Governance, Accounting and Taxation Journal (GATJ)
Vol.1 No.1, February 2026, pp 58-74

Article Type: Research Paper

Controlling Shareholders and Transfer Pricing Behavior in Emerging Markets

Fany Kurnia Ningsih[1]*, Yesi Mutia Basri[1], Devi Safitri[1]

Affiliation:
[1] Department of Accounting, Faculty of Economics and Business, Riau University,Riau Province, Indonesia

***Correspondence:**
fanykurnianingsih@gmail.com

Article History
Received :
2025-12-10
Revised :
2026-02-23
2026-02-26
Accepted :
2026-02-26

Abstract:
Research Aim:
This study investigates how tax burden, tunneling incentives, and bonus mechanisms influence corporate transfer pricing decisions. The analysis is grounded in agency theory to explain how internal incentive structures shape related-party transactions.
Design/Methodology/Approach:
A quantitative research design was employed using panel data from companies in the raw materials, energy, and non-cyclical consumer sectors listed on the Indonesia Stock Exchange during 2019–2023. The sample consists of 27 firms selected through purposive sampling. Secondary data were obtained from audited financial statements and annual reports. The hypotheses were tested using panel data regression with Stata 18.
Research Findings:
The empirical results indicate that tunneling incentives significantly affect transfer pricing practices, suggesting that controlling shareholders may use related-party transactions to pursue private benefits. In contrast, tax burden and bonus mechanisms do not demonstrate a statistically significant association with transfer pricing decisions.
Theoretical contribution /Originality:
This study contributes to the agency literature by highlighting the dominant role of ownership-related incentives rather than tax pressure or managerial compensation in shaping transfer pricing behavior within an emerging market context.
Practical Implications:
The findings underscore the importance of strengthening corporate governance and regulatory oversight to mitigate opportunistic transfer pricing driven by concentrated ownership structures.
Research Limitations:
This study is limited to selected sectors and a five-year observation period, which may constrain generalizability. Moreover, the analysis focuses on a limited set of determinants and does not incorporate broader institutional or political factors that may further explain transfer pricing behavior

Keywords: Transfer Pricing, Tax Expense, Tunneling Incentive, Bonus mechanism.

Introduction

Transfer pricing practice has become a strategic issue in international taxation because it has the potential to be used as a means of shifting profits through transactions between related parties. In principle, transfer pricing refers to the pricing of transactions involving goods, services, intangible assets, intangible property, and financial arrangements among affiliated entities operating across different tax jurisdictions (OECD, 2022). Transfer pricing is basically a legal and reasonable business practice in international transactions (Setyorini & Nurhayati,

2022). However, concerns arise when transfer prices deviate from the arm's length principle and facilitate income reallocation to lower-tax jurisdictions, thereby reducing taxable income in higher-tax countries (Simbolon & Simarmata, 2024).

Although transfer pricing is traditionally examined from a taxation perspective, in emerging markets the issue increasingly intersects with corporate governance dynamics, particularly in firms characterized by concentrated ownership structures (Johson et al., 2000). In Indonesia, transfer pricing is a sensitive issue because it is closely related to the potential for tax avoidance and loss of state revenue (Anwar & Sadewa, 2025). Moreover, concentrated ownership structures common in developing economiescreate opportunities for controlling shareholders to influence related-party transactions for private benefit (Jensen & Meckling, 1976). The Mutual Agreement Procedure publication released by OECD shows that in 2023 there were 18 new transfer pricing cases in Indonesia, with a total of 42 unresolved cases (OECD, 2023). The persistence of unresolved disputes suggests that transfer pricing remains not only a tax compliance matter but also a governance and enforcement challenge despite strengthened regulatory frameworks**.**

Several cases of transfer pricing revealed indicate the utilization of affiliated entities abroad as a means of transferring profits, such as the coal company PT Adaro Energy Tbk which is indicated to transfer profits to its subsidiary Coaltrade Service International located in Singapore. The company allegedly structured intra-group coal sales at relatively low prices, allowing profits to be recorded in jurisdictions with more favorable tax regimes. A similar case also occurred at PT Bentoel Internasional Investama Tbk, a subsidiary of British American Tobacco (BAT). Reports indicated that related-party payments in the form of royalties, loan interest, and service fees were directed to overseas affiliates, potentially reducing taxable income in Indonesia.

Based on these cases, transfer pricing should not be viewed solely as a tax planning instrument but also as a mechanism embedded within ownership control structures**.**There are several reasons that allow companies to engage in transfer pricing, including tax and non-tax motives Tax burden is often considered a primary trigger of transfer pricing practices. Under Positive Accounting Theory (Watts & Zimmerman, 1986), firms facing higher political costs—such as taxation may adopt accounting strategies that reduce reported profits to minimize political exposure.From this perspective, transfer pricing may function as a strategic tool to manage taxable income. However, increasingly strict documentation requirements and regulatory oversight in Indonesia raise questions about whether tax burden remains the dominant determinant in a strengthened enforcement environment.

Beyond taxation motives, tunneling incentive also plays a crucial role. Tunneling incentive refers to the transfer of assets and profits by controlling shareholders for personal benefit at the expense of minority shareholders (Setyorini & Nurhayati, 2022). In emerging markets characterized by concentrated ownership, such incentives may exert stronger influence than tax considerations**.**

According to Agency Theory (Jensen & Meckling, 1976), concentrated ownership structures may create agency conflicts between majority and minority shareholders. From the entrenchment perspective, controlling shareholders may exploit transfer pricing as a vehicle

for expropriation. Conversely, the alignment perspective argues that majority shareholders internalize regulatory and reputational risks, potentially discouraging opportunistic behavior.This theoretical duality leaves the direction of the relationship between tunneling incentives and transfer pricing conceptually unresolved.

