“Ownership structure and transfer pricing in Indonesia: How are board experience and executive characteristics involved?”

AUTHORS	Dedi Haryadi Giriati Giriati Wendy Wendy

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Dedi Haryadi (Indonesia), **Giriati Giriati** (Indonesia), **Wendy Wendy** (Indonesia)

OWNERSHIP STRUCTURE AND TRANSFER PRICING IN INDONESIA: HOW ARE BOARD EXPERIENCE AND EXECUTIVE CHARACTERISTICS INVOLVED?

Abstract

Transfer pricing practices remain a challenge for tax authorities in various countries because they can be used to reduce tax payments. This study aims to explore the impact of ownership structure on transfer pricing practices, focusing on how board experience and executive characteristics act as moderating factors. Additionally, the study considers three control variables: company size, debt to equity ratio, and ROE. The analysis encompasses all publicly listed companies on the Indonesia Stock Exchange, utilizing panel data analysis and moderated regression techniques. The dataset comprises 2,480 entries from 310 companies over an eight-year span from 2015 to 2022. The findings indicate that concentrated ownership positively influences transfer pricing, whereas managerial ownership exerts a negative influence. Meanwhile, foreign, institutional, and family ownership show no significant impact on transfer pricing activities. The experience of the board of directors only moderates the effect of ownership concentration on transfer pricing, with no other significant moderating effects observed. In contrast, executive characteristics successfully moderate the impact of foreign ownership, managerial ownership, and ownership concentration on transfer pricing but not institutional or family ownership.

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Dedi Haryadi, Doctoral Student, Department of Management, Faculty of Economics and Business, Tanjungpura University, Indonesia. (Corresponding author)

Giriati Giriati, Lecturer, Professor, Department of Management, Faculty of Economics and Business, Tanjungpura University, Indonesia.

Wendy Wendy, Associate Professor, Dr., Department of Management, Faculty of Economics and Business, Tanjungpura University, Indonesia.

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INTRODUCTION

The concept of transfer pricing was first proposed by Wells in 1968 in a paper entitled "Profit Centers, Transfer Prices and Mysticism" (Kumar et al., 2021). At first, transfer pricing was only limited to the concept of transfers within the company or between divisions; this divisional pricing did not become a problem in the context of taxation in Indonesia as there were only differences in profit recognition between divisions because the object was the company as a whole. Subsequent development of transfer pricing becomes an issue in taxation because it involves intercompany transactions. According to Beebeejaun (2019), transfer pricing refers to pricing for transactions between associated companies involving the transfer of property, services, intangible goods, and capital flows between related parties. Transfer pricing can be utilized to increase group profits because it can be used to move profits to other countries with lower tax rates (Agana et al., 2018; Barker et al., 2017; Marques & Pinho, 2016). The findings of the Organization for Economic Cooperation and Development (OECD) indicate the potential for tax base erosion and profit shifting of up to $100-200 billion, equivalent to 4-10% of global corporate income tax revenue (Karina, 2021).

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Transfer pricing practices that erode state tax revenues are not new, including in Indonesia. The rise of transfer pricing practices can also be observed in the phenomenon of multinational companies that report many fiscal losses, but their businesses do not close. In 2013, 2,794 foreign capital companies (PMA) reported losses so that they did not pay corporate income tax, but many continued to expand (Susanto, 2016). In Indonesia, this phenomenon is increasingly crucial, given the rapid economic growth and the rising interest of foreign companies in investing. Ownership structures, such as foreign, institutional, managerial, and family ownership, are believed to influence transfer pricing policies.

1. LITERATURE REVIEW

Transfer pricing is a business strategy implemented by a corporate group for various purposes. According to Lin and Chang (2010), external motivations underlying companies are transfer pricing, including minimizing global tax payments, minimizing import/export tax rates, maximizing export taxes, reducing the risk of exchange rate losses, ensuring repatriation of capital and profits, increase the value of corporate assets, avoid local country capital flow controls, and reduce political costs. Transfer pricing actions can threaten state revenues in various ways to avoid taxes, such as moving profits from countries with high tax rates to lower tax rates, such as transfer pricing in 450 French companies that shifted profits to ten tax haven countries (Davies et al., 2018). The same findings about profit-shifting practices with transfer pricing were also found by Marques and Pinho (2016), Rathke (2021), and Yoo (2022). Marques and Pinho (2016), using a sample of companies in Brazil (a developing country), indicate that profit shifting for tax avoidance is a problem in developed, developing, and low-income countries. The actions of multinational companies to shift profits have raised ethical issues. They abuse the trust and hospitality of host countries that may have provided "additional efforts" through subsidies and other concessions to encourage foreign investment, take the hard work of local labor in the host country, and tarnish the image of TNCs as credible international business partners (Mehafdi, 2000).

