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Strategic Integration of Transfer Pricing Policies in Multinational Enterprises

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ABSTRACT
This study examines the strategic integration of transfer pricing policies within multinational enterprises by exploring their managerial, strategic, and international taxation dimensions. The study aims to explain how transfer pricing extends beyond an internal pricing mechanism to support management control, corporate strategy, operational efficiency, and regulatory compliance in an increasingly complex global business environment. A qualitative approach was employed using a semi-systematic literature review to synthesize multidisciplinary evidence from management accounting, international taxation, strategic management, and international business. The reviewed literature was analyzed through thematic analysis to identify the principal concepts, patterns, and relationships concerning transfer pricing policies. The findings indicate that effective transfer pricing policies function as strategic management instruments that facilitate organizational coordination, performance evaluation, resource allocation, tax compliance, and corporate governance. The review also demonstrates that inadequate strategic integration may increase interdivisional conflicts, distort managerial performance measurement, and expose multinational enterprises to greater tax adjustment and regulatory risks. Furthermore, recent international tax reforms, including the OECD Base Erosion and Profit Shifting (BEPS) initiative and the Global Minimum Tax, require multinational enterprises to balance tax efficiency with transparency, economic substance, and sustainable value creation. This study contributes to the literature by providing an integrated conceptual perspective that connects management accounting, international taxation, strategic management, and corporate governance in explaining the strategic role of transfer pricing within multinational enterprises.

Keywords: Arm's Length Principle, Multinational Enterprises, Profit Shifting, Corporate Strategy, Transfer Pricing.

I. Introduction

Economic globalization has significantly increased the complexity of multinational enterprises (MNEs), whose operations are increasingly coordinated through subsidiaries, branches, and affiliated entities across multiple jurisdictions. Cross-border transactions involving goods, services, financing, intangible assets, and intellectual property have become central to global business operations. As a consequence, transfer pricing has evolved beyond an internal pricing mechanism into a strategic managerial instrument that influences resource allocation, organizational coordination, subsidiary performance evaluation, and international tax compliance. (Baldenius et al., 2004; Huizinga & Laeven, 2008). Traditionally, transfer pricing has been discussed primarily from the perspective of taxation because differences in corporate tax rates encourage multinational enterprises to allocate profits across jurisdictions. Previous studies have extensively examined profit shifting, tax avoidance, and compliance with the arm's length principle (Huizinga & Laeven, 2008; Cristea & Nguyen, 2016; Beer et al., 2020). However, contemporary multinational enterprises increasingly recognize that transfer pricing decisions simultaneously influence managerial control systems, operational efficiency, investment decisions, and long-term corporate competitiveness. Therefore, transfer pricing should be viewed not only as a tax planning instrument but also as a strategic management mechanism that aligns financial, operational, and governance objectives across global business units.

The strategic importance of transfer pricing is evident in multinational corporations that manage global supply chains and intangible assets. For example, technology and pharmaceutical companies routinely determine transfer prices for intellectual property licensing, research and development activities, and intra-group financing. These decisions affect not only tax liabilities but also investment allocation, performance measurement, resource utilization, and coordination among subsidiaries. Such practices illustrate that transfer pricing contributes directly to strategic decision-making by supporting organizational alignment, operational efficiency, and sustainable value creation. Recent developments in international taxation have further strengthened this strategic role. The implementation of the OECD Base Erosion and Profit Shifting (BEPS) initiative and the Global Minimum Tax has reduced opportunities for aggressive profit shifting while increasing the importance of transparency, documentation quality, and regulatory compliance (Beer et al., 2020; Tørsløv et al., 2023). Consequently, multinational enterprises must design transfer pricing policies that balance tax efficiency with corporate governance, risk management, operational effectiveness, and long-term business sustainability. Recent evidence also demonstrates that transfer pricing decisions are increasingly associated with taxpayer compliance and corporate governance, reinforcing their role within broader strategic management practices (Siagian & Pardede, 2026).

Despite these developments, the existing literature remains fragmented. Most previous studies focus on transfer pricing as a taxation issue by examining tax avoidance, profit shifting, tax rate differentials, intangible assets, and regulatory compliance. Comparatively limited attention has been given to understanding how transfer pricing policies are strategically integrated with corporate strategy, management control systems, organizational coordination, and value creation in multinational enterprises. As a result, the mechanisms through which transfer pricing contributes to strategic decision-making remain insufficiently explained. This limitation represents a significant research gap. Existing studies generally investigate individual determinants of transfer pricing without providing an integrated conceptual perspective that connects business strategy, management accounting, international taxation, governance, and organizational performance. Consequently, there is still limited understanding of how multinational enterprises can simultaneously achieve strategic alignment, regulatory compliance, and sustainable competitive performance through effective transfer pricing policies.

Accordingly, this study addresses the following research problem: How can transfer pricing policies be strategically integrated with corporate strategy to simultaneously support managerial effectiveness, international tax compliance, and sustainable organizational performance in multinational enterprises?. To address this problem, this study aims to analyze the strategic integration of transfer pricing policies in multinational enterprises. Specifically, it examines how corporate strategy, managerial control, taxation, international regulatory developments, and governance considerations jointly shape transfer pricing policies.

