published between 2000 and 2025, with an emphasis on the years 2009 to 2025. The analysis included both empirical papers and classic theoretical papers from peer-reviewed journals, as well as, in exceptional cases where there was a gap in the peer-reviewed literature, selected working papers.

The main focus is on empirical publications¹ describing the actual effects of related-party transactions on subsidiaries – their profitability, liquidity, debt

1 These publications present the results of primary (original) research conducted by the author or the research team.

or value – with minimal discussion of regulatory issues and theoretical models (unless they are necessary to interpret the results). If necessary, reference was also made to reports of international institutions, e.g., the OECD, or analyses from the financial market in order to place the results of research in a broader context, but it is the scientific literature that is the main source of information. Most of the publications included in this review are English-language studies, as English dominates international scientific databases and economic and financial literature; one publication is in Polish.

The results of the review are organized by region (Asia, Europe, North and Latin America, and Africa) based on institutional, economic, and cultural differences in the functioning of related transactions and different capital market profiles. Australia (and more broadly Oceania) has not been singled out as a distinct region in this classification due to the fact that its markets and corporate governance mechanisms are most often analyzed in broader Asia-Pacific studies or in global reviews, and the number of empirical studies on RPTs focused solely on Australia remains relatively small. Africa, on the other hand, despite a small number of studies, was singled out as a separate region of analysis, due to the different institutional conditions and the specificity of capital markets, which differ significantly from the other areas covered by the review. North America and Latin America were included together as a single area of analysis due to the fact that in the literature on related party transactions, these regions are often analyzed together in comparative studies, focusing on differences in minority shareholder protection, ownership structure, and corporate governance mechanisms.

An important point of reference is the bibliometric analyses of Mishra et al. (2025) and Pasc and Hațegan (2025), who conducted a systematic review of scientific publications on RPT from the last two decades.

A bibliometric study by Pasc and Hațegan (2025) covering the period 2000–2022 found that from around 2017 onwards, the number of articles on RPT began to grow significantly. An analysis of 325 articles from the Web of Science database showed that most of the papers are published in economic and financial journals, and the dominant affiliation of authors are institutions from China. For years, the dominant research threads have been: the impact of RPTs on the company's value and its financial results and, increasingly, the analysis

of the risks associated with them: audit, regulatory compliance, manipulation of results, or tax base erosion.

Mishra et al. (2025) conducted a systematic review of 218 scientific publications on RPT from the past two decades, identifying six major subject classes. Key research areas include:

1. asset tunnelling (abuses by majority shareholders controlling the parent company, at the expense of subsidiaries),
2. transaction efficiency (RPT as a tool for reducing transaction costs and improving the flow of information),
3. audit quality (audit risks and costs in the presence of significant RPTs),
4. financial reporting (the impact of RPTs on transparency and manipulation of results),
5. ownership structure (e.g., the impact of the discrepancy between control rights and rights to profits – the so-called wedge – on RPT practices);
6. corporate governance mechanisms (the impact of independent supervisory boards, audit committees, the separation of functions of the CEO/President of the Management Board, etc. on the reduction of fraud).

Mishra's bibliometric analysis showed that research on RPT gained momentum after 2008 (after the financial crisis), with East Asian scholars dominating the discourse. Importantly, most publications are empirical, focused on a few countries (primarily China), with relatively little international cooperation. This suggests that the regional context is highly relevant in both the interests of researchers and the phenomena revealed.

Asia. High RPT shares and differentiated effects

The Asian region has long attracted the attention of researchers due to its dense network of family conglomerates and weak oversight mechanisms. According to Mishra et al. (2025), as many as 143 out of 218 analyzed works concern Asian countries (77 including China itself). In many economies (China, India, Korea, Indonesia, Taiwan), RPTs cover a significant percentage of turnover and

are a basic tool for resource management. However, the literature from recent years indicates that the results of such transactions are ambivalent. In China and Hong Kong, where the capital market is relatively shallow, both asset drains through borrowing and underselling (tunneling) and flows supporting weaker companies (propping) have been identified. This is due to the fact that many Asian economies (China, India, Indonesia, Taiwan, ASEAN countries²) are characterized by numerous business groups with concentrated ownership, where RPTs are common. Importantly, a high share of related-party transactions correlates with lower protection of minority shareholders and a greater wedge between control rights and owners' share of profits³.

