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Determinants of the Related Party Disclosure Practice by Non-Financial Sectors in Bangladesh

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***Abstract:** This study attempts to find out the determinants that have significant impact on the extent of related party disclosure. Albeit, related party is one of the most important reasons for corporate scandals, very few researches have been conducted to find the determinants of related party disclosures particularly in developing countries' perspectives. This motivated the authors to find the determinants of related party disclosures. For conducting this study, a disclosure index of 28 disclosure items has been prepared and the annual reports of 102 listed non-financial firms for the year 2019-2020 of Dhaka Stock Exchange (DSE) were scrutinized against this disclosure index. The findings show that the related party disclosure by the sample companies is on an average 37.36%, which indicates that the current scenario of related party disclosure is not satisfactory. The regression analysis was done to find the determinants of related party disclosures. The results show that the association between the extent of related party disclosure and Multinational Subsidiary is statistically significant. The Security Category has negative but significant impact on the extent of disclosure. The result of this study will add value to the existing literature by providing the empirical evidence of the determinants of related party disclosures from a developing country's perspective. From practical point of view, the outcome of this paper will help the regulators like Securities & Exchange Commission (SEC) to form a frame of reference for the related party disclosures requirement. The results of this study will also help future accounting researchers to work on this area and the investors to make investment decision on the non-financial companies.*

***Keywords:** Related Party Disclosures, Non-Financial Sector, Multinational Subsidiary, Security Category, DSE.*

I. INTRODUCTION

Related party disclosure is one of the most important factors to be disclosed for any kind of investors and other users of the financial statements. Many corporate scandals were associated with the Related Party transactions (RPT). The existence of related party affects the decisions of the users, so it is indispensable for any kind of investors to have enough knowledge about the pros and cons of related party relationships and transactions taken place between the reporting entity and its related party.

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Transaction with the related party is often complex and also represent a corporate governance challenges (Gordon, Henry & Palia, 2004[18]). A weaker corporate governance is associated with the related party transactions. In one study over 1261 firms, Kohlebeck and Mathew (2004 [27]) found that the firms with weaker corporate governance has more RP transaction. To increase stakeholders' awareness about the current scenario of the companies related party disclosures, necessity of working on that is imperative. But very few studies have been conducted on the disclosure practice of the companies in developing countries like Bangladesh. As a result, most of the decision makers and the users of the financial reports do not know about the present scenario of the disclosure practice by the listed companies in Bangladesh. This research gap motivated us to find the determinants of Related Party Disclosures by the Non-Financial companies in Bangladesh. As a result, the following two research questions have been addressed in this study.

1. To what extent do the Bangladeshi listed non-financial companies disclose related party information in their corporate annual reports?
2. What are the company specific attributes that have significant impact on the extent of related party disclosure?

For conducting this study, a disclosure index of 28 disclosure items has been prepared. Then the annual reports of 102 companies were scrutinized to determine the extent of disclosures about related party transactions. The result shows that the related party disclosure by the sample companies is on an average 37.36%. It indicates that the current scenario of the related party disclosure by the non- financial companies is not satisfactory. The findings of this study also show that the association between the extent of related party disclosure and Multinational subsidiary is statistically significant. The Security category has negative but significant impact on the extent of disclosure. All other explanatory variables have statistically insignificant relationship with degrees of related party disclosure. The outcome of this paper will help the regulators to form a frame of reference for the related party disclosures requirement. The results of this study will help future accounting researchers to work on this area. It will also help the investors to make investment decision on the non-financial companies.

II. LITERATURE REVIEW

Disclosure is the medium of communication between the entity and the outside. Absence of sufficient information can cause ignorance for the securities market which will ultimately create the misallocation of resources (Chandra,1974[13]).

Quality of decisions made by the investors is substantially affected by the excellence of the disclosure in the corporate annual reports (Singhvi & Desai, 1971[37]). Disclosures has the utmost significance for the investors' decision making.

A. Determinants of Corporate Disclosures

Many previous researches tried to find the determinants of corporate disclosures. Omar & Simon, (2011[32]) attempted to find out the aggregate disclosure practice of listed companies of Jordan and investigated the connection between the extent of disclosure and the corporate attributes. The results of the study showed that the number of shareholders, listing status, profitability, firm-size, age, and industry type has significant effect on the aggregate disclosure. Hossain (2000[21]) worked on the IASs disclosures practice of 106 listed manufacturing and non-financial companies in Bangladesh against the 53 disclosure items from two mandatory IASs which were IAS-1 and IAS-16. This study has found that the disclosure practice of non- financial listed companies in Bangladesh is satisfactory. The study also found an association between the extent of disclosure and company specific characteristics such as size, multi-nationality, profitability, international link of audit firm, audit firm size, and leverage. Bhayani, (2012[11]) made an empirical investigation to show the effects of the firm specific characteristics on the disclosure practice of listed non-financial companies in India. The result showed the association of company specific variables like firm size, age, listing status, ownership structure, audit firm size, profitability, and leverage with degrees of disclosure of the firms. It also showed that the multinational companies disclose more than the required number of information.