Research on the factors that influence transfer pricing has been widely conducted and is still being conducted today. Independent variables widely used include bonus, tax burden, debt, tunneling incentive, governance, profitability, company size, foreign exchange, foreign ownership, and institutional ownership. Hadmoko and Irawan (2022) used the independent variables of operation complexity, foreign direct investment, and tax haven utilization. Wahyudi et al. (2021) used the independent variables of size, profitability, and leverage on multinational companies in Malaysia and Indonesia in 2018–2019. Santosa et al. (2021) used the independent variables of size, profitability, and leverage to analyze the effect of good corporate governance on transfer pricing actions.

Foreign ownership is the proportion of a company's share ownership owned by investors from abroad. Based on data published by KSEI in 2019, foreign investors controlled 51.85% from total scripless shares listed on the Indonesia Stock Exchange (Saragih, 2020). The greater the control of shares by foreign investors, the greater their control over company decisions (Solikhah et al., 2021). In general, foreign shareholders with strong enough control can conduct sales transactions with companies owned in their home or other countries. One of the main objectives of foreign investors coming to a country is to maximize the benefits obtained by minimizing tax payments. Foreign shareholders who have considerable control can easily transfer assets or even profits outside the company using transfer pricing for their own personal interests, but the costs are paid by minority shareholders (Septiyani et al., 2018). Foreign investors also have extensive knowledge and networks to take advantage of global tax loopholes to avoid taxes. Empirical results also show a positive effect of foreign investor ownership on tax avoidance practices (Salihu et al., 2015).

Institutional ownership consists of insurance institutions, banks, pension funds, securities, mutual funds, and corporations. The majority of institutional investors seek to earn as much profit as possible, which results in high corporate taxes. Therefore, companies try to minimize the amount of tax paid, which will affect the company's decision to practice transfer pricing. Empirical research proves that institutional ownership positively affects tax avoidance (Dewi, 2019; Ngadiman & Puspitasari, 2014). Referring to the view of active monitoring (Lin & Fu, 2017), the presence of institutional ownership can oversee management actions to ensure the sustainability and welfare of company owners, including through institutional ownership. The prosperity of institutional shareholders can be achieved by transfer pricing, where tax efficiency will optimize corporate profits. Wan and Wong (2015) stated that transfer pricing actions or transactions with related parties increase firm value. The last reason is the conflict of interest hypothesis (Bansal & Thenmozhi, 2020). This theory assumes that sales transactions to related parties carried out by companies are supervised by institutional ownership.

Managerial ownership is share ownership owned by the board of commissioners and the board of directors (Basu et al., 2007). The greater proportion of company ownership by management will result in increased control by management. As a result, management has greater authority to coordinate various activities, including conducting transactions with parties that have special relationships. Agency theory assumes that managerial share ownership is a tool to reduce type one agency conflicts (Meckling & Jensen, 1976). The higher the percentage of management ownership in a company, the more aggressive management is in realizing the interests of shareholders, in this context, management itself (Purnamasari, 2020). With a higher level of managerial ownership, a manager has voting rights and a strong position to control the company. This can result in defensive actions, where external shareholders will find it difficult to control the actions of managers. Managerial ownership can help unify the interests of shareholders and managers. Managers who are also shareholders will be more willing to bear the risks arising from aggressive transfer pricing actions.

Majority shareholders exercise voting rights to favor their personal interests to the detriment of other shareholders (Arthur et al., 2019). Ownership concentration is closely related to the potential for tunneling (Thinh & An, 2023). Tunneling was originally used to explain the acquisition of non-controlling shareholders in the Czech Republic by using asset and income transfers for shareholder control. Tunneling occurs when majority shareholders use their power to make arbitrary decisions and transfer corporate profits and assets to their personal interests. As a result, the costs arising from these actions are borne by minority shareholders. Thus, incentive tunneling has a greater potential when one party dominantly controls the shares of a company. If it is associated with transfer pricing activities, the greater tunneling of a party will increase the motivation and discretion to conduct aggressive transfer pricing to avoid tax payments. Johnson et al. (2000) show that controlling shareholders can use various ways to take advantage of non-controlling shareholders in companies with concentrated ownership. These methods include obtaining additional cash by selling assets, goods, or services to the company through transactions with related parties at above-market prices, obtaining loans on favorable terms, and transferring assets between companies under their control.

A family firm is a business entity in which two or more family members have a role in managing the business through family relationships, involvement in management, or ownership of shares in the business entity (Tagiuri & Davis, 1996). Issues typically associated with family firms relate to conflicts of interest between majority and minority shareholders, which are distinct from conflicts between management and principals (Anderson & Reeb, 2003). This is due to family ownership, as a highly concentrated form of ownership. Related party transactions (RPTs) are one of the common strategies used by majority shareholders for expropriation and can often result in losses for minority shareholders.