China is an oft-cited example of tunneling and propping. In the first decade of the 21st century, numerous papers described RPTs on Chinese stock exchanges as a tool for wealth transfer – with weak corporate oversight, related transactions significantly reduced the market value of companies. Cheung et al. (2009) analyzed Chinese listed companies, showing that some transactions (e.g., intra-group asset sales or parent loans) served to divert resources from subsidiaries (tunneling), while others (e.g., overpurchases of products from subsidiaries by affiliates) improved the performance of weaker companies (propping). In a summary of their study, Jiang, Lee and Yue (2010) pointed out that controlling shareholders in China used loans between companies to siphon billions of RMB (renminbi, China's currency) out of several hundred listed companies. The study by Peng et al. (2011) used transaction data of related companies listed in China for the years 1998–2004 to test a model in which controlling shareholders, depending on the financial condition of the company, can use either value derivation (tunneling) or intra-group support (propping). The empirical results confirmed these hypotheses: when a company was in good shape, decisions on related-party transactions

2 ASEAN – Association of Southeast Asian Nations.

3 Wedge – in companies belonging to capital groups, where there are many RPTs, there is often a structural imbalance: controlling shareholders have strong decision-making power, but their share in profits/losses is relatively small. This opens the way for intra-group transfers that can favor owners without necessarily improving efficiency and value for all shareholders.

often resulted in a negative market reaction – indicating that investors interpreted them as a form of exploitation (tunneling). On the other hand, in situations where the company was experiencing financial difficulties or was threatened with delisting, related-party transactions were more often used to “save” the company – and announcements of such transactions caused a relatively favorable or neutral market reaction (propping). The authors also found that different types of related-party transactions – sale/purchase of assets, loans, other forms of transfers – can perform both of these functions (tunneling or propping), depending on the economic conditions and the intentions of the controlling shareholders.

In turn, Tsai et al. (2015) in an analysis of companies from Taiwanese business groups found that both the sale and purchase of goods/services from related parties increase the value of subsidiaries (interpreted as propping). However, when sales to related parties clearly exceed purchases, the value of companies falls below the level of non-group companies, which may indicate tunneling. The researchers showed that in certain situations, dominant owners use related transactions to sustain the health of subsidiaries.

Classic studies by Khanna and Palepu (2000) and Chang and Hong (2000) show that in India and Korea, family groups use internal capital markets to circumvent the imperfections of financial systems. Under favorable conditions, this may increase profitability through synergies, but it generates the risk of profit redistribution between family-controlled companies. Recent analyses from Southeast Asia confirm this heterogeneity. In Indonesia, Wulandari et al. (2022) separated transactions into efficient and opportunistic. The former, involving purchases and sales at market prices, supported the value of the companies, while the latter – understated sales prices or inflated costs – reduced profitability. At the same time, the authors considered RPTs to be opportunistic in the years 2018/2019, when they “significantly reduced the value of companies” and effective in 2020/2021, when they “supported the value of companies during the pandemic”. Hanif et al. (2025) examining the industrial sector found a positive relationship between transfer pricing intensity and profitability. Winarto and Daito (2021), on the other hand, indicated that combining transfer pricing with high internal debt lowers the effective tax rate and increases net profits.

In Malaysia, Ariff and Hashim (2013) noted that controlling owners can manipulate RPTs by underpricing or inflating prices, and that a more detailed disclosure system is needed. A study by Bertrand et al. (2002) on India confirms the existence of tunneling – the transfer of profits within family conglomerates, which can reduce the profitability of companies with minority investors. Rasheed et al. (2023), in one of the more recent studies on the impact of RPTs on the value of companies in India in the context of corporate governance mechanisms, show that the effects of RPTs on company value are conditional. Good corporate governance practices can mitigate the potential negative effects of related-party transactions. The results of the research support the hypothesis of transactional efficiency – RPTs in India do not lead to the expropriation of the interests of minority shareholders and increase the efficiency of companies by reducing transaction costs, optimal contract construction, and better allocation of resources within groups.

To sum up, Asia is characterized by a wide spectrum of effects: tunneling dominates in companies with a large disparity (wedge) of ownership and weak supervision, while positive propping occurs in groups looking for financing or synergies. Increasing transparency, institutional investor participation, and tightening regulations in China, India, and ASEAN countries are leading to more frequent neutral or positive outcomes. However, the threat of minority expropriation remains present, and future research should examine the extent to which improvements in corporate governance will mitigate this risk.