B. Determinants of Mandatory Corporate Disclosures in Developing Countries

Many of the previous research tried to find the determinants of mandatory and voluntary disclosures separately in developing country perspective. Hasan and Hosain (2015[20]) tried to find the mandatory and voluntary disclosure practice of listed companies of different sectors in Bangladesh. Using a sample period of 2010-2013, the study found that the scenario of mandatory disclosure practices of companies is not notable. They have examined the corporate characteristics like firm age, size, industry and profitability against degrees of disclosure practice and found that industry type and company age have significant impact on mandatory corporate disclosure practice; but company size and profitability do not have any impact on the disclosure practice. Karim and Ahmed (2005[26]), checked the disclosure level of the 188 listed companies in Bangladesh. The findings of the study indicated that the corporate characteristics significantly influence the extent of disclosure. The results of that study also reported that the status of multi-nationality has negative impact on the disclosure practice of the companies. In another study, Ahmed and Nicholls (1994[3]) explored the relationship between the corporate characteristics and the degree of corporate mandatory disclosure. For conducting this study annual reports of 65 listed companies were collected from the Dhaka Stock Exchange(DSE). The result showed that the compliance level of listed sample companies was very disappointing. The results of that study also revealed that the audit firm's size and the multinational status of the companies have significant effect on the disclosure practice, on the other hand quailed account has less influence over the disclosure extent. In summary, most of the previous study showed that the extent of disclosures, even the mandatory disclosures in developing countries are not satisfactory. However, the common determinants that influence the level of disclosures are company age, firm-size, listing status, ownership structures, multinational status and so on.

C. Determinants of Related Party Disclosures

Many researchers tried to find the determinants related party disclosures in particular. Agyei-Mensah, (2019[2]) inquired the impact of the audit committee attributes on the extent of the related party disclosures by the companies of Ghana. He selected 120 companies for the time period of 2013-2016 and found that ownership concentration, gender of audit committee, independence of the audit committee influenced the disclosure practice of the companies in Ghana. In another study, Mawutor (2021[30]), found that the compliance level of related party disclosures of banks in Ghana is very poor. This study also has tried to examine the association of firm specific attributes and related party disclosure and found that firm size, auditor's type, board size, profitability and listing have positive impact on the level of related party disclosure. But this study did not found the association of security category, industry type, multinational subsidiary and the extent of related party disclosures. In summary, we can conclude that, determinates of related party disclosures are almost similar like the other mandatory disclosures such as firm size, auditors, board type, ownership concentration and so on.

D. Determinants of Related Party Disclosures in Bangladesh

A very few has been made on the related party disclosure in Bangladesh perspective. Rahman (2018[35]) has reviewed the degree of related party disclosure practice by the commercial banks listed in the stock exchange. The study concluded that the related party practice of listed commercial banks in Bangladesh is not good. He also reported that the association between the disclosure level and liquidity of banks are significantly negative. Moreover, the findings of this study also indicated that company size is negatively correlated with the disclosure level, but company age has positive correlation. However, this study did not explore the association of Security category, Multi-nationality with the related party disclosure. In another study, Hossain and Rozario (2019[23]) have found that the degrees of related party disclosure influenced by various corporate characteristics like number of board of directors, foreign ownership, firm size, audit quality, leverage, market competition, and ROA. From the above discussion, it is clear that no study has been conducted to find the extent of related party disclosure by the non-financial companies listed in DSE. Although Hossain and Rozario (2019[23]) worked on the cement industry, but they did not cover the other non-financial sectors that represent the larger portion of the DSE.

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Moreover, no other previous literature revealed the association of related party disclosure with Security category, Multinational subsidiary. So, there remains a gap of study on that important area for searching on.

III. THEORETICAL BACKGROUND OF THE STUDY

There are several established theories that support the proposition of disclosure in the corporate annual reports. Most of the financial accounting theories suggest disclosing more relevant information in the company's annual financial reports in order to mitigate the information asymmetry arising for separation of ownership from management. Since related party disclosure is considered as one of the most relevant factors to be disclosed in the financial reports, the following theories may act as the backing of this related party disclosure:

A. Agency Theory:

The increased disclosure will lead to decrease the conflict of interest between the owners and managers. Managers (agents) have access on more inside company information than outside investors and this information mismatch assists to create misunderstanding between the agents and principal (Healy & Palepo, 2001[24]). Agency theory proposes to disclose more information about the company in order to reduce the miscommunication between the agents and principal (Aminuzzaman et al., 2015[9]). As related party information is one of the most influential factors for decision making it can be assumed that this disclosure may help to mitigate the misunderstanding between the managers and shareholders.

B. Signaling theory:

Signaling theory deals with the problems of information asymmetry exists in the market. Morris (1987[31]) asserted signaling theory suggests how to reduce this information asymmetry by providing information signal to others. Watson et al. (2002 [41]) argued that insiders have more information than investors which cause imbalance of information between the investors and managers. This asymmetry can be reduced if the information holder shares information with others. Connelly et al. (2010 [15]) stated that information asymmetry arises between two parties; one party who has access on the private information and other does not. Signaling theory would suggest that this information asymmetry can be resolved through disclosing information by one party to another. Signaling theory proposed that if managers want to resolve this miscommunication, they have to disclose information in detail about various aspects of the company. If managers hide their relationship with the related party, it can generate doubt about their activities. Manager's disclosure about related-party is worked like a signal about the transparency of management's activities.

IV. METHODOLOGY OF THE STUDY

A. Sample Selection and Data Collection

DSE listed companies are categorized into three: A, B, and Z. Out of 362 companies from these three category, 102 companies from 9 different sectors which are non-financial in nature were selected for conducting this study.