II. Literature Review and Hypothesis Development

2.1. Agency Theory

Agency Theory explains the contractual relationship between principals and agents, in which differences in interests and information asymmetry may create agency conflicts (Jensen & Meckling, 1976; Eisenhardt, 1989). In multinational enterprises (MNEs), these conflicts extend beyond shareholders and managers to include relationships between headquarters and subsidiaries operating across different legal, taxation, and institutional environments. Consequently, transfer pricing becomes an important governance mechanism for coordinating organizational objectives while mitigating conflicts among business units (Baldenius et al., 2004; Blouin et al., 2018). From the perspective of Agency Theory, transfer pricing functions not only as a pricing mechanism but also as a managerial control system that supports subsidiary performance evaluation, resource allocation, organizational coordination, and strategic decision-making. Well-designed transfer pricing policies promote goal congruence among business units, whereas poorly designed policies may encourage opportunistic behavior, distort performance measurement, and increase tax dispute risks (Baldenius & Reichelstein, 2006; Klassen et al., 2017; Siagian & Pardede, 2026).

2.2. Strategic Alignment Theory

Strategic Alignment Theory emphasizes that organizational performance improves when business strategy, organizational structure, operational processes, and management control systems operate consistently toward common objectives (Coltman et al., 2015; Tallon, 2007). Within multinational enterprises, transfer pricing represents one of the mechanisms through which strategic alignment is operationalized. Transfer pricing policies influence investment decisions, value-chain coordination, performance evaluation, international tax compliance, and corporate governance simultaneously. Companies that successfully integrate finance, taxation, legal, and operational functions generally achieve stronger organizational performance and lower compliance risks (Baldenius et al., 2004; Blouin et al., 2018; Klassen et al., 2017; Hasanah et al., 2025).

2.3. Transfer Pricing as a Strategic Management Instrument

Transfer pricing has traditionally been discussed within international taxation because it determines prices for transactions between related entities operating across different tax jurisdictions (Huizinga & Laeven, 2008; Beer et al., 2020). However, recent studies increasingly recognize transfer pricing as a strategic management instrument that supports managerial control, organizational coordination, resource allocation, performance evaluation, and corporate governance rather than merely tax optimization (Baldenius et al., 2004; Klassen et al., 2017; Siagian & Pardede, 2026). Practical evidence illustrates this strategic role. Multinational technology companies such as Apple and Microsoft, together with pharmaceutical firms including Pfizer and Roche, employ transfer pricing to allocate research and development expenditures, intellectual property royalties, manufacturing costs, and intra-group financing across subsidiaries. These decisions influence investment allocation, operational efficiency, subsidiary performance evaluation, and regulatory compliance while simultaneously affecting tax obligations (OECD, 2022; Beer et al., 2020; Tørsløv et al., 2023).

2.4. Recent Regulatory Developments

Recent international taxation reforms have fundamentally transformed transfer pricing practices. The OECD Base Erosion and Profit Shifting (BEPS) Project introduced comprehensive documentation requirements through the Master File, Local File, and Country-by-Country Reporting framework, thereby increasing transparency and reducing opportunities for aggressive profit shifting (OECD, 2022; Beer et al., 2020). Similarly, the Global Minimum Tax established under the OECD/G20 Inclusive Framework has significantly reduced incentives for multinational enterprises to shift profits to low-tax jurisdictions. Consequently, transfer pricing decisions increasingly emphasize economic substance, value creation, governance quality, and sustainable business performance rather than solely minimizing tax liabilities (Bares et al., 2026; OECD, 2024; Tørsløv et al., 2023).

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2.5. Critical Review of Previous Studies

Although previous studies have substantially advanced knowledge regarding transfer pricing, several important limitations remain. First, most empirical studies examine transfer pricing primarily from taxation perspectives, including tax avoidance, profit shifting, and arm's length compliance, while giving relatively limited attention to managerial strategy, organizational governance, and corporate performance (Beer et al., 2020; Davies et al., 2018). Second, existing studies generally investigate individual determinants of transfer pricing without integrating management accounting, strategic management, international business, economics, and corporate governance perspectives into a comprehensive analytical framework (Klassen et al., 2017; Blouin et al., 2018). Third, recent international reforms such as BEPS 2.0 and the Global Minimum Tax remain underexplored within strategic management research despite fundamentally changing multinational enterprises' transfer pricing strategies (OECD, 2024; Bares et al., 2026).

2.6. Research Gap and Contribution

These limitations demonstrate that current literature has not adequately explained how multinational enterprises strategically integrate transfer pricing policies with corporate strategy while simultaneously satisfying managerial objectives, governance requirements, and international tax compliance. Therefore, this study develops an interdisciplinary conceptual framework integrating management accounting, international taxation, strategic management, corporate governance, economics, and international business perspectives to explain transfer pricing as a strategic organizational capability rather than merely a taxation mechanism (Baldenius et al., 2004; Coltman et al., 2015; Siagian & Pardede, 2026).

