International Journal of Humanities Social Science and Management (IJHSSM)
Volume 4, Issue 1, Jan.-Feb., 2024, pp: 727-750 www.ijhssm.org

Exploring the Dynamics of Transfer Pricing in Multinational Corporations

Nurkamila Akisheva, FCCA, CIA

Date of Submission: 04-02-2024 Date of Acceptance: 15-02-2024

Abstract

This manuscript delves into the multifaceted realm of transfer pricing within the context of multinational corporations, exploring various methods, theories, and implications associated with this critical aspect of organizational management. Through a thorough literature review, the study categorizes transfer pricing approaches into economic models, negotiated pricing, mathematical programming, and behavioral theories, emphasizing the quest for an optimal transfer price tailored to specific organizational needs.

The analysis underscores the significance of considering both domestic and international contexts in transfer pricing decisions, with a focus on the intricate interplay between internal organizational factors, external environmental influences, and strategic imperatives. By applying contingency theory, the study reveals the dynamic nature of transfer pricing practices and the necessity of aligning pricing strategies with broader organizational objectives to achieve optimal outcomes.

Furthermore, the examination of income shifting and profit manipulation issues highlights the importance of transparency, compliance, and ethical considerations in transfer pricing activities, particularly in light of evolving tax regulations and regulatory oversight. The findings underscore the critical role of transfer pricing in decision-making, performance evaluation, and goal congruence within organizations, emphasizing the need for strategic alignment and ethical conduct in transfer pricing practices.

Overall, this study provides valuable insights into the complexities of transfer pricing and offers practical recommendations for multinational corporations seeking to navigate this intricate landscape effectively. By leveraging the insights and recommendations presented in this research, organizations can enhance their transfer pricing strategies, improve decision-making processes, and optimize their financial performance in an increasingly competitive global marketplace.

I. Aim

The aim of this manuscript is to explore and analyze various aspects of transfer pricing, including its application in domestic and international settings, the impact of different transfer pricing methods on multinational corporations, and the role of contingency theory in understanding transfer pricing practices.

II. Context

The context of this manuscript revolves around the complex nature of transfer pricing, which involves setting prices for goods and services transferred between different divisions of a company, especially in the context of multinational corporations operating in diverse regulatory environments.

III. Objectives

1. To examine the differences between transfer pricing in domestic and international contexts, including the regulatory frameworks and challenges faced by multinational corporations.
2. To analyze the various transfer pricing methods discussed in the literature, such as mathematical programming, economic models, and negotiated pricing, and their implications for decision-making and performance evaluation.
3. To investigate the role of contingency theory in understanding how external environmental factors, technology, organizational structure, and corporate strategy influence transfer pricing practices.
4. To highlight the importance of addressing income shifting and profit manipulation issues in transfer pricing discussions, especially in the context of tax regulations and legal compliance for multinational corporations.

International Journal of Humanities Social Science and Management (IJHSSM)
Volume 4, Issue 1, Jan.-Feb., 2024, pp: 727-750 www.ijhssm.org

IV. Literature Review

4.1 Introduction

The literature surrounding transfer pricing topic could be regarded in domestic environment or from international perspective (Anthony and Govindarajan, 2007, Drury, 2004). The first considers the transfer pricing as a tool to provide information for making sound economic decisions, evaluate divisional performance and ensure that affiliate's independence is not undermined (Drury 2004). With regard to international approach transfer pricing pursues additional issues that must be considered (Verlage, 1975). Regulatory environment pushes MNCs to set transfer pricing methods in accordance with certain legal conditions. Arm's-length principle is a basis for conducting international transfers. It determines that price of a product established between divisions is to be set if as it was between unrelated parties (Drury, 2004). Despite careful attention from tax authorities empirical evidence shows that ITP was used as a technique to manipulate the profits (Bartelsman, 2003). Hence, the income shifting is considered to be discussed extensively among researchers (Bartelsman, 2003, Fowler, 1978, Grubert et al 1991, Klassen et al, 1993). Other factors to be mentioned in international transfer pricing are tariffs, foreign exchange controls, funds accumulation and joint ventures.

Also, the transfer pricing literature can be loosely classified as: economic models, cost based methods, negotiated pricing, mathematical programming and behavioral approaches. All of them are concerned with finding an optimal transfer price appropriate for a particular situation faced by organizations.

With regard to economic theory literature most authors agree that in the presence of perfect competition market price is the only correct method to be applied. As perfect market rarely exists, some (Hirschleifer, 1956) advocate marginal cost pricing. Cost-based models have also received attention from researchers (Dean 1955, Verlage, 1975). There are full-cost, cost plus mark up, sales minus and combination systems. Each contains several limitations and they are recommended to be used rarely (Simons, 2000). Cook (1955), Dean (1956) and Vaysman (1998) conducted a great work on developing a negotiated transfer price model and discovered its merits and drawbacks. Mathematical programming literature carries a huge diversity of studies related to it. It is considered to overcome the limits of the above methods assuming that a company is ready to incur costly process of implementation (Bailey and Boe, 1976). Behavioral theory places the solutions of transfer pricing method arrived from economic and cost-based methods into a social context system (Watson et al, 1975). These different elements from the literature are now considered in more detail.

4.2 A Domestic Context

According to Anthony and Govindarajan (2007) transfer price is the value placed on goods and services between divisions of an organization where at least one of them is a profit center. On the other hand, Drury (2004, p.501) gave a purely accounting definition "…transfer price is a cost to the receiving division and revenue to the supplying division, which means that whatever price is set, will affect profitability of each division".

Domestic transfer pricing, as a key management control topic in majority of the literature, incurs several objectives needed to be accomplished to design a sound pricing system. Anthony and Govindarajan (2007) provided four of them. The first is specifying the optimal balance between costs and revenues along with provision of necessary information. The second, one of the most frequently discussed (Adams et al 2008), suggests motivating goal congruence, satisfying both divisions and company interests. Cook (1955) mentioned that company must insure that one profit center is not intended to increase its profits by decreasing the overall profit of the firm. Dean (1957, p.254) says the same in other words: "Transfer pricing must preserve profit making autonomy of the division manager so that his divisional profit performance will coincide with the interest of the company" (cited in Verlage, 1975, p.166). The third purpose is making transfer pricing work as a tool for measuring economic performance of the company. Solomons (1965) stated that transfer pricing is essential part of profit measurement system and it should assist managers to evaluate the performance of the divisions as well as motivate them to create a long-term value for the firm. Finally, the overall system got to be simple and understandable. However, Drury (2004) believes that no system is likely to serve all four objectives. The degree of conflict between short and long-term, corporate and divisional objectives make any system of transfer pricing lead to dysfunctional behavior consequences as suggested by Sizer (1989). In particular, Adams et al (2008) examined the impact of transfer pricing on capital budgeting decisions and came to the conclusion that it's impossible to meet short-term

goal congruence and create a long term value for the firm. Notwithstanding, Anthony and Govindarajan (2007) described an ideal situation for inducing the alignment of corporate and divisional goals, such as competent people, good atmosphere, a market price, referring to the presence of perfect competition, freedom to source, full information and negotiation.

The fundamental principle of transfer pricing for tax compliance purposes is that "…the transfer price should be similar to the price that would be charged if the products were sold to outside customers or purchased from outside vendors" (Anthony and Govindarajan, 2007, p.231). This arm's-length principle is simpler to set out than to be approached. Drury (2004) states five types of transfer prices which could be used: market-based, marginal costs, full cost, cost plus mark up and negotiated. Ideally, all of them should follow the arm's-length principle, which was pioneered by US, and now has been accepted worldwide. Since 2004 it is applied domestically in UK after a land mark ruling in Lankhorst- Hohorst.

4.3 An International Context

Whereas, in domestic environment transfer pricing plays an important role in management evaluation and performance, in international context literature it is regarded as a strategic tool for tax minimization (Fraedrich et al, 1996). International transfer pricing (ITP) defined by Elliott and Emmanuel (2000, p.216) is "the monetary value attaching to goods, services and intangibles traded between units of the same group which cross national boundaries". Drury (2004) describes the actuality of ITP with the rise of multinational corporations (MNCs) and also stresses the dominance of taxation issues over others. Chown (1974) clearly defined the process followed by MNCs to minimize the tax burden as "the technique to overinvoice on the transfer from a low tax to a high tax company and underinvoice on the transfer from a high tax to a low tax company" (p.94).

In 1955, the Organization for Economic Cooperation and Development (OECD) issued guidelines to provide consensus for intra-firm pricing transactions and eliminate abuses concerning unfair distribution of taxes. The guidelines are based on arm's-length price principle, which considers that the price established between subsidiaries of MNC should be the same as it was between unrelated parties (Drury 2004). As mentioned above, it is applied domestically in UK after a landmark European Court of Justice ruling in Lankhorst-Hohorst. The comparable uncontrolled price method, the resale price method and the cost-plus method are those, which should be used to follow the arm's-length principle. However, Scholes et al (1992) expressed the notion of an arm's-length principle as "ill-defined" in pursuance that the information differences are smaller with related-parties than with outsiders. Also, for many intra-firm transfers there is no external market, in particular, for intellectual property and some knowledge-intermediate goods (Bartelsman et al 2003). Another issue facing MNCs is that the use of two transfer pricing systems (one for internal as it was discussed earlier, and the other for taxation purposes) gives taxation authorities a rise for concern and attention. Therefore, MNCs tend to use single transfer pricing method (Drury 2004). Thus, in its turn, Fraedrich et al (1996) stresses the importance of full understanding of the complexity of ITP regarding its legal considerations as well as its effects on internal business transactions.

Anthony and Govindarajan (2007) regards additional considerations in respect to ITP such as tariffs, foreign exchange controls, funds accumulation, and joint ventures. Drury (2004) also recognizes the impact of ITP on dividend and income repatriations.

4.4 Income Shifting

Cross-border transfer pricing traditionally has received a great attention from policy-makers. Specifically, they are concerned about losing as it is called their "fair share of profit". Hence, ITP is viewed as a tool manipulated by MNCs to minimize tax rates (Elitzur et al, 1996). This process is called income shifting. Tax accounting studies investigate the extent to which differences in corporate tax rates between countries lead to income shifting (Bartelsman, 2003, Fowler, 1978, Grubert et al 1991, Klassen et al, 1993, Jacob, 1996, Oyelere, 1998).

An early work of Fowler (1978) examined thirteen industries operated in Canada in detail. Firms, operating in nine of them, set transfer prices to maximize profits of the system. The incentive to shift profits geographically was clearly related to the amount of tariffs on goods transferred. As well, he affirmed the tax rate differential was another extent. Fowler (1978) concluded that these variables interacted in such a way achieving an optimal transfer price.

