Indian Journal of Applied Economics and Finance
Vol. 1, No. 1, 2026, pp. 77-83
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ISSN: 3107-667X
URL: http://www.pbjournals.com/ijaef

Transfer Pricing: Strategies for Multinational Firm: A Literature Review Approach

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To Cite this Article

Tega Ngozi Blessing (2026). Transfer Pricing: Strategies for Multinational Firm: A Literature Review Approach. *Indian Journal of Applied Economics and Finance,* 1: 1, pp. 77-83.

Abstract: *This paper presents a review of some scholarly articles examining transfer pricing practices among multinational corporations (MNCs). The selected studies, drawn from reputable international databases such as ScienceDirect and Emerald Insight, originate from researchers in both developed and developing economies. The review compares the objectives, methodologies, and key findings of these works. Overall, the studies commonly aim to explore issues related to the misuse of transfer pricing within MNCs. Most of the reviewed research employs quantitative approaches. A consistent conclusion across the literature is that transfer pricing practices are closely linked to strategies for minimizing or avoiding tax obligations.*

Keywords*: transfer pricing, multinational companies, tax, tax evasion*

Introduction

Globalization has accelerated economic activities that take place across national boundaries, leading to rapid growth in international business operations. Large companies engage in cross-border transactions that reflect broader expansion of the global economy (Devita & Sholikhah, 2021). The increased interconnectedness allows capital from developed countries to move more easily into developing markets. However, this same global integration also enables multinational firms to use transfer pricing strategies in ways that reduce tax obligations by shifting public revenue toward shareholders. Consequently, the traditional concepts of National sovereignty and State authority have been challenged by the intensifying pace of globalization (Amidu *et al*., 2019; Sikka & Willmott, 2010).

Received: 15 April 2026 • **Revised:** 19 May 2026 • **Accepted:** 28 May 2026 • **Published:** 05 June 2026

Internal or related-party transactions make up a substantial portion of cross-border business activities, and these transactions allow multinational firms to set internal prices, commonly referred to as transfer prices. A transfer price is the value assigned to the exchange of services, physical goods, or intangible assets between entities under the same corporate group (Sari *et al*., 2020). Transfer pricing involves determining the prices used in transactions among affiliated companies within a multinational enterprise. As tax authorities began recognizing that some multinational corporations manipulated these internal prices to minimize their tax obligations, transfer pricing became a significant tax concern (Beebeejaun, 2018). The OECD (2016) characterizes abusive transfer pricing as the improper allocation of revenues and expenses to artificially reduce taxable income. Uyar (2014) further explains that, although transfer pricing can be an effective strategy for achieving corporate profit maximization, it may simultaneously harm the wider economy by diminishing a country's potential tax revenue.

Transfer pricing has become an important issue in international commerce because a large share of cross-border transactions now occurs between related parties within multinational corporate groups. These intra-group exchanges-whether involving services, physical goods, or intangible assets-require companies to assign internal prices, commonly referred to as transfer prices (Sari *et al*., 2020). Although transfer pricing originally served as a managerial tool for allocating resources and evaluating performance within decentralized organizations, it has increasingly gained relevance in tax administration. This shift occurred after tax authorities around the world observed that multinational enterprises (MNEs) were adjusting their internal prices in ways that reduced their tax liabilities in various jurisdictions (Beebeejaun, 2018).

The OECD (2016) describes abusive transfer pricing as the improper allocation of revenues and costs that leads to an understatement of taxable income. Uyar (2014) similarly notes that while transfer pricing can help firms achieve profit-maximization objectives, it may also negatively affect national tax systems by causing significant revenue losses.

Today, transfer pricing is a central topic in both accounting and taxation. Companies must determine prices for intercompany transactions in a way that supports internal decision-making while also satisfying regulatory requirements. Because these prices influence how profits and tax obligations are distributed across countries, international standards-particularly the OECD Transfer Pricing

Guidelines-play a crucial role in ensuring that firms do not use transfer pricing to engage in tax avoidance (Hummel *et al*., 2019).

Determining transfer prices is inherently complex, especially for multinational corporations with subsidiaries operating in different tax jurisdictions. Transfer pricing decisions directly influence global profit allocation, creating incentives for MNEs to adjust internal prices in order to shift profits from high-tax to low-tax regions (Kalra & Afzal, 2023; Choi *et al*., 2020). This challenge is further compounded by the need to demonstrate adherence to the arm's length principle-the requirement that related parties conduct transactions as if they were independent market participants (Kalra & Afzal, 2023). Numerous scholars, including Beuselinck *et al*. (2015), De Simone (2016), Klassen *et al*. (2017), Steens *et al*. (2022), and Wier (2020), highlight that proving compliance with this principle remains one of the most significant tax and operational hurdles for MNCs.

Given its importance, transfer pricing continues to attract subsantial scholarly and professional attention. Recent studies by Kohlhase and Wielhouwer (2023), Amidu *et al*. (2019), Choi *et al*. (2020), Steen *et al*. (2022), Sari *et al*. (2020), Hummel *et al*. (2019), and Devita and Sholikhah (2021) explore the topic from different perspectives, including tax policy, firm behavior, and regulatory compliance.

This paper contributes to that body of knowledge by conducting a structured literature review on transfer pricing practices within multinational companies. The review examines articles published in reputable international journals, focusing on their research objectives, methodologies, key findings, and areas of study. Through this comparison, the paper aims to enrich the understanding of transfer pricing issues and support the advancement of management accounting knowledge, particularly regarding how multinational enterprises use and are regulated in their transfer pricing activities.

Method

This study is based on a literature review of articles published in reputable international journals. The review focuses on existing research examining transfer pricing practices within multinational corporations. Relevant publications were identified using the keywords *"transfer pricing"* and *"transfer pricing in multinational corporations"* on the ScienceDirect and Emerald Insight databases. These platforms were selected because they are recognized for hosting high-quality, peer-reviewed journals, many of which are indexed in Scopus and Web of Science. After applying

the search and screening criteria, a total of 10 articles were selected for inclusion in this review. Each article was evaluated based on its research purpose, methodological approach, key findings, and geographical context.

Results and Discussion

This review examines studies published in reputable international journals, including works by Choi *et al.* (2020), Steens *et al.* (2022), Rossing *et al.* (2017), Amidu *et al.* (2019), Hummel *et al.* (2019), and others. The articles investigate transfer pricing practices in multinational corporations operating in both advanced and developing economies such as Switzerland, France, Indonesia, and Ghana. Each article was compared based on its purpose, methodological approach, and key findings.

Overall, the studies generally aim to understand or mitigate the misuse of transfer pricing by multinational enterprises (MNEs). For instance, research conducted in France by Davies *et al.* (2015) found that intra-firm pricing responds strongly to foreign tax rates after accounting for market-related price determinants. Their analysis showed that while tax avoidance may not be visible when tax havens are excluded, substantial income shifting occurs when exports to tax haven jurisdictions