Transfer pricing actions potentially lead to sanctions in the field of taxation. This is because transfer pricing is closely related to tax avoidance. Tax avoidance and tax evasion have a very thin difference (Barker et al., 2017). In Indonesia, the transfer pricing regulation requires taxpayers who meet certain requirements to prepare documents related to transfer prices, known as TP Doc. The company itself can prepare TP Docs. In the process of preparing the TP Doc, whether done independently or using the services of a third party, it must be prepared or reviewed by directors who have experience in accounting and finance.

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According to the Upper Echelon Theory developed by Hambrick and Mason (1984), one of the leadership characteristics that influence decision-making is work experience. Taxpayers with many directors with accounting and finance experience will certainly find the TP Doc preparation process easier and more cost-effective. The preparation of TP Doc documents is the same as in the process of preparing audit reports where empirical results show that accounting and financial expertise affect audit costs. Carcello et al. (2002) analyzed companies in the United States from 2004 to 2013 and found that Chief Executive Officers (CEOs) with accounting and finance experience paid lower audit fees. Krishnan and Visvanathan (2009) sampled 500 S&P companies from 2000 to 2002 and found that the accounting expertise of the audit committee has a negative effect on audit fees. Moreover, the accounting skills of female directors also reduced audit fees in large companies in Europe from 2016 to 2018 (Garcia-Blandon et al., 2023). The use of third-party services will generally also charge different fees to clients whose accounting and finance teams are fully equipped with data and able to provide data and clarifications rather than full services.

The act of transfer pricing has the potential to cause tax penalties if it is considered that there is tax avoidance in an unauthorized manner. The high and low levels of transfer pricing actions are related to the views and tolerance of company leaders regarding risk. Based on the preference for risk, a person is categorized into risk taker and risk averse person. Leaders are individuals who set the direction for an organization, while managers focus on strategies and methods to achieve these goals in the context of the organization (Tandean & Winnie, 2016). In addition, upper echelons theory states that managerial characteristics can explain part of the strategic choices of an organization (Hambrick & Mason, 1984). Executives who have the nature of a risk taker will have the courage to optimize company profits by making risky decisions. On the other hand, executives who tend to be risk averse will tend to avoid risks so that they may be less courageous in taking steps such as tax avoidance (Lukito & Oktaviani, 2022). Putri et al. (2018) also confirmed that executive character has a positive effect on tax avoidance with the object of research of mining companies in 2014–2017.

Company size is a parameter used to classify companies into small or large entities. According to Shackelford et al. (2007), large corporations have a greater opportunity to shift their income to minimize tax payments. Large companies can hire a team of experts and tax consultants who can help them understand and implement the requirements of the applicable transfer pricing regulations. Debt policy can affect the transfer pricing structure. If companies use external debt to finance certain subsidiaries or branches, they should consider this external interest expense in transfer pricing. Interest payments are a fiscal expense that can reduce taxable profit. Corporate debt policy can impact transfer pricing practices by setting interest costs on internal loans, capitalizing on interest rate differences between countries, the effect of financing structure on transfer prices, and tax control (Sari et al., 2022). Richardson et al. (2013) found that the higher the level of debt, the greater the opportunity for international companies to do tax avoidance. The greater amount of profit earned will have an impact on increasing the amount of tax to be paid. Tax avoidance can be done with transfer pricing strategies either to affiliates in other countries with lower tax rates or with domestic affiliates subject to final income tax or certain lower tax rates. In addition, managers tend to take opportunistic actions by choosing accounting policies that can benefit the company and provide benefits for themselves in the form of an increase in the bonus they get (Watts & Zimmerman, 1990).

This study aims to examine the moderating role of directors with accounting and finance experience and executive characteristics on the effect of ownership structure on transfer pricing. The hypotheses to be tested are as follows:

H1: Foreign ownership has a positive effect on transfer pricing decisions.

H2: Institutional ownership has a positive effect on transfer pricing decisions.

H3: Managerial ownership has a positive effect on transfer pricing decisions.

H4: Ownership concentration has a positive effect on transfer pricing decisions.