Thereto, the prominent paper of Grubert et al (1991) addressed the analysis of 1982 data on a cross-section of 33 countries. The results showed that a drop in tax rates led to inadequately large rise in trade with subsidiaries; moreover total US

imports at that time were higher from affiliates subjected to lower tax rates. Further study by Klassen et al (1993) provided empirical evidence on changes in reported profitability across US, Canada and Europe in 1985 and 1986, commensurate to increasing Canadian tax rates and falling tax rates in Europe.

In addition, Klassen et al (1993) looked at income shifting from managerial perspective, providing indirect evidence on balance between tax and non-tax factors in reporting profits. He concluded that competitors can't distinguish tax oriented disturbances in profitability, relevant to costs that arise to decrease the tax burden. However, income shifting affects managers' incentives and economic performance evaluation.

In turn, Jacob (1996) attempted to address the magnitude of income shifting to the volume of intra-firm transactions within US MNCs before and after Tax Reform Act of 1986 (TRA86). The results indicated that the same firms have paid lower US taxes in pre-TRA86 period and higher US taxes in the post-TRA86 period.

Most of the studies conducted on income shifting were concentrated on North America especially they were based on either country-level or firm-level data. Empirical evidence is lacking relative to the practices in UK and other countries. Oyelere (1998) attempted to investigate the possible use of transfer pricing as a mechanism to shift profits in UK. One hundred and forty companies were randomly selected for that research considering their annual reports and accounts of 1992 and 1993 years. The assumption was made that capability (assets) and performance (profitability) are positively correlated in UK based foreign controlled and UK controlled groups with implications to post performance (dividend payouts). Oyelere (1998) analyzed the performance and post performance distributions of these groups and revealed the unusual relationship. There were significant differences in the profitability and distribution of foreign controlled enterprises. Therefore, a company was likely to be foreign controlled to report lower profits and higher dividend payouts. Income shifting through ITP appeared to be a prima facie evidence of such practices; however the explanation of results needed further investigation and is still open to conjecture.

Bartelsman et al (2003) have presented analysis on income shifting between OECD countries particularly disaggregated industrial sector companies in the period of 1979-1997. Firstly, they considered the unjustified failure of attention to income shifting between OECD countries, taking into account the ongoing economic integration between these countries and the given amount of intra-industry trade. Secondly, Bartelsman et al (2003) represented a novel way for isolating the pure effects of income shifting, monitoring for the impact of taxes and productivity on the scale of real economic activity. They obtained data from OECD's "Structural Analysis Database" on labor compensation and value added. The results showed that more enforcement of transfer pricing legal rules was associated with less income shifting. However, the findings disclosed that the scope of income shifting was closely linked to the scale at which MNCs operate. Hence, the activity shifts from one country to another were due to lower tax or laxer legislation.

Although, the relevance of the above described literature lost its actuality almost ten years ago, (was it based on data before the OECD Guidelines and related laws? Perhaps the stricter laws mean there is less income shifting?) and the attention of researches escaped from this topic nowadays, still there was an attempt to demonstrate the importance of tax accounting studies concerning income shifting. Some studies (Jacob, 1996, Bartelsman et al, 2003) showed that stricter laws of ITP led to less income shifting. However, still the legislation of international transfer pricing is continuously reinforcing its encumbrance.

4.5 Transfer Pricing Methods

4.5.1 Economic Model

Researchers and economists made extensive contributions to the current conception of alternative transfer pricing methods. For instance, famous scholars in this field, Cook (1955) and Hirschleifer (1956) represented a classical economic approach. They argued that market price is the best correct transfer price, which meets all the needs of an organization. However, according to them perfectly competitive market is a main condition for this method to be applied. There are several criterions for such type of market provided by Sloman (2005): all sellers and buyers of the product are price takers, the freedom of entry should be unrestricted and the number of firms competing within this market is ought to be large. Cook (1955) regards another condition for establishment the market price: profit centers, acting as affiliates of MNCs, are to be completely autonomous. He advocates it stressing that transfers shouldn't be forced on a division if they reduce its profit.

Hirschleifer (1956) advocated the market price method assuming technological and demand

International Journal of Humanities Social Science and Management (IJHSSM)
Volume 4, Issue 1, Jan.-Feb., 2024, pp: 727-750 www.ijhssm.org

independence. Technological independence implicates that one division's operating costs are to be independent of the level of operations run by the other division. The increased level of sales of one product shouldn't reduce the demand for the other product, meeting the condition of demand independence (Hirschleifer 1956). In turn, Cook (1955) continues his study with the possible disadvantages with regard to this method, where one of them is ignorance of probable trading below the market price that could bring the maximization of the overall profits. Dean (1955) supported this view claiming the isolation of "pitfalls and opportunities" (p. 70) of the market. Moreover, perfectly competitive market rarely arises and sometimes there is no external market for commodity itself (Cook, 1955).

Marginal pricing replaces market pricing in this case (Hirschleifer, 1956), and appears to be the most defensible economically (Dean, 1955). Hirschleifer (1956) recommended that the single output should be determined for both divisions (supplying and receiving) and the sum of the divisional marginal costs should be equal to the final marginal revenues. In economic context marginal cost is described by Sloman (2005, p.24) as "the additional cost of doing a little bit more of an activity".

The following conditions constrain the possibility of using marginal cost method: 1. it must be possible to estimate the demand curve for the product, 2. there are single selling and buying divisions, single intermediate and final products. However, the main supporter of marginal pricing, Goetz (1967) advocated that it encourages goal congruence. But Drury (2004) subjected this method to be problematic apart the above reasons: it provides unsound information for performance evaluation. Also he added that the practicality of this method is poor. In particular, when the fixed costs increase, marginal costs change too, therefore making the marginal price to be recalculated.

In a similar track to Cook (1955), Harris et al (1982) criticized both economic models for their information asymmetries and conflict of goals between divisional managers. Even though, several studies represent that market price method is widely used. According to Abu Serdaneh (2004), who did a survey based on 170 responses of UK firms, 31% addressed the market price method (cited in Drury 2004, p.504). Apparently, the same study (Abu Serdaneh, 2004) identified that less than 10 % of companies turn to marginal pricing (cited in Drury, 2004, p.504).

4.5.2 Cost-Based Model

Cost-based methods have accumulated little support in the accounting literature, as instantiated by Anthony and Dearden (1984) to use them as the "last resort" (Borkowski, 1990, p.80). Dean (1955) classified cost based pricing into three methods: full cost-plus, sales-minus and traditional prices.

Verlage (1975) commented on full cost method that it is easy to apply, because the basic information needed to determine transfer price is already available. Hence it absorbs less management time needed to make other valuable decisions. However it has also received much criticism. For example, Dean (1955) discommended it for arbitrariness denoting that it "beclouds the profits" (Dean, 1955, p.70). Drury (2004) reinforced its drawbacks mentioning that it doesn't provide incentive for the supplying division to transfer goods internally. A specific disadvantage was raised by Verlage (1975) stating that it makes the division to stop the process of efficiency improvements. Eventually most authors agreed that full-cost pricing led to poor decision making.

Verlage (1975) with regard to this problem provided full-cost plus profit mark up method as a variant, but expensive one, involving extensive engineering studies. Cook (1955) also regarded its merits and drawbacks. The main advantage was as management was forced to make decisions in terms of return on investment; therefore, the cost plus mark up appeared to be a useful tool for self-evaluation. However he concluded that "such a system would appear to be heir to all the difficulties of a cost transfer, with few more thrown in" (p. 91).

Sales-minus according to Dean (1955) was oriented toward ultimate market price of the product. Transfer prices were calculated as final selling prices by subtracting allowances that indicate costs of intermediate product and partial profit. Under sales minus the price of the product could become an instrument for marketing department to manipulate profits for its own benefits. The control criteria could be lost, and from economic point of view this system seemed to be inharmonious with the profit center concept (Verlage, 1975).

Additionally, there was another method, suggested by Cook (1955) as combination systems or "dual-pricing". Simons (2000) mentioned that this method created "…ambiguity about what company is trying to achieve". Moreover, dual pricing was costly and needed an adjustment in changing circumstances, however managers had incentives to control the costs and when it was needed to give a high-cost service.

Anyways, consistent to the study conducted by Wu and Sharp (1979) in the absence of market price most firms switch to full cost profit margin method (Borkowski 1990). Another results obtained by Tang (1979) showed that more than half of responding firms in US and Japan preferred full cost pricing. The reasons for such prominence weren't found. Nevertheless, Borkowski (1992) while surveying 79 controllers and vice-presidents of multinationals had found that full-cost method is usually accepted by smaller firms.

4.5.3 Negotiated Pricing

Negotiated pricing is determined by stipulating the transfer price between buying and selling divisions. It has received a little attention from researchers. Cook (1955) described the situation when this method to be applied, where there is absence of external market to test the transfer price or at least reference to it. Vaysman (1998) inducted a great work on developing a negotiated transfer price model and discovered its merits and drawbacks. He represented transfer price negotiations as an extensive-form bargaining game. Vaysman (1998) considered the two key limitations/or assumptions required for establishing negotiation pricing system: 1. time required for negotiations, 2. managers of the company have agreed on suboptimum levels of output. The method proposed by Vaysman (1998) allows top management to design the rules of management interactions and divisional performance evaluations. Therefore, under negotiation company recognizes considerable decentralization benefits. "Competitively negotiated transfer prices bulwark the independence of operating divisions…" (Dean, 1955). Central management can devote its time to formulating strategy, competitive position, evaluation performance plans and etc (Vaysman, 1998). Although, no studies provide empirical evidence on the form of divisional bargaining within MNCs, in particular to what extent the divisions are free to negotiate. Another paper by Fregmen (1970) described that negotiation pricing is the most logical method to use within decentralized corporation where the objectives of transfer pricing are as following: 1. profit maximization, 2. divisional profit measurement, 3. divisional performance evaluation, 4. motivation of managers. He proposed that division managers must have an authority to buy goods either internally or externally in order to meet the above mentioned goals.

With respect to disadvantages of this method, Cavusgil (1996) firstly condemns it for failure in achieving goal congruence. In instance, if there is possibility of breaking down of an agreement between divisions, it could result in expensive acquisitions of goods from external market. However, there is no reason why this is more likely to happen between sisters divisions than independent firms (Fregmen, 1970). Secondly, the performance evaluation system can become biased by estimating managers' communicating skills, where some are better at negotiating than others rather their control of economic variables. Again this argument could be opposed by Fregmen (1970) suggesting that communication skills are qualification of a good manager and negotiations are ought to be an effective way of monitoring economic activities. In its turn, Cook (1955) recognized the effect of negotiation pricing on financial reports of divisions, when transfer prices offered by this method distort the profits, which means he also justifies the probability of dysfunctional consequences. With regard to practical usage, survey carried by Price Waterhouse (1984) indicates that negotiated price method is extensively approached by multinationals.