Furthermore the bonus mechanism is considered another determinant of transfer pricing. Profit-based compensation schemes may encourage managers to manipulate earnings to maximize bonuses (Lorensya & Kesaulya, 2023; Yaramah et al ,2025). Empirical findings by Darmawan & Adi (2023) suggest a significant effectwhile, Nurfadilla & Budiantara (2024), and Unasih & Gunarto (2025) find no influence. From an Agency Theory perspective, bonus incentives may increase managerial opportunism (Eisenhardt, 1989). However, in firms dominated by controlling shareholders, managerial discretion may be limited, potentially weakening the influence of compensation-driven incentives on transfer pricing decisions.

Although prior research has examined tax burden, tunneling incentives, and bonus mechanisms, empirical findings remain inconsistent. More importantly, limited studies have explicitly integrated Positive Accounting Theory and Agency Theory to explain whether transfer pricing behavior in emerging markets reflects tax-driven political cost minimization or ownership-based expropriation dynamics.The absence of an integrated governance perspective creates ambiguity regarding the dominant mechanism underlying transfer pricing decisions in concentrated ownership environments**.**

Therefore, this study aims to examine the effect of tax burden, tunneling incentive, and bonus mechanism on transfer pricing in companies within the raw materials, energy, and non-cyclical consumer sectors listed on the Indonesia Stock Exchange during the 2019–2023 period. By situating these determinants within an integrated ownership and governance framework, this study seeks to clarify whether transfer pricing behavior in Indonesian listed firms is primarily driven by tax minimization motives or shaped by the strategic influence of controlling shareholders in an emerging market context.

Literature Review and Hypotheses Development

Agency Theory

Agency theory describes a contractual relationship in which one or more parties (principals) hire another party (agent) to provide services and give decision-making authority to the agent, which results in information asymmetry between the principal and the agent (Jensen & Meckling, 1976). This will cause agency problems because there are parties with different interests but who work together in different areas of responsibility.
Under the entrenchment perspective, controlling shareholders may use related-party transactions, including transfer pricing, as a tunneling mechanism to extract private benefits (Johnson et al., 2000). Empirical evidence suggests that ownership concentration may increase profit-shifting incentives (Hope et al., 2013;Widiastuti et al., 2023 Oktaviyanti et al., 2021).

However, the alignment perspective argues that concentrated ownership may reduce opportunistic behavior because controlling shareholders internalize regulatory and reputational

risks (Desai & Dharmapala, 2006). This theoretical duality makes the effect of tunneling incentives on transfer pricing empirically ambiguous.

Positive Accounting Theory

Positive Accounting Theory (PAT) posits that firms adopt accounting strategies in response to economic incentives (Watts & Zimmerman, 1978). The political cost hypothesis suggests that firms facing higher tax burdens may engage in income-decreasing strategies, including transfer pricing, to reduce tax exposure (Desai & Dharmapala, 2006).
While some studies find that tax burden increases transfer pricing practices (Santosa & Karina, 2022;Naili et al., 2024), others report no significant effect due to regulatory enforcement and documentation requirements (Ravensky & Akbar, 2021;Anwar & Sadewa, 2025; Ramadhani et al., 2025).Thus, whether tax burden remains a dominant driver in a strengthened regulatory environment remains an open question

Hypothesis Development

The Effect of Tax Burden on Transfer Pricing

Taxes are often said to be a factor that triggers transfer pricing. The higher the tax burden, the more likely companies are to engage in transfer pricing, with the aim of reducing the amount of tax they have to pay. Multinational companies tend to shift their tax obligations from countries with high tax rates to countries with low tax rates by reducing the selling price between companies within the same group (Naili *et al*., 2024). Taxes are the largest source of revenue for the government, but for companies, taxes are a burden that reduces their profits. High tax burdens can encourage companies to transfer profits through transfer pricing (Sudarmanto et al., 2023).

According to positive accounting theory (PAT), companies that face political costs, one of which is taxes, tend to manipulate their profits downward in order to minimize the tax burden they have to bear (Watts & Zimmerman, 1970). Companies use transfer pricing practices to avoid taxes with the aim of minimizing the amount of tax they have to pay to the state. These efforts are carried out through the manipulation of financial statements and the engineering of transfer pricing between companies within a group that have a special relationship. High tax burdens on companies result in higher expenses, prompting companies to reduce their tax liabilities by transferring part of their income to affiliated companies so that their reported profits appear smaller. This also reduces the amount of tax they have to pay. This condition shows that the higher the tax burden imposed on companies, the greater the incentive for companies to engage in transfer pricing practices to reduce their tax liabilities.

This statement is in line with research conducted by Santosa & Karina (2022), Naili *et al* (2024) and Sari & Finatariani (2025), which shows that the tax burden has a positive effect on transfer pricing, meaning that transfer pricing practices are still one of the alternatives for companies to avoid taxes in order to minimize the amount of tax payable to the state by manipulating financial reports and engineering transfer pricing between companies in the same group that have a special relationship. Based on the above description, the following hypothesis can be formulated:

H_1: Tax burden has a positive effect on transfer pricing

Tunneling Incentive Effect on Transfer Pricing

Tunneling incentive is an action taken by controlling shareholders in diverting company assets and profits for personal gain, thereby causing losses to minority shareholders who also bear the costs incurred (Nurfadilla & Budiantara, 2024). In the context of emerging markets characterized by concentrated ownership structures, tunneling incentives reflect the strategic power of controlling shareholders to influence corporate decisions, including related-party transactions (Johson et al., 2000).

Based on agency theory, information asymmetry between managers and shareholders can occur, whereby managers have more information about the company than shareholders. The granting of authority from the principal to the agent has the potential to cause information asymmetry between the principal as the shareholder and the agent as the party managing the company. However, in firms with concentrated ownership, the primary agency conflict shifts from manager–shareholder conflicts (Type I agency problem) to conflicts between majority and minority shareholders (Type II agency problem) (Jensen & Meckling, 1976; Marantika, 2012).

Under this Type II agency framework, controlling shareholders possess significant influence over strategic financial decisions and may utilize transfer pricing as a mechanism to extract private benefits through affiliated entities under their control. Majority shareholders who control the management of a company may use transfer pricing as a means to shift profits to affiliated companies under their control.