Asian jurisdictions are dynamically tightening regulations. In 2014, China introduced a record-making requirement for every major transaction, and from 2018 the scope of controls was extended to technology and internet companies. India has introduced severe penalties for non-market prices and the power of tax authorities to challenge transactions after they have been settled. Indonesia and Malaysia have adopted the OECD Transfer Pricing Guidelines and are introducing GAAR clauses that allow the administration to challenge artificial profit transfer schemes. These changes increase transparency and reduce the space for explicit tunneling.

The nature of related-party transactions (RPTs) is closely related to the model of the state and institutional maturity. This is evidenced by the different

approaches observed in Asia. For example, Temasek (a Singaporean investment fund) uses an active ownership model. While the fund's portfolio companies may provide services to each other, such as IT or management, they are billed at market rates and corporate oversight is strict. In contrast, in countries with a more authoritarian system, such as Saudi Arabia, the control mechanisms are weaker. This creates more room for non-market RPTs, which may result in capital allocation in line with political interests rather than economic efficiency. Globalization and financial crises have forced a revision of these practices. Asian conglomerates models are in a transformation phase. Historical forms of cooperation, such as Japanese *keiretsu* and Korean *chaebol*, were created in the conditions of underdeveloped capital markets. Today, companies are gradually replacing opaque relationships with more transparent contracts and increasing the participation of independent directors on boards.

In the long term, the transformation of the digital economy in Asia is increasing the importance of intangible assets. Technology companies generate value from algorithms, data, and platforms, which makes it difficult to value within RPTs. Reports from rating agencies highlight that licensing transactions and fees for cloud services have become a new channel for transferring profits in the region. Governments are adapting OECD standards for profit-sharing from digital platforms, but implementation is difficult due to the lack of comparable prices and the dynamic development of the industry.

Europe. Mature corporate governance and regional diversification

Europe is characterized by a high level of investor protection and developed capital markets. International Reporting Standards (IFRSs) and EU directives require disclosure of material transactions with related parties and obtaining the approval of independent members of supervisory boards. As a consequence, overt tunneling is rare, and tax optimization remains the main topic. Pozzoli and Venuti (2014), when examining Italian companies listed between 2008 and 2011, did not find a statistically significant correlation or causal relationship between related party transactions and the financial results of the companies, which

suggests that RPTs were not used for profit management or negatively affected the results of the analyzed companies.

The latest analyses focus on shifting profits. Vicard (2015) showed that French subsidiaries sell goods to countries with lower CIT (corporate income tax) rates at lower prices than to independent entities, which reduced the French tax base by billions of dollars in 2008. Cristea and Nguyen (2016) confirmed that Danish companies undercut their export prices to related distributors by 5.7–9.1%, which translates into a decrease in tax revenues. These observations prove that in Europe, corporations use transfer pricing mainly to avoid taxation. Investors usually do not react negatively if these practices remain within the bounds of the law, suggesting that they are not seen as expropriation of minorities.

The regulators' reaction was to tighten documentation requirements. Lohse and Riedel (2013) have shown that the obligation to prepare transfer pricing documentation reduces the sensitivity of operating profits to tax differences and reduces the possibility of shifting income by up to a half. The study covers many European countries (among others, Germany, Great Britain, France, Italy) and not a single country. Therefore, the phrase about "halving the possibility of shifting income" refers to the average effect in the entire European sample, and not to a specific country. Marques and Pinho (2016) created an index of regulatory severity and found that strict transfer pricing regulations limit the possibilities of shifting income, so that differences in tax rates cease to determine the level of reported profits of subsidiaries. This arrangement applies to European subsidiaries from the 2001–2009 period; the authors do not name one specific country, but examine heterogeneity across the Union. The European Union has introduced the ATAD⁴ and DAC 6 directives⁵, which oblige reporting

4 DAC6 (Council Directive (EU) 2018/822) (Directive on Administrative Cooperation) establishes the obligation to report cross-border tax schemes that meet certain risk characteristics, which are automatically exchanged between the tax authorities of EU countries in order to counteract aggressive tax planning.