2.7. Hypothesis Development

a. The Effect of Strategic Integration on the Effectiveness of Transfer Pricing Policies

Strategic integration enables companies to align transfer pricing policies with business objectives, management control systems, and tax compliance. Effective transfer pricing must support performance measurement, coordination among business units, allocation of revenues and costs, and tax risk management. Baldenius et al. (2004) emphasize that transfer pricing needs to integrate managerial and tax objectives so that the implemented policies are not only internally efficient but also consistent with external regulatory requirements. Companies with strong strategic integration are better able to design transfer pricing policies that are consistent with global business strategies. Such integration helps companies avoid interunit conflicts, distortions in subsidiary profits, and misalignment between business objectives and taxation objectives. Conversely, weak integration may cause transfer pricing policies to focus solely on tax efficiency or operational objectives without considering compliance risks (Baldenius & Reichelstein, 2006; Klassen et al., 2017).

H1: Strategic integration has a positive effect on the effectiveness of transfer pricing policies in multinational enterprises.

b. The Effect of Tax Rate Differences on the Intensity of Strategic Transfer Pricing Policies

Differences in tax rates across countries create incentives for multinational enterprises to manage profit allocation through affiliated transactions. The greater the tax rate differences, the greater the potential benefits that companies can obtain from shifting profits to low-tax jurisdictions. Huizinga and Laeven (2008) show that international tax rate differences create opportunities for profit shifting within multinational enterprises. Empirical evidence shows that transfer pricing can be used as a mechanism to shift profits across countries. Cristea and Nguyen (2016) found that multinational enterprises use transfer prices in internal export transactions to reduce profits reported in high-tax countries. Davies et al. (2018) also found that intrafirm

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prices may be influenced by tax motives, particularly in transactions involving tax havens. Based on these findings, tax rate differences are expected to increase the intensity of strategic transfer pricing policies.

H2: Differences in tax rates across countries have a positive effect on the intensity of strategic transfer pricing policy implementation in multinational enterprises.

c. The Effect of Intangible Asset Intensity on Transfer Pricing Risk

Intangible assets have characteristics that are difficult to value because they often do not have clear market comparables. This condition creates greater discretion in determining transfer prices. Dischinger and Riedel (2011) show that intangible assets are one of the main sources of profit shifting because they are easily transferable and difficult to value transparently. The higher the intensity of intangible assets, the greater the complexity companies face in determining fair transfer prices. This complexity may increase transfer pricing risk, particularly when companies do not have strong documentation, comparable analysis, and economic justification. Davies et al. (2018) also emphasize that deviations of intrafirm prices from arm's length prices may occur due to both market motives and tax motives. Therefore, intangible asset intensity is expected to increase transfer pricing risk.

H3: Intangible asset intensity has a positive effect on transfer pricing risk in multinational enterprises.

d. The Effect of Internal Coordination on the Effectiveness of Transfer Pricing Policies

Transfer pricing policies involve various corporate functions, such as tax, finance, accounting, legal, operational, and strategic management functions. Therefore, internal coordination is an important factor in ensuring that transfer pricing policies do not conflict with business objectives or tax regulations. Blouin et al. (2018) show that internal coordination influences corporate transfer pricing behavior when there is a conflict between income tax and customs duty incentives. Strong internal coordination enables companies to develop transfer pricing policies that are consistent, well-documented, and aligned with corporate strategy. Companies with weak internal coordination tend to face the risk of inconsistent policies across entities, difficulties in providing evidence during tax audits, and potential conflicts between the tax function and business functions. Therefore, internal coordination is expected to have a positive effect on the effectiveness of transfer pricing policies (Blouin et al., 2018; Klassen et al., 2017).

H4: Internal coordination has a positive effect on the effectiveness of transfer pricing policies in multinational enterprises.

e. The Effect of Compliance with the Arm's Length Principle on Transfer Pricing Dispute Risk

Compliance with the arm's length principle serves as an important basis for reducing transfer pricing dispute risk. This principle requires companies to set prices for affiliated transactions that are comparable to prices used by independent parties under comparable conditions. If a company can demonstrate that its transfer prices comply with the principle of fairness, the risk of tax adjustments and disputes with tax authorities can be reduced (Davies et al., 2018; Beer et al., 2020). Conversely, non-compliance with the arm's length principle may increase the risk of tax audits, profit adjustments, double taxation, and administrative sanctions. Davies et al. (2018) show that intrafirm prices may deviate from arm's length prices due to market and tax motives. Therefore, companies that consistently apply the arm's length principle are expected to have lower transfer pricing dispute risk (Davies et al., 2018; Blouin et al., 2018).

H5: Compliance with the arm's length principle has a negative effect on transfer pricing dispute risk in multinational enterprises.

f. The Role of the Global Minimum Tax in the Relationship Between Tax Rate Differences and Strategic Transfer Pricing Policies

The Global Minimum Tax aims to reduce the incentives of multinational enterprises to shift profits to low-tax jurisdictions. This policy changes the economic benefits of tax rate differences across countries because profits that were previously subject to low taxation may be subject to additional tax until they reach a certain minimum level. Bares et al. (2026) show that the Global Minimum Tax can reduce profit shifting incentives, although at the same time it may affect investment decisions and business location choices. In the context of transfer pricing, the Global Minimum Tax is expected to weaken the effect of tax rate differences on strategic transfer pricing policies. When the benefits of shifting profits to low-tax countries decrease, companies will be more encouraged to emphasize compliance, transparency, and economic value creation rather than merely tax optimization. Thus, the Global Minimum Tax acts as a moderating variable in the relationship between tax rate differences and the intensity of strategic transfer pricing policies (Bares et al., 2026; Beer et al., 2020).