H5: *Family ownership has a positive effect on transfer pricing decisions.*

H6: *Director with accounting and finance experience strengthens the influence of foreign ownership on transfer pricing decisions.*

H7: *Director with accounting and finance experience strengthens the influence of institutional ownership on transfer pricing decisions.*

H8: *Director with accounting and finance experience strengthens the influence of managerial ownership on transfer pricing decisions.*

H9: *Director with accounting and finance experience strengthens the influence of ownership concentration on transfer pricing decisions.*

H10: *Director with accounting and finance experience strengthens the influence of family ownership on transfer pricing decisions.*

H11: *Executive characteristics strengthen the influence of foreign ownership on transfer pricing decisions.*

H12: *Executive characteristics strengthen the influence of institutional ownership on transfer pricing decisions.*

H13: *Executive characteristics strengthen the influence of managerial ownership on transfer pricing decisions.*

H14: *Executive characteristics strengthen the effect of ownership concentration on transfer pricing decisions.*

H15: *Executive characteristics strengthen the influence of family ownership on transfer pricing decisions.*

2. METHODS

The population includes companies listed on the Indonesia Stock Exchange. The number of issuers listed on the Indonesia Stock Exchange at the end of 2022 amounted to 825 issuers consisting of 11 sectors. The sample is determined using the purposive sampling technique, which is part of nonprobability sampling. The criteria are: being listed on the Indonesia Stock Exchange on or before 2015; issuers not included in the financial sector to avoid bias in the interpretation of debt to equity ratio; and companies not operating in the property, shipping, and construction services sectors that have been subject to final income tax. From the predetermined criteria, 310 sample companies were obtained within eight research years (2015–2022), so the observation data (*n*) amounted to 2,480 units.

This study consists of dependent, independent, moderating, and control variables. Table 1 provides the definitions and measurements.

Table 1. Variables and measurements

Variables	Measurement
Dependent Variable	
Transfer pricing	Related party receivables divided by total receivables (Devi & Suryarini, 2020; Merle et al., 2019)
Independent Variable	
Foreign ownership	Shares owned by foreign investors divided by the number of shares outstanding (Marfuah et al., 2021)
Institutional ownership	Shares owned by institutional investors divided by the number of shares outstanding (Alhadab et al., 2020; Lin & Fu, 2017)
Managerial ownership	Shares owned by management divided by the number of outstanding shares (Supatmi & Wukirasih, 2022)
Ownership concentration	The number of shares owned by the largest shareholder divided by the number of shares outstanding (Yanjian & Xiaoneng, 2012)
Family ownership	The company is said to be a family company if there are two or more administrators (board of commissioners and board of directors) who have the same family name (Alhadab et al., 2020). If the family company is coded 1, otherwise is coded 0
Moderator Variable	
Director with accounting and finance experience	Number of directors with experience in accounting and finance divided by the total board of directors (Qiao et al., 2018)
Executive characteristics	Executive characteristics can be proxied by firm risk. Corporate risk is calculated by the standard deviation of EBITDA divided by total assets (Paligorova, 2010)
Control Variables	
Company size	Natural logarithm of total assets (Habib et al., 2015; Hadmoko & Irawan, 2022; Tang, 2016)
Debt to equity ratio	Total debt divided by total equity (Yanti & Pratiwi, 2021)
Return on equity	Profit after tax divided by total equity (Karpowicz, 2020)

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Using panel data analysis, the study elaborates on seven equations as follows:

$$TP_{it} = \alpha_0 + \beta_1 FO_{it} + \beta_2 IO_{it} + \beta_3 MO_{it} + \beta_4 CO_{it} + \beta_5 FOW_{it} + e_{it}. \quad (1)$$

$$TP_{it} = \alpha_0 + \beta_1 DAFE_{it} + e_{it}. \quad (2)$$

$$\begin{aligned} TP_{it} &= \alpha_0 + \beta_1 FO_{it} + \beta_2 IO_{it} + \beta_3 MO_{it} \\ &+ \beta_4 CO_{it} + \beta_5 FOW_{it} + \beta_6 DAFE_{it} + e_{it} \\ &+ \beta_7 FO \cdot DAFE_{it} + \beta_8 IO \cdot DAFE_{it} \\ &+ \beta_9 MO \cdot DAFE_{it} + \beta_{10} CO \cdot DAFE_{it} \\ &+ \beta_{11} FOW \cdot DAFE_{it} + e_{it}. \end{aligned} \quad (3)$$

$$\begin{aligned} TP_{it} &= \alpha_0 + \beta_1 FO_{it} + \beta_2 IO_{it} + \beta_3 MO_{it} \\ &+ \beta_4 CO_{it} + \beta_5 FOW_{it} + \beta_6 DAFE_{it} + e_{it} \\ &+ \beta_7 FO \cdot DAFE_{it} + \beta_8 IO \cdot DAFE_{it} \\ &+ \beta_9 MO \cdot DAFE_{it} + \beta_{10} CO \cdot DAFE_{it} \\ &+ \beta_{11} FOW \cdot DAFE_{it} + \beta_{12} SIZE \\ &+ \beta_{13} DER + \beta_{14} ROE + e_{it}. \end{aligned} \quad (4)$$