As the level of share ownership increases, so does control over the company's financial and operational policies, including decisions on transfer pricing. From the entrenchment perspective, higher ownership concentration strengthens the ability of controlling shareholders to engage in opportunistic behavior, including profit shifting through transfer pricing arrangements. Therefore, the higher the tunneling incentive possessed by majority shareholders, the greater the likelihood that the company will engage in transfer pricing practices to shift profits to entities they control.

This statement is in line with research conducted by Mineri & Paramitha (2021)and Nurfadilla & Budiantara (2024) which shows that tunneling incentives have a positive effect on transfer pricing. Based on the above description, the following hypothesis can be formulated:
H_2: Controlling shareholder incentives (tunneling) positively influence transfer pricing.

The Effect of Bonus Mechanism on Transfer Pricing

Bonus mechanisms are one of the strategies or calculation motives in accounting, the purpose of which is to reward directors or management by looking at the company's overall profits (Ravensky & Akbar, 2021) When bonuses are based on profit earnings, managers can manipulate company profits to maximize bonuses. The higher the company's profits, the higher the appreciation given by the company owners to managers.

Based on agency theory, the bonus mechanism has the potential to create agency conflicts due to differences in interests between shareholders (principals) and managers (agents) (Eisenhardt, 1989). Shareholders want sustainable profits, while managers are encouraged to maximize

short-term bonuses by showing high profit performance. To obtain larger bonuses, managers tend to engage in transfer pricing practices, which involve transferring profits between related entities to make the company's profits appear higher than they actually are. The greater the incentives or bonuses received by managers, the greater the incentive to engage in transfer pricing practices in order to show good financial performance and obtain large bonuses.

Research conducted by Naili *et al* (2024) and Yaramah et al (2025) shows that bonus mechanisms have a positive effect on transfer pricing. Based on the above description, the following hypothesis can be formulated:

H_3: Bonus mechanism has a positive effect on transfer pricing.

Research Method

Research Design

This type of research is quantitative research. This study aims to examine the effect of tax burden, tunneling incentive, and bonus mechanisms on transfer pricing. The population in this study are companies in the raw materials sector, energy sector, and non-cyclical consumer sector listed on the Indonesia Stock Exchange (IDX) during the 2019-2023 period, with a total of 212 companies. The use of panel data over a five-year period allows the study to capture both cross-sectional and time-series variations across firms.

Sample

The sample was selected using a non-probability sampling approach with purposive sampling criteria. The study includes companies operating in the raw materials, energy, and non-cyclical consumer sectors listed on the Indonesia Stock Exchange (IDX) during the 2019–2023 period. In addition, the firms must be controlled by foreign shareholders with ownership of at least 20%, in accordance with PSAK No. 15, which defines significant influence at that threshold. This criterion ensures the relevance of related-party transactions, which are closely associated with transfer pricing practices. Furthermore, only companies that consistently reported profits throughout the 2019–2023 period were included, as firms experiencing losses would not have tax obligations relevant to the tax variables examined in this study. Based on these criteria, 27 companies were selected as the research sample. With a five-year observation period, the total number of firm-year observations analyzed in this study amounts to 135. This balanced panel structure enhances the reliability of the regression estimatio

Measurement of Variable

The dependent variable in this study is transfer pricing as measured by using related party receivables (Ravensky & Akbar, 2021) (Unasih & Gunarto, 2025). This ratio is used because it can illustrate the extent to which a company conducts credit transactions with affiliated entities, which may result in pricing or transaction terms that do not fully follow the principle of fairness.

$$Transfer\ pricing = \frac{Related\ party\ receivables}{Total\ \ receivables}$$

The independent variable in this study consists of 3 variables. The first is the tax expense, which is measured using the Effective Tax Rate (Sudarmanto et al., 2023) (Unasih & Gunarto, 2025). ETR is considered relevant to this study because it reflects the effectiveness of a company's tax management, making it suitable for analyzing the effect of tax expense on transfer pricing decisions.

$$ETR = \frac{Total\ tax\ expense}{Profit\ before\ tax}$$

Second, tunneling incentive, which is measured using share ownership concentration, which is the ratio between the number of largest shareholders to the number of shares outstanding (Sudarmanto et al., 2023) (Yaramah et al., 2025). This ratio was chosen because the greater the concentration of ownership, the stronger the control of majority shareholders over company decisions, including the selection of transfer pricing for profit shifting.

$$TUN = \frac{\text{Number of Largest Shareholdings}}{\text{Number of Shares Outstanding}}$$

Third, the bonus mechanism measured using the net profit trend index (Ambarita, 2025 ;Syach et al., 2022).

$$ITRENDLB = \frac{Net\ income\ year\ t}{Net\ income\ year\ t-1}$$

This study also uses control variables, namely company size and profitability. Both variables are included to reduce potential bias due to company characteristics that may also influence transfer pricing policies. first company size, which is measured using Log of total assets.

$$UP = Ln\ (Total\ Asset)$$

Second, Profitability as measured using Return on Asset.

$$ROA = \frac{Net\ profit\ after\ tax}{Total\ Asset}$$

Analysis Method

The data used in this study is secondary data obtained using documentary observation techniques by reviewing the financial statements and annual reports of sample companies from the official website of the Indonesia Stock Exchange www.idx.co.id and other related websites. Data analysis was performed using panel data regression, which is a combination of time series and cross-sectional data, where the same company units were observed over several periods (Napitupulu et al., 2021: 115). The use of panel data regression aims to accommodate variations between companies and over time simultaneously, thereby producing more efficient estimates. The testing stages carried out included descriptive statistical analysis, estimation model determination, classical assumption testing, and hypothesis testing using Stata 18 software.

Result and Discussion

Descriptive Statistical Analysis

Table 1 presents the descriptive statistics of all variables used in this study, including the number of observations, mean, standard deviation, minimum, and maximum values. This analysis provides an overview of the data distribution and variability across the 133 firm-year observations during the 2019–2023 period. The statistics allow for an initial assessment of the central tendency and dispersion of transfer pricing, tax expense, tunneling incentive, bonus mechanism, firm size, and profitability before proceeding to regression analysis.