H6: The Global Minimum Tax weakens the effect of tax rate differences across countries on the intensity of strategic transfer pricing policy implementation in multinational enterprises.

III. Research Method

This study employs a qualitative approach using a literature review method. This method was selected because the study focuses on reviewing, synthesizing, and critically analyzing various theories and previous research findings related to the integration of strategy and transfer pricing policies in multinational enterprises. A literature review can be used as a research method because it enables researchers to identify the development of knowledge, compare previous empirical findings, and discover research gaps that can be further developed in future studies (Snyder, 2019). In the context of management and accounting research, the literature review approach is also relevant because it allows the development of conceptual understanding in a systematic manner based on published scientific evidence (Tranfield et al., 2003). The type of literature review used in this study is a semi-systematic literature review. This approach was adopted because the topic of transfer pricing does not develop within a single discipline only, but is also related to management accounting, international taxation, corporate governance, business strategy, and international economics. A semi-systematic literature review enables researchers to examine literature from various fields of study in order to understand conceptual developments, patterns of findings, and directions of previous research more comprehensively (Snyder, 2019). In addition, this approach is considered appropriate for examining the relationship between corporate strategy and transfer pricing policies, which is multidimensional in nature and influenced by managerial, taxation, and international regulatory factors.

The data used in this study are secondary data obtained from scientific journal articles, academic books, and scholarly publications relevant to the research topic. The main literature was prioritized from reputable international journals discussing transfer pricing, profit shifting, the arm's length principle, agency theory, strategic alignment, intangible assets, Base Erosion and Profit Shifting, and the global minimum tax. Several academic databases that can be used in the literature search include Scopus, ScienceDirect, SpringerLink, Wiley Online Library, Emerald Insight, Oxford Academic, the American Economic Association, and Google Scholar as a supporting source. The use of various databases was intended to expand the coverage of the literature and reduce the risk of source limitations in the search process (Tranfield et al., 2003; Page et al., 2021). The literature search process was conducted using relevant keywords in both English and Indonesian. The main keywords used included "transfer pricing," "multinational enterprises," "international transfer pricing," "profit shifting," "tax avoidance," "arm's length principle," "managerial transfer pricing," "strategic alignment," "intangible assets," "Base Erosion and Profit Shifting," and "global minimum tax." Keyword combinations were applied using Boolean operators such as AND and OR to obtain articles aligned with the focus of the study. A structured search strategy is necessary so that the literature search process can be conducted transparently, traced systematically, and reduce selection bias (Tranfield et al., 2003; Page et al., 2021).

The inclusion criteria in this study included articles discussing transfer pricing in multinational enterprises, articles examining the relationship between transfer pricing and corporate strategy, international taxation, profit shifting, intangible assets, and tax compliance, as well as articles published in reputable scientific journals. In addition, the literature used was prioritized based on the availability of active DOIs and traceability through official publisher websites or academic databases. The exclusion criteria included articles that were not relevant to transfer pricing, non-academic popular articles, publications without clear author and publisher identities, and sources whose validity could not be verified. The application of inclusion and exclusion criteria is necessary to maintain the quality, relevance, and credibility of the literature used in the study (Snyder, 2019; Page et al., 2021). The data analysis process was carried out through several stages. First, the researcher identified literature based on the predetermined keywords. Second, the researcher screened the literature based on title, abstract, topic relevance, and completeness of bibliographic information. Third, the literature that met the criteria was analyzed in depth to identify key concepts, theories used, research methods, empirical findings, and research gaps. Fourth, the results of the analysis were grouped into several main themes, namely transfer pricing as a managerial instrument, transfer pricing as a tax strategy, the integration of strategy and transfer pricing policies, profit shifting, compliance with the arm's length principle, and the influence of international regulations such as BEPS and the global minimum tax.

The analytical technique used in this study is thematic analysis. Thematic analysis was used to group various literature findings into conceptual themes relevant to the focus of the study. This technique helps researchers identify patterns, relationships among concepts, differences in findings, and directions for future research development. Thomas and Harden (2008) explain that thematic synthesis can be used in literature reviews to integrate various research findings and build a more structured conceptual understanding. In this study, thematic analysis was conducted by reading the literature in depth, coding important concepts, grouping findings based on themes, and preparing a narrative synthesis to explain the relationship between corporate strategy and transfer pricing policies. To maintain the quality of the analysis, this study considered the aspects of transparency, relevance, and source traceability. Transparency was ensured by explaining the literature search strategy, keywords, databases, and source selection criteria. Relevance was maintained by using only literature directly related to transfer pricing and multinational enterprises. Source traceability was ensured by prioritizing articles with active DOIs and publications in reputable journals. This step is important because a sound literature review should not merely present a collection of theories, but should also demonstrate a systematic process of literature selection and synthesis so that the results of the study can be scientifically justified (Snyder, 2019; Tranfield et al., 2003).

Through this method, the study is expected to produce a conceptual synthesis of the integration of strategy and transfer pricing policies in multinational enterprises. The results of this review are expected to explain how transfer pricing has evolved from a management accounting instrument into part of business strategy and international tax compliance. In addition, this literature review method is also used to identify research gaps and formulate directions for future studies on transfer pricing, particularly in the context of multinational enterprises facing global regulatory pressures, the complexity of intangible assets, and changes in the international taxation system.