4.5.4 Mathematical Programming

Mathematical programming attempts to overcome the criticisms of economic model, cost-based and negotiated pricing methods. The main peculiarity of this method is that the opportunity cost is the basis for determining transfer prices. There is extensive literature on this topic. One of the earliest and the most influential study by Samuels (1965) described a costing system which could be used by companies to achieve an optimal position. He regarded mathematical programming as a "natural extension" of marginal costing, which didn't easily provide a solution to a multi-constrained problem. According to mathematical programming to produce an optimal transfer price taking into account several limitations the objective function is to be maximized or minimized. The model was concentrated in usage of shadow prices which in turn reflected the values of marginal products. Also Samuels (1965) suggested that the benefit from mathematical programming method would arise when the shadow prices are based on standard costing. However, technological environment, the degree of limitation factors and consequent changes of input targets over the time made such method to become short-term oriented (Samuels, 1965). In this case, he advised a careful revision of applied targets to prevent them from being out of date. The same drawbacks of this system were recognized in the work of Dopuch and Drake (1964) where they assumed that it is efficient

only in the short-run. They agreed that shadow prices produce solution just to the specified level of output. If not, it led to the creation of large sums of concurrent equations, which seemed infeasible to implement. On this case they proposed some assumptions to make the programming be optimal, reducing the degree of company's decentralization. Another part of the work was devoted to non-linear techniques that were diligently advocated in their paper. They argued that this system could eliminate conflicting situations arising during negotiation processes. Even though, the process of implementation seemed rather complex and difficult to apply in practice, therefore such method is still developing.

Merville et al (1978) formulated the solution for transfer pricing problem in a single objective form and a multiple-objective approach. In particular, they used linear as well as goal programming frameworks for consideration of tax rates, profit targets and nationalization risks. Single objective approach was illustrated for the purpose of comparison, since the whole idea of decentralization is lost under such condition. With regard to multi-objective approach they also concluded that it deserves a careful watch outs from management and it is assumed to have short-term horizon. Additionally, Bailey and Boe in their 1976 paper agreed on the same drawbacks, also continuing that the requirement for information and assumed degree of certainty were supplementing them. Anthony and Govindarajan (2007) added to make the model useful in practice many simplifying assumptions should be incorporated in it: the existence of static demand curve, the cost function is linear, the alternative uses of production fittings and their profitability can be calculated in advance. Such conditions rarely exist in real world. Ultimately, the works of cited researchers had reached an impasse of decision-making problem, in particular short-termism, encountered by Hirschleifer (1956) as well.

Kanodia (1979) outfaced the underlying unresolved limitation on assumed certainty, placing it in the risk environment. However he stated that "transfer pricing systems characterized…are not incentive compatible" (p.75). Specifically he supposed that: 1. there is honest communication between managers, 2. the state of nature can be determined without ambiguity, 3. there is restriction on holding risky portfolios by divisional managers.

4.5.5 Behavioral Theory

Behavioral approach theory is rarely discussed in transfer pricing literature. This method attempts to derive solutions proposed by prior methods such as economic, negotiated and mathematical programming models by placing them in a social system context. Watson et al (1975) considered that the main problem of any multinational is coping with uncertainty, where the technology and environment are its sources. As a response to uncertainty, organizations decentralize their authority, which leads to consequent differences in working styles, mental processes and perceptions of reality of organizational members. Therefore, Watson et al (1975) defined differentiation as not only a segmentation of a company into several parts, but as differences in attitudes and social position of managers in organization. Moreover, they proposed the integration as another design problem, which is defined as "the process of insuring that efforts of the several organizational units, now appropriately differentiated, do collectively attain the goals of the total organization" (p.467). Hence, requisite differentiation and subsequent integration are requirements for the success according to Watson et al (1975). Furthermore, the greater the degree of differentiation there is more difficulty in attempting to achieve a necessary integration. Correspondingly, the extent of differentiation problem was determined by uncertainty in technological and environmental factors; the magnitude of integration problem was ascertained by the same uncertainty factors as well as the level of interdependence (pooled, sequential or reciprocal) within an organization. In its turn, management accounting can be used in interaction with organizational design to achieve required differentiation besides it may be helpful in obtaining integration. For this reason, the optimal transfer pricing mechanism was advocated to play a great role in resolving the uncertainty problem.

Consequently, Watson et al (1975) continued on to describe limitations of economic and mathematical programming models. They criticized the latter approach on concentrating on simple behavior integration problems. With regard to negotiation model Watson et al (1975) recognized its dysfunctional effects referring to Cook (1955) and Dopuch and Drake (1964). They noted the conflict arisen between maximization of overall profits and the decentralization philosophy, where the latter tends to be sacrificed. However, this method was found suitable in solving complicated integrating situations. First, as managers are members of one organization they probably have some attributes in common, despite the differences in attitudes, decision criteria and etc. Second, the successful solution will depend on the knowledge

and skills of integrator. Third, instead of estimating the "correct" transfer price they suggested to bound guides, where the final transfer price will be a result of confrontation process, what justifies that negotiation pricing to be the most appropriate.

The degree of differentiation and integrity between buying and selling divisions, their interdependence and the form of conflict are factors to find an optimal transfer price in terms of organizational and behavior aspects (Watson et al, 1975).

Bailey and Boe (1976) considered the following approach to arrive at the best using previously discussed method: degree of centralization, independence, cooperation, and degree of integration and specialization, derived by Watson et al (1975). But these factors implicitly assume "a totally altruistic commitment to organizational needs" (Bailey and Boe 1976, p.562).

Another paper by Kassicieh (1981) described the behavioral consequences of transfer pricing set up by top management. He developed a mathematical model taking into consideration that MNC was aware of taxes, tariffs, market price and the cost function of transferable good and value added by each subsidiary. Kassicieh (1981) firstly recommended identifying controllable/uncontrollable factors of a subsidiary. Considering the goal congruence as a main problem of multinationals, he suggested the performance evaluation and transfer prices functions to be regarded as uncontrollable factors. Therefore, these functions along with determination of corporate profits are to be established by headquarters to enhance a "productive and harmonious relationship" (p.818).

4.6 Conclusion

Undoubtedly, transfer pricing continues to gain significance both from theoretical point and practical usage. The literature review was aimed to classify the main aspects of transfer pricing and detect some limitations of transfer pricing methods. Domestic context literature defined the transfer pricing as a key management tool, which should induce goal congruent decisions, measure economic performance, provide relevant information to determine a cost revenue trade off and that it should be simple to understand and administer (Anthony, 2007).

Form international perspective, as multinationals are to follow arm's-length principle (domestically in UK from 2004), tax compliance is regarded as a critical factor outweighing other issues in considering the implementation of transfer pricing method. ITP is recognized as a mechanism to minimize the tax burden to benefit from differences in tax rates between selling and buying divisions of MNC (Elitzur et al, 1996). Empirical evidence suggests that income shifting was considered to take place in many countries (Bartelsman, 2003, Fowler, 1978, Grubert et al 1991, Klassen et al, 1993). Moreover, it is mentioned that the scope of income shifting is closely linked to the scale at which MNCs operate (Bartelsman, 2003).

Both domestic and international context literature regards the determination of optimal transfer pricing approach. Market price method seemed to be advocated in perfectly competitive market and where technological and demand independence are pursued (Cook, 1955). Although there is an agreement that such conditions rarely exist (Shcoles 1992) therefore marginal costing is another particular favorite (Hirschleifer, 1956). In this case it is supported that this method to be applied when the single output was determined for both divisions by top management.

Dean (1955) classified cost-based methods as full cost-plus, sales-minus and traditional prices. Though, these methods were described by Anthony and Dearden (1984), to be used only as a "last resort" (cited in Borkowski, 1990, p.80). For instance, full cost-plus led to conflicts between divisions and was a subject to inaccuracies of internal cost accounting allocations (Simons, 2000). Another approach supported by Cook (1955) was providing incentives to employees and resolving any internal conflicts. The transfers as well were made at cost; however the manufacturing division was credited with some profit realized from ultimate sale. But, such combination system was expensive to set up and adjust as conditions in the firm alter.

Negotiated pricing was determined by stipulating the transfer price between buying and selling divisions. Cook (1955) discussed the relevance of this method only where there is an absence of external market to test the transfer price or at least reference to it. Nevertheless, it was considered to be time-consuming and performance valuation appeared to be biased by measuring negotiating skills of managers rather than their economic decisions (Simons, 2000).

Mathematical programming was criticized for its simplifying assumptions, difficulty to implement and little practical evidence. However, it received a huge attention form scholars, who attempted to overcome limitations of economic and cost-based models (Dopuch and Drake, 1964, Kanodia, 1979, Merville et al, 1978, Samuels, 1965).

International Journal of Humanities Social Science and Management (IJHSSM)
Volume 4, Issue 1, Jan.-Feb., 2024, pp: 727-750 www.ijhssm.org

Behavior theory claimed to place solutions derived from the above regarded methods in a social system context. Bailey and Boe (1976), Kassicieh (1981) and Watson et al (1975) considered the following factors as determinants to implement the optimal transfer price: degree of decentralization, integration process, cooperation magnitude and interdependence within the company.

All in all, the literature observed was impregnated with recommendations as to what transfer pricing method should be used according to certain characteristics faced by companies. However empirical research provides that there is a significant distinction between the actual methods used in practice and methods discussed in theory. Methods pursued as optimal differ from firm to firm regardless of presence of market price available to the intermediate product (Borkowski, 1990), as advocated oppositely by Cook (1955) and Hirschleifer (1956).

As this project is largely concerned about the multidimensional nature of International Transfer Pricing I am interested in how the transfer pricing rules affect the organization as a whole and what variables are regarded in order to derive a correct transfer pricing method. So as to determine this issue I would mainly refer to the following studies by Borkowski (1990), Cools et al (2008) and Eccles (1985). The most influential work among them is "A Theory to Practice" by Eccles (1985) which assessed why particular policies of transfer pricing were chosen and how they were implemented. Eccles (1985) found two principal determinants of transfer pricing: strategy and administrative process. "The relationship between strategy and transfer pricing policy is so intimate that it is nearly a tautology" (Eccles, 1975, p.9). With regard to administrative process it was advocated that performance evaluation, measurement and reward affect economic decisions of the firm which in turn affect corporate performance. Borkowski (1990) investigated the environmental and organizational factors influencing transfer pricing method by studying 452 manufacturing firms. The results showed that the size of the company, degree of conflict between employees, decentralization extent and manager's participation are those variables determining the transfer pricing choice. Another work by Elliott and Emmanuel (2000) reported that the choice of ITP appears to be associated with industry sector. However none of the above mentioned scholars considered transfer pricing choice in international context. Cools et al (2008) examined the impact of transfer pricing tax compliance on Management Control Systems design and use within single organization.