Table 1: Results of Descriptive Statistical Analysis

Variable	Obs	*Mean*	Std. dev	Min	Max
Transfer Pricing	133	.2089567	.2883327	0.00007	1.00000
Tax Expense	133	.2326886	.2399205	-1.932	.815
Tunneling Incentive	133	.5214539	.1714406	.204	.893
Bonus Mechanism	133	1.769466	3.345646	-.117	31.209
Firm Size	133	29.33284	1.423538	26.94353	32.85992
Profitability	133	.1012887	.1073485	.0001	.5926

Source: Stata 18 data processing results, 2026

Based on the results of descriptive statistical analysis in Table 1, the number of observations in this study was 133. The transfer pricing variable, shows an average value of 0.2089567. This indicates that, in general, the portion of related party receivables in the sample companies does not dominate the total receivables value. However, the maximum value of 1.00000 indicates that all of the company's receivables are receivables from related parties. This shows that transactions with related parties are a significant mechanism in the company's operational activities. With a standard deviation value of 0.288327, it can be interpreted that the distribution of transfer pricing variable data is relatively large or heterogeneous, indicating that the intensity of transfer pricing practices differs sharply between sample companies.

Tax burden variable, shows an average value of 0.2326886, indicating that in general, the sample companies tend to pay appropriate taxes, because the average ETR value is above the threshold of 22% (0.22). With a standard deviation value of 0.2399205, it can be interpreted that there is considerable variation in the tax burden variable, including negative values which indicate that some sample companies have special conditions such as the use of tax facilities by companies.

Tunnelling incentive variables show an average value of 0.5214539, indicating that, in general, controlling shareholders control approximately 52.15% of the shares in the sample companies. This high concentration of share ownership reinforces the potential for agency conflicts between majority and minority shareholders. With a standard deviation of 0.1714406, it can be interpreted that the distribution of the tunneling incentive variable data is relatively small or homogeneous, dominated by majority shareholders.

Bonus mechanism variable shows an average value of 1.769466, a value greater than one, indicating that in general, the sample companies experienced an increase in profit performance during the research period. However, with a standard deviation value of 3.345646, it can be interpreted that the distribution of bonus mechanism variable data is relatively large or heterogeneous. This indicates that there are companies with significant profit surges. This high variation indicates that performance-based incentives have the potential to vary in intensity among the sample companies.

Firm size variable shows an average value of 29.33284, indicating that, in general, the sample companies have relatively large total assets, reflecting the large scale of the companies' operations. With a standard deviation value of 1.423538, it can be interpreted that the spread of the firm size variable data is relatively small or homogeneous. Meanwhile, the profitability variable has an average value of 0.1012887, indicating that, in general, the sample companies are able to generate a return on assets of 10.12% from total managed assets. With a standard deviation value of 0.1073485, it can be interpreted that the spread of profitability variable data is relatively large or heterogeneous.

Panel Data Regression Estimation Model Selection

Some tests that can be used to determine the most appropriate model include the Chow test, Hausman test and Lagrange Multiplier test (Napitupulu et al., 2021).

Chow Test

The Chow test was conducted to determine whether the Fixed Effect Model (FEM) is more appropriate than the Common Effect Model (CEM). The results show an F-statistic of 12.18 with a probability value of 0.0000, which is below the 5% significance level. Thus, the null hypothesis that all cross-sectional intercepts are equal is rejected, indicating the presence of significant firm-specific effects. This finding implies that unobserved heterogeneity across companies may influence the dependent variable. Ignoring these individual effects could lead to biased and inconsistent estimates due to omitted variable bias (Gujarati & Porter, 2010). Therefore, the Fixed Effect Model is more appropriate, as it controls for time-invariant firm characteristics and produces more reliable panel data estimations (Baltagi, 2008).

Hausman Test

The Hausman test was conducted to determine whether the Fixed Effect Model (FEM) or the Random Effect Model (REM) is more appropriate. The results show a chi-square value of 5.35 with a probability of 0.3743, which is greater than the 5% significance level. Thus, the null hypothesis cannot be rejected, indicating that the individual firm effects are not systematically correlated with the independent variables. Under this condition, the Random Effect Model is preferred because it provides consistent and more efficient estimates while accounting for cross-sectional heterogeneity (Wooldridge, 2010;Baltagi, 2008).

Lagrange Multiplier Test

The Lagrange Multiplier (Breusch–Pagan) test was conducted to assess whether the Random Effect Model (REM) is preferable to the Common Effect Model (CEM). The results show a chibar² value of 121.51 with a probability of 0.0000, which is below the 5% significance level. Thus, the null hypothesis that the variance of individual effects is zero is rejected, indicating

the presence of significant panel effects (Baltagi, 2021; Wooldridge, 2013). Based on the Chow, Hausman, and Lagrange Multiplier tests, the Random Effect Model is the most appropriate specification, as it accounts for inter-company variation without introducing bias due to correlation with the independent variables.

Diagnostic Testing and Robust Estimation Strategy

To ensure the validity of the regression results, several diagnostic tests were performed, including multicollinearity, heteroscedasticity, and autocorrelation assessments. The multicollinearity test shows that all independent variables have VIF values below 10 and tolerance values (1/VIF) above 0.10, with a mean VIF of 1.31. This indicates that the correlation among explanatory variables is relatively low and does not threaten the stability of the regression estimates (Gujarati & Porter, 2009; Wooldridge, 2013).

Nevertheless, additional diagnostics reveal violations of other classical assumptions. The Breusch–Pagan test produces a probability value of 0.0000, indicating the presence of heteroscedasticity. Furthermore, the Wooldridge test for panel autocorrelation reports a probability value of 0.0363, which is below the 5% threshold, confirming serial correlation in the error terms (Wooldridge, 2013). These findings suggest that the assumptions of homoscedasticity and error independence are not fully satisfied, potentially affecting the efficiency of standard errors.