5 The Anti-Tax Avoidance Directive (EU-ATAD) is a set of minimum anti-tax avoidance rules designed to ensure a consistent approach by EU countries to combat aggressive tax planning and base erosion.

of cross-border schemes and hinder aggressive profit transfers. As a result, differences in CIT rates have less and less impact on the profitability of the branch.

Despite a common regulatory platform, Europe is not homogeneous. In countries with dispersed shareholding, such as Germany or the United Kingdom, RPTs mainly concern remuneration and management services and are monitored by audit committees. Cases of abuse described in the American literature (Gordon et al., 2004; Kohlbeck & Mayhew, 2017) are less important because European corporations are more transparent and ownership structures are diverse. In southern European countries, where ownership tends to be concentrated, well-known scandals (e.g., Parmalat) have led to the introduction of a requirement for independent directors to approve RPTs, which has reduced the number of controversial transactions. Elistratova et al. (2016) have shown that more than half of listed Spanish companies are involved in RPTs, and these transactions most often involve relationships with directors or major shareholders. In an environment of concentrated ownership and weak protection of minority shareholders, the authors point out that RPTs may foster minority expropriation, suggesting that investors may treat companies with intensive RPTs as riskier.

The countries of Central and Eastern Europe are more like emerging markets. Piechocki (2022), while examining companies from the West Pomeranian Voivodeship, found that the high share of transactions with foreign owners was associated with a decrease in return on assets (ROA), which indicates the transfer of profits abroad. Mioduchowska-Jaroszewicz (2023) showed that both tunneling and propping occur in Polish capital groups. The balance of these activities depends on the ownership structure. In turn, Białek-Jaworska (2017) believes that companies with surplus cash granting loans to subsidiaries improve the profitability of both parties, which is an example of the effective use of RPT. Similar results were obtained in the Czech Republic and Romania (Brychta et al., 2020). This means that the region is moving from an Asian model to a Western European model – transparency is increasing, but there are still cases of abuse.

RPTs in Europe function mainly as a tool for legal tax optimization and capital management. Strict reporting standards and active oversight bodies make overt abuses rare. However, differences in ownership structure and institutional

maturity mean that both tunneling and propping can be found in Central and Eastern Europe. Regulatory harmonization and OECD BEPS initiatives⁶ reduce the scope for abuse, but do not completely eliminate the risk, especially in smaller and less transparent family groups. Although the European perspective is moderately positive, it is worth noting a few nuances. First, the importance of RPT varies by industry. In sectors intensive in intangible assets (technology, pharmaceuticals), companies use licenses and know-how to transfer profits between countries, while in capital-intensive sectors (energy, manufacturing), RPTs are mainly related to loans and operating services. There are numerous European studies that show that European companies transfer intellectual property (patents, licenses) to countries with favorable taxation – which enables tax optimization through royalty payments and transfer pricing. In practice, jurisdictions such as Ireland, Luxembourg, the Netherlands, or Malta are most often chosen as destination countries (Baumann at al., 2020).

Secondly, the corporate storms in Southern Europe, most notably the spectacular collapse of Parmalat, have contributed to the introduction of a more restrictive approach to related-party transactions. The scandal revealed that opaque contracts with subsidiaries were used to hide debt and overstate liabilities. This has mobilized Italian and Spanish regulators to strengthen the rules, such as the requirement for independent directors to approve large contracts with related parties and the accountability of managers for their marketability. As a result, the number of multi-million credit related-party transactions decreased significantly, and the role of auditors and supervisors in the assessment of the RPT increased.

Thirdly, in the countries of Central and Eastern Europe, the state as the owner often remains a key player⁷. In Poland, Romania, the Czech Republic, and other countries in the region, state-owned ownership has a significant share

6 OECD BEPS is a 2013 OECD/G20 initiative to tackle base erosion and profit shifting in international tax planning.

7 The fact that the state-owned enterprise (SOE) sector in Central and Eastern European countries continues to be of great importance is documented by the OECD report from 2024: “Ownership and Governance of State-Owned Enterprises”.

in the strategic sector – which creates a risk that RPTs may be used to achieve economic policy objectives (e.g., saving jobs or infrastructure investments). In such conditions, intra-group transactions are sometimes treated as a form of “propping”, but at the same time they can lead to inefficiencies and disruption of market mechanisms. In companies with strong concentration and a complex ownership structure (e.g. family or pyramid schemes), such risks are particularly high. The development of a detailed map of capital relationships and the systematic assessment of their impact on financial results remain an urgent and still relevant research challenge.