Therefore the method applied by corporations in their transfer pricing policies is based on the factors that collides their operations and not on economic or accounting theories. Well, such discrepancies between theoretical material and empirical evidence inevitably lead to explore international transfer pricing, drawing insights from other organizational theory. Borkowski, 1990, 1996, Cools et al, 2008, Cravens, 1996 and Li, 2008 refer to contingency theory approach to transfer pricing. Schweikart (1986, p.541) explains it in this way "… management styles and organizational structures are situation specific for organizational effectiveness, and that no one universal set of management principles exists. Hence different environments for a task situation necessitate different management practices" (cited in Borkowski, 1990, p.82). Besides, Eccles (1985) regards this issue implicitly, in particular suggesting that the gap between theory and practice is so significant that researchers were the fitting transfer pricing problem into separate disciplines, whereas the development of multidisciplinary approach to transfer pricing addresses the problem more efficiently.

V. Analysis

6.1 Contingency Theory Framework

6.1.1 Introduction

From the earliest Fiedler's (1971) contingency model of leadership it is specified that group performance depends on "match between situational favorableness", inasmuch the situation which gives the leader power and influence, and leadership motivation system (p.453). Later on, based on Fiedler theory, management accounting researchers have switched from classical organization theory to contingency framework, on the assumption that there is no one correct accounting system employed by every organization and applicable to all circumstances (Emmanuel et al, 1990). Burrell et al (1979) described the contingency theory of organizational structure in this way:" a loosely defined set of propositions which in principle are committed to an open systems view of organization, which are committed to some form of multi-variate analysis of the relationship between key organizational variables as a basis for organizational analysis, and which endorse the view that there are no universally valid rules of organization and management" (cited in Otley, 1988, p.91). Since, the contemporary transfer pricing is viewed as an integral part of the management control process, the literature on contingency theory

effect on management control systems seems fairly relevant to my research topic.

There are major classes of contextual variables: external environment, technology, organizational structure, corporate strategy and culture. The most extensively researched aspect of external environment is uncertainty and hostility (Gordon, 1976, Khandwalla, 1977, Otley, 1978). It's important to note that there is a substantial difference between risk and uncertainty. Risk is concerned with situation where the probabilities could be attached to special events, whereas uncertainty presumes that there are no probabilities and the environment cannot be predicted (Chenhall, 2003). With regard to internal factors technology is most commonly discussed (Perrow, 1967, Merchant, 1984). The organizational structure, in particular organizational size is regarded as most examinable with regard to MCS (Bruns et al, 1975, Merchant, 1981). Consideration of corporate strategy hasn't received prominence among researchers. However, he differences in corporate strategies coherently leading to differences in planning and control design were critically discussed by many researchers (Chapman, 1997, Gupta et al, 1984). Studies on the impact of organizational culture on MCS are on the early stage, although the importance of its contemplation is evident (Flamholtz, 1983, Hofstede, 1984, O'Connor, 1995).

6.1.2 Contingency Theory and External Environment

It is apparent that control systems of any organization would be affected by the external environment. Khandwalla (1972) was one of the first accounting scholars to examine the effect of different types of competition on the use of management controls. His paper empirically shows that the greater the competition the greater the need to monitor costs and evaluate that production, marketing, finances and etc are operating efficiently. The findings were based on ratings made by executives of 92 manufacturing companies concerning the importance of the intensity of price, promotion and distribution competition in their industry to the profitability of the firm. The usage of controls was analyzed by measuring the index of sophistication of management control systems. Then, the correlation coefficient was computed between the competition variables and the control variables. Price competition appeared to have little impact on control mechanisms. Distribution competition had a modest positive effect, whereas product competition seemed to have a substantial positive relationship. A similar conclusion was suggested by Otley (1978), who analyzed the influences of different environments faced by unit managers within one firm. The rigid style of performance measurement versus flexible style was effective in "liberal" versus "tough" environments respectively.

In the paper "A Contingency Framework for the Design of Accounting Information Systems" Gordon et al (1976) analyze three major environmental characteristics: dynamism, or rate of change, heterogeneity, or the number of different product markets served, and hostility, or degree of competition. The results showed that more frequent control reports, which include forecasts, are employed in the high level of dynamism. In turn, heterogeneity leads to the decentralized control system with semi-independent responsibility centers. Finally, severe competition brings a more sophisticated MCS which confirms the study of Khandwalla (1972).

Some researchers identified that environment also affects the information needs of managers to execute their appointed tasks (Govindarajan, 1984, Schweikart, 1986). Gordon et al (1984) supposed a triad relationship between environmental uncertainty, organic forms of organizational structure and the usage of non-financial and assumed information for control purposes. However, the correlation between information systems and organizational structure haven't affirmed the hypothesis, which suggests that structure and control systems are dependent upon the level of environmental uncertainty.

Another study by Govindarajan (1984) assessed the influence of uncertainty on performance outcomes of the firms. Under the clause of high uncertainty, an interrelation between subjective methods of performance evaluation and effectiveness appeared, supporting the view that controls are contingent upon environmental factors.

Schweikart (1986) examined the usefulness of information available to domestic and international managers within MNCs. The task situation and information needs are to be affected by the discrepancies in national environment. The study suggests that differences in the relevance of information worldwide interact with differences in the favorability of local environments, which provides insight to the development of information systems for multinationals.

6.1.3 Contingency Theory and Technology

Perrow (1967) defines organizational technology as "the actions that an individual performs on an object, with or without the aid of tools or mechanical devices, in order to make some

changes in that object" (p.195). Daft et al (1978) following Perrow (1967) conducted a research to find a relationship between the information systems (IS) and technology, particularly how IS varies according to different aspects of technology. They studied two dimensions of departmental technology: the number of unanticipated events that are involved in production process and how the response to such problems is committed. When those two aspects of technology were considered they formulated the fundamentals for four levels of technology: programmable, technical professional, craft and research. The former is described by small task variety, quantitative procedures and traditional routine work. The second is characterized by significant variety of tasks and resolution of problems by referring to the books and manuals. Craft technologies tend to have no procedures and programs to apply to find a solution to a problem. It requires experience and established knowledge of decision makers. When the conversion process is not well understandable and the variety of task is huge such type of technologies is called research. The IS was distinguished according to information ambiguity and information amount as following: concise (small amount of precise information), elaborate (large amount of detailed information), cursory (small amount of ambiguous information) and diffuse (moderate amount of ill-defined information). Ultimately, Daft et al (1978) found a relationship between IS characteristics and the type of technology, where concise IS goes along with programmable technologies, craft technologies correlate with cursory IS, research type needs diffuse IS and elaborate IS is suited for technical professional technologies.

In turn, Merchant (1984) has identified a positive relationship between the level of automation and technicality of budgetary systems (cited in Emmanuel et al, 2000, p.62). Later, in the following work he indicated some evidence that the inclination of production managers to establish budgetary slack is invertedly related to the degree of predictability of the production process (cited in Emmanuel et al, 2000, p.62).

6.1.4 Contingency Theory and Organizational Structure

Lawrence et al (1967) defined structure as the way in which organizations are differentiated and integrated (cited in Chenhall, 2003, p.145). Differentiation is the extent to which managers are acting as sub-entrepreneurs and integration is concerned about how the subsidiaries are consistent with organizational goals. However, organizational size became an essential variable affecting control mechanisms of firms which has received a lot of attention from researchers of the contingency theory. Bruns et al (1975) collected data of 25 organizations to analyze the relationship between organizational structure and the use of budgets by managers. Budget-related behavior was contextual upon centralization and autonomy of a firm. Standardized operating procedures, the increased number of specialists, rule-governed behavior, manager's participation in setting budgetary goals are common in decentralized large organizations. Ultimately, more participative approach to budgeting is effective in structured firms. On the other hand, smaller companies, dependent on other organizations, typically employ lack of autonomy and are more centralized. The interactions in small firms are perceived in majority as having between subordinates on budget-related manners, they see budgets as less useful and flexible; however employees are satisfied with the use of budgets by their bosses.

Merchant (1981) partially replicated the above work, also investigating how the differences found in corporate-level budgeting systems are related to corporate size, diversity and degree of decentralization. It was suggested that increased organizational size and diversity leads to problems in communication and coordination between employees. As a consequence, more decentralized companies tend to use an administrative control strategy, which includes greater structuring of activities, formal communication style, and the use of standardized procedures for performance evaluation, which confirms the study by Bruns et al (1975). Smaller, more centralized companies rely on direct supervision, personal interactions and informal budgetary control. The results also showed that genuine motivation of managers towards budgeting was higher in companies where they participated in budgetary activities, less interacted with peers and felt the attainment of budget goals. Moreover the use of administrative control strategy in larger firms and interpersonal approach in smaller firms resulted in high self-assessment of employees. Another work by Merchant (1984) extended the results obtained in the first paper to departmental level. The size, degree of automation and functional differentiation in the production process all imply the formal use of budgets. The performance was higher in those departments where the correspondence between context and budget use was not absent. All in all, from both Merchant's works the contingency attitude of the need for a fit between organizational structure and the use of budgets

system at both corporate and departmental levels was justified.

6.1.5 Contingency Theory and Corporate Strategy

Most of the studies in this area keep referring to Miles et al (1978) descriptions of strategic types of organizations such as defenders, prospectors, analyzers and reactors. In brief, defenders are protection oriented companies with limited product lines, prospectors are firms which are pro-active and pursuing an offensive strategy with broad product lines. Analyzers are exploiting new market opportunities with risk awareness and considering key success factors of the firm, while reactors are characterized by quick responses to environmental changes without a consistent strategy. Snow et al (1980) conducted a study, which tried to relate the "distinctive competence" of an organization to these four strategic types by Miles et al (1978). The major difference between defenders and prospectors appeared to be the presence of product research and development by prospectors, the financial management as a distinctive competence was common for both strategic categories and finally the general management was pursued by all types (cited in Chapman, 1997, p.196).

Both environment and strategy were analyzed as "critical contingencies" of organizations by Hambrick (1981). He suggested that these variables influence the distribution of power within the firm. He also consummated the strategy by classifying the company following the typology set by Miles et al (1978). He reasons that the shortage of raw materials or employees put the pressure on input process of production; the pressure for low-cost affects throughput process and R&D from competitors and market preference's changes impact output process. Then, Hambrick (1981) argues that throughput contextual variables favor organizations where the power is centered in accounting and operations management, meanwhile marketing and product service departments play the most important role when output contingencies are considered (cited in Chapman, 1997, p.196).

Simons (1987, 1990) studied the correlation between the strategy and budgetary activities interviewing a wide variety of industries. The results showed, that defenders largely give the responsibility for budgeting on headquarter accountants and, in turn, prospectors rely on line managers for these issues. Moreover he found a positive relationship between the return on investment and tight budgetary control (cited in Chapman, 1997, p.197).

.