To address these issues, the model was re-estimated using the Feasible Generalized Least Squares (FGLS) approach through the *xtgls* command in Stata. FGLS adjusts for heteroscedasticity and autocorrelation by modeling the variance–covariance structure of the disturbances, thereby producing more efficient and reliable parameter estimates for hypothesis testing (Baltagi, 2021)..

Hypothesis Testing

The t-test in this study aims to determine whether each independent variable (tax expense, tunnelling incentive, and bonus mechanism) has a partial influence on the transfer pricing dependent variable. The basis for decision making, if the significance level is less than 0.05, it can be stated that the independent variable is individually able to explain the dependent variable (Ghozali, 2018). Partial test results (t-test) are as follows.

Table 2: Partial Test Results (t test)

TP	Coefficient	Std. err	Z	P>|z|	[95% conf. interval]	interval
ETR	-.124	.124	-1.01	0.314	-.367	.118
TUN	-.363	.153	-2.37	0.018	-.664	-.063
ITRENDLB	.009	.009	1.02	0.309	-.008	.026
SIZE	.032	.017	1.90	0.057	-.001	.065
ROA	-.175	.242	-0.72	0.470	-.648	.299
-cons	-.509	.504	-1.01	0.312	-1.496	.478

Source: Stata 18 data processing results, 2026

Based on the partial test results in Table 2, It can be interpreted that the tax burden variable shows a negative coefficient value of -0.124. The probability value of 0.314 is greater than the significance level (0.314 > 0.05). These results indicate that H_1 is rejected, meaning that the tax burden variable does not affect transfer pricing. The tunneling incentive variable shows a negative coefficient value of -0.363. The probability value of 0.018 is smaller than the significance level (0.018 < 0.05). This result shows that H_2 is rejected, meaning that tunneling incentive has a negative effect on transfer pricing. Furthermore, the bonus mechanism variable shows a positive coefficient value of 0.009. The probability value is 0.309, which is greater than the significance level (0.309 > 0.05). These results indicate that H_3 is rejected, meaning that the bonus mechanism has no effect on transfer pricing.

Discussion

The Effect of Tax Burden on Transfer Pricing

The results of tax burdens do not affect transfer pricing. This is because in minimizing the tax burden, companies do not always have to resort to illegal actions such as unlawful tax avoidance through transfer pricing practices. Companies can implement various more effective tax planning strategies to optimize their tax obligations without having to manipulate transfer prices between related parties (Ravensky & Akbar, 2021). This finding suggests that tax considerations alone may not be sufficient to explain transfer pricing behavior in the presence of strengthened regulatory enforcement.

Based on positive accounting theory, which states that companies facing political costs, one of which is tax, tend to engineer profit reductions with the aim of minimizing the tax burden that must be borne by the company (Watts & Zimmerman, 1970). Transfer pricing practices are usually used by companies to avoid taxes with the aim of minimizing the amount of tax payable to the state. However, the findings of this study show that companies can minimize their tax burden legally in accordance with the principles of fairness and applicable laws. Companies can avoid tax penalties and fines by applying accounting and tax treatments in accordance with applicable regulations or by taking advantage of tax incentives, if any (Wijaya & Soetardjo, 2024). This indicates that the political cost hypothesis may operate conditionally, particularly when compliance costs and regulatory monitoring are relatively high

Then there is a government regulation that requires taxpayers to prepare Transfer Pricing Documentation as stipulated in PMK Number 213/PMK.03/2016 as amended by PMK Number 172 of 2023, which requires companies to prove that the transaction price with related parties is in accordance with fair market value. This obligation limits the scope for companies to set transfer prices solely based on tax savings motives. The existence of strict regulatory oversight reflects that companies do not entirely consider taxes as the main driver in conducting transfer pricing practices. In this context, regulatory pressure increases the expected cost of aggressive pricing decisions and reduces managerial discretion in shifting profits

The results of this study are supported by research conducted Ravensky & Akbar (2021), Ramadhan *et al* (2022), and Anwar & Sadewa (2025) which prove that the tax burden does not affect transfer pricing. However, the results of this study are not in line with research conducted

by Santosa & Karina (2022), Herlina & Murniati (2023), and Nafiati *et al* (2023) which states that the tax burden affects transfer pricing. These differences may reflect variations in sectoral characteristics, enforcement intensity, and ownership structures across samples, suggesting that the effect of tax burden is context-dependent rather than universal

The regression results indicate that tunneling incentives have a negative effect on transfer pricing, suggesting that higher controlling shareholder incentives are associated with lower levels of transfer pricing practices. This finding implies that, in emerging market settings characterized by concentrated ownership, controlling shareholders do not necessarily employ transfer pricing as a primary expropriation mechanism. Instead, ownership concentration may encourage more cautious strategic decisions aimed at preserving long-term firm value.

Based on agency theory, when the share ownership structure is concentrated or control of the company is in the hands of one particular party, the agency problem shifts from manager–shareholder conflicts to conflicts between majority and minority shareholders (Marantika, 2012). Large shareholders who control company management tend to engage in tunneling to gain personal benefits through various mechanisms such as related party transactions, dividend policies, asset transfers, and transfer pricing (Lannai, 2024). However, the empirical results of this study indicate that ownership concentration does not automatically translate into opportunistic transfer pricing behavior. The negative coefficient suggests that controlling shareholders may function as effective internal monitors rather than purely self-interested actors.

Transfer pricing practices have the potential to cause conflicts of interest within the company and may disrupt operational stability and corporate performance (Matondang et al., 2024). In this context, controlling shareholders may internalize regulatory and reputational risks associated with aggressive transfer pricing, particularly in environments where tax enforcement and public scrutiny are increasing. Aggressive transfer pricing can increase the risk of tax audits, which may ultimately harm the overall value of the company, including the wealth of majority shareholders themselves (Matondang et al., 2024). Therefore, majority shareholders may prefer to maintain corporate stability and sustainability rather than utilize transfer pricing as a mechanism for short-term profit shifting.

This finding aligns with the alignment perspective within agency theory, where controlling shareholders align their decisions with long-term firm performance to protect their substantial ownership stakes**.** While the entrenchment view predicts that concentrated ownership increases expropriation incentives, the results suggest that controlling shareholders may instead balance private incentives with regulatory exposure and firm reputation considerations.

