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Earnings manipulations & related party transactions. Empirical evidence from Italian family firms

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Abstract The literature has extensively investigated the phenomenon of earnings management, as this unethical practice considerably undermines the interests of firms' stakeholders, in particular of investors, as demonstrated by the financial scandals that have marked the last few decades.
The purpose of this paper is to investigate the possible association between earnings management (EM) and related party transactions (RPT). We study a sample of Italian non-financial listed family firms over the 2014–2019 period, controlling for the fixed effects of the company's industry and the year. We analyze the association between real earnings management (REM), as well as accrual-based earnings management (AEM), and related party transactions in family businesses. In doing so, we distinguish earnings manipulations perpetrated by exploiting accounting choices, as well as production cost, cash flow, and discretionary expenses-based earnings management. We control for certain governance characteristics and family business generational stage, leverage, size and performance in order to take into account the heterogeneity within family firms.
We find a significant negative relation between real earnings management perpetrated by overproduction and RPTs, as well as a significant positive relation between abnormal levels of discretionary expenses and RPTs. Moreover, our results indicate that CEO duality significantly increases the association between REM perpetrated via cash flow manipulations and RPTs, whilst firms in the first generational stage tend to use in a substitute way downward accrual-based earnings management and RPTs.
Keywords: related party transactions, accrual-based earnings management, real earnings management, family firms.

JEL: A1, D0, E0

1. Introduction

Scholars have approached the phenomenon of relations between related parties according to different theoretical approaches: the efficient transaction hypothesis and the agency theory (Marchini et al., 2018). According to the former, transactions between firms belonging to the same group reduce transactions cost and allow the company to raise capital without resorting to external financing (Jian and Wong, 2010; Pozzoli and Venuti, 2014). Under the agency perspective, related party transactions are a tool for extracting resources from minority shareholders to the benefit of controlling shareholders, or a means for managers to achieve personal benefits to the detriment of shareholders (Mohammed, 2020; Marchini et al., 2018).

The large financial scandals that marked the third millennium are positioned in the latter framework, as they are characterized by related party transactions, generated by conflicts of interest, as well as by profit manipulation perpetrated *via* real (REM) or accrual-based earnings management (AEM).

Literature has widely engaged analyzing earnings management practices in terms of real earnings management – perpetrated *via* sales anticipation (Roychowdhury, 2006) or overproduction (Graham et al., 2005; Roychowdhury, 2006; Gunny, 2010; Tabassum, Kaleem, & Nazir, 2014) or discretionary expenses reduction (Roychowdhury, 2006; Graham et al., 2005), as well as *via* accrual based earnings management perpetrated by exploiting accounting choices (among others: Cohen et al., 2008; Gavana et al., 2019). There is evidence that EM is positively associated with the level of information asymmetry (Abad et al., 2018) and that it causes detriment for a firm's stakeholders (Lo, 2008). Research has also highlighted the effect of governance characteristics (Chung et al., 2002; Yeo et al., 2002; Davidson et al., 2005), pointing out the effect of family control (among others: Prencipe et al., 2008; Stockmans et al., 2010; Achleitner et al., 2014; Martin et al., 2016; Mnif & Cherif, 2020) on earnings manipulations. Literature has also pointed out the moderating effect of family business generational stage, board independence (Borralho et al., 2020; Bansal, 2021), and CEO duality (Chi et al., 2015) on earnings manipulations.

Scholars have investigated the possible association or tradeoff between real and accrual-based earnings management (Zang, 2012; Ipino and Parbonetti, 2017; Li, 2019), pointing out that family businesses treat REM and AEM as substitute rather than complementary tools for earnings manipulations (Achleitner et al., 2014).

For what concerns related party transactions, the literature has analyzed how the type of RPTs is associated with earnings management (Marchini et al., 2018). It has investigated the use of RPTs as a means for tunneling (Jian, 2003; Aharony et al., 2010) or propping, analyzing how organizational structures shape the ways companies use related party transactions in order to manipulate their performance (Jian and Wong, 2010), or as a means for impressing management during Initial Public Offering processes (Chen et al., 2011).