IV. Results and Discussion

4.1. Results of Literature Synthesis

The results of the literature review indicate that transfer pricing plays a strategic role in multinational enterprises because it functions not only as a mechanism for determining prices in internal transactions, but also as an instrument of management control, performance measurement, profit allocation, and international tax compliance. In decentralized organizations, transfer pricing is used to create goal

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congruence among business units, maintain divisional autonomy, and assess the contribution of each entity to the overall performance of the company. This finding is consistent with Baldenius et al. (2004), who emphasize that transfer pricing policies need to integrate managerial and tax objectives so that internal corporate decisions remain efficient and accountable within the context of tax regulation. The literature synthesis also shows that transfer pricing has a dual function. On the one hand, transfer pricing serves as an internal management tool to promote operational efficiency, coordinate transactions among divisions, and evaluate managerial performance. On the other hand, transfer pricing serves as an instrument of international taxation because the prices of related-party transactions determine the amount of profit reported in each jurisdiction. Baldenius and Reichelstein (2006) explain that internal transfer prices can influence decision-making efficiency in multidivisional firms. Therefore, inappropriate transfer pricing may create distortions in decision-making, especially when transfer prices are directed solely toward the interests of one division or focused only on tax efficiency.

Based on the literature review, there are three main approaches to determining transfer prices: market-based transfer pricing, cost-based transfer pricing, and negotiated transfer pricing. Market-based transfer pricing uses market prices as the basis for determining transfer prices and is considered the most objective approach when a competitive external market is available. This approach can create goal congruence because transfer prices reflect the opportunity cost of internal transactions. Hirshleifer (1956) explains that appropriate transfer prices can help companies avoid internal decisions that are detrimental to the interests of the company as a whole. In the modern context, the market-based approach remains relevant because it is easier to defend under the arm's length principle, particularly when adequate comparable data are available. Cost-based transfer pricing is an approach that determines transfer prices based on production costs, whether variable costs, full costs, or full costs plus a certain margin. This approach is relatively easy to apply because companies generally have internal cost data available on a regular basis. However, the cost-based approach has limitations because it may create distortions when the costs used do not reflect economic efficiency or when the added margin is not consistent with market conditions. Baldenius et al. (2004) show that differences between managerial and tax objectives can influence the effectiveness of cost-based transfer pricing. Therefore, cost-based transfer pricing needs to be supported by an arm's length analysis so that it does not create conflicts between the company's internal interests and external tax compliance.

Negotiated transfer pricing provides room for the selling division and the buying division to negotiate in determining transfer prices. This approach can support divisional autonomy and increase managerial participation in the decision-making process. However, negotiated transfer pricing also has weaknesses because it may create negotiation costs, conflicts among units, and policy inconsistencies if it is not controlled by central management. In multinational enterprises, these weaknesses become more complex because internal transactions affect not only divisional profits but also taxable income across countries. Therefore, companies need to establish transfer pricing policies that are able to maintain a balance between business unit autonomy, internal efficiency, and compliance with tax regulations. From an international perspective, the review shows that transfer pricing is often used by multinational enterprises to manage global tax burdens, foreign exchange risks, tariffs, and international competitiveness. Differences in tax rates across countries create incentives for companies to allocate profits to jurisdictions with lower tax rates. Huizinga and Laeven (2008) show that international tax rate differences can encourage profit shifting within multinational enterprises. Cristea and Nguyen (2016) also provide evidence that multinational enterprises use transfer prices in internal export transactions to shift profits to low-tax countries. These findings indicate that transfer pricing cannot be understood merely as an internal accounting technique, but also as part of an international tax strategy.

The review also shows that transfer pricing practices in multinational enterprises have become increasingly complex because they involve transactions related to intangible assets, intra-group services, internal financing, and intellectual property rights. Intangible assets are difficult to value because they often do not have clear comparable market prices. Dischinger and Riedel (2011) explain that intangible assets can become an important source of profit shifting because their valuation tends to be less transparent and they can be transferred to entities located in low-tax jurisdictions. This condition makes transfer pricing policies for intangible assets require a more in-depth analysis of functions, assets, risks, and economic substance. The results of the literature synthesis can be summarized into several main themes as presented in Table 1.

Table 1. Synthesis of Transfer Pricing Literature Review Results

Theme	Synthesis Result	Implication in the Article
Managerial function of transfer pricing	Transfer pricing is used for performance measurement, interdivisional coordination, allocation of costs and revenues, and management control.	Transfer pricing needs to be understood as part of the management control system, not merely as a tax instrument.
Transfer pricing methods	The three main approaches are market-based, cost-based, and negotiated transfer pricing. Each method has advantages and limitations.	The choice of method must consider the availability of market prices, cost structures, divisional autonomy, and tax compliance.
International transfer pricing	Differences in tax rates across countries may encourage companies to shift profits through affiliated transactions.	Transfer pricing becomes part of international tax strategy and may create tax supervision risks.
Intangible assets	Intangible assets complicate transfer price valuation because they are difficult to compare with independent-party transactions.	Companies need to strengthen documentation, functional analysis, asset analysis, risk analysis, and economic substance.
Compliance with the arm's length principle	Transfer prices must reflect fair transactions between independent parties.	Compliance with the arm's length principle can reduce the risk of tax adjustments and tax disputes.
Modern regulation	BEPS and the Global Minimum Tax strengthen supervision of profit shifting.	Transfer pricing policies must increasingly be directed toward transparency, compliance, and economic value creation.