$$TP_{it} = \alpha_0 + \beta_1 RISK_{it} + e_{it}. \quad (5)$$

$$\begin{aligned} TP_{it} &= \alpha_0 + \beta_1 FO_{it} + \beta_2 IO_{it} + \beta_3 MO_{it} \\ &+ \beta_4 CO_{it} + \beta_5 FOW_{it} + \beta_6 RISK_{it} + e_{it} \\ &+ \beta_7 FO \cdot RISK_{it} + \beta_8 IO \cdot RISK_{it} \\ &+ \beta_9 MO \cdot RISK_{it} + \beta_{10} CO \cdot RISK_{it} \\ &+ \beta_{11} FOW \cdot RISK_{it} + e_{it}. \end{aligned} \quad (6)$$

$$\begin{aligned} TP_{it} &= \alpha_0 + \beta_1 FO_{it} + \beta_2 IO_{it} + \beta_3 MO_{it} \\ &+ \beta_4 CO_{it} + \beta_5 FOW_{it} + \beta_6 RISK_{it} + e_{it} \\ &+ \beta_7 FO \cdot RISK_{it} + \beta_8 IO \cdot RISK_{it} \\ &+ \beta_9 MO \cdot RISK_{it} + \beta_{10} CO \cdot RISK_{it} \\ &+ \beta_{11} KK \cdot RISK_{it} + \beta_{12} SIZE + \beta_{13} DER \\ &+ \beta_{14} ROE + e_{it}. \end{aligned} \quad (7)$$

where *TP* – Transfer Pricing, *FO* – Foreign Ownership, *IO* – Institutional Ownership, *MO* – Managerial Ownership, *CO* – Concentration Ownership, *FOW* – Family Ownership, *SIZE* – Company Size, *DER* – Debt to Equity Ratio, *ROE* – Return On Equity, *DAFE* – Director With Accounting and Finance Experience, *RISK* – Executive Characteristics, e_{it} – Residual.

3. RESULTS

Table 2 shows that the average transfer pricing (TP) level in sample companies is 0.17 of total receivables, with a maximum value of 1. Institutional ownership (IO) has the highest average among ownership structure variables, which is 0.55 or 55%, while managerial ownership (MO) has the lowest average of 0.04 or 4%. The executive characteristics variable (RISK) shows considerable variation with a standard deviation of 39.61, indicating a significant difference in the level of risk-taking between sample companies. The average board experience in accounting and finance (DAFE) is 0.35 or 35%, indicating that more than a third of board members have a background in the field.

After seeing the data overview, the research process continued to select the best model. The fixed effect model was selected based on the Chow test on the obtained cross-section chi-square value <0.05. The test was continued with the Hausman test on the cross-section random probability value of 0.0021 or smaller than 0.05 so that the FEM model was again selected.

The panel data regression analysis (Table 3) shows some important findings related to the effect of ownership structure on transfer pricing with moderation of board experience and executive characteristics. From model 1, which tests the direct effect of independent variables, it is found that ownership concentration (CO) has a significant positive effect on transfer pricing (β = 0.108, $p < 0.01$). In contrast, managerial ownership (MO) has a significant negative effect (β = –0.160, $p < 0.01$). Foreign ownership (FO), institutional ownership (IO), and family ownership (FOW) variables show no significant effect. The significant positive effect of the ownership concentration variable shows that the more centralized control will increase transfer pricing actions because the authority rests on one party only. Managerial ownership that negatively affects transfer pricing actions shows that when management owns shares, they tend to reduce transfer pricing actions because of the potential tax sanctions, like civil and criminal sanctions that have occurred several times in Indonesia. Tax authorities in Indonesia can conduct tax audits for 5 years after the financial year ends; if they do not have ownership, management may only seek short-term gains and have no sense of responsibility for potential tax sanctions in the future.

Testing the moderating effect of board experience (DAFE) in model 2c reveals that DAFE strengthens the positive effect of ownership concentration on transfer pricing (β = 0.440, $p < 0.01$). However, DAFE does not significantly moderate the effect of other ownership variables. DAFE variable partially tested in model 2a also does not show any significant influence on transfer pricing. In general, the accounting and financial experience of the board of directors does not moderate transfer pricing actions. Thus, companies in Indonesia that conduct transfer pricing do not mind the cost of preparing transfer pricing reports that service providers discharge. In the current research hypothesis, it is assumed that companies with a board of directors that understands accounting and finance can save on paying services to third parties or can even prepare their own transfer pricing document.