A limited number of scholars has investigated how firms combine real or accrual-based earnings management with related party transaction, with partially different results, thus leaving room for further study (Alhadab et al., 2020; El-Helaly et al., 2018; Marchini et al., 2018; Munir et al., 2013). Some authors have investigated the effect of some governance characteristics on this possible association, such as ownership concentration (Munir et al., 2013), family and Institutional ownership (Alhadab et al., 2020).

A grained analysis of the possible association between EM and RPTs within family business is missing. This is a relevant literature gap, as family businesses are not a homogeneous group (Chua et al., 2012), and there is evidence that they present different behaviors in terms of earnings management (Gavana et al., 2019; Prencipe et al., 2008).

Therefore, our research question is "Which family business characteristics affect RPTs and the possible relationships between different types of EM and RPTs?"

We address the research question analyzing a sample of 85 Italian listed family firms for the period 2014-2019.

Italy is of interest, as on the one hand RPTs are strictly regulated by the "RPT Regulation", adopted in 2010 by the Italian securities regulator (Commissione Nazionale per le Società e la Borsa, CONSOB) with Resolution no. 17221/2010. On the other hand, the financial market is characterized by a prevalence of closely held companies, and relatively weak investor protection (Franks et al., 2011; La Porta et al., 1999), peculiarities that can stimulate agency conflicts resulting in earnings management, as well as opportunistic RPTs. The Italian context is also a particularly suitable ground for family business studies, as 75% of companies in the country are family owned (Barontini and Caprio, 2006).

We study the association between different types of real as well as accrual-based earnings management and RPTs within family firms, analyzing the possible moderating effect of family CEO duality, family members on board, family ownership and family business generational stage.

Results indicate that family firms tend to use RPTs as a substitute for real earnings management perpetrated by overproduction and RPTs and to associate abnormal levels of discretionary expenses with RPTs. Moreover, our findings suggest that family CEO duality significantly increases the association between REM perpetrated via cash flow manipulations and RPTs, whilst firms in the first generational stage tend to use RPTs as a substitute of downward accrual-based earnings management.

This study contributes to family business study, providing evidence of family firms' heterogeneity in earnings manipulations through EM and RPTs.

The paper continues as follows: section 2 highlights the theoretical framework and the literary review; section 3 illustrates the data and methods; section 4 provides the results and discussion; section 5 concludes pointing out venues for future research.

2. Theoretical framework and literature review

Agency conflicts in family firms

Earnings manipulations derive from different types of agency conflicts: manager vs shareholders (first type), controlling shareholders vs minority shareholders (second type), debt agency conflicts (third type), tax related agency conflicts (fourth type) (Liu and Lu, 2007; Marburn et al., 2016; Gavana et al., 2019). According to literature, family control and influence shape the different types of agency conflicts.

The first type of agency conflict might result in earnings manipulation in order to increase a company's performance and achieve managerial incentives. Nevertheless, it might result in a reduction of current performance, in order to ensure the benchmark achievement in the following year. Family control and influence lowers agency conflicts between managers and shareholders, as across countries a large proportion of CEOs and Chairmen are the members of the controlling family (Bhaumik and Gregoriou, 2010), and the overlapping role of CEO and Chairman is more common in family than non-family companies (Cheung et al., 2000; Chen et al., 2005; Gavana et al., 2021). Nevertheless, because of management entrenchment, the agency conflicts between controlling and minority shareholders tend to be more severe in family businesses, than in non-family firms. Family firms' management might act in order to transfer profit to the controlling family to the expense of minority shareholders, particularly where a family's voting rights are significantly higher than its cash flow rights (Bertrand et al., 2002), as well as for institutional context characterized by a weak investor protection (Johnson et al., 2000).

On the other hand, the desire to maintain family control on the company and the trans-generational intent (Berrone et al., 2012; Gómez-Mejía et al., 2007) incentive downward earnings management operations in order to reduce the dividends distribution and increase a company self-financing.