For this study sample companies were selected based on the following two criteria:

1. Non-financial in nature
2. Category

The companies selected by their non-financial nature and category as sample for this study are summarized in the following tables:

Table: 1 List of Sample Companies (By sector)

Name of the sectors	Total Population	Companies selected as sample	Percentage of total population
Pharmaceuticals	31	15	48%
Miscellaneous	14	7	50%
Telecommunication	3	3	100%
Engineering	42	24	57%
Fuel & Power	22	13	59%
Food & Allied	20	8	40%
Tannery	6	4	67%
Paper & Printing	4	2	50%
Textile	56	26	46%
Total	**198**	**102**	**52%**

A total of 102 companies were selected as sample which are almost 52% of the targeted population according to their non-financial nature. The annual reports of these 102 companies were analyzed for the period of financial year 2019-2020.

B. Development of disclosure index

A disclosure index is developed to conduct the study. The items for constructing disclosure index were selected according to disclosure items required by the IAS-24 itself and the disclosure checklist prepared by Ernst & Young. The disclosure checklist prepared by Ernst & Young for December 2020 has been followed for constructing the related party disclosure checklist for the individual companies.

A dichotomous basis has been used for numerical scoring of the company's disclosure index. If the company disclose the certain item then assign 1, if the company does not disclose any item then 0 is given to that item. The following additive formula is used for total disclosure score, which is also used by the previous researchers in their studies (See, Sultana et al., 2017[39]; Wallace, 1988[42]; Ahmed & Nicholls, 1994[3]; Galani et al., 2011[17]).

$$TDI = \sum_{i=1}^{n} d_i$$

$Where,$

$TDI = Total\ Disclosed\ Items$

$d_i = 1\ if\ the\ company\ disclosed\ the\ item\ i$

$d_i = 0\ if\ the\ company\ did\ not\ disclose\ the\ item\ i$

$N = Number\ of\ items\ should\ be\ disclosed$

The total disclosure score for each individual company is calculated by adding up all the numerical value 0 and 1 and then the final ratio of disclosure score is calculated by using the following formula:

$$RPDS = \frac{TDI}{N}$$

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$$RPDS = \frac{Total\ no. of\ items\ disclosed}{Total\ no. of\ items\ should\ be\ disclosed}$$

$Where,$

$RPDS = Related\ Party\ Disclosure\ Score$

$TDI = Total\ Disclosed\ Items$

$N = Number\ of\ items\ should\ be\ disclosed$

RPDS is the ratio of the items disclosed by the company which is calculated by total number of items disclosed by the company divided by the number of items need to be disclosed by that particular company. Many of the previous studies used this procedure to develop RPDS (Branco & Rodrigues, 2008[12]; Sultana et al., 2017[39]). This RPDS (Related Party Disclosure Score) for each individual company is used as a dependent variable in this study.

C. Variable Identification

The Related Party Disclosure Score (RPDS) is used as a dependent variable in this study and Company Age, Size, Profitability, Leverage, Audit firm size, Multinational Subsidiary and Security Category are used as explanatory variables. Company Age, Size, Profitability and Leverage, firm size are used as control variables since most of the previous researchers found positive association between these four variables and company disclosure. The sources and measurement of these independent and dependent variable are summarized in the following table:

Table: 2 Measurement and Sources of Independent and Dependent Variables

Dependent variable	Measurement of variables	Sources
RPDS	Ratio of Items disclosed to total items should be disclosed by the company	Annual reports
Independent variables	**Measurement of variables**	**Sources**
Company age	Number of years since listed in DSE as public limited co.	Annual reports
Company size	Measured by ln of Total assets	Annual reports
Profitability	Measured by Return on assets = $\frac{Net\ profit\ after\ tax}{Total\ assets}$	Annual reports
Leverage	Measured by Debt to equity ratio $= \frac{Total\ debt}{Total\ equity}$	Annual reports
Audit firm size	A dummy variable. Coded 1 if the company is audited by Big-4 or firms which have international link, otherwise 0.	Annual reports
Multinational Subsidiary	A dummy variable. Coded 1 if the company is a subsidiary of a multinational company, otherwise 0.	Annual reports
Security Category	A dummy variable. Coded 1 if the company is from the Z category, 0 if otherwise.	DSE website

D. Hypotheses development

a. Related Party Disclosures and Multinational Subsidiary

It is argued that the subsidiaries of multinational companies that are operated in emerging economy likely to disclose more information than the domestic companies (Owusu-Ansah, 1998[33]; Karim & Ahmed, 2005[26]). There are several reasons behind the greater amount of information disclosed by the subsidiaries of multinational companies. Firstly, the multinational companies have to follow the rules and regulations of the host countries as well as have to follow the higher accounting standards and regulations of their parent companies which are normally incorporated in developed countries. Secondly, multinational companies used more sophisticated accounting systems and appoint more competent and efficient management who are capable of disclosing more information without recurring additional cost. Finally, multinational countries are closely followed by various political and pressure groups who push up pressure on them to disclose more information (Ahmed & Nicholls, 1994[3]).

Several studies used multi-nationality as an explanatory variable and found various types of association between multi-nationality and the extent of disclosure (Bhayani, 2012[11]; Ahmed & Nicholls, 1994[3]; Karim & Ahmed, 2005[26]).