4.2. Discussion

The results of this study indicate that transfer pricing is a multidimensional concept. Transfer pricing cannot be positioned merely as a pricing technique in internal transactions because the policy affects operational decisions, performance evaluation, profit allocation, tax compliance, and business strategy in multinational enterprises. This finding is consistent with Baldenius et al. (2004), who emphasize that transfer pricing must integrate managerial and tax objectives. If transfer pricing is designed solely for managerial purposes, companies may face the risk of tax adjustments. Conversely, if transfer pricing is directed only toward tax objectives, internal performance measurement may become inaccurate and create conflicts among business units. From the perspective of management accounting, transfer pricing plays an important role in creating goal congruence. In decentralized organizations, each division has its own profit targets and operational authority. Transfer prices that are too high may disadvantage the buying division, while transfer prices that are too low may disadvantage the selling division. Therefore, transfer pricing policies must be designed so that decisions made by each division remain aligned with the interests of the company as a whole. Baldenius and Reichelstein (2006) emphasize that internal transfer prices can influence decision-making efficiency in multidivisional firms. Thus, the effectiveness of transfer pricing largely depends on the company's ability to align divisional interests with corporate objectives.

The discussion of transfer pricing methods shows that no single method is always the most appropriate for all conditions. Market-based transfer pricing tends to be the most objective when a competitive external market and reliable comparable data are available. However, this method is difficult to apply when the transferred products or services are unique, do not have an active market, or involve intangible assets. Cost-based transfer pricing is easier to apply because it uses internal cost information, but it may produce inefficient decisions if the costs used do not reflect actual economic conditions. Negotiated transfer pricing provides flexibility for divisional managers, but it may create conflicts and negotiation costs. Therefore, the selection of a transfer pricing method must consider transaction characteristics, organizational structure, the availability of comparable data, and the company's strategic objectives.

In the context of multinational enterprises, the discussion of transfer pricing becomes more complex because transfer prices are also related to differences in tax rates across countries. Multinational enterprises may have incentives to set certain transfer prices so that more profits are reported in low-tax countries. Huizinga and Laeven (2008) show that international tax rate differences encourage companies to engage in profit shifting. Similar findings are presented by Cristea and Nguyen (2016), who find that multinational enterprises use transfer prices in internal transactions to shift profits to more tax-favorable jurisdictions. Therefore, international transfer pricing needs to be understood as the intersection between business strategy, tax planning, and regulatory compliance. The results of this study also show that transfer pricing issues cannot be separated from the risk of misuse. Transfer pricing is essentially a legitimate business practice when it is used to determine prices for related-party transactions on an arm's length basis. However, this policy can become problematic when it is used to manipulate profit allocation, aggressively reduce tax burdens, or shift profits to tax havens without sufficient economic substance. Beer et al. (2020) explain that transfer mispricing is one of the main channels of international tax avoidance, in addition to debt shifting, treaty shopping, tax deferral, and corporate inversions. This finding indicates that transfer pricing analysis must always place benefits and risks in a balanced perspective.

The study by Davies et al. (2018) provides an important explanation that deviations of intrafirm prices from arm's length prices are not always caused solely by tax avoidance. Intrafirm prices may also be influenced by pricing-to-market motives, namely price adjustments to the conditions of the destination market. However, Davies et al. (2018) also find that tax motives become more apparent when transactions involve tax havens. This finding is important because it shows that transfer pricing analysis should not oversimplify corporate behavior. Not all internal price differences represent tax manipulation, but such differences still need to be examined based on economic substance, transaction characteristics, and price fairness. Intangible assets are one of the factors that increase the complexity of modern transfer pricing. In the digital and knowledge-based economy, company value is increasingly derived from brands, technology, algorithms, software, customer data, and intellectual property rights. Such assets are difficult to value because they do not always have clear market comparables. Dischinger and Riedel (2011) show that multinational enterprises have incentives to locate intangible assets in affiliates situated in countries with relatively low tax rates. This indicates that transfer pricing policies for intangible assets require stricter supervision because they may become a channel of profit shifting that is difficult to detect.

In the context of compliance, the arm's length principle serves as an important basis for assessing the fairness of related-party transactions. This principle requires internal transactions within multinational enterprises to be treated as if they were conducted by independent parties under comparable conditions. However, the application of this principle is not always straightforward because companies must provide comparable data, functional analysis, asset analysis, risk analysis, and adequate documentation. Davies et al. (2018) show that intrafirm prices may deviate from arm's length prices due to both market motives and tax motives. Therefore, compliance with the arm's length principle requires not only the selection of an appropriate method, but also strong economic reasoning and accountable documentation. This discussion also shows that transfer pricing is increasingly influenced by developments in international regulation. The Base Erosion and Profit Shifting initiative and the Global Minimum Tax have changed the way multinational enterprises design transfer pricing policies. Whereas companies previously had greater flexibility in utilizing tax rate differences across countries, they now face higher demands for transparency, documentation, and economic substance. Bares et al. (2026) show that the Global Minimum Tax can reduce profit shifting

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incentives because the benefits of shifting profits to low-tax countries become more limited. However, this policy may also influence investment decisions, business location choices, and companies' cost of capital.