Family control and influence weakens agency conflicts related to debt financing. Family firms are reliable debtors for lenders as they are risk averse, they pursue stability and avoid risky investment strategies, as well as they are less likely to incur financial distress, as compared to non-family companies (Naldi et al. 2007; Gottardo and Moisello, 2017). Moreover, family members are prone to secure the firm's debt with personal guarantees (Voordeckers and Steijvers, 2006), and this fact reduces the likelihood of contractual violations and favours the alignment of interests between the controlling family and debtholders (Steijvers et al., 2010). Empirical evidence shows that family firms issue more long-term debt than non-family businesses and this means that capital markets recognize the risk aversion of family owners and consider family-controlled firms less difficult to monitor (Croci et al., 2011). This leads to a lower cost of debt (Anderson et al., 2003) and can reduce the incentives for family businesses to inflate profits.

For what concerns the fourth type of conflict, the State requires companies to contribute to the financial coverage of citizens' needs and aspirations through the production of tax revenues. State and companies' interests are opposite, there is information asymmetry and this conflict might result in downward earnings management in order to reduce a firm's income taxes (Gavana et al., 2019). Family control might differently moderate this agency conflict. On the one hand, downward earnings management and the related tax reduction help to keep resources within the company, where the family's assets are concentrated. On the other hand, the sense of identification between the controlling family and the firm as well as the long-term perspective make family businesses very attentive to reputational aspects (Berrone et al., 2012). Therefore, the concern for reputational damage resulting from tax-related lawsuits can make family businesses much less tax aggressive than non-family businesses (Chen et al., 2010).

Related Party Transactions and Earnings Management

International Accounting Standard 24 defines a related party transaction as "a transfer of resources, services, or obligations between related parties, regardless of whether a price is charged" (IAS 24: 9). In broad terms, related parties are companies belonging to the group of the reporting entity, its managers, majority shareholders and their close family members and, more generally, all the physical persons or legal entities with respect to whom any transaction could deviate from the logic of market.

According to the Agency Theory, RPTs may be implemented for the purpose of procuring personal benefits for managers or majority shareholders and/or to expropriate minority shareholders and creditors (Mohammed, 2020), and in business groups, the controlling shareholder can make it difficult to identify the related party by exploiting different shareholding structures (Ali et al., 2021). In this view, earnings management activities would be undertaken to conceal the expropriations perpetrated by insiders through RPTs or to increase the private benefits gained through RPTs (Marchini et al., 2018).

According to a number of studies (Chen et al., 2009; Nekhili and Cherif, 2011; Ge et al., 2010; Kohlbeck and Mayhew, 2010), there is a negative association between RPTs and a firm's financial performance or a firm's value. Furthermore, the announcement of related party acquisitions and sales of assets leads to a reduction of a firm's value (Cheung et al., 2009). Research has found that RPTs are used to inflate a firm's financial performance where there are incentives to meet earnings targets (Jan and Wong, 2010) and during the Initial Public Offering (IPO) process (Chen et al., 2011; Aharony et al., 2010), and that they negatively affect the quality of earnings (Rahmat et al., 2020; Kohlbeck and Mayhew, 2017; Munir et al., 2013).

Empirical research has analyzed the propension for firms to resort to RPTs, revealing that family businesses are more prone to engaging in RPTs than their non-family counterparts (Kholbeck et al., 2018), but this tendency diminishes as family involvement in management or ownership of the business increases (Fan and Yu, 2021). In business groups, RPTs are used as a mechanism to maintain family control in contexts where ownership succession is costly (Hwang and Kim, 2016). There is also evidence that RPTs reduce a firm's financial performance and this effect is more pronounced for family than non-family firms (Mohammed, 2020). The study by Kohlbeck et al. (2018) points out that RPTs with directors, officers, and major shareholders result in a decline in family firms' value, providing evidence that the market considers this type of transactions as opportunistic. As highlighted in the literature, second type agency conflicts are more severe in family firms than in non-family businesses (Ali et al., 2007). Consistently, Yoong et al. (2015) demonstrate that the expropriation of minority shareholders by means of RPTs is stronger in family firms than in non-family businesses, although ownership concentration mitigates this expropriation in family firms more than in non-family ones.