Further, Govindarajan et al (1985) examined the linkages between strategy, style of evaluation and effectiveness at strategic business unit (SBU). They referred to three sets of studies, which described the role of corporate strategy on incentive schemes. For instance, Salter (1973) suggested that there is no single "correct" remuneration system for all companies (cited in Govindarajan, 1985, p.53). Another studies supported that the belief of employees that the performance of their job had a significant effect on their compensation was regarded as an incentive tendency. Some focused on dysfunctional consequences of compensation systems, where divisional performance was optimized, meanwhile the corporate suboptimized (Kerr, 1975, cited in Govindarajan, 1985, p.53). Govindarajan (1985) hypothesized reviewing the literature above that the remuneration scheme is to be linked to SBU strategy, rather than corporate set of performance criteria. The following was considered: 1. the essentiality of long-term and short-term criteria in valuation the manager's performance for bonus establishment, 2. for every level of performance, the degree of dependence on mathematical formulas versus pectoral judgment in determining the level of bonus for the manager. The results showed that the reliance on long-term criteria and pectoral approach for the establishment of the level of bonuses is effective for "Build" SBUs (to increase market share) and ineffective for "Harvest" SBUs (to maximize cash flow or short-term profit). However, the short-term criteria and the extent of bonus system's reliance are independent of SBU strategy.

Merchant (1985), on the other hand didn't support the findings of Govindarajan (1985), he identified a strong evidence that decisions on expenses in conditions of rapid growth were more enforced by short-run criteria. The correlation seems to be logical, since the resources are in short supply during such period. Companies could attempt to manage resources carefully, meanwhile increasing market share in competitive markets (cited in Emmanuel et al, 2000, p.65). In the sort-run the strategy becomes a result of environment, whereas in the long-run the environment is designated by the front decisions about the market structure and competitive position. Therefore, in order to examine the role of strategy in designing the control systems, it should be clear what period of time is regarded.

International Journal of Humanities Social Science and Management (IJHSSM)
Volume 4, Issue 1, Jan.-Feb., 2024, pp: 727-750 www.ijhssm.org

6.1.6 Contingency Theory and Organizational Culture

The organizational culture was described by Flamholtz (1983) as "the set of values, beliefs and social norms which tend to be shared by its members and, in turn, tend to influence their thoughts and actions." His paper developed an integrated model of an organizational core control system consisting of four organizational processes: planning, operations, measurement and evaluation-reward facilitating it by the schematic framework of an overall organizational control system, including organizational structure, culture and environment. Further, he argued that if a company's culture and its core control systems aren't synchronized, then even a perfectly consolidated control system will create contrariety and influence the behavior in the defeating way. Therefore the budgeting and accounting system should be regarded as a part of complex system of organizational control. In particular, accounting must be viewed as one of the components of socio-technical system instead of treating it in isolation of a firm's values and norms.

Participation in budgetary activities is another aspect of MCS that is the subject to cross cultural examination. Much of the work on the effect of natural culture is based on Hofstede (1984) model of cultural characteristics such as power distance (the acceptance of inequality of power), individualism (following personal needs), masculinity (opposing femininity) and uncertainty avoidance (the extent to which people try to avoid unpredictable situations). According to this model it is accepted that the behavior in budgetary setting can be forecasted across various nations. For example, in high power distance countries, subordinates have a strong belief that superiors should behave "autocratically and do not consult them" (p. 394). Therefore it creates the problems in communication leading to ineffectiveness of budgetary participation. In low power distance cultures subordinates prefer consultative style of management, which is likely to increase the effectiveness of budget participation. Moreover, the degree of power distance is tended to affect the specification of roles within the organization, in particular role ambiguity. Briefly, for organizations with high (low) power distance culture the budget participation will lead to increased (decreased) role ambiguity.

However, the applicability of organizational culture in creating the manager's sense of management design in a nation which exerts a different culture from that of the headquarter has received little attention. But, O'Connor (1995) investigated the organizational culture differences between local and foreign companies influence the previously examined role of budgetary participation. The findings suggest that the involvement extent of participation is global across cultures with various levels of power distance. Consequently the results are consistent with the paradigm of Hofstede (1984). Firstly, the MNCs shouldn't prepare their control systems to the national culture of subsidiaries if they can maintain the organizational culture similar to the head office through the "selection and socialization" process, which implicates "the origin of schooling and work experience…and the training role of management…as well as commitment to subordinate development" (p.399).

6.1.7 Conclusion

The above framework is reasonably complete, providing guidelines which would be applied in developing the analysis on impact of various contingent factors in transfer pricing setting**.** Five major classes of contingent variables were identified: the environment, technology, organizational structure, strategy and culture. The basis for foundation of contingency-based research is external environment as being a powerful contextual variable. Summarizing the research findings relating MCS to the external environment, the following propositions are made:

1. Tough competition brings a more sophisticated MCS (Khandwalla, 1972, Otley, 1978).
2. The hostile type of external environment leads to flexibility in performance measurement (Gordon et al, 1976).
3. The more uncertain the external environment the more open the MCS (Govindarajan, 1984).
4. Differences in the relevance of information worldwide interact with differences in the favorability of local environments (Schweikart, 1986).

The papers analyzed with respect to technologies and MCS are describing only generic concepts of it, categorizing the processes as more or less standardized and automated. Further propositions are relevant for MCS with regard to technology:

1. Programmable technologies are served by concise IS, craft technologies correlate with cursory IS, research type is related to diffuse IS and elaborate IS is suited for technical professional technologies (Daft et al, 1978, Perrow, 1967).

2. High budgetary slack provides a cushion against low predictability within the processes and less automated job technologies (Merchant, 1984).

Organizational size is the most important variable in consideration the structure of the firm in the context of contingency theory, which figured extensively in the research works of this field. Consequently, propositions concerning organizational structure and MCS are as following:

1. Large organizations with complex technologies that have decentralized structure are associated with formal and traditional use of MCS (Bruns et al, 1975).
2. Motivation of managers is associated with participative budgeting and informal communication (Merchant, 1981, 1984).

The strategy in the context of contingency theory approach cannot be view in isolation, because it not only affects the design of MCS but the nature of external environment, technologies and structural arrangements. Therefore based on studies regarding corporate strategy role as a contextual variable in organization as a whole the certain proposition is relevant:

1. Strategies which are characterized as harvest and defender orientations are accompanied with formal performance measurement systems, whereas prospectors and build strategists require informal open MCS with subjective long term controls (Chapman, 1997, Govindarajan, 1985).

The relationship between culture and use of MCS represents an expansion of contingency theory approach from organizational view into sociological concerns. The general finding is that different countries process different cultural characteristics. This provokes the managers from these cultures to respond in unique ways to MCS. However, from the results obtained the following generic propositions are relevant:

1. The company's culture and its core control systems are to be synchronized to influence the behavior of employees in necessary way (Flamholtz, 1983).
2. For organizations with high (low) power distance culture the budget participation will lead to increased (decreased) role ambiguity (Hofstede, 1984).
3. The involvement extent of participation is global across cultures with various levels of power distance (O'Connor, 1995).

These studies show that the contingency framework helps to structure the influence of different drivers upon the design and use of MCS, hence their relativity is applicable to transfer pricing problem. The degree of competition, the nature of technologies, organizational structure, cultural characteristics of the firm and corporate strategy are those factors which should be viewed carefully when considering appropriate transfer pricing system.

6.2 Analysis of Key Texts

6.2.1 Introduction

There is a large gap between different theories of transfer pricing and its practical usage. Firstly, the marginal costing and mathematical programming are rarely employed in practice. Secondly the market price as if suggested by researchers the most fair and neutral is replaced by full-cost, which has no theoretical justification, but is considered to be simple and objective. The reason for this gap is quite obvious. Prior studies of transfer pricing have been bounded as to the certain number of variables, disregarding the full package of external and internal factors impacting a company. Vancil (1978) summarized the state of transfer pricing knowledge at those days as: "My third disappointment in this study is that I have been unable to say anything definitive- or even mildly useful-on the subject of transfer prices… The issue remains a perennial puzzle for academicians, while practitioners continue to cope. I wish the best of good fortune for the next researcher to tackle this problem" (p.142).

On the other hand, contemporary literature researchers highlighted the role of contingency approach to transfer pricing. Eccles (1985) is one of the first who regarded the multidimensional nature of transfer pricing. In his prominent book "A Theory to Practice" he framed the issue of transfer pricing problem as "no single policy is an ultimate solution for every situation once and for all" (p.1). Furthermore, the concept of fairness was defined as a central problem in managing transfer pricing. According to Eccles (1985) dysfunctional consequences of divisionalization, contribution-rewards system, non-financial measures of performance evaluation and others give the potential for subjective quality of fairness. Therefore, he firmly believes that transfer pricing affects strategy of the firm and its administrative processes. The relationship between strategy and transfer pricing was depended on two key aspects such as whether or not there is a vertical integration between profit centers. The administrative processes in turn specify how the strategy determines what company runs for. The following are main components of administrative processes determined by Eccles (1985) which are especially relevant to transfer pricing: 1. how the transfer pricing is employed, 2.

what kind of managers are involved in setting the procedure, 3. the information used, 4. how frequently the transfer prices are changed, and, 5. how conflict is disposed. He generated 38 hypotheses of transfer pricing and developed the concept called the Managers Analytical Plane (MAP), which is defined by two dimensions of strategy diversification and vertical integration.

Another study by Borkowski (1990) posits that the use of different transfer pricing methods could be reasoned based on manager's perceptions of the firm and the environment faced by the company. She collected a data of 452 firms on factors affecting the choice of transfer pricing either directly or indirectly into the company. The significance of her work pertains to the fact, that prior studies of transfer pricing contained a major deficiency where respondents confused the negotiation as the process to enhance a transfer pricing obtained from another method rather than a procedure, while Borkowski (1990) conducted a study clarifying this issue.

However, Borkowski (1990) and Eccles (1985) limited their works to the domestic applications.

International Transfer Pricing draws additional variables, such as tax effects with respect to MNCs. For instance, organizations locating subsidiaries worldwide used to keep two sets of transfer pricing books for internal and external uses. Nowadays, with the raise of tax legislation and careful surveillance from tax authorities, consultants advise MNCs to model one transfer pricing method in order to demonstrate authorities that their policies are justified by internal incentives rather than purely tax-driven impulses. Cools et al (2008) believe that tax-compliance is an additional contingent variable affecting the choice of transfer pricing method as a part of MCS design and use with regard to MNCs. Their work would be very fruitful for my project by the virtue of high relevance to my research topic and its up-to-date value. The policy-makers are interested in preventing the tax manipulation, while MNCs seek to comply with legislation at the same time maximizing the value for the firm. Inasmuch, within these two strains, the outcomes of the fiscal "arms-length" principle and the internal motives for performance evaluation, decision making and motivation are considered in this study.

The findings of the above texts support the view of contingency theory to management accounting. Internal and external variables, including the tax perspective influence the choice of transfer pricing method, which is perceived by management as correct in their particular situation and differs from firm to firm notwithstanding the organizational or environmental similarity.