The findings of Tørsløv et al. (2023) strengthen the urgency of discussing transfer pricing in the context of state revenue. Their study shows that a portion of multinational enterprise profits is shifted to tax havens, thereby reducing the tax base of countries where the actual economic activities take place. The implication of this finding is that transfer pricing affects not only corporate financial reporting but also fiscal justice and the capacity of governments to collect tax revenue. Therefore, transfer pricing policies need to be viewed as an issue of global governance, not merely as a technical matter of accounting or corporate taxation. The discussion also shows that companies have different orientations in implementing transfer pricing. Klassen et al. (2017) find that some companies implement transfer pricing with a tax minimization orientation, while others place greater emphasis on compliance. These different orientations indicate that transfer pricing policies are strongly influenced by corporate strategy, risk tolerance, internal control systems, and regulatory pressure. Therefore, the integration of strategy and transfer pricing policies is important so that companies not only achieve economic efficiency but also maintain reputation, compliance, and business sustainability. Based on the overall discussion, it can be concluded that the integration of strategy and transfer pricing policies is a major necessity for multinational enterprises. Such integration is needed to maintain a balance between operational efficiency, performance measurement, optimization of business structure, and compliance with international tax regulations. Transfer pricing policies that are not integrated with corporate strategy may create interunit conflicts, distort performance measurement, increase tax risks, and expose companies to tax disputes. Conversely, transfer pricing policies that are designed strategically, fairly, transparently, and with adequate documentation can support the effective management of multinational enterprises and strengthen corporate governance in an increasingly complex global business environment.

4.3. Implications of the Research Findings

The findings of this study have both theoretical and practical implications. Theoretically, this study strengthens the view that transfer pricing should be analyzed through a multidisciplinary approach that includes management accounting, international taxation, corporate governance, and business strategy. Transfer pricing cannot be sufficiently explained only from a tax perspective because the policy is also related to organizational design, control systems, and managerial behavior. Therefore, transfer pricing studies need to be developed by integrating agency theory, strategic alignment, and the tax compliance perspective. Practically, the findings of this study imply that multinational enterprises should not view transfer pricing merely as a tax-saving instrument. Companies need to develop transfer pricing policies that are aligned with business strategy, supported by strong documentation, and consistent with the arm's length principle. In addition, companies need to strengthen coordination among tax, finance, legal, operational, and strategic management functions so that transfer pricing policies do not create internal conflicts or external risks. In the context of increasingly strict global regulation, transparency and economic substance are important factors in maintaining the sustainability of transfer pricing policies.

From a regulatory perspective, the findings of this study show the importance of strengthening supervision over related-party transactions, particularly transactions involving intangible assets and low-tax jurisdictions. Tax authorities need to recognize that transfer pricing deviations can be caused by various motives, including both market motives and tax motives. Therefore, transfer pricing supervision should be carried out proportionally by considering industry characteristics, economic functions, business risks, and the availability of comparable data. An overly general approach risks failing to capture the complexity of transfer pricing in the practice of multinational enterprises.

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4.4. Limitations and Directions for Future Research

This study has limitations because it uses a literature review approach, so the findings are conceptual and synthetic rather than the result of direct empirical testing. Therefore, future research may empirically examine the relationship between strategic integration, transfer pricing policies, compliance with the arm's length principle, intangible asset intensity, and the risk of tax disputes. Such empirical testing can be conducted using data from multinational enterprises, financial statements, related-party transaction data, or surveys of tax practitioners and financial managers. Future research may also develop transfer pricing studies in the context of developing countries. This is important because developing countries often face limitations in comparable data, tax administration capacity, and the complexity of supervising cross-border transactions. In addition, future studies may examine the impact of the Global Minimum Tax on the transfer pricing strategies of multinational enterprises in developing countries, including its influence on investment decisions, the location of intangible assets, and the structure of global value chains.

V. Conclusion

Based on the analysis of the main article reviewed and supported by various previous studies, it can be concluded that transfer pricing plays an important role in multinational enterprises from managerial, operational, strategic, and international taxation perspectives. The article analyzed provides a fairly strong conceptual foundation by explaining the objectives of transfer pricing as an instrument for creating goal congruence among business units, evaluating managerial performance, supporting operational efficiency, and maintaining divisional autonomy in decentralized organizations. In addition, the discussion of domestic and international transfer pricing broadens the analytical perspective by showing that the implementation of transfer pricing is strongly influenced by differences in regulations, taxation systems, transaction characteristics, and economic conditions in each country. The findings also indicate that the main article presents several transfer pricing methods, such as market-based transfer pricing, cost-based transfer pricing, and negotiated transfer pricing. The discussion of these methods provides an understanding that each approach has different advantages and limitations; therefore, the selection of a transfer pricing method must be adjusted to transaction characteristics, the availability of market prices, cost structures, and the company's strategic objectives. The discussion of transfer pricing practices in various countries also illustrates that the implementation of transfer pricing policies is not uniform, but highly dependent on regulations, tax supervision systems, and the business interests of multinational enterprises in each jurisdiction.