Since there is no specific established theory that can explain the association between extents of related party disclosure and various researchers found different results about their relationship with disclosure level, we have chosen this variable as main variable for this study. The subsidiary of multinational companies is captured as a dummy variable in this study. It is denoted as 1 if the company is a subsidiary of multinational company and 0 if otherwise. The following hypothesis is developed for this explanatory variable:

H_1: *There is a significant association between the multinational subsidiary and the extent of related party disclosure*

b. Related Party Disclosures And Security Category

At present the companies listed in the DSE are categorized into three categories: A, B, and Z according to their holding of annual general meeting (AGM) and dividend payment. If the company hold their Annual general meeting in regular basis and pay dividend at least 10% in the last calendar year then this company is categorized as A. If the company hold their AGM in regular basis but fail to pay dividend at least 10% in the last calendar year then this company is categorized as B and if the company has failed to hold AGM on due date and also failed to declare dividend at any rate is categorized at Z. It is predicted that Security category has impact on the variability of disclosure in the corporate annual reports. It is argued that companies falling under Z category tend to disclose less information than the securities falling under other categories (Karim & Ahmed, 2005[26]). Securities under Z category tend to disclose less information may be because they feel cost constraints, and competitive disadvantages for disclosing more information in their corporate annual reports. Companies that are categorized under other categories are normally large in size and they have good image in the market which enforces them to disclose more information about various issues surrounding their business operation. This proposition is captured in this study as a dummy variable. A company is assigned 1 if it belongs to Z category and if the companies fall under other categories then assigned 0.

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$$H_2: There\ is\ a\ significant\ association\ between\ Security\ category\ and\ the\ extent\ of\ related\ party\ disclosure$$

Control Variables: This research controls some independent variables that have been identified in the previous literature. Those variables are affecting the corporate disclosures.

c. Company Age:

Company Age is considered one of the most considerable factors that affect the disclosure level of a particular company (Owsusu-Ansah, 1998[33]; Haniffa & Cooke, 2002[19]; Akhtaruddin, 2005[6]). The extent of time companies gets entered into a security market may be relevant for explaining the variability in the degree of disclosure in the corporate annual reports (Haniffa & Cooke, 2002[19]). The rationale behind choosing company age as an explanatory variable is that the old company may gradually try to improve financial reporting (Alsaeed, 2006[8]) and may have incentive such as company image and reputation to disclose more information in their annual reports (Akhtaruddin, 2005[6]). Company Age is used as a control variable in this study since many previous researchers found relationship between corporate disclosure and company age.

d. Company Size:

Company size is used in this study as a control variable because most of the previous researchers found that firm size has significant influence over the extent of disclosure made by the company (Abd-Elsalam, 1999[1]; Ali et al., 2004[7]; Aksu & Kosedag, 2006[5]; Singhvi and Desai, 1971[36]). It is argued that larger firms are pressurized by their financial analysts to disclose more information to fulfill the information demand (McKinnon & Dalimunthe, 1993[29]; Hossain et al., 1995[22]). Larger firms are closely followed by the public, therefore, they tend to disclose more information since it can help to improve the firms' image and reputation (Firth, 1979[16], Patten, 1992[34]). It is also stated that the larger firms get cost benefits for publicizing more information because they have ample internal information to disclose because of their larger operation through broader territory (Buzby, 1975[10]).

e. Profitability:

Signaling theory proposed that when a company's financial performance is good enough, they tend to disclose more information to push their signal to the users of the financial reports so that they can hold the investors' interest to invest their financial resources (Watson et al., 2002[41]). Singhvi and Desai (1971[36]) reported that when a particular company's profit margin is greater than the industry average, the managers of that company probably disclose higher degree of information to persuade the stakeholders about the strength of their financial position. Agency theory also supported that there is positive relationship exists between corporate disclosure and profitability (Inchausti, 1997[25]). Most of the studies have found positive association between extent of disclosure and profitability (Owusu-Ansah, 1998[33]; Karim & Ahmed, 2005[26]; Mawutor, 2021[30]]. In this study profitability is measured by ROA.

f. Leverage:

Companies with high degrees of leverage tend to disclose more information than the companies with low degrees of leverage (Inchausti, 1997[25]). A levered firm can reduce this agency cost and information asymmetry through disclosing more information in their corporate annual reports. Leverage helps to lessen the managers' opportunistic behavior because leverage firm has to disclose more information to reduce the cost of debt (Utama & Utama, 2014[40]). Leverage is used as a control variable in this study. In this study Debt to equity ratio is used as the proxy variable of leverage.

g. Audit firm size:

It is assumed that Big 4 audit firms have impact on the degree disclosure and the quality of information disclosed in the corporate annual reports (Karim & Ahmed, 2005[26]; Sultana et al., 2017[39]). It is predicted that the companies audited by the firms which fall under the Big-4 audit firms or have international link enforced by their audit firm to disclose more relevant and credible information in their corporate annual reports so that their impression to the external users remains good. Audit firms with international link including Big- 4 audit firms operate across the world because of their audit quality and ethical standards. To maintain their ethical standards and audit quality they always enforce their client company to disclose each and every items required by the accounting standards, rules and regulations enforced by the regulatory authority.

