

## RELATED PARTY TRANSACTIONS AND CORPORATE GOVERNANCE

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Transactions between a firm and its own managers, directors, principal owners or affiliates are known as related party transactions. Such transactions, which are diverse and often complex, represent a corporate governance challenge. This paper initiates research in finance on related party transactions, which have implications for agency literature. We first explore two alternative perspectives of related party transactions: the view that such transactions are conflicts of interest which compromise management's agency responsibility to shareholders as well as directors' monitoring functions; and the view that such transactions are efficient transactions that fulfill rational economic demands of a firm such as the need for service providers with in-depth firm-specific knowledge. We describe related party transactions for a sample of 112 publicly-traded companies, including the types of transactions and parties involved. This paper provides a starting point in related party transactions research.

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