6.2.2 Domestic applications

Eccles (1985) addresses the phenomenon of transfer pricing in its complexity examining the management of transfer pricing of a particular company. By reviewing 13 company's policies and practices he derived 38 hypotheses of transfer pricing, where my project will refer to some of them. As was mentioned above Eccles (1985) depicted the deficiencies of prior literature in its ignorance of corporate strategy and administrative processes of organization when formulating transfer pricing policy. According to Figure 2, the optimal transfer price could be achieved by firstly analyzing whether the company is pursuing the strategy of vertical integration, which is defined as "the combination of technologically distinct production, distribution, selling, and/or other economic processes within the confines of a single firm" (Porter, 1980, cited in Eccles, 1985, p.79). However, two dimensions of vertical integration should be taking into account, especially how the company defines its "business". For instance, either divisions of organizations are admitted to take full responsibility for internal and external transfers or internal sales are considered to be a part of the business of the buying profit center as its own manufacturing facilities. Hence, Eccles (1985) supported four policies of transfer pricing such as mandated full cost, mandated market based, exchange autonomy and dual pricing according to the strategy of the firm. Mandated full cost is used for companies adhering backward integration with purposes of decreasing the cost of intermediate good. Saving transaction costs and eliminating the payment of profit margin for outside supplier is essential for companies running a business in competitive market. Therefore, mandated full cost limits the authority of supplying division for the future trade-off. Moreover, it restricts receiving profit center to buy goods externally. Therefore, the authority and responsibility of managers are factors to be considered as contextual for implementing mandated full cost. When profits on the transfer good appear in the supplying division and it is considered to have both cost and profit center roles mandated market based policies are used. Eccles (1985) found that managers refer to this method for its great advantage, which brings "entrepreneurial spirit" to employees, since both profit centers act as individual businesses. With regard to performance evaluation, both methods require non-financial measures of outcomes to create an incentive for divisions to sell goods internally. Exchange

autonomy is exploited in case of absence of vertical integration strategy, where each division is regarded as independent with distinct strategies. Under this policy, division managers have a substantial element of authority compared to precedent methods since they aren't required to trade solely between each other and individual profit results are optimized at the expense of corporate. Hence, the rewards system is based only on financial outcomes of every profit center. The involvement of two transfer prices: market cost for the supplying and full cost for receiving divisions, can be used together disregarding the relationship between profit centers. Dual pricing is designed to eliminate the drawbacks of the above three methods. However, Eccles (1985) believes this policy is to be unstable, since it creates double counting of the profits and indefiniteness in strategy. Thus, each of the four transfer pricing policies can be classified in terms of: 1. strategy, 2. effects on authority and responsibility, 3. potential problems in economic decision making, and, 4. perception of fairness.

With respect to administrative processes which are considered to have a direct impact on transfer pricing practices according to Figure 2 include five elements. The first element intends a pure negotiation, which could be programmed or unprogrammed. The second element is who is involved in setting the transfer price, which is categorized as centralized versus decentralized. The information used is regarded as another variable, where it is supposed that it can include the data on costs, market prices, competitor's analysis and etc. It varies form minimal to extensive. The matter of timing means the frequency of monitoring and setting the transfer pricing methods. The final element is how the conflict is controlled. Eccles (1985) uses Lawrence et al (1967) principal mechanisms of conflict management: bargaining, forcing, smoothing and problem solving, generalizing them as avoiding versus resolving.

Further, after picking a transfer pricing method according to the above mentioned elements, Eccles (1985) recognized six variables facing up a company when the reconsideration the transfer pricing policy is needed: 1. changes in characteristics of the product, 2. changes in specifics of market, 3. changes in technology, 3. changes in competitors strategies, 4. changes in balance of internal and external sales, 5. changes in the governance of profit center. In order to demonstrate the consequences of these influential factors he used a concept of product life cycle. Porter (1980) defined it as "the grandfather of concepts for predicting the probable course of industry evolution" (cited in Eccles, 1985, p.228). Each stage of product life cycle is associated with technological and environmental changes. Hence, there are four stages: introduction, growth, maturity and decline. The Introduction stage in terms of product is characterized by customized design and not standardized product variations. With regard to technology processes overcapacity and high production costs are relevant at this stage. There are few competitors and customers are from the high income group. Companies usually face huge advertising costs, low profit margins and it is considered best to increase the market share and make R&D as a company's key function. When product is differentiated by technical and performance factors and reliability becomes an important issue for such products then it is regarded to be in a Growth stage. Undercapacity and increase in competition, high profits and raise in prices in comparison to Introduction stage are common environment and transaction factors. The strategy implied at this stage is massive marketing and differentiation. The Maturity stage contemplates standardized goods, less rapid changes in product, optimum capacity, lower labor skills and long production lines. The market is massive, the price competition is significant, private brands are increasing in their sizes. Margins are lowest, advertising expenses are small, and the best strategy at this stage is continuing to hold "market effectiveness". At the Decline stage the company chooses to integrate vertical relationship with subsidiaries, rivals are exiting businesses, prices continue to fall, and cost control is the most relevant strategy to be pursued.

At the Introduction stage, organizations can use cost plus mark-up method, however the mark-up is difficult to determine in a fair way, since overhead costs and profit margins are complicated to derive per unit of the product. However, it happens when there is a preference for selling profit center. Therefore, when the receiving subsidiary is considered to have more authority and responsibility the autonomy market price is relevant in this case. When the product enters the Growth stage there is a desire of exchange autonomy, because external sales become more attractive for selling division. Since there is a perfect competition, the market price could be obtained easily, and autonomy market price will replace the cost plus mark up.

At the Maturity stage, market segmentation and product differentiation begin to receive more emphasis. It leads to different prices for the same product. When internal transfers are accustomed, the buying division could quickly complain if the prices

aren't adjusted to the fall of prices in the marketplace. Another difficulty in defining the transfer pricing policy is the special deals offered to external customers by suppliers. Therefore, the buying division preference for sourcing will be in conflict with selling division desire to supply internally. Moreover the pressures on transfer prices become more extreme in the decline phase. During that, there is an important role of guaranteed internal consumers with respect to supplying division. Though, buying center may be reluctant to receive goods internally since the outside offers become more and more attractive. In the light of overcapacity of the industry and possible economic recession, the buying profit center is uncertain in choosing the supplier. The disputes between divisions could arise where receiving will argue for maintaining external offers. Eccles (1985) recognized that "there are no easy answers to transfer pricing problems in the decline phase" (p.234). However Figure 1. summarizes transfer pricing methods change according to each stage.

International Journal of Humanities Social Science and Management (IJHSSM)
Volume 4, Issue 1, Jan.-Feb., 2024, pp: 727-750 www.ijhssm.org

Figure 1. Product Life Cycle and Transfer Pricing (Eccles, 1985, p.236).

Introduction	Growth	Maturity	Decline
Mandated Cost Plus/ Autonomy Market Price	Autonomy Market Price	Mandated Market Price/ Autonomy Market Price	Mandated Cost Plus/ Mandated Cost Plus

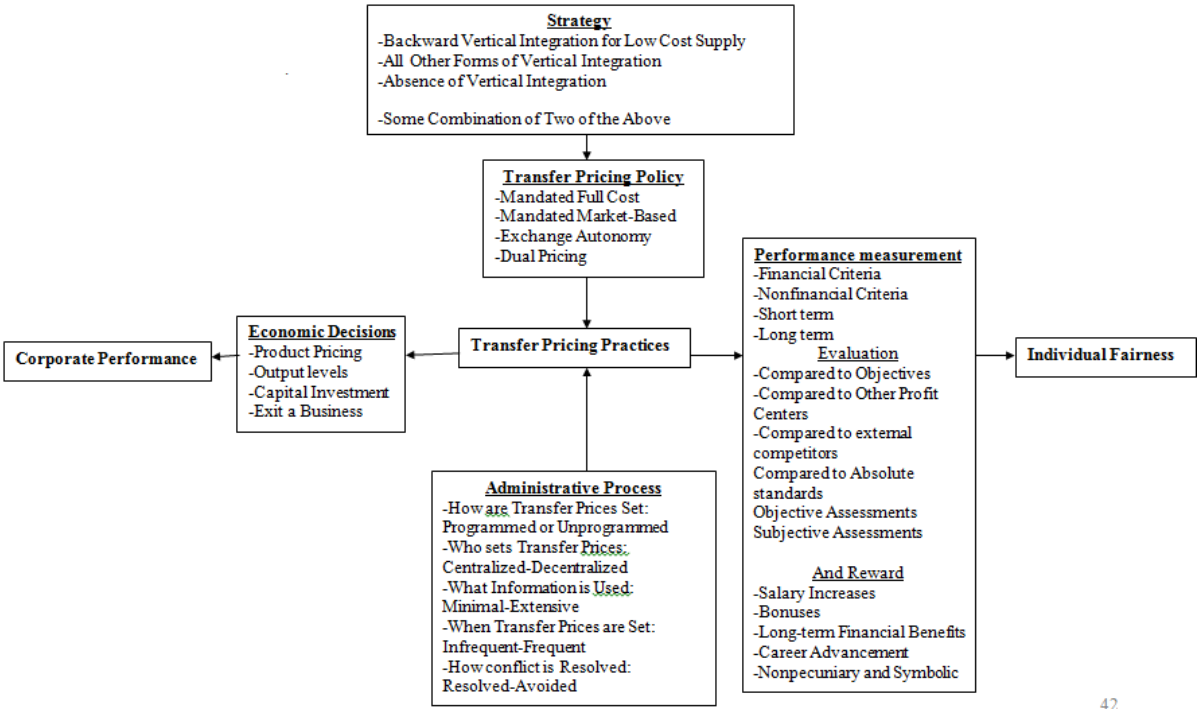
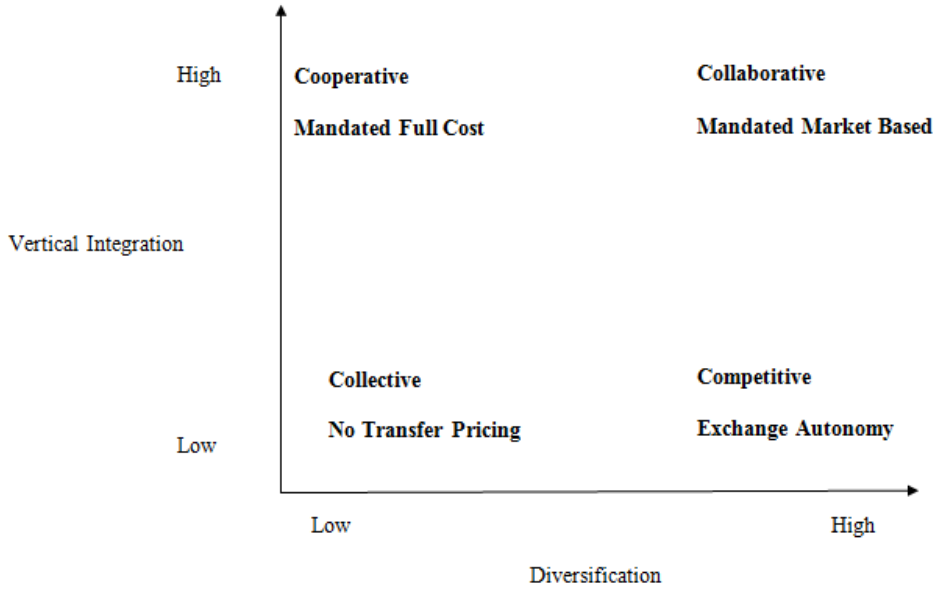


Figure 2. (Eccles, 1985, p.115)

Figure 3. The MAP and Transfer Pricing (Eccles, 1985, p.279)



Another paradigm developed by Eccles (1985) is referred to a relationship between organizational type of the company, the strategy, which implies the degree of diversification and level of vertical integration in the firm and the transfer pricing policy (Figure 3). He called this matrix as a MAP – Manager's Analytical Plane. The expediency of this plane comes from identifying that each location is bind to a particular implementation phase, such as strategy, structure, systems, processes, control and fairness. Four organizational types were recognized and are related to each of the corners of the figure.