For moderation of executive characteristics (RISK) in model 3c (Table 4), it is found that RISK strengthens the positive effect of ownership concentration (β = 1.465, $p < 0.01$) and institutional ownership (β = 0.580, $p < 0.05$) on transfer pricing. On the other hand, RISK weakens the effect of foreign ownership (β = –1.313, $p < 0.01$) and managerial ownership (β = –1.540, $p < 0.10$) on transfer pricing. The involvement of the RISK variable is proven to moderate 4 out of 5 ownership struc-

Table 2. Descriptive statistics

	TP	FO	IO	MO	CO	FMO	DAFE	RISK	SIZE	DER	ROE
Mean	0.17	0.23	0.55	0.04	0.53	0.32	0.35	1.38	28.67	1.92	–0.27
Median	0.03	0.14	0.57	0.00	0.52	0.00	0.33	0.06	29.00	0.85	0.02
Maximum	1.00	0.99	1.00	0.96	0.99	1.00	1.00	1517.63	34.00	786.93	7.56
Minimum	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	18.00	–231.26	–544.45
Std. Dev	0.26	0.26	0.34	0.12	0.22	0.47	0.18	39.61	1.85	19.20	11.30

Note: TP – Transfer Pricing, *FO* – Foreign Ownership, *IO* – Institutional Ownership, *MO* – Managerial Ownership, *CO* – Concentration Ownership, *FOW* – Family Ownership, *SIZE* – Company Size, *DER* – Debt to Equity Ratio, *ROE* – Return On Equity, *DAFE* – Director With Accounting and Finance Experience, *RISK* – Executive Characteristics.

Table 3. Estimation results with DAFE as a moderator

Variables	Model 1		Model 2a		Model 2b		Model 2c	
	B	Sig	B	Sig	B	Sig	B	Sig
Constanta	0.105	0.000	0.158	0.000	0.133	0.012	–0.462	0.067
FO	0.020	0.478	–	–	0.151	0.035**	0.152	0.034**
IO	0.005	0.846	–	–	–0.111	0.076***	–0.106	0.091***
MO	–0.160	0.005*	–	–	–0.147	0.175	–1.332	0.183
CO	0.108	0.005*	–	–	–0.027	0.735	–0.037	0.645
FOW	0.010	0.471	–	–	0.022	0.447	0.019	0.517
SIZE	–	–	–	–	–	–	0.020	0.015**
DER	–	–	–	–	–	–	0.000	0.664
ROE	–	–	–	–	–	–	–0.000	0.915
DAFE	–	–	0.027	0.288	–0.079	0.476	–0.071	0.525
FO*DAFE	–	–	–	–	–0.195	0.224	–0.195	0.225
IO*DAFE	–	–	–	–	0.051	0.661	0.034	0.772
MO*DAFE	–	–	–	–	0.216	0.307	0.185	0.381
CO*DAFE	–	–	–	–	0.442	0.006*	0.440	0.007*
FOW*DAFE	–	–	–	–	–0.089	0.176	–0.080	0.227
R Square	0.755	–	0.753	–	0.806	–	0.4813	–
Adj R Square	0.719	–	0.718	–	0.768	–	0.3993	–
F Test	0.000	–	0.000	–	0.000	–	0.0000	–

Note: * significant at 0.01, ** significant at 0.05, *** significant at 0.10 *TP* – Transfer Pricing, *FO* – Foreign Ownership, *IO* – Institutional Ownership, *MO* – Managerial Ownership, *CO* – Concentration Ownership, *FOW* – Family Ownership, *SIZE* – Company Size, *DER* – Debt to Equity Ratio, *ROE* – Return On Equity, *DAFE* – Director With Accounting and Finance Experience, *RISK* – Executive Characteristics.

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Table 4. Estimation results with RISK as a moderator

Variables	Model 1		Model 3a		Model 3b		Model 3c	
	B	Sig	B	Sig	B	Sig	B	Sig
Constanta	0.105	0.000	0.167	0.000	0.308	0.000	1.605	0.000
FO	0.020	0.478	–	–	0.074	0.358	0.117	0.153
IO	0.005	0.846	–	–	–0.033	0.598	–0.062	0.328
MO	–0.160	0.005*	–	–	–0.007	0.933	0.036	0.696
CO	0.108	0.005*	–	–	–0.063	0.422	–0.014	0.851
FOW	0.010	0.471	–	–	–0.106	0.164	–0.106	0.160
SIZE	–	–	–	–	–	–	–0.045	0.002*
DER	–	–	–	–	–	–	0.000	0.389
ROE	–	–	–	–	–	–	0.018	0.085***
RISK	–	–	0.000	0.971	–1.590	0.000*	–1.853	0.000*
FO*RISK	–	–	–	–	–0.881	0.070***	–1.313	0.009*
IO*RISK	–	–	–	–	0.303	0.219	0.580	0.025**
MO*RISK	–	–	–	–	–0.184	0.200	–1.540	0.099*
CO*RISK	–	–	–	–	1.386	0.000***	1.465	0.000*
FOW*RISK	–	–	–	–	–0.022	–0.112	–0.080	0.232
R Square	0.755	–	0.753	–	0.729	–	0.734	–
Adj R Square	0.719	–	0.718	–	0.673	–	0.678	–
F Test	0.000	–	0.000	–	0.000	–	0.000	–