E. Empirical Model

To test the hypotheses developed for executing this study multiple regression model has been adopted. For checking the influence of corporate characteristics on the related party disclosure level in the corporate annual report RPDS has been selected as dependent variable and Company Age, Company Size, ROA as a proxy of Profitability, Debt to Equity ratio as Leverage, Audit firm size, Multinational subsidiary and Security category have been used as explanatory variables in this study. The following is the regression model developed for testing hypotheses in this study:

$$RPDS = \beta_0 + \beta_1 AGE + \beta_2 SIZE + \beta_3 PROFITA + \beta_4 LEVER + \beta_5 AUDITS + \beta_6 MULTS + \beta_7 SECCATE + \varepsilon$$

$Where,$

$RPDS = Related\ Party\ Disclosure\ Score$

$\beta_0 = Constant/Intercept$

$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5, \beta_6, \beta_7 = Slope\ coefficients$

$AGE = Company\ age\ (Number\ of\ years\ since\ listed)$

$SIZE = Company\ size\ (Log\ of\ total\ assets)$

$PROFITA = Profitability\ (Return\ on\ assets\ (ROA))$

$LEVER = Leverage\ (Debt\ to\ equity\ ratio)$

$AUDITS = Audit\ firm\ size$

$MULTS = Multinational\ subsidiary$

$SECCATE = Security\ category$

$\varepsilon = Error\ term$

F. Data Analysis:

To attend the objective of this research the analysis part is divided into two sections: one is to check the compliance level of IAS-24, related party disclosure made by individual companies and another one is to check the association between the level of disclosure and various corporate characteristics.

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To measure the compliance level of related party disclosure for each individual company a disclosure checklist is used which has been prepared in accordance with the requirements of IAS-24 and the disclosure checklist suggested by the Ernst & Young in 2020. A descriptive statistics and multiple regression have been used to examine the association between the extent of RPDS and various corporate characteristics. Before using the regression various assumptions of multiple regression (normal distribution, linearity etc.) were checked. To check the existence of multi collinearity among the independent variables correlation matrix as well as VIF were checked. To test Heteroscedasticity, the dependence of variance of error on the independent variable, Breush-Pegan test was conducted. After that multiple regression analysis is used to test the hypotheses developed in this study.

V. RESULT AND ANALYSIS

A. Disclosure level of sample companies

This part investigated the level of related party discourse by sample companies. To calculate the disclosure score, annual report of each individual company has been scrutinized against disclosure checklist. After analyzing the annual reports of 102 companies the following item wise results have been found from the disclosure checklist. Table 3 shows items included in the disclosures checklist, number of items disclosed by the sample companies along with the respective percentages.

Table 3: Items of disclosure checklist and percentages of disclosures

No. of items	Disclosure items	No. of companies disclosed	Percentage
1	Does the entity disclose the relationships between parents and subsidiaries, irrespective of whether there are transactions between them?	49	48%
	Does the entity disclose:		
2	a. The name of the entity's parent	41	40%
3	b. If different, the ultimate controlling party or,	8	8%
4	c. If neither the entity's parent nor the ultimate controlling party produces consolidated financial statements available for public use, the name of the next most senior parent that does so.	1	1%
5.	Does the disclose key management personnel compensation in total and for each of the following categories:	83	81%
6.	a. Short-term employment benefits	94	92%
7.	b. Post-employment benefits	70	69%
8.	c. Other long-term benefits	42	41%
9.	d. Termination benefits	34	33%
10.	e. Share-based payments	38	37%
	If there are related party transactions during the reporting period covered by the financial statements, does the entity disclose the following information:		
11.	a. The nature of the related party relationship	94	92%
	b. Information about the transactions and outstanding balances, including commitments, necessary for an understanding of the potential effect of the relationship on the financial statements, including the following disclosures:		
12.	The amount of the transactions	101	99%
13.	The amount of outstanding balances, including commitments	96	94%
14.	Their terms and conditions, including whether they are secured and the nature of the considerations to be provided in settlement	97	95%
15.	Details of any guarantees given or received	10	10%
16.	Provisions for doubtful debts related to the amount of outstanding balances	8	8%
17.	The expense recognized during the reporting period for bad or doubtful debts due from related parties	6	6%
	Does the entity disclose the information required by the IAS-24.18 separately for each of the following categories:		
18.	a. The parent	18	18%
19.	b. Entities with joint control of or significant influence over the entity	0	0%
20.	c. The subsidiaries	23	23%
21.	d. The associates	17	17%
22.	e. The joint ventures in which the entity is a venture	2	2%
23.	f. Key management personnel of the entity or its parent	51	50%
24.	g. Other related parties	80	78%
25.	Does the entity disclose the amount incurred by the entity for the provision of key management personnel services that are provided by a separate management entity	0	0%
	If the entity applies the exemption in IAS-24.25, does the entity disclose the following about the transactions and outstanding balances, including commitments:		
26.	a. The name of the government and the nature of its relationship with the reporting entity (i.e., control, joint control, or significant influence)	2	2%
27.	b. The nature and amount of each individually significant transactions	1	1%
28.	c. For other transactions, which are collectively, but not individually significant, a qualitative or quantitative indication of their extent.	1	1%

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A total of 28 discourse issues by the 102 companies are considered for the analysis. Table shows that 48% of the sample company disclosed their parent subsidiary relationship in their annual reports irrespective of transaction occurred between them & 40% of the sample company disclosed the name of their parents. 8% of the company disclosed the name of their ultimate controlling party and only 1% of the company disclosed the name of their next most senior parents. Disclosures related to key management personnel and their compensation vary from 81% to 33%. Disclosures on this issue is good except some few. Almost 92% of the sample companies disclose the nature of the relationships exist between the reporting entity and their related parties. Separate disclosures for different related party is very poor as observed in table which range from 2% to 50%. Key management personnel and other related parties of the entity or its parent are disclosed by 50% and 78% companies respectively. No companies disclosed the amount of the provision of key management personnel service provided by the separate management entity. 2% of the sample companies disclosed the name of the government and the nature of their relationship. The nature and amount of each individual significant transaction was disclosed by only 1% of the sample companies. 1% of the company disclosed other transactions that are collectively but not individually significant. The following table summarizes the overall picture of the related party disclosure practice by the Bangladeshi non-financial companies for financial year 2019-2020.