Collective organizational type implies small and novel firms specializing in one product and few functions. The management style is simple, usually sole entrepreneurial form of ownership exists. The relationships between employees are hierarchical; however they are more responsible than authoritative. The control mode is maintained personally. The concept of fairness is perceived individually. In turn, cooperative type is high on vertical integration and low on diversification. The term itself describes the cooperative nature of relationship between managers to maximize profits of the firm. There is a narrow product focus, high interdependence across subunits and the control is implemented through the structure on actions. The fairness is figured as a shared fate, because the evaluation of the managers is dependent on the whole performance of the organization. The next type is competitive organizations, where there is a complexity of the divisions' strategies. Comparisons with budgets, outside competitors and internal divisions' plans are used to evaluate the performance outcomes. The fairness is measured by the dimension to which employees achieve their own self interest. Quite similar to cooperative type of organization is collaborative with high degree of interdependence. Though it contains profit centers which is parallel to competitive type. But the strategy is mutually defined between divisions, since they are related in business activities. Matrix structure and equal stress on product profitability and effectiveness of the processes are factors describing such type of organizations. Bottom managers should develop a rational trust in the top management's adequacy in rewarding their performance.

Based on the types of strategy and organization the transfer pricing policy could be coherently connected to them. Firstly, the exchange autonomy is relevant for the competitive type of organization because of high degree of diversification and low level of vertical integration that contemplates to significant devolution of authority and responsibility. Secondly, since in the cooperative organization supplying division has a limited number of businesses to serve and there is a high degree of vertical integration mandated full cost method is most appropriate. Thirdly, mandated transfers are applicable to collaborative organizations as well, but due to their high degree of diversification the market based transfer prices are required. Ultimately, collective types are free from any transfers because of their simplicity of structure and absence of multiple profit centers.

Considering the theory above and paradigms both developed by Eccles (1985), there are several hypotheses that are treated as the most essential:

1. Transfer pricing policies are adjusted in accordance to particular situations.
2. Changes in organizational structure and strategy result in changes in the transfer pricing method.
3. Conflict will arise if transfer prices aren't adjusted to changes in cost or market price used to determine them.
4. The transfer pricing process is affected by the perceived level of fairness by those who establish it.
5. The degree of conflict over transfer prices is affected by the management style of the company.
6. The exercise of non-financial measures of outcome for employees reduces the conflict over transfer prices.
7. Transfer pricing policy is affected by the stages in the product life cycle.

While Eccles (1985) implicitly explains the transfer pricing problem in terms of contingency theory, Borkowski (1990) cohesively studied several firms' practices directly referring this approach. She generated two hypotheses as following: 1. environmental variables don't impact a firm's choice of transfer pricing method, and, 2. organizational variables don't impact a firm's choice of transfer pricing method. Company size, extent of the conflict, degree diversification, strategies of the firms underlying transfer pricing method, management rewards and bonuses, remuneration system bases, profit alignment (short or long term oriented), managers' participation in choosing a transfer pricing policy and degree of decentralization (budgeting, personnel, manufacturing and others) are organizational factors tested in the study. Concerning environmental variables the following are

considered: market price availability, environmental favorableness, economic stability and industry type.

The analysis showed subsequent results with regard to organizational variables:

1. Size plays a crucial role in setting transfer prices. Small firms are likely to use cost methods, and as a second variant negotiation pricing, Medium firms are toward negotiation pricing, and as a next possibility a market price. Large firms tend to use market and further negotiated, instead of full cost.
2. There were two types of conflicting situations between line managers and bottom up managers. The latter one was insignificant to the choice of transfer price. However, the conflict is raised only when the performance measurement is based on divisional performance rather than corporate.
3. Degree of diversification wasn't correlating to any of the methods.
4. The strategy of the company was found to have an impact on methods of transfer pricing.
5. No relationship was found in existence and type of reward and bonuses.
6. Firms concentrate on divisional performance when evaluating managers of the firm, disregarding the transfer pricing policy.
7. Long-term oriented firms were implementing market price as priority and then negotiation.
8. Market price implies for the organization where there is centralized decision making
, while negotiation is applicable to firms making low level managers to participate in choosing the policy for the company.

Environmental variables:

1. There is no relationship between existence of a market price and the method applied.

Much earlier, Tang (1979) already recognized that there is no correlation between firms' size and transfer pricing method, while considering such practices with regard to Japan and United States. However, 56 percent of respondents used cost based methods as their policies providing no explanations.

2. Environmental favorableness and stability didn't show any connection to the transfer pricing policy implemented by respondent companies.
3. Industry variable was significant in the relationship to transfer pricing; in particular firms involved in process businesses are likely to employ market-based methods, whereas metal/mining/manufacturing firms are using full cost methods, other classification of industries tend to use both full cost and market based.

Cost-based methods still predominate across companies for its ease and optimality. Decision-making and evaluation bases were significant to most of the firms. Moreover the study provides findings that negotiation type of transfers is chosen in majority within decentralized organizations. Hence, both of hypotheses were rejected. Therefore, method chosen by the company and perceived as fair and neutral depends on particular situation faced by an organization, and differs regardless of environmental and organizational similarity.

6.2.3 International applications

The foregoing studies were limited to the scope of domestic applications of transfer pricing. Taxes are another essential variable to be recognized in international environment. Cools et al (2008) improved the knowledge of the contingency theory of transfer pricing by examining the following statement "international tax rules affect the choice of the transfer pricing method" by analyzing eventual influence of tax compliance on the design and use of MCS within MNCs (p.604). They developed a study based on Eccles (1985) administrative components model as we considered above, with regard to MCS design, they used Chow et al (1999) management control functions: "organizing", "planning" and "evaluating and rewarding", and finally for the MCS use the coercive/ enabling bureaucracies of Adlers et al (1996) were applied.

Organizing controls are distinguished by "decentralization" and "structuring of activities", where the later refers to the presence of rules, policies and normalized procedures how to execute activities. *Planning* controls contain "participative budgeting" and "standard tightness". The former relates to the extent by which employees are engaged in budgetary activities. Standard tightness is the possibility that a manager who is responsible for the achievement of plans can attain them. Finally, *evaluating and rewarding* controls intend three elements: "participative performance evaluation" (dimension to which mangers are responsible for evaluation of their performance), "controllability filters" (controls which decrease the authority of managers to set up their own remuneration) and "performance contingent financial rewards" (extent to which budgeted versus actual performance are considered to be used in performance evaluation).

International Journal of Humanities Social Science and Management (IJHSSM)
Volume 4, Issue 1, Jan.-Feb., 2024, pp: 727-750 www.ijhssm.org

With respect to MCS use, *enabling* bureaucracies imply that operations are semi-programmable, it makes probable for employees to be concerned with unavoidable contextual elements directly during their work. Therewith, MCS is designed in terms of repair (participative way in developing standards and rules by resolving problems practically), internal transparency (review of internal processes of the firm), global transparency (visibility of overall activities of the employees) and flexibility (dealing with problems according to local and corporate aims). *Coercive* use implicates a preplanning and vast centralization as well as hierarchical principal of control.

Cools et al (2008) developed 4 propositions investigating one "best practice" company over 1993-2001 years (Figure 4). They targeted this firm because it wasn't aware of the fiscal aspects of transfer pricing and its maturity gave a thorough analysis of transfer pricing history.

1. Acceptance of one tax compliant transfer pricing policy impacts MNC's organizing controls such as:

1a. increase in centralization

1b. increase in structuring of activities

The complete and thorough documentation makes transfer pricing method to be more liable for ax authorities. Therefore, it enhances the role of headquarter tax and audit departments, even more standardizing policies and procedures followed by the whole organization.

2. Acceptance of one tax compliant transfer pricing policy impacts consequent changes in MNC's planning controls as following:

1a. increased utilization of generally accepted internal and external benchmarks

2b. decrease low level management participation in determining standards and objectives

The changes in organizing controls gave subsequent changes in planning. Companies are predicted to use universally recognized benchmarks which demonstrated rivals' attainments. Hence, the necessity for participative budgeting decreased.

3. Acceptance of one tax compliant transfer pricing policy impacts consequent changes in MNC's evaluating and reward controls measured by:

3a. increased subjective evaluation, aimed at individual subdivisions

3b. various evaluating and rewarding techniques concerning the financial and non-financial indicators

Over the time period, amendments in organizing and planning controls brought changes to evaluating and reward systems. In case of examined company, manager's control over non-financial indicators of evaluating performance has increased.

4. Acceptance of one tax compliant transfer pricing policy impacts coercive use of MCS by increasing it.

4a. increase in internal and global transparency

4b. at the expense of flexibility and repair

Tax compliance and use of single transfer pricing set of booking impacted the MCS use in counter-balanced way, where the internal and global transparency increased at flexibility and repair costs, because the formality and standardization lowered the roles of line managers.

All in all, the tax compliance bounded managers' latitude towards innovation and efficiency, which seems unfavorable. Eccles (1985) observed positives of administrative simplicity and fairness in terms of uniform transfer pricing system in a domestic context suggesting that top management can be free from resolving disputes among profit centers and the perception of fairness becomes single across the organization. Oppositely, Cools (2008) advocated that internationally, such pressures for one transfer pricing system create unmotivated behavior of employees. Furthermore, companies trying to avoid disputes with tax authorities in seek of optimal transfer price according to arms-length principal and huge documentation requirements are likely to loose a degree of flexibility and repair, which in turn negatively affects the exploitation of new market opportunities.