Note: * significant at 0.01, ** significant at 0.05, *** significant at 0.10 *TP* – Transfer Pricing, *FO* – Foreign Ownership, *IO* – Institutional Ownership, *MO* – Managerial Ownership, *CO* – Concentration Ownership, *FOW* – Family Ownership, *SIZE* – Company Size, *DER* – Debt to Equity Ratio, *ROE* – Return On Equity, *DAFE* – Director With Accounting and Finance Experience, *RISK* – Executive Characteristics.

Table 5. Hypotheses testing

H	Path	Estimates	Results			Conclusion
			Coefficient	Sig	Result	
H1	FO → TP	+	0.020	0.478	NS	Rejected
H2	IO → TP	+	0.005	0.846	NS	Rejected
H3	MO → TP	+	–0.160	0.005*	Sig (–)	Rejected
H4	CO → TP	+	0.108	0.005*	Sig (+)	Accepted
H5	FOW → TP	+	0.010	0.471	NS	Rejected
H6	FO*DAFE → TP	+	–0.195	0.225	NS	Rejected
H7	IO*DAFE → TP	+	0.034	0.772	NS	Rejected
H8	MO*DAFE → TP	+	0.185	0.381	NS	Rejected
H9	CO*DAFE → TP	+	0.440	0.007*	Sig (+)	Accepted
H10	FOW*DAFE → TP	+	–0.080	0.227	NS	Rejected
H11	FO*RISK → TP	+	–1.313	0.009*	Sig (–)	Rejected
H12	IO*RISK → TP	+	0.580	0.025**	Sig (+)	Accepted
H13	MO*RISK → TP	+	–1.540	0.099*	Sig (–)	Rejected
H14	CO*RISK → TP	+	1.465	0.000*	Sig (+)	Accepted
H15	FOW*RISK → TP	+	–0.080	0.232	NS	Rejected

Note: * significant at 0.01, ** significant at 0.05, *** significant at 0.10 *TP* – Transfer Pricing, *FO* – Foreign Ownership, *IO* – Institutional Ownership, *MO* – Managerial Ownership, *CO* – Concentration Ownership, *FOW* – Family Ownership, *SIZE* – Company Size, *DER* – Debt to Equity Ratio, *ROE* – Return On Equity, *DAFE* – Director With Accounting and Finance Experience, *RISK* – Executive Characteristics.

tures (foreign ownership, managerial ownership, institutional ownership, and ownership concentration) and only unable to moderate the effect of family ownership (FOW). The results of the interaction effect of RISK indicate that company leaders with a higher risk tolerance for potential tax penalties are more likely to engage in transfer pricing activities.

The research model has good explanatory power, with Adjusted R-squared values ranging from 0.678 to 0.768 in the main models. All tested equations have a good model fit test of 0.000 for all seven equations.

From the control variables, firm size (SIZE) has a significant positive effect ($\beta = 0.020$, $p < 0.05$) in model 2c (DAFE as a moderator) and a significant negative effect ($\beta = -0.045$, $p < 0.01$) in model 3c (RISK as a moderator). Profitability (ROE) has a significant positive effect ($\beta = 0.018$, $p < 0.10$) on transfer pricing in model 3c and shows no effect in model 2c. DER shows no significant effect in both models.

4. DISCUSSION

The findings of this study provide insights regarding transfer pricing practices in Indonesian public companies (Table 5). First, the significant positive effect of ownership concentration on transfer pricing confirms the argument that majority shareholders tend to utilize related party transactions for their own benefit (Johnson et al., 2000). This is in line with the tunneling theory that controlling shareholders can use their power to transfer profits to themselves at the expense of minority shareholders (Khomsiyah & Lorentia, 2020).

Second, the negative effect of managerial ownership on transfer pricing contradicts the initial hypothesis. This result indicates that managers with greater share ownership tend to reduce transfer pricing practices. This finding can be explained by the argument that higher managerial ownership aligns the interests of managers with other shareholders, thereby reducing the incentive to engage in transfer pricing that may harm the firm in the long run (Meckling & Jensen, 1976). Managers who are also shareholders can bear the severe consequences of transfer pricing actions if deemed guilty by the tax authorities. The negative findings of the effect of managerial ownership are in line with the results of Supatmi and Wukirasih (2022).