Table: 4 Distribution Table for Related Party Disclosure Practice by the Non-Financial Companies:

Distribution Table	
Percentage of items disclosed	**Percentage of companies disclosed**
$0-10$	0%
$10.1-20$	6%
$20.1-30$	24%
$30.1-40$	28%
$40.1-50$	33%
$Above\ 50$	9%

The above table shows that no company has disclosed related party information less than 10% in their annual reports. 6% of the sample companies disclosed 10% to 20%. 24% companies disclosed more than 20% but less than or equal to 30% information about their related party relationships and transactions. 28% of the sample companies disclosed information in between 30% to 40%. Almost 33% of the companies selected as sample disclosed related party information in their corporate annual reports in between 40% to 50%. Only 9% companies disclosed related party information in their corporate annual reports above 50%. So, based on this empirical result it can be said that the related party disclosure practice of non-financial companies is not so good.

B. Statistical Results:

a. Correlation matrix and Multicollinearity test:

The correlation matrix is presented in the following Table 5 shows that the Related Party Disclosure Score has positive but weak correlation ($r = .3886$) with Company Size and significant at 1% level of significance. RPDS has positive weak correlation ($r = .3597$)with Profitability and significant at 1% level of significance. RODS have negative weak correlation with Leverage and Security Category ($r = -.3532;\ r = -.4765$) which are also significant at 1% level of significance. Audit firm size and subsidiary of multinational companies are also positively correlated with RPDS and significant at 1% level of significance.

Table: 5 Correlation Matrixes

	RPDS	AGE	SIZE	PROFITA	LEVER	AUDITS	MULTS	SECCATE
RPDS	1.0000							
AGE	-0.0871	1.0000						
SIZE	0.3886**	-0.1573	1.0000					
PROFITA	0.3597**	0.0007	0.3100**	1.0000				
LEVER	−0.3532**	0.2433*	−0.2319*	−0.3538**	1.0000			
AUTITS	0.2682**	0.1088	0.3547**	0.3274**	-0.0552	1.0000		
MULTS	0.3019**	0.2126*	0.2438*	0.3454**	0.0106	0.3588**	1.0000	
SECCATE	−0.4765**	0.1031	−0.3450**	−0.5049**	0.5457**	-0.1391	-0.0908	1.0000
$**\ \boldsymbol{Significant\ at}\ 1\%\ \boldsymbol{level}\ (\boldsymbol{p} \leq \mathbf{0.01})$								
$*\ \boldsymbol{Significant\ at}\ 5\%\ \boldsymbol{level}\ (\boldsymbol{p} \leq \mathbf{0.05})$								

Before proceeding to regression analysis, it is imperative to test whether the multi-collinearity among the independent variables exist or not. Correlation matrix is one of the most useful tools for checking the multicollinearity among the independent variables (Galani et al, 2011[17]). If the statistical value of correlation coefficient is ≥ 0.80 then it is assumed that multicollinearity exists between the two independent variables (Studenmund, 2014[38]; Lewis-Back, 1993[28]). The statistical results in the above table show that none of the correlation coefficient exceeds the benchmark of .80. So, it can be said that the problem of multicollinearity does not exist among the independent variables. VIF (Variance inflation factor) is another mostly used statistical tool to check the multicollinearity problem. A Variance Inflation Factors was also employed in this study to check the collinearity between each explanatory variable. The results of VIF are shown in the following table:

Table: 6 Variance Inflation Factor

Variable	VIF	1/VIF
SECCATE	1.77	0.564211
PROFITA	1.63	0.613530
LEVER	1.53	0.652367
SIZE	1.36	0.735757
MULTS	1.33	0.753575
AUDITS	1.32	0.758014
AGE	1.17	0.857541
Mean VIF	**1.44**	

It has been recommended that if the value of VIF exceeds 10 and the value of 1/VIF is greater than 1, it is considered as problem of multicollinearity exist (Studenmund,2014[38]). From the above table it can be noticed that none of the VIF value including average exceeds 10.

b. Heteroscedasticity:

To test the heteroscedasticity Breusch-Pegan test has been employed. The result of this empirical test is as follows:

$$chi2(1) = 0.07$$

$$Prob > chi2 = 0.7898$$

The result shows that the value of $p > 0.05$ which means that the dependence of variance of error on independent variable is insignificant. The insignificant association indicates that the null hypothesis is accepted. Since, the null hypothesis is accepted there is no problem of heteroscedasticity.

c. Results of Summery Statistics

Table 7 shows the descriptive statistics for the dependent variable RPDS:

Table: 7 Descriptive Statistics of the Dependent Variable

Variable	Obs.	Mean	Std. dev.	Min.	Max.
RPDS	102	.3735994	.1097251	.1428571	.6071429