The literature dealing with earnings management has analyzed this unethical practice in family firms compared to non-family businesses and, more recently, has investigated the different attitudes towards earnings manipulations of different types of family firms. In regards to accrual-based earnings management, several studies provide evidence that family firms are less prone to manage reported earnings than their non-family counterparts (Ali et. al, 2007; Prencipe et al., 2008; Cascino et al., 2010; Prencipe and Bar-Yosef, 2011; Gavana et. al, 2017). Opposite results have been detected in institutional setting characterized by weak legal and corporate governance systems, and opaque financial information (Fan and Wang, 2002; Chi et al., 2015). Since family firms are not a homogeneous group (Chua et al., 2012), research has taken into account different family firms' characteristics and their effect on earnings management behaviour. Family business controlled by the founding family or earlier generations are particularly reluctant to resort to earnings manipulations (Wang, 2006; Jiraporn and DaDalt, 2009; Martin et al., 2016; Boonleart-U-Thai and Sen, 2019; Suprianto et al., 2019). The possible explanation of these findings is that the founding family or earlier generations have more reputational concerns than later generations and the long-term survival of the firm is a non-financial priority that overrides short-term performance objectives. Earnings alterations, if detected, would harm the firm's and family's reputation, up to jeopardizing the survival of the company for future generations, and this risk reduces the incentives for earnings management. Notwithstanding, other studies (Bansal, 2021), also conducted on private family firms (Stockmans, 2010; Borralho et al., 2020) show that first-generation family firms are more likely to resort to earnings management due to the stronger desire to maintain control over the firm relative to subsequent-generation family firms.

The magnitude of earnings management in family firms also differs depending on the level of the family's involvement in firm management. When C-level positions are predominantly held by family members, the reputational concerns constrain opportunistic behaviors. Consistently with these findings, the literature shows that non-family CEOs, compared to family CEOs, are more likely to use earnings management because they suffer higher pressures to meet the earnings targets to which the payment of their bonus is often related (Ferramosca and Allegrini, 2018; Yang, 2010).

Other studies focused on the effect of internal mechanisms of board monitoring on earnings management via board independence, CEO nonduality, and audit committee independence. The effectiveness of these corporate governance attributes in limiting earnings management seems to be lower in family than in non-family businesses, revealing the risk of collusion between independent directors and family owners, to the detriment of other shareholders (Jaggi and Leung, 2009; Prencipe and Bar-Yosef, 2011; Mohammad & Wasiuzzaman, 2020; Bansal, 2021). Research on the influence of board gender diversity on earnings management demonstrated that, generally, the presence of female directors on corporate boards positively contributes to mitigating earnings manipulations. Women, with their peculiar characteristics, may modify board behaviours, increasing the quality of financial information (Triky Damak, 2018; Gull et al., 2018; Zalata et al., 2022), and this result also holds for family firms (Abdullah and Ismail, 2016; Viera and Madaleno, 2019). However, a recent study shows a negative association between independent female directors and the extent of earnings management reverses for family-affiliated women directors, probably due to the propensity of family firms to select women directors for their family affiliation rather than for their skills and expertise (Mnif and Cherif, 2020).

External corporate governance mechanisms may also affect the level of earnings management in family firms. The study by Paiva et al. (2019) provides evidence that when the level of analyst coverage is low and, in turn, the risk for manipulating earnings to be discovered is low, family owners have incentives to resort to earnings management to extract private benefits from the firm. However, when family firms are in the spotlight of a high number of analysts, the worry of losing reputation prevails and the use of earnings management decreases.

Firms may manage reported earnings through real business activities, namely engaging in real earnings management (Roychowdhury, 2006). Recent studies have highlighted a tendency for firms to move from AEM to REM consequently to substantial changes in domestic accounting regime or other events, which has made accrual-based earnings management easier to detect (Chi et al., 2011; Zang, 2012; Ferentinou and Anagnostopoulou, 2016; Ipino and Parbonetti, 2017). Regarding family firms, the fact that REM is hard to uncover may be an incentive for the controlling family to act opportunistically and use it to expropriate minority shareholders, particularly in an institutional setting with scant investor protection and poor corporate governance (Razzaque et al., 2016; Eng et al., 2019). On the contrary, Ghaleb et al. (2020) provide evidence that family firms are less likely to engage in REM than non-family business, suggesting the alignment of interests between the controlling family and minority shareholders.