International Journal of Humanities Social Science and Management (IJHSSM)
Volume 4, Issue 1, Jan.-Feb., 2024, pp: 727-750 www.ijhssm.org

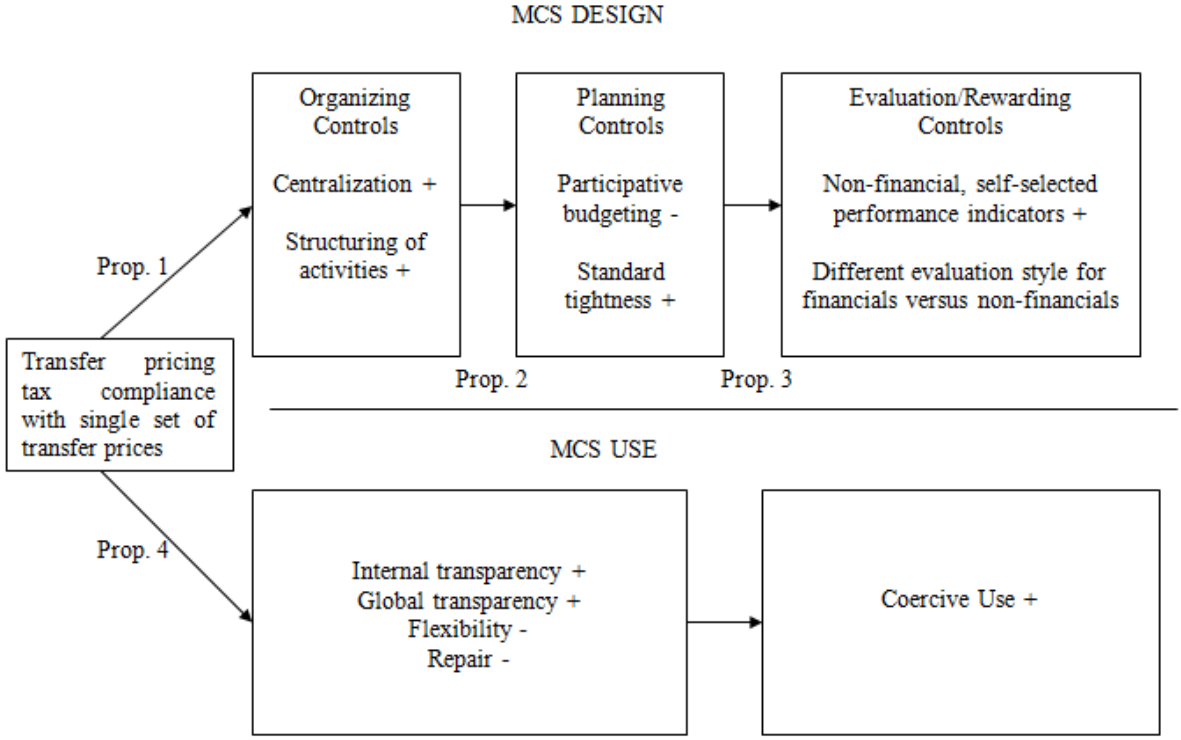


Figure 4. Resulting Propositions (Cools et al, 2008, p.623)

VI. Conclusion

Through a comprehensive analysis of the literature on transfer pricing, it is evident that this practice is not only a crucial tool for decision-making and performance evaluation within organizations but also a complex process influenced by various internal and external factors. The examination of different transfer pricing methods, including economic models, negotiated pricing, and mathematical programming, has highlighted the importance of selecting the most suitable approach based on the specific circumstances faced by multinational corporations.

Moreover, the application of contingency theory in understanding transfer pricing practices has emphasized the need to consider the dynamic interplay between organizational variables, environmental factors, and strategic objectives. This analysis underscores the significance of aligning transfer pricing strategies with the broader goals and structures of the organization to ensure optimal outcomes.

Furthermore, the discussion on income shifting and profit manipulation has underscored the challenges associated with maintaining transparency and compliance in transfer pricing activities, particularly in the face of evolving tax regulations and regulatory scrutiny. By addressing these issues and adopting ethical and legally compliant transfer pricing policies, companies can mitigate risks and enhance their financial performance.

In conclusion, the analysis of transfer pricing literature has provided valuable insights into the complexities and implications of this practice for multinational corporations. By leveraging the findings and recommendations presented in this study, organizations can enhance their decision-making processes, improve performance evaluation mechanisms, and navigate the intricate landscape of transfer pricing with greater efficiency and effectiveness.

References

[1]. Adams, L. Drtina, R (2008) Transfer Pricing For Aligning Divisional and Corporate Decisions. Business Horizons. Volume 51. pp.411-417

[2]. Anthony, RN. Govindarajan, V. (2007) Management Control Systems (12th Edition) McGraw Hill

[3]. Bailey, AD. Boe, WJ. (July 1976) Goal and Resource Transfers in Multi-goal Organisation. The Accounting Review. Volume 51, Number 3. pp.559-573

[4]. Borkowski, SC (Fall 1990) Environmental and Organizational Factors Affecting Transfer Pricing: A Survey. Journal of Management Accounting Research. Volume 2. pp. 78-99
[5]. Borkowski, SC (1992) Organizational and Internal Factors Affecting Multinational Transfer Pricing. Advances in International Accounting. Volume 5. pp.173-192
[6]. Borkowski, SC (1996) An Analysis (Meta- and Otherwise) of Multinational Transfer pricing Research. The International Journal of Accounting. Volume 31. Number 1. pp.39-53
[7]. Bartelsman, EJ. Beetsma, RMWJ (2003) Why Pay More? Corporate Tax Avoidance Through Transfer Pricing in OECD countries. Journal of Public Economics. Volume 87. pp.2225-2252
[8]. Cavusgil, ST (Winter 1996) Pricing for Global Markets. The Columbia Journal of World Business. pp.67-78
[9]. Chown, JF. (1974) Taxation and Multinational Enterprise. Longman
[10]. Cook, PW (April 1955) Decentralization and the Transfer Price Problem. The Journal of Business. Volume 28. Number 2. pp.87-94
[11]. Cools, M. Emmanuel, C. Jorissen, A (2008) Management Control in Transfer Pricing Tax Compliant Multinational Enterprise. Accounting, Organizations and Society. Volume 33. pp.603-628
[12]. Cravens, KS. Winston, T. Shearon, Jr (1996) An Outcome-Based Assessment of International Transfer Pricing Policy. The International Journal of Accounting. Volume 31. Number 4. pp.419-443
[13]. Li, D. Ferreira, MP (2008) Internal and External Factors on Firms' Transfer Pricing Decisions; Insights from Organization Studies. Nota Economicas. pp.23-38
[14]. Dean, J (July-August 1955) Decentralization and Inracompany Pricing. Harvard Business Review. pp. 97-104
[15]. Dopuch, N. Drake, D (Spring 1964) Accounting Implications of a Mathematical Programming Approach to the Transfer Pricing Problem. Journal of Accounting Research. pp.10-24
[16]. Drury, C. (2004) Management and Cost Accounting. (6th Edition). Thomson
[17]. Elliott, J. Emmanuel C (2000) International Transfer Pricing: Searching for Patterns. European Management Journal. Volume 18. Number 2. pp.216-222
[18]. Elitzur, R. Minitz, J (1996) Transfer Pricing Rules and Corporate Tax Competition. Journal of Public Economics. Volume 60. pp.401-422
[19]. Fregmen, JM (1970) Transfer Pricing and Management Goals. Management Accounting. Volume 52, Number 6. pp.25-31
[20]. Fowler, DJ (Winter 1978) Transfer Prices and Profit Maximization in Multinational Enterprise Operations. Journal of International Business Studies. Volume 9. Number 3. pp.9-26
[21]. Fraedrich, JP. Bateman, CR (January-February 1996) Transfer Pricing by Multinational Marketers: Risky Business. Business Horizons. pp.17-22
[22]. Goetz, BE (July 1967) Transfer Prices: An Exercise in Relevancy and Goal Congruence. The Accounting Review. Volume 42. Number 3. pp.435-440
[23]. Grubert, H. Mutti, J (May 1991) Taxes, Tariffs and Transfer Pricing in Multinational Corporate Decision Making. The Review of Economics and Statistics. Volume 73. Number 2. pp.285-293
[24]. Harris, M. Kriebel, C. Raviv, A (June 1982) Asymmetric Information, Incentives and Intrafirm Resource Allocation. Management Science. pp.605-620
[25]. Hirschleifer, J (July 1956) On the Economics of Transfer Pricing. The Journal of Business. Volume 29. Number 3. pp.172-184
[26]. Jacob, J (Autumn 1996) Taxes and Transfer Pricing: Income Shifting and the Volume of Intrafirm Transfers. Journal of Accounting Research. Volume 34. Number 2. pp.301-312
[27]. Kanodia, C (Spring 1979) Risk Sharing and Transfer Price Systems Under Uncertainty. Journal of Accounting Research. pp. 74-98
[28]. Kassicieh, SK (July-August 1981) International Intra-Company Transfer Pricing. Operations Research. Volume 29, Number 4. pp.817-828
[29]. Klassen, K. Lang, M. Wolfson, M (1993) Geographic Income Shifting by Multinational Corporations in Response to Tax Rate Changes. Journal of Accounting Research. Volume 31. pp.141-173
[30]. Merville, LJ. Petty, JW (October 1978) Transfer Pricing for the Multinational Firm.

The Accounting Review. Volume 53. Number 4. pp.935-951

[31]. Oyelere, PB. Emmanuel, CR (1998) International Transfer Pricing and Income Shifting: Evidence form the UK. The European Accounting Review. 7:4, pp.623-635

[32]. Price Waterhouse (1984) Transfer Pricing Practices of American Industry.

[33]. Samuels, JM (Autumn 1965) Opportunity Costing: An Application of Mathematical Programming. The Journal of Accounting Research. Volume 3. Number 2. pp.182-191

[34]. Schweikart, JA (1986) Manager Perception of the Relevance of Managerial Accounting Information. Accounting, Organizations and Society. Volume 7. Number 6. pp.541-554

[35]. Shcoles, MS. Wolfson, MA. Erickson, M. Maydew, EL, Shelvin, T. (1992) Taxes and Business Strategy: A Planning Approach (2nd Edition). Prentice Hall

[36]. Sizer, J. (1989) An Insight to Management Accounting (3rd Edition). London : Penguin

[37]. Sloman, J (2008) The Economic Environment of Business. FT Prentice Hall. Pearson Education Ltd.

[38]. Tang, RYW (1979) Transfer Pricing Practices in the United States and Japan. Praeger Publishers

[39]. Vaysman, I (1998) A Model of Negotiated Transfer Pricing. Journal of Accounting and Economics. Volume 25. pp.349-384

[40]. Verlage, HC (1975) Transfer Pricing for Multinational Enterprises. University of Rotterdam

[41]. Watson, DJH. Baumler, JV. (July 1975) Transfer Pricing: A Behavioral Context. The Accounting Review. Volume 50. Number 3. pp.466-474

[42]. Wu, F. Sharp, D (Spring 1979) An Empirical Study of Transfer Pricing Practice. International Journal of Accounting. pp.71-99