Nevertheless, the article reviewed still has several limitations. The discussion remains largely conceptual and does not sufficiently demonstrate the application of transfer pricing in real cases of multinational enterprises. As a result, the complexity of business decision-making, the dynamics among entities within a corporate group, and the impact of transfer pricing on performance and tax compliance are not described in depth. In addition, the article places greater emphasis on the benefits of transfer pricing as an instrument of efficiency and management control, but does not provide a balanced discussion of the risks of misuse, such as tax avoidance, earnings manipulation, profit shifting to low-tax jurisdictions, and potential disputes with tax authorities. Another limitation lies in the lack of attention to differences across countries, particularly in terms of transfer pricing regulations, taxation systems, supervisory capacity, and economic conditions in each jurisdiction. In global practice, cross-country differences can influence the strategies of multinational enterprises in setting transfer prices. Furthermore, the discussion of modern transfer pricing regulations remains limited, and therefore does not fully reflect the increasingly strict developments in international tax supervision, including issues related to Base Erosion and Profit Shifting, transfer pricing documentation, the arm's length principle, and the Global Minimum Tax. The article reviewed also does not clearly distinguish between legitimate tax planning and tax avoidance that may violate compliance principles. Thus, although the article provides an important conceptual contribution, its discussion still needs to be

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expanded in order to describe transfer pricing practices in a more comprehensive, critical, and relevant manner in line with current developments in international taxation.

The article analyzed provides an important contribution to expanding the understanding of transfer pricing, particularly in distinguishing the characteristics of domestic and international transfer pricing. This comparison helps explain that transfer pricing cannot be understood merely as a mechanism for determining internal transaction prices, but also as a policy influenced by regulations, taxation systems, economic conditions, and the strategies of multinational enterprises. Through its cross-country discussion, the article shows that transfer pricing practices have different levels of complexity in each jurisdiction, requiring companies to adjust their policies to the applicable regulations and risks in each country. Another contribution of the article lies in its fairly comprehensive explanation of the objectives of transfer pricing. Transfer pricing is not only described as a tool for determining prices in transactions between business units, but also as an instrument that supports management control, performance evaluation, operational efficiency, the allocation of revenues and costs, and strategic decision-making. This explanation shows that transfer pricing holds an important position in a company's management system, particularly in organizations that apply decentralization and have multiple affiliated entities. Therefore, the article helps strengthen the understanding that transfer pricing has a managerial dimension that is no less important than its taxation dimension.

In addition, the article contributes by systematically presenting various transfer pricing methods. The discussion of market-based transfer pricing, cost-based transfer pricing, and negotiated transfer pricing provides a fundamental understanding of alternative methods that companies can use to manage transactions among affiliated entities. The article also shows that the selection of a transfer pricing method cannot be made arbitrarily, as it must consider transaction characteristics, the availability of comparable data, corporate objectives, and potential risks. Thus, the article can serve as an initial academic foundation for readers to understand how transfer pricing policies are designed and implemented in business practice. The article also contributes to the understanding of the relationship between transfer pricing, multinational corporate strategy, and the international taxation system. The discussion of international taxation aspects shows that transfer pricing can be used by companies to manage global tax obligations, customs duties, foreign exchange risks, and cross-border competitiveness. This indicates that transfer pricing is not merely a technical accounting issue, but is also related to corporate strategy in dealing with differences in taxation policies across countries. Therefore, the article analyzed can serve as an initial academic reference for understanding transfer pricing as an issue located at the intersection of management accounting, business strategy, and international taxation.

Based on the analysis, future research is recommended to deepen the discussion of the objectives of transfer pricing by examining the possibility of conflicts among managerial, operational, and taxation objectives. Corporate efficiency does not always align with the interests of tax supervision; therefore, transfer pricing analysis needs to place its benefits and risks in a balanced perspective. Future studies should also expand the comparison between domestic and international transfer pricing by analyzing regulatory effectiveness, differences in taxation systems, and their impact on the behavior of multinational enterprises in utilizing transfer pricing policies. In addition, the discussion of transfer pricing methods should be complemented with a more critical analysis of the limitations and risks of each method. Market-based transfer pricing, cost-based transfer pricing, and negotiated transfer pricing each have certain advantages, but they may also create problems if applied without considering transaction characteristics and market conditions. Therefore, future research needs to explain in greater depth how transfer pricing methods are selected, how they affect performance measurement, and how the potential for misuse can be controlled through adequate documentation and supervision.

Future studies are also encouraged to include real case studies of multinational enterprises so that the discussion is not merely conceptual. Case studies can help explain how companies implement transfer pricing policies in complex business conditions, how they respond to regulatory differences across countries, and how such policies affect performance, tax compliance, and the risk of tax disputes. With empirical examples, the discussion of transfer pricing will become more contextual and better able to describe the dynamics of decision-making in international business practice. Furthermore, research on transfer pricing should pay attention to the increasingly dynamic development of international taxation regulations. Discussions of the arm's length principle, transfer pricing documentation, Base Erosion and Profit Shifting, and the Global Minimum Tax need to be included so that the study is more relevant to current global tax supervision conditions. In addition, the distinction between tax planning and tax avoidance should be explained more clearly. This clarification is important so that readers can understand the difference between legitimate tax strategies and practices that may potentially lead to violations or disputes. By considering these aspects, future research is expected to produce a more comprehensive, critical, and relevant study of transfer pricing for the development of accounting, international taxation, and multinational enterprise practices.

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