The pursuit of non-financial goals affects the choice between AEM and REM in family firms. REM is a value-decreasing activity (Cohen et al., 2010), so family firms would be less prone to engaging in REM than in AEM, because the former is at odds with their long-term orientation and the aim to pass the business on to future generations (Achleinter et al., 2014). Gomez-Mejia et al. (2014) argue that when the controlling family prioritizes family control and influence over the firm, it might have incentive to manipulate earnings in order not to breach debt covenants or to meet analyst expectations. In this case, AEM is preferred because of the higher costs of REM. Conversely, where the controlling family prioritizes family identification with the firm, the concerns for family reputation should lead to prefering REM, as it is harder to detect. Consistently, family firms with high level of non-financial goals, voluntary moved from local GAAP to IFRS, have been found to prefer REM rather than AEM, in order to lower the risk to be discovered (Calabrò et al., 2020). Conversely, family firms characterized by less commitment in pursuing non-financial objectives have relatively fewer concerns about safeguarding their reputation and less incentive to implement value-decreasing practices, such as REM.

Few studies have investigated the possible relationship between RPTs and earnings management, and the results are mixed. In developing countries, research has demonstrated a positive association between RPTs and REM, finding that family ownership weakens this relationship (Haji-Abdullah and Wan-Hussin, 2015). RPTs can be used to expropriate minority shareholders and Indonesian firms with political connections have been found to hide tunnelling activities by resorting to earnings management (Habib et al., 2017). In the Jordan context, RPTs and accrual-based earnings management are negatively associated, and family ownership does not affect this relationship (Alhadab et. al, 2020). El-Helaly et al. (2018) suggest that Greek listed companies use RPT as a substitute for REM, but this effect does not occur when companies are audited by a Big-four.

3. Data and Methods

The data sample comprised the family firms listed on the Italian stock exchange in 2019. We removed Banks, Insurance and other financial firms for their peculiarities. The data covers the period 2014–2019.

We hand-collected the data on RPTs from the notes to the financial statements. The accounting data was collected from Orbis, the global Bureau van Dijk database. Board characteristics derive from information available on the Orbis database.

Related party transactions are the sum of sales, purchases and outstanding balances between the company and its related parties (El-Helaly et al., 2018). For our analysis, we use as dependent variable the RPT-to-assets ratio. Explanatory variables include family firm characteristics and earnings management proxies. FCEOD is a dummy equal to 1 if a family member is the CEO and the chair of the board. FOWN is the family ownership measured as the sum of common shares held by family members. The dimension of the board (BDSIZE) is given by the number of members that sit on the board, while WBD is the percent of women members of the board, and FBD is the percent of family members that that sit on the board.

We proxy accrual-based earnings management (Kothari et al., 2005) with absolute or negative and positive discretionary accruals (ABSAEM, NAEM, PAEM) and real earnings management (El-Helaly et al., 2018)) with abnormal levels of cash flow from operations (REMCFO), abnormal levels of production costs (REMPROD) and abnormal levels of discretionary expenses (REMDEX). Firm size (SIZE) is measured as the log of assets. Return on Assets (ROA) is included as a control variable for the effects of performance. LEV is measured as financial debts scaled by assets. The market-to-book ratio (MKTBK) is also included as a control variable (Dechow et al., 2011). Finally, we control for firm’s generational stage including a dummy (GSTAGE) that takes value 1 if the firm is less than 25 years old, and include dummies for year and industry effects.

We estimate the following model:

(1) $$RPT_{i,t} = \beta_0 + \sum\beta_h \, Governance_{i,t} + \beta_j EM_{i,t} + \sum\beta_k X_{k,i,t} + \varepsilon_{i,t}$$

where:

$RPT_{i,t}$ = related party transactions

$Governance_{i,t}$ = governance characteristics

$EM_{i,t}$ = proxy of real and accrual earnings management

$X_{k,i,t}$ = other control variables

We also estimate a second model to incorporate the possible interaction effects between earnings management proxies and governance characteristics.