Africa. Early regulation and limited number of studies

Africa remains the least studied region in the literature on related party transactions. The few available studies focus on individual countries or sectors, and the availability of empirical data is limited.

In general, linked transactions act as a substitute for underdeveloped capital markets: they allow financing investments and maintaining liquidity, especially in telecommunications and mining. Ouelhadj et al. (2023) examined 60 Algerian companies and found a positive, albeit moderate, impact of transfer pricing intensity on the return on assets (ROA) at 10% materiality level, with only the size of the company having a significant positive impact on ROA. Antwi (2021) on a sample of Ghanaian companies noted a positive relationship between RPT and profitability. In Ghana, the higher scale of RPTs was significantly correlated with better profitability of listed companies. In Nigeria, on the other hand, related-party transactions had no impact on the return on equity (ROE), although they correlated positively with the value of equity (Osakuni & Onuora, 2019). These different results suggest that RPTs can stabilize financing, but the impact on profitability depends on the context.

Taxes are a major topic of discussion on the African continent. Tax administrations are afraid of the erosion of the tax base, while companies strive to

minimize burdens. The OECD and the UN are providing training to tax authorities to increase their ability to identify non-market prices. Since most subsidiaries in Africa are wholly owned by foreign companies, majority-minority conflict is rare, which reduces the risk of overt tunneling. As data transparency and availability improve, future studies may reveal more diverse results, but the picture is currently moderately positive.

At the same time, World Bank reports point out that mining companies are consolidating intangible assets and high-value functions in low-tax jurisdictions, which erodes the tax base of host countries and requires strengthening supervision of related transactions (Guj at al., 2017). Weak IT infrastructure and limited tax administration resources make it difficult to detect non-market transactions, and much of the trade is carried out by corporations that can take advantage of the lack of comparable prices. As a result, the tax office is exposed to a loss of revenue, which is a challenge for the financing of public services. Further development of the reporting system and international cooperation will be crucial for the protection of local tax bases.

North and Latin America. Conflict mitigation and tax strategies

The Americas regions are characterized by significant diversity in the scope of related-party transactions, resulting primarily from different ownership structures and legal systems. In the literature, however, this diversity is most often analyzed in joint comparative studies in which North America is a reference point for Latin American countries.

In the United States and Canada, listed companies have dispersed shareholding; the law (arm's length⁸ principle and documentation obligations), and

8 The arm's length principle is an international transfer pricing standard according to which transactions between related parties should be carried out on terms similar to those between independent market participants.

strong internal oversight, which limit abuse. Related-party transactions occur here primarily in the context of international tax avoidance and as a potential signal of managerial fraud. Gordon et al. (2004) showed that in the period prior to the Sarbanes-Oxley Act⁹, high RPT values co-occurred with poorer corporate governance and were discounted by the market, and Kohlbeck and Mayhew (2017) showed that a high volume of RPTs correlated with a higher risk of financial misstatements. Companies with large RPTs are therefore considered riskier, and analysts expect additional clarification. At the same time, in North American corporations, the lack of dominant family owners makes classic minority tunneling rare. Many U.S. companies are moving intellectual property or services to jurisdictions with lower taxes, which is motivated by fiscal optimization. Schemes such as the “Double Irish Dutch Sandwich” sparked tax reform in the US in 2017 (Tax Cuts and Jobs Act) and global BEPS initiatives that curb these practices. The tightening of regulations leads to a change in the location of reported profits: they increase in home countries and decrease in tax havens, which reflects an accounting change rather than a real improvement in operating results.

In American literature, the meaning of the so-called “tone at the top” is also emphasized. In the 1990s and early 2000s, the boards of directors of some companies used related-party transactions to hide losses and pay loans to management, the so-called conflict-of-interest loans, which were revealed in the Enron and WorldCom scandals. This resulted in the introduction of the Sarbanes-Oxley Act, which requires direct approval of RPTs by the audit committee. Research after 2004 shows that “tone at the top” is key – companies with more ethical management contain fewer controversial RPTs, and disclosures are more detailed. In a 2001–2012 study, Balsam et al. (2017) showed that during the period under review, the number of reported related-party transactions where the CEO was a party decreased and the number of transactions involving external directors increased, reflecting a change in the profiles disclosed to

9 The Sarbanes-Oxley Act (SOX) is a 2002 U.S. law that enacts comprehensive reforms in financial reporting, internal control, and audit oversight to protect investors and restore confidence in capital markets after corporate scandals.