RPDS is measured by the number of related party disclosure items disclosed by the particular company divided by the number of items should be disclosed by that company. From the above table it can be said that the sample companies disclose related party disclosure items on an average 37.36% in their corporate annual reports. The minimum number of items disclosed by the sample companies is approximately 14.29% and the maximum number of items disclosed by the sample companies is approximately 60.71%. The standard deviation 10.97% of this dependent variable is very large which indicates that the companies are widely distributed with related party disclosure. The summery statistics for each continuous explanatory variable are shown in the following table:

Table: 8 Descriptive Statistics for the Explanatory Variables

Variable	Obs.	Mean	Std. dev.	Min.	Max.
AGE	102	14.93137	12.6798	0	44
SIZE	102	22.45338	1.702816	18.14298	26.40247
PROFITA	102	.0240516	.1312246	-.6336339	.5284027
LEVER	102	.517012	.4868799	.0148204	3.421435

Table 8 shows the descriptive statistics of the explanatory variables used in this study that are continuous in nature. Company Age used in this study measured by the number of years get listed in the DSE. The mean value of the explanatory variable AGE is approximately 15 years. The maximum years of the sample companies is 44 years and the minimum years of the sample companies is 0 years and the standard deviation of this independent variable is 12.68. SIZE used in this study as an explanatory variable is measured by the log of total assets mentioned in the financial reports. The average Size for the companies used as sample in this study is approximately TK. 22.45, the minimum is about 18.14 and the maximum value is 26.40. The standard deviation for SIZE is 1.70, which is moderately low that indicates that the measure of this variable is normally distributed. The average value of the variable profitability is 2.4% and the range of this variable is -63.36% to 52.84%. The minimum value of profitability is negative because some of the sample companies have net loss for the financial year 2019-2020. The standard deviation for the variable PROFITA is 13.12% which is very large. The average value for the explanatory variable Leverage is approximately 51.70% and the range of this variable is 1.49% to 342.14%. The standard deviation of this independent variable is 48.69%. The descriptive statistics for the explanatory variables AUDITS, MULTS and SECCATE are no given because they are not continuous variables and their measurement of scale is not in a ratio or interval scale.

d. Regression Results:

Table: 9 Model's Summery

Number of observations	102
$F\ (7, \quad 94)$	7.25
$Prob > F$	0.0000
$R - squared$	0.3505
$Adj\ R - squared$	0.3021

The result of the regression analysis shows in table 9 that the value of the F ratio is 7.25 ($p = 0.0000$) that is less than $p < 0.05$ significance level. Since the value of F ratio is less than the $p = 0.05$, it indicates that the overall model used for this study is statistically significant. The value of $R - squared$ is equal to 0.3505 and the adjusted $R - squared = 0.3021$ which indicates that 30.21% of the variation in the extent of the related party disclosure in the corporate annual reports can be explained by the explanatory variables included in the model.

It was predicted that the Company Age, Size, Profitability, Leverage, Audit firm size, Multinational Subsidiary and Security Category have significant impact on the compliance level of related party disclosure made by the non-financial companies in their corporate annual reports. Table 10 shows the results of the regression

Table: 10 Results of Multiple Regression

RPDS	Coef.	Std. Err.	t	$P > \|t\|$
AGE	-.0004691	.0007768	-0.60	0.547
SIZE	.0101191	.0062447	1.62	0.108
PROFITA	.0037331	.0887387	0.04	0.967
LEVER	-.0290787	.0231941	-1.25	0.213
AUDITS	.0261842	.0279727	0.94	0.352
MULTS	.087154	.0388897	2.24	0.027
SECCATE	-.1201744	.0426013	-2.82	0.006
CONS.	.1677434	.1428291	1.17	0.243

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Multinational subsidiary: Previous literature lead to hypothesize that multinational subsidiary has significant impact on the extent of related party disclosure made by the companies. In this study it has been found that p value for MULTS is 0.027 which is <0.05 which indicates that the null hypothesis is rejected. Since the null hypothesis is rejected, it can be said that the multinational subsidiary has significant impact on the extent of related party disclosure. The findings of the study reveal that status of the multinational subsidiary positively significantly associated with the related party disclosure which means that the subsidiary of multinational companies disclose more related party information than the local companies. The finding of the study is similar with the previous research (Owusu-Ansah, 1998[33]; Ali et al., 2004[7]) but contradicts with the previous literature [Sufian, 2012[37]].

Security category: It has been hypothesized that security category has significant impact on the level of related party disclosure. It has been found that p value of SECCATE is 0.006 <0.05. Since the p value is significant at 5% level of significance, the null hypothesis is rejected which indicates that Security Category has significant impact on the extent of related party disclosure. The coefficient of Security category is negative in this study. The negative coefficient indicates that the companies belong to Z category discloses less related party information then the companies belong to other categories. The finding of this study is similar with (Karim & Ahmed, 2005[26]).

Control Variables:

Company age: It is hypothesized that company size has significant effect on the degrees of related party disclosure. However, in this study it has been found that there is no statistical significant relationship between the company age and the level of related party disclosure since the p value for AGE is $0.547 > 0.05$, that implies that the null hypothesis is accepted. The acceptance of null hypothesis indicates that the association between the related party disclosure and company age is statistically insignificant. The findings of this study contradicts with the previous literature who find a significant association (see Sufian, 2012[37]; Omar & Simon, 2011[32]; Owusu-Ansah, 1998[33]). However, this outcome also supports previous studies who find insignificant association (see Akhtaruddin, 2005[6]; Alsaeed, 2006[8]; Haniffa & Cooke, 2002[19]; Galani et al., 2011[17]).