Majority shareholders prioritize the stability of company value and avoid the risk of tax audits; therefore, high tunneling incentives may reduce transfer pricing practices. Then, supervision from internal and external parties suppresses opportunistic actions by majority shareholders, so that large shareholdings do not always trigger profit shifting but rather encourage cautious behavior to protect the long-term interests of the company.

The results of this study are consistent with Sari & Purwaningsih (2023), Widiastuti et al., (2023) and Andhika & Sparta, 2024), who state that tunneling incentives have a negative effect

on transfer pricing. However, the findings differ from Darmawan & Adi (2023) and (Astuti et al., 2025), which show that tunneling incentives have no effect on transfer pricing. These inconsistencies may stem from differences in governance quality, enforcement intensity, and ownership dispersion across research settings, particularly within emerging market contexts.

The Effect of Bonus Mechanisms on Transfer Pricing

The results of the variable regression test show that the bonus mechanism does not affect transfer pricing, because the determination of the bonus mechanism in a company is not only based on the profits generated (Septiani et al., 2024). Thus, the amount of bonuses received by management is not always the main incentive for management to engage in transfer pricing practices.

These results are inconsistent with agency theory, which states that differences in interests between management as agents and shareholders as principals can encourage management to make decisions that benefit themselves (Eisenhardt, 1989). However, based on the findings of this study, even though management has a tendency to direct company policy towards achieving higher financial performance, this is not always done through taxation strategies such as transfer pricing, because there is a possibility that the amount of bonuses given is not based on overall profits. High profits do not necessarily mean that management will receive large bonuses, which would require them to implement transfer pricing practices.

Furthermore, the existence of a sound control system within the company, as well as supervision by various committees, is another reason why company management does not engage in transfer pricing for the purpose of obtaining bonuses (Mineri & Paramitha, 2021). A sound control system ensures that all operational activities and managerial decisions are carried out in accordance with applicable regulations. Furthermore, supervision by various committees within the company also plays a role in minimizing the opportunity for fraud committed by company management, such as transfer pricing practices to manipulate profits in order to increase the bonuses obtained. These findings imply that governance mechanisms may moderate the relationship between compensation incentives and opportunistic financial behavior.

The results of this study are consistent with the results of studies conducted by Mineri & Paramitha (2021), Nurfadilla & Budiantara (2024), and Unasih & Gunarto (2025), which state that the bonus mechanism has no effect on transfer pricing. However, the results of this study are not in line with research conducted by Herlina & Murniati (2023), Zuliana *et al* (2024), and Yaramah *et al* (2025) which states that the bonus mechanism affects transfer pricing. Variations in compensation design and governance effectiveness may explain these divergent findings

Overall, the findings suggest that transfer pricing behavior in Indonesian listed firms is driven more by ownership structure and governance dynamics than by tax or managerial incentives. Concentrated ownership appears to restrain, rather than encourage, aggressive profit shifting. This underscores the importance of governance mechanisms and regulatory enforcement in shaping transfer pricing decisions in emerging market contexts.

Conclusion

This study investigates whether transfer pricing behavior in Indonesian listed firms is primarily driven by tax motives, managerial incentives, or controlling shareholder dynamics within an emerging market setting. The findings demonstrate that tax burden does not significantly influence transfer pricing decisions, indicating that firms may rely more on compliant tax planning strategies rather than aggressive intra-group pricing schemes. Strengthened regulatory enforcement and mandatory transfer pricing documentation appear to have reduced the dominance of tax-driven motivations in shaping related-party transactions.

More importantly, controlling shareholder incentives, proxied by tunneling incentives, exhibit a negative effect on transfer pricing. This evidence challenges the conventional agency view that concentrated ownership necessarily facilitates expropriation. Instead, it suggests that controlling shareholders may behave prudently by considering regulatory scrutiny, reputational costs, and long-term firm value. In this context, ownership concentration appears to function as a governance mechanism that constrains opportunistic profit shifting rather than enabling it. Meanwhile, the bonus mechanism is found to have no significant effect, indicating that managerial compensation structures are not the primary determinant of transfer pricing decisions in concentrated ownership environments.

From a theoretical perspective, this study extends agency theory by demonstrating that ownership concentration in emerging markets does not uniformly increase opportunistic behavior. Under stronger regulatory environments, controlling shareholders may align their decisions with firm stability and long-term sustainability, thereby acting as internal monitors rather than expropriators. The findings also contribute to the transfer pricing literature by reframing it as a governance-driven phenomenon rather than solely a tax-minimization strategy.

Practically, the results offer important implications for regulators, corporate boards, and investors. For policymakers, the findings suggest that monitoring efforts should not assume that concentrated ownership automatically leads to tunneling through transfer pricing; instead, regulatory focus may be better directed toward firms with weak governance structures and low transparency. For corporate boards, strengthening oversight of related-party transactions and enhancing disclosure quality can further mitigate opportunistic pricing behavior. For investors, ownership concentration in regulated environments may signal internal monitoring strength rather than heightened expropriation risk, thus requiring more nuanced governance assessment.

Despite its contributions, this study has several limitations. The sample is limited to selected sectors and a five-year observation period, which may restrict generalizability. Additionally, the model focuses on three primary determinants and does not incorporate other potential governance and institutional variables. Future research is encouraged to extend the observation period, include broader industry coverage, and integrate additional governance, political, and institutional factors to provide a more comprehensive understanding of transfer pricing behavior in emerging markets.

References

Ambarita, D. (2025). Pengaruh Kepemilikan Asing dan Mekanisme Bonus terhadap Transfer Pricing. *Scientific Journal Of Reflection: Economic, Accounting, Management and Business*, *8*(3), 729–739.

Andhika, D., & Sparta. (2024). Analisis Pengaruh Beban Pajak, Tunneling Incetive dan Mekanisme Bonus Terhadap Transfer Pricing Pada Perusahaan Multinasional Yang Listing Di Bursa Efek Indonesia Periode 2016-2020. *Journal of Accounting, Management, and Islamic Economics*, *02*(01), 123–138.