The models are estimated using Generalized Least Squares (GLS) with firm level clustering, in this way the standard errors are robust for the presence of correlations across firms, while in order to control for year and industry fixed effects, we include year and industry dummies.

4. Results and Discussion

Table 1 shows the descriptive statistics for our sample of family firms. In the period 2014-2019, the mean value of related party transactions is 5.2 percent of assets. The negative and positive accrual earnings management proxies have mean values of -5.3 and 6.2 percent, while the mean values of real earnings management are close to zero.

Table 1. Descriptive Statistics

	Mean Value	Standard Deviation
NAEM	-.053	.062
PAEM	.062	.080
REMCFO	.005	.084
REMPROD	.015	.249
REMDEX	-.013	.232
RPTs	.052	.077
ROA	.061	.107
MKTBK	.814	.885
WBD	.318	.145
FOWN	.586	.139
FCEOD	.374	.484
FBD	.263	.150
SIZE	12.64	1.75
BSIZE	9.79	3.22
LEV	.282	.153
GSTAGE	.320	.467

Table 2 displays the Pearson correlation coefficients for the variables used in this study, the results suggest that multicollinearity is not a serious problem for the results of our regression models.

Table 2. Pearson Correlation coefficients

	REMCFO	REMPROD	REMDISX	RPT	ROA	MKTBK	WBD	FOWN	FCEOD	FBD	SIZE	BSIZE	LEV	GSTAGE
ABSDA	-.001	.034	-.025	.013	-.061	.028	-.049	-.043	-.072	-.061	**-.106**	**-.103**	.034	.028
NAEM	**-.121**	.015	.013	.011	.077	.031	.056	-.028	**.121**	**.133**	.067	.080	-.050	-.031
PAEM	-.069	.059	-.043	.045	-.040	.021	-.043	**-.117**	-.032	.009	**-.144**	**-.116**	.010	.029
REMCFO		**.187**	-.005	.051	**.337**	**.320**	**-.089**	-.009	-.027	-.015	-.022	.057	**-.168**	.034
REMPROD			**-.793**	**-.141**	**.255**	**.238**	-.037	-.021	**.104**	-.074	-.046	.006	**-.196**	.037
REMDEX				**.120**	-.027	**-.104**	.009	.006	-.066	.061	**.109**	.020	**.130**	-.057
RPT					**-.096**	**-.135**	**.166**	**.102**	.044	-.054	**-.129**	-.060	**.152**	.023
ROA						**.395**	-.045	-.072	**.085**	.049	.044	**.097**	**-.248**	-.028
MKTBK							**-.102**	.001	.027	**-.125**	-.029	**.135**	**-.324**	-.013
WBD								**-.104**	**-.072**	**.090**	**.151**	**.127**	**.158**	**-.153**
FOWN									**.078**	**.167**	**-.231**	-.165	.040	.001
FCEOD										**.261**	**-.118**	**-.162**	-.040	.037
FBD											**-.292**	**-.343**	-.001	.046
SIZE												**.520**	.036	**-.171**
BSIZE													-.050	**-.132**
LEV														-.030

bold indicates that the estimated correlation coefficient is significant at the 5% level.

For what concerns the first part of the research question, “Which family business characteristics affect RPTs?”, we find that some firm characteristic might shape RPTs within family firms. The results in Table 3 show that the presence of women on the board as well as family ownership significantly and positively affect the level of related party transactions. The latter evidence is consistent with the literature reporting that the likelihood of RPTs is higher for companies with high concentration of ownership (Songhua et al., 2010). Moreover, as the family ownership share raises, the amount of family assets within the family increases. Therefore, second type agency conflicts rise as well as incentives for earnings manipulations. There is evidence that, in general, family firms are less prone to use accrual-based earnings management because it is less difficult to detect than real earnings management (Lin and Shen, 2015). Nevertheless, the perpetuation of the family bond to the business through succession is the main objective for family firms (Berrone et al., 2012), so they might be concerned in using REM, as it puts at risk future performance, and they might choose to manipulate earnings by the means of RPTs.