Third, the insignificant effect of foreign and institutional ownership suggests that these two types of investors may have a less effective supervisory role in the context of transfer pricing in Indonesia. This is in contrast to several previous studies that found a significant effect of foreign ownership (Purnamasari, 2020; Supriyati et al., 2021) and institutional ownership (Alhadab et al., 2020). The absence of the influence of foreign ownership is in line with the findings by Yulia et al. (2019). Likewise, the absence of the effect of institutional ownership on transfer pricing is also in line with the findings of Nurazi et al. (2015). Family ownership also has no effect on transfer pricing actions, indicating that in the context of public companies in Indonesia, the company's status as a family company does not directly encourage or reduce transfer pricing. Family companies may use other mechanisms besides transfer pricing to transfer wealth, such as other related party transactions that are not captured in the transfer pricing measurement in this study. The absence of the influence of family ownership is in line with Maglio et al. (2020).

Fourth, the fact that the moderating effect of board experience is only significant in the context of ownership concentration indicates that directors with accounting and financial expertise primarily influence transfer pricing behaviors when dominant shareholders are involved. This could be because directors with such specialized knowledge are better equipped to develop intricate transfer pricing strategies that benefit majority shareholders. While the overall impact of board experience as a moderating factor is not particularly strong, its inclusion does alter the influence of foreign and institutional ownership, which showed no significant effect in the initial model but exhibits a partial effect when board experience is considered. For future research, more specific expertise could be used, such as directors who are former auditors or directors with a tax consultant license.

Fifth, the moderating role of varied executive characteristics suggests that a manager's risk tolerance significantly influences transfer pricing decisions. Executives who are more inclined to take risks tend to intensify transfer pricing activities in companies with high ownership concentration and institutional ownership, while they tend to reduce such practices in companies with substantial foreign and managerial ownership. This finding adds depth to understanding how executive traits interact with ownership structure in shaping transfer pricing behavior.

CONCLUSION

This study offers empirical insights into how ownership structure influences transfer pricing behaviors in Indonesian public firms, with a particular focus on the moderating roles of board experience and

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executive characteristics. Notably, the examination of board experience and executive traits as moderating factors in the relationship between ownership structure and transfer pricing is relatively unexplored in the existing literature. The study's key findings reveal that concentrated ownership tends to promote transfer pricing activities, while managerial ownership has a mitigating effect. Moreover, board experience in accounting and finance enhances the impact of ownership concentration on transfer pricing. In contrast, the influence of risk-taking executive characteristics varies based on the type of ownership involved. Overall, executive traits are more effective in moderating the relationship between ownership structure and transfer pricing practices than the accounting and financial expertise of the board of directors.

The study's outcomes have significant implications for various stakeholders, including regulators, investors, and corporate management. For regulators, the findings underscore the need for heightened scrutiny of companies with concentrated ownership and risk-prone executives, as these entities are more likely to engage in aggressive transfer pricing strategies. For investors, the paper highlights the importance of considering ownership structure, board composition, and executive characteristics when evaluating a firm's transfer pricing risks. From a management perspective, the results suggest that increasing managerial ownership could serve as a strategy to curb transfer pricing practices that may pose long-term risks to the company.

While this study contributes valuable knowledge, several limitations should be acknowledged. First, the analysis is limited to public companies in Indonesia, which may restrict the generalizability of the findings to other countries. Second, the study uses related party receivables as a proxy for measuring transfer pricing, which may not fully encapsulate the complexity of such practices. Third, external factors like changes in tax regulations were not considered, which could also influence transfer pricing behaviors.

Future research is encouraged to broaden the scope by including other countries in the ASEAN region for a more comprehensive analysis. Additionally, employing alternative methods for measuring transfer pricing, such as the cost approach between affiliated entities, could provide deeper insights. Finally, further studies could explore the impact of the corporate income tax rate reduction, from 25% to 22% since the implementation of the omnibus tax law in 2022, on transfer pricing practices.

AUTHOR CONTRIBUTIONS

Conceptualization: Dedi Haryadi, Giriati Giriati, Wendy Wendy.
Data curation: Dedi Haryadi, Giriati Giriati, Wendy Wendy.
Formal analysis: Dedi Haryadi, Giriati Giriati, Wendy Wendy.
Funding acquisition: Dedi Haryadi.
Investigation: Dedi Haryadi.
Methodology: Dedi Haryadi, Giriati Giriati, Wendy Wendy.
Project administration: Dedi Haryadi.
Resources: Dedi Haryadi.
Software: Dedi Haryadi, Wendy Wendy.
Supervision: Giriati Giriati, Wendy Wendy.
Validation: Dedi Haryadi, Giriati Giriati, Wendy Wendy.
Visualization: Dedi Haryadi, Wendy Wendy.
Writing – original draft: Dedi Haryadi.
Writing – review & editing: Dedi Haryadi, Giriati Giriati, Wendy Wendy.

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