Anwar, R., & Sadewa, P. (2025). Pengaruh tunneling incentive, beban pajak, dan ukuran perusahaan tergadap transfer pricing. *Jurnal Ilmiah Ekonomi Manajemen Bisnis Dan Akuntansi*, *2*(5), 40–58.

Astuti, N., Danuta, K. S., Octisari, S. K., & Nisa, R. F. (2025). Pengaruh Profitabilitas , Debt Covenant , dan Tunneling Incentive Terhadap Transfer Pricing Perusahaan Manufaktur Multinasional 2019-2023. *Majalah Ilmiah Manajemen & Bisnis (MIMB)*, *22*(1), 113–119.

Baltagi, B. H. (2008). *Econometric analysis of panel data* (Vol. 4). Springer.

Darmawan, I. R., & Adi, S. W. (2023). Effect of Tax , Tunneling Incentive , Good Corporate Governance , Profitability , and Bonus Mechanism on Transfer Pricing (Case Studies of Manufacturing Companies Listed on the Indonesia Stock Exchange in 2018-2020). *American Journal of Humanities and Social Sciences Research (AJHSSR)*, *07*(07), 1–10.

Desai, M. A., & Dharmapala, D. (2006). Corporate tax avoidance and high-powered incentives. *Journal of Financial Economics*, *79*(1), 145–179. https://econpapers.repec.org/RePEc:eee:jfinec:v:79:y:2006:i:1:p:145-179

Eisenhardt, K. (1989). Agency Theory: An Assessment and Review. *Academy of Management Review*, *14*(1), 57–74.

Eisenhardt, K. M. (1989). Agency Theory: An Assessment and Review. *The Academy of Management Review*, *14*(1), 57–74.

Gujarati, D., & Porter, N. D. (2010). *Basic Econometrica*. Mc Graw Hill.

Herlina, H., & Murniati, S. (2023). Effect of Effective Tax Rate , Tunneling Incentive , and Bonus Mechanism on Transfer Pricing Decision. *Jurnal Ilmiah Akuntansi*, *6*(2), 403–418.

Hope, O.-K., Thomas, W. B., & Vyas, D. (2013). Financial reporting quality of US private and public firms. *The Accounting Review*, *88*(5), 1715–1742.

Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics*, *3*(4), 305–360. https://doi.org/10.1016/0304-405X(76)90026-X

Johnson, S., La Porta, R., Lopez-de-Silanes, F., & Shleifer, A. (2000). Tunneling. *American Economic Review*, *90*(2), 22–27.

Johson, S., Porta, rafael la, Lopez-de-silanes, F., & Shleifer, A. (2000). *TUNNELLING* (7523; Issue January). https://doi.org/10.2139/ssrn.204868

Lannai, D. (2024). Pengaruh pajak, tunneling incentive, dan bonus plan terhadap keputusan perusahaan untuk melakukan transfer pricing. *Jurnal Online Manajemen ELPEI (JOMEL)*, *4*(1), 878–887.

Lorensya, T., & Kesaulya, F. A. (2023). Pengaruh Beban Pajak Dan Mekanisme Bonus Terhadap Keputusan Transfer Pricing. *Jurnal Informasi Akuntansi*, *2*(3), 69–82.

Marantika, A. (2012). *Analisis Penilaian Perusahaan Teori, Faktor dan Moderasi* (1st ed.). Anugrah Utama Raharja (AURA) printing & publishing,.

Matondang, R. S. P., Bensaadi, I., Hayka, M., & Rais, R. G. P. (2024). Pengaruh pajak, leverage, dan tunneling incentive terhadap transfer pricing pada perusahaan manufaktur yang terdaftar di bursa efek indonesia. *Jurnal Akuntansi Malikussaleh*, *1*(2), 540–550. https://doi.org/10.29103/jam.v%vi%i.17183

Mineri, M. F., & Paramitha, M. (2021). Pengaruh Pajak, Tunneling Incentive, Mekanisme Bonus Dan Profitabilitas Terhadap Transfer Pricing. *Jurnal Analisa Akuntansi Dan Perpajakan*, *5*(1), 35–44.

https://doi.org/10.25139/jaap.v5i1.3638

Nafiati, D., Karina, A., & Digdowiseiso, K. (2023). Pengaruh Beban Pajak , Exchange Rate Dan Perencanaan Pajak Terhadap Keputusan Melakukan Transfer Pricing. *Management Studies and Entrepreneurship Journal*, *4*(6), 8662–8671.

Naili, G. I., Manrejo, S., & Faeni, D. P. (2024). Beban Pajak, Mekanisme Bonus Dan Ukuran Perusahaan Terhadap Transfer Pricing Pada Perusahaan Sektor Pertambangan (BEI 2018-2022). *SENTRI: Jurnal Riset Ilmiah*, *3*(3), 1346–1359. https://doi.org/10.55681/sentri.v3i3.2457

Napitupulu, R. besmala, Simanjuntak, T. P., Hutabarat, L., Damanik, H., Harianja, H., Sirait, R. T. M., & Tobing, C. E. R. L. (2021). *Penelitian Bisnis, Teknik Dan Analisa Dengan SPSS-STATA-Eviews*. Madenatera.

Nurfadilla, & Budiantara, M. (2024). Pengaruh Tunneling Incentive, Mekanisme Bonus, Ukuran Perusahaan dan Profitabilitas terhadap Transfer Pricing. *Al-Kharaj : Jurnal Ekonomi , Keuangan & Bisnis Syariah*, *6*(2), 2547–2562. https://doi.org/10.47467/alkharaj.v6i

OECD. (2022). *OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations* (Issue January).

OECD. (2023). *2023 Mutual Agreement Procedure Statistics*.

Oktaviyanti, D., Widiastuti, N. P. E., & Wijaya, S. Y. (2021). Determinasi Transfer Pricing Pada Perusahaan Sektor Manufaktur Di Indonesia. *Jurnal Ilmiah Akuntansi*, *19*(1), 103–120.