RPTs in corporate reports. This change indicates a growing awareness that RPTs require careful oversight, the share of transactions that could potentially be used for private management benefits is decreasing, and the share of those that go through more independent structures is increasing. The role of legislation is also significant in the tax context. The reforms of the Tax Cuts and Jobs Act introduced the BEAT¹⁰ and GILTI¹¹ mechanisms, which impose additional taxes on related-party transactions and on low-taxed foreign income. BEAT eliminates the deductibility of payments to foreign affiliates, and GILTI taxes the global profits of foreign subsidiaries, reducing the incentive to transfer income. Initial analyses indicate that companies are adjusting their funding structure and IP location to minimize the effects of BEAT/GILTI, which could shift some of the profits back to the US.

At the same time, it should be noted that the literature lacks the most recent broad empirical research (2020–2025) that would analyze RPTs in the US/Canada on large samples and assess the impact of regulation after tax reforms.

In Latin America, the picture of related-party transactions varies strongly between countries. This diversity is reflected in the empirical literature, which focuses primarily on the countries with the greatest economic importance or the best documented regulatory solutions, while limiting research on the region's smaller economies. In Brazil, in addition to the study by Bortolon and Leal (2020), it has been observed that state-owned companies are more likely to lend to related companies, which is interpreted as propping to maintain employment in mining regions. In Chile, the implementation of the obligation to seek the opinion of independent advisors for large transactions resulted in a decrease in the number of controversial RPTs and an increase in investor confidence. By joining

10 BEAT (Base Erosion and Anti-Abuse Tax) is an additional tax to counteract the erosion of the tax base, introduced as part of the Tax Cuts and Jobs Act (2017) in the USA.

11 GILTI (Global Intangible Low-Taxed Income) is a minimum tax on foreign income earned by controlled foreign companies (CFCs), also introduced by the Tax Cuts and Jobs Act (2017) in the U.S.

the USMCA, Mexico¹² expanded transfer pricing documentation and introduced the obligation to prepare local and group documentation, in accordance with the OECD, limiting the possibility of hiding profits. In Argentina, on the other hand, macroeconomic crises are causing family groups to make intensive use of internal loans to finance their activities, especially in the agricultural sector, which leads to difficulties in distinguishing between propping and tunneling. These differences highlight the need for national research and caution in generalization.

Latin America represents a model closer to the Asian one: family conglomerates with one main owner and less access to external capital dominate. However, the region is undergoing a regulatory transformation. Bortolon and Leal (2020), when analyzing Brazilian listed companies, did not find a systematic deterioration in the results of RPTs. Larger companies were more likely to use intra-group operational transactions, achieving economies of scale, and smaller companies were more likely to engage in loans, which made investors more skeptical. In Chile, Mexico, and Argentina, it was mandatory for large RPTs to be assessed by independent experts and reported to regulators, which increased transparency and reduced the scale of abuse.

A study by Mahenthiran et al. (2020) conducted on 104 Chilean companies shows that longer seniority of the chief auditor and the presence of the so-called “board links” (functional links of people on the management and supervisory boards) were associated with a lower likelihood of misstatements, even in companies with a large scale of related-party transactions (RPTs). This indicates that RPTs, often considered a possible signal of abuse, do not have to be negative by definition. With proper audit and corporate oversight, their negative potential may be limited. There are few studies in the literature linking RPT to the quality of reporting and auditing, thus the results of this work seem particularly valuable as an impulse to include control variables (corporate governance, audit) in analyses of the impact of RPT on the condition and results of companies.

12 The USMCA (United States-Mexico-Canada Agreement) is a free trade agreement between the US, Mexico, and Canada, effective July 1, 2020, replacing NAFTA and updating trade rules in the North American region.