Leverage tends to increase RPTs, but the effect is weakly significant, only when we control for the effect of accrual-based earnings management. This effect is consistent with the evidence that recourse to debt capital incentives profit manipulation, but in family businesses this effect is weak because they present lower third-type agency conflicts than non-family businesses (Steijvers et al. 2010).

Conversely, our findings point out that the percentage of family members on board as well as firm size have a significant and negative effect on RPTs. The presence of numerous family members on the board lowers first and third type agency conflicts, but at the same time generates entrenchment raising second type agency conflicts, so we may suppose that the lowering effect is related to reputational concerns. Larger firms are more visible and the concern for reputational drawbacks - related to opportunistic RPTs - on a family's image is stronger (Gottardo and Moisello, 2017). Family firms are characterized by a strong identification between the owning family and the business, as the latter reflects the family image (Berrone et al., 2012). When numerous family members sit on the board, the stronger sense of identification raises the reputational concerns and it might limit a massive use of RPTs to protect the perceived reputation of the company.

Table 3. Family firms related party transactions, governance and earnings management

INT	.01(.07)	.03(.07)	.03(.07)	.02(.07)	.02(.08)	.02(.07)
REMCFO	.00(.06)					
REMPROD		-.04(.02)**				
REMDEX			.04(.02)**			
ABSAEM				-.03(.04)		
NAEM					.13(.09)	
PAEM						-.00(.04)
BDSIZE	-.00(.00)	-.00(.00)	-.00(.00)	-.00(.00)	-.00(.00)	-.00(.00)
WBD	.12(.06)*	.11(.06)*	.11(.06)*	.12(.06)*	.15(.07)**	.09(.06)
FCEOD	.01(.01)	.01(.01)	.01(.01)	.01(.01)	.02(.02)	.01(.01)
FOWN	.00(.00)**	.00(.00)**	.00(.00)**	.00(.00)**	.00(.00)**	-.00(.00)
FBD	-.10(.05)**	-.10(.05)**	-.10(.05)**	-.10(.05)**	-.17(.07)**	-.05(.03)
ROA	.00(.05)	.01(.05)	-.00(.05)	-.00(.05)	-.03(.05)	-.01(.07)
SIZE	-.01(.00)	-.01(.00)*	-.01(.00)*	-.01(.00)	-.00(.01)	-.01(.00)
LEV	.06(.04)	.05(.03)	.05(.04)	.06(.04)	.02(.04)	.10(.04)**
GSTAGE	-.01(.01)	.01(.01)	.01(.01)	.01(.01)	.01(.02)	.01(.01)
MKTBK	-.00(.01)	-.00(.01)	-.00(.01)	-.00(.01)	-.00(.01)	.00(.01)
INDUSTRY						
YEAR						
obs	523	515	523	523	285	238
R2	.22	.24	.23	.22	.28	.29

****, **, * indicate that the estimated coefficients are significant at the 1, 5, and 10% levels, respectively.*

For what concerns the second part of the research question, results do not indicate a systematic association between EM and RPTs, but, where there is a relationship, it differs according to the type of earnings management and it can be moderated by some governance characteristics. Our results point out a significant negative relationship between real earnings management perpetrated *via* overproduction, which suggests family firms tend to use this form of real earnings management and related party transactions in a substitutive way. Conversely, we find a significant positive relationship between real earnings management *via* abnormal levels of discretionary expenses and related party transactions. This evidence indicates that family companies are prone to combine the reduction of discretionary expenses with related party transactions in order to manipulate profits.

Controlling for the interactions between different form of earnings management and the level of family ownership or the weight of the family on the board, we find that the moderating effects of these governance characteristics are never significant.

Conversely, results indicate that where a family member holds the overlapping roles of CEO and Chairman of the board, family firms tend to associate real earnings management perpetrated through sales anticipations and related party transactions, suggesting that, in this case, cash flow manipulations are implemented through transactions with related parties.