Ramadhan, M. F., Dewi, R. C., & Liza, A. (2022). Pengaruh Beban Pajak, Tunneling Incentive, Exchange Rate, Ukuran Perusahaan, Dan Profitabilitas Tehadap Transfer Pricing. *Jurnal Pundi*, *6*(1), 165–180. https://doi.org/10.31575/jp.v6i1.400

Ramadhani, S., Anggraini, annisa fitri, & Sepriono. (2025). *Buku Referensi Teori Akuntansi* (1st ed.). PT Sonpedia Publishing Indonesia.

Ravensky, H., & Akbar, T. (2021). Pengaruh Beban Pajak, Mekanisme Bonus, dan Ukuran Perusahaan terhadap Transfer Pricing (Studi Empiris pada Perusahaan Manufaktur Sektor Makanan dan Minuman yang Terdaftar di Bursa Efek Indonesia Tahun 2017 - 2019). *Prosiding Seminar Nasional*, *1*(1), 295–305.

Santosa, S., & Karina, F. H. (2022). Factor Affecting Transfer Pricing Aggressivenes In Indonesian Multinational Company. *Accounting Research Journal of Sutaatmadja (ACCRUALS)*, *06*(01), 31–40. https://doi.org/https://doi.org/10.35310/accruals.v6i01.903

Sari, D. P., & Purwaningsih, S. (2023). Pengaruh profitabilitas, tunneling incentive , dan intangible assets terhadap transfer pricing. *Jurnal Akrab Juara*, *8*(November), 125–136.

Sari, G. P., & Finatariani, E. (2025). Pengaruh Pertubuhan Penjualan, Tunneling Incentive, dan Beban Pajak Terhadap Transfer Pricing. *Jurnal Ilmiah Ekonomi Manajemen Bisnis Dan Akuntansi*, *2*(5), 199–210.

Septiani, S., Senoaji, F., Maghfirah, N., Martha, D., Agustina, A., Solihat, I., Chandra, F., Musdalifah, S, R. A. R., Gusnafitri, Awa, Baqi, M. P. A., Meliana, Sugina, Lailla, N., Nurrokhim, I., Soleh, O., & Solihin, I. (2024). *Manajemen Kompensasi*. Penerbit PT Sada Kurnia Pustaka.

Setyorini, F., & Nurhayati, I. (2022). Pengaruh Pajak (ETR), Tunneling Incentive (TNC), Mekanisme Bonus (ITRENDLB) Dan Firm Size (Size) Terhadap Keputusan Transfer Pricing (Pada Perusahaan Manufaktur yang Terdaftar di BEI periode 2017-2020). *JIMAT (Jurnal Ilmiah Mahasiswa Akuntansi)*, *13*(1), 233–242.

Simbolon, D., & Simarmata, A. M. (2024). Pengaruh Pajak Penghasilan Tunneling Incentive Terhadap Keputusan Transfer Pricing pada Perusahaan Subsektor Industri Dasar dan Kimia Bursa Efek Indonesia. *Jurnal Penelitian Inovatif*, *4*(1), 97–104. https://doi.org/10.54082/jupin.268

Sudarmanto, E., Aulia, T. Z., & Putri, R. L. (2023). Pengaruh Pajak, Tunneling Incentive, Mekanisme Bonus, dan Profitabilitas terhadap Transfer Pricing. *Jurnal Riset Multidisiplin Dan Inovasi Teknologi*, *2*(01), 215–230. https://doi.org/10.59653/jimat.v2i01.437

Syach, winona maharani, Dalimunthe, ahmad aulia, & Situngkir, A. (2022). Pengaruh Beban Pajak, Mekanisme Bonus, dan Kepemilikan Asing terhadap keputusan Transfer Pricing. *Konferensi Nasional Sosial Dan Engineering Politeknik Negeri Medan Tahun 2022*, 292–302.

https://doi.org/10.35838/jrap.2022.009.02.18

Unasih, U., & Gunarto, R. I. (2025). Pengaruh Pajak , Mekanisme Bonus dan Tunneling Incentive Terhadap Transfer Pricing The Effect of Taxes , Bonus Mechanisms , and Tunneling Incentives on Transfer Pricing. *JIIC: Jurnal Intelek Insan Cendekia*, *2*(7), 13816–13831.

Watts, R. L., & Zimmerman, J. L. (1986). *Positive Accounting Theory*. New Jersey: Prentice-Hall.

Widiastuti, Fauziah, E., & Persada, F. B. (2023). Beban Pajak, Nilai Tukar, Dan Tunneling Incentive Terhadap Transfer Pricing (Studi Empiris pada Perusahaan Manufaktur di Bursa Efek Indonesia tahun 2015-2019). *Jurnal Akuntansi Bisnis Pelita Bangsa*, *7*(02), 126–139. https://doi.org/10.37366/akubis.v7i02.690

Wijaya, M. A., & Soetardjo, M. N. (2024). Pengaruh Beban Pajak, Aset Tidak Berwujud dan Kualitas Audit Terhadap Keputusan Transfer Pricing. *Klabat Accounting Review*, *5*(1), 24–46.

Wooldridge, J. M. (2010). *Econometric analysis of cross section and panel data*. MIT press.

Yaramah, W., Abbas, D. S., Wibowo, maharani nur restu, Setiawan, miyah maulidah, & Lindeawati, P. (2025). Pengaruh Profitabilitas , Tunneling Incentive , Mekanisme Bonus , Dan Intangible Aset Terhadap Transfer Pricing Dengan Tax Minimization Sebagai Variabel Moderasi. *Jurnal Riset Akuntansi Politala*, *8*(1), 174–187.

Zuliana, E., Soerono, ayu noorida, & Tjahjono, mazda eko sri. (2024). The Influence Of Tax Avoidance, Tunneling Incentives and Bonus Mechanism On Transfer Pricing With Leverage As A Moderation Variabel. *Rivie of Accounting and Taxation*, *03*(01), 52–69. https://doi.org/10.61659/reaction.v3i1.183