Company size: It has been predicted that company size has significant impact on the level of related party disclosure as though it has been proved by many earlier researchers that size has significant impact on various mandatory as well as voluntary disclosures practices. But in this study it has been found that there is insignificant relationship exists between the related party disclosure and the company size since the p value for SIZE is 0.108>0.05. The result contradicts with the some of the previous literatures (see Alsaeed, 2006[8]; Owusu-Ansah, 1998[33]; Yuen et al. 2009[44]; Omar & Simon, 2011[32]) but support few of the previous studies (see Sufian, 2012[37]; Rahman, 2018[35]; Mawutor, 2021[30]).

Profitability: Profitable firms tend to disclose more information than the less profitable firm. But in this study it has been seen that the relationship between the degrees of related party disclosure and profitability is insignificant. Regression table shows that p value for profitability is 0.967 which is $p > 0.05$, that indicates the insignificant association between related party disclosure and profitability. The findings of this study is similar to some of the previous literature (see Mawutor, 2021[30]; Rahman, 2018[35]; Galani et al., 2011[17]). On the other way, it contradicts with some previous studies (see Ali et al., 2004[7]; Owusu-Ansah, 1998[33]; Omar & Simon, 2011[32]).

Leverage: Previous literature proposed that the levered firms disclose more than unlevered firms which lead to hypothesize that leverage have significant impact on the level of related party disclosure. In the regression table it has been shown that the p value for leverage is 0.213 which is $p >$ 0.05. Since the p value of LEVER is $0.213 > 0.05$ the null hypothesis is accepted which indicates the insignificant association between leverage and the extent of related party disclosure. The findings of the study also contradict with some of the previous literature (see Wallace & Naser, 1995[43]; Ahmed & Courtis, 1999[4]; Yuen et al., 2009[44]) but similar with some previous studies (see Ali et al., 2004[7]; Chow & Wong-Boren, 1987[14]).

Audit firm size: Previous literature argued that companies audited by Big-4 audit firms or audit firms have international link enforce companies to disclose more information in the corporate annual reports. Regression results show that the p value for audit firm size is 0.352 >0.05 which indicates that the null hypothesis is accepted. Since null hypothesis is accepted, the relationship between audit firm size and extent of related party disclosure is insignificant.

VI. CONCLUSION AND POLICY IMPLICATIONS

A. Research findings and Implications & Recommendations

The core purpose of this study was to find out the current scenario and determinants of related party disclosure by the non-financial listed companies in Bangladesh. The empirical results of this study show that the current scenario of related party disclosure made by the non-financial listed companies is on average 37.36% which is very poor. The results of related party disclosure found in this are similar with previous literatures which get a moderate to poor level of disclosures of RPT in developing countries, particularly in Bangladesh. We can conclude that there is not much improvement in the level of disclosures related to RPT over the time.

This study also scrutinizes the relationship between the extent of related party disclosure and various corporate characteristics: i.e., Company Age, Size, Profitability, Leverage, Audit firm size, Multinational Subsidiary, and Security Category. The findings of this study stipulate that the relationship between subsidiary of multinational company and related party disclosure is statistically significant. Subsidiary of multinational is positively correlated with the extent of related party disclosure. The possible reasons behind this positive correlation may be that the multinational companies are operating more than one country for which they have to comply with not only regulation prevails in their own country but also the other countries where they operate.

Another possible reasons may be that the multinational companies are well equipped by qualified accountant; they are audited by the renowned audit firms. However, the possible reasons of more compliance by MNCs demand further research. The explanatory variable, Security category is also statistically significantly correlated with the extent of related party disclosure made by the non-financial companies listed in DSE. Security category has negative correlation with related party disclosure which indicates that the companies belong to Z category disclose less information about related party than the companies that are not belong to that category. The possible reasons behind this may be that may be shareholders' less expectation from them. Since companies in this category don't pay dividend regularly and their AGMs are irregular, shareholders expectations are more less from them and vice versa. However, the actual reason of less disclosure demand future research.

The outcome if this research is significance both from practical and academic point of view. Since the findings of this study reveal that the related party disclosure practice by the non-financial companies is very poor, the following policy implications may be derived from this research.

a) Financial Reporting Council (FRC), the regulatory body for the Public Interest Entities in Bangladesh should pay attention to the area of non-compliance of RPT disclosures by the listed frim. They are suggested to develop a policy to penalize the companies do not comply with mandatory IASs or IFRSs.
b) Determinants of RPT shows that MNC and Security Category have significant impact on the disclosure. Policy makers, FRC in particular can look into this matter. Outcome of this findings demand more monitoring for local companies (since MNC discloses more) and Z Category companies.

This research will also contribute to the accounting disclosure literature, particularly in related party disclosures. The findings of the research concluded the RPT disclosures is still very poor in the developing countries particularly in Bangladesh. Moreover, significant impact of MNC and Security Category on RPT disclosure enrich the existing accounting literature by giving the idea of the determinants of disclosures.

B. Research Limitations and Scope for Future Research

This research is not without limitations. We have encountered the following limitations.

Firstly, the study covers 102 firms' data for a single sample year. A larger firm-year would provide more insightful information about related party disclosures.

Secondly, this study has been conducted on the non-financial sectors only. The result of this study should not be extended to other sectors.

Future research would utilize on a large number of firm year covering both financial and non-financial sector. This research find multinational subsidiary gives more and Z Category company discloses less RPT disclosures. The reasons for these disclosures demand future research.

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