The difference between North and South, therefore, lies in the role of ownership structures. In North American corporations, the potential conflict of interest mainly concerns managers, not owners; In Latin America, the majority-minority conflict remains relevant, but increasing transparency and regulation limit the space for tunneling

Summary

The intercontinental analysis indicates that the impact of related-party transactions on subsidiaries depends on three main factors. First, the quality of corporate governance and reporting requirements is crucial. In jurisdictions with strong oversight and mandatory documentation, negative effects are rare, and RPTs are seen as a tool for effective management. Second, the ownership structure is decisive: large family conglomerates in Asia and Latin America, where the gap between control and profit share is wide, are more likely to use RPTs to redistribute value, while dispersed shareholdings in Western Europe and North America limit this phenomenon. Thirdly, motivation is important – in developed countries, RPTs are primarily used for tax optimization, while in developing economies they can be both a substitute for the capital market and an instrument for redistributing resources.

Therefore, especially in the context of the European and American markets, the narrative of automatic “expropriation of minorities at each RPT” seems excessive and simplistic. It is more appropriate to see RPTs as an instrument of an ambiguous nature: they can be both a source of fraud and real value, depending on the control mechanisms, ownership structure, motivation, and nature of the transaction. In the economic and corporate governance literature, it is most often assumed that transactions qualified as tunneling are associated with a violation of the interests of minority shareholders. Controlling shareholders or management may use RPTs to shift resources (e.g., by selling assets at an underprice, granting loans on unfavorable terms, generating artificial costs), leading to the expropriation of the subsidiary’s value. Such actions

are conducive to a deterioration in financial results, a decrease in profitability, a deterioration in liquidity, or an increase in risk.

At the same time, the regional perspective shows that these practices do not occur in the same intensity in all parts of the world. In Asia, overt cases of tunneling in state-owned companies coexist with examples of propping and the effective use of internal capital markets. Europe and North America have strict regulatory and reporting standards in place to curb fraud, although profits continue to be transferred abroad in Central and Eastern Europe. In Africa, the financial functions of RPTs dominate, while in Latin America, growing investor awareness and regulatory developments lead to neutral or moderately positive effects. In a theoretical context, Elhelaly (2014), making a synthetic and critical analysis of approaches to related-party transactions, points out that a significant part of empirical research is based on the perspective of agency theory in which RPTs are primarily understood as a mechanism of expropriation of minority shareholders (tunneling). However, the author emphasizes that focusing on owner-manager or owner-owner conflict leads to the overlooking of potentially positive functions of related-party transactions, such as improving resource allocation, reducing transaction costs, or stabilizing the operations of companies within capital groups. In the methodological dimension, Elhelaly draws attention to the limitations of dominant quantitative analyses based on reporting data, calling for the development of mixed and qualitative research that would allow better capturing of the motivations and context of RPT decisions.

Final conclusions and recommendations

A review of the literature indicates that transfer pricing and related-party transactions are an integral part of the functioning of capital groups, but their impact on subsidiaries is ambivalent. The institutional environment remains the determining factor. In jurisdictions with developed transparency and strong corporate governance, RPTs are primarily used for tax optimization and efficient resource management, while negative impacts are sporadic and limited by supervisory

mechanisms. In economies with concentrated ownership and weaker supervision, RPTs can be used to expropriate minorities, although increasing transparency and the role of institutional investors are conducive to reducing this threat. The results of the review are therefore moderate: an instrument that supports value creation in some conditions may reduce it in others.

From a practical point of view, subsidiaries should implement procedures for assessing the arm's length principle of transactions and use the expertise of independent specialists in the field of transfer pricing and RPT mechanisms. Related-party transactions and transfer pricing policies should be subject to systemic risk management across the group, with clearly defined processes for identifying, monitoring, and reporting tax, operational, and reputational risks. Supervisory boards must actively monitor RPTs and ensure that the interests of all stakeholders are balanced, and regulators should continue to harmonize regulations on intra-group transactions, including initiatives taken at the international level (e.g., OECD BEPS, ATAD) that affect the scope of disclosures and oversight mechanisms for RPTs.

Based on the results of the literature review, it is also possible to build a general model of the functioning of related party transactions along with the identification of situational conditions for their implementation, taking into account such determinants as ownership structure, institutional nature of the market, quality of corporate governance, and tax regimes. Given the complexity of the mechanisms and their dependence on the institutional context, future research should remain cautious in drawing generalized conclusions and focus on the long-term effects of RPTs on investment, innovation, and the financial stability of companies. Further work could also include literature in languages such as Spanish or French, allowing for an in-depth analysis of the institutional context and practices of RPT in regions that are widely represented in the global economy but less frequently cited in English-language literature.

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