Table 4. Related party transactions, governance and earnings management with interaction effects

INT	.02(.07)	.04(.07)	.03(.07)	.02(.07)	.02(.08)	.04(.08)
REMCFO	.14(.15)					
REMPROD		.01(.07)				
REMDEX			.04(.08)			
ABSAEM				-.01(.20)		
NAEM					-.04(.28)	
PAEM						-.13(.34)
BDSIZE	.00(.00)	-.00(.00)	-.00(.00)	-.00(.00)	-.00(.00)	.00(.00)
WBD	.11(.06)*	.11(.06)*	.12(.06)*	.11(.06)*	.15(.07)**	.07(.06)
FCEOD	.01(.01)	.01(.01)	.01(.01)	.02(.02)	.03(.02)	.01(.01)
FOWN	.00(.00)**	.00(.00)**	.00(.00)**	.00(.00)**	.00(.00)**	.00(.00)
FBD	-.10(.05)**	-.11(.05)**	-.11(.05)**	-.14(.05)**	-.20(.09)**	-.09(.04)**
ROA	.01(.05)	.01(.05)	-.02(.05)	-.00(.05)	-.04(.05)	.01(.07)
SIZE	-.01(.00)*	-.01(.00)*	-.01(.00)*	-.01(.00)	-.00(.00)	-.01(.00)
LEV	.06(.04)*	.04(.03)	.05(.04)	.06(.04)*	.03(.04)	.10(.04)**
GSTAGE	.00(.01)	.01(.01)	-.01(.00)	-.00(.01)	-.01(.02)	-.01(.02)

MKTBK	-.00(.01)	.00(.01)	-.00(.01)	-.00(.01)	-.00(.01)	.00(.01)
EM*FCEOD	.33(.12)***	.01(.05)	.00(.06)	-15(.13)	.24(.25)	-.08(.14)
EM*FOWN	-.00(.00)	-.00(.00)	.00(.00)	-.00(.00)	.01(.01)	-.00(.00)
EM*FBD	-.40(.44)	-.11(.13)	.09(.15)	.75(.56)	-.45(.65)	.85(.71)
EM*GSTAGE	-.05(.11)	.01(.05)	-.03(.05)	.15(.11)	-.31(.16)*	.31(.21)
INDUSTRY						
YEAR						
obs	523	515	523	523	285	238
R2	.24	.24	.24	.23	.30	.31

****, **, * indicate that the estimated coefficients are significant at the 1, 5, and 10% levels, respectively.*

Our empirical evidence highlights a significant moderating effect of family business generational stage on the relationship between downward accrual earnings management and RPTs. During the first generational stage, family firms are generally leaded by the founder, the desire to pass on the company to future generations is very high, but at the same time a young company needs resources for growth (Gersick et al., 1997; Le Breton and Miller, 2013). The goal of maintaining family control over the business for dynastic succession makes family businesses reluctant to open capital to outsiders (Gottardo and Moisello, 2019) and it can incentivize the use of profit manipulation to reduce dividends, as well as income taxes, and retain resources for self-financing. Our findings suggests that firms in the first generational stage tend to use as substitutes earnings reduction perpetrated by exploiting accounting choices and transactions with related parties, in order to retain resources inside the company.

Conclusions

This paper contributes to fill the literature gap related, on the one hand, to the determinants of opportunistic RPTs in family business and, on the other hand, to the heterogeneity of the relationship between different form of EM and RPTs within family companies.

The findings point out that ownership concentration and visibility, in terms of firm size and presence of the family on the board, affect RPTs in opposite ways. Results also highlight that the relationship between EM and RPTs is not systematic and it depends on how earnings management is carried out and, in case of cash flow REM and downward AEM, the relationship is moderated, respectively, by family CEO duality and family business generational stage.

In common with empirical research, this study presents limitations. Given the size of our sample, our models control only for the effect of the first generational stage. We focused on this stage in order to take into account the founder effect. Nevertheless, it could be of interest to also control for a specific effect of later generational stages, as the literature indicates that each generational stage differs in terms of relevance of family firms' non-financial goals and in terms of the effect of family presence on the board (Gersick et al., 1997; Le Breton and Miller, 2013).

Moreover, our models control for the effect of board gender diversity, pointing out a significant positive effect of the presence of women on the board on RPTs. Further studies could deepen this analysis, taking into consideration specific characteristics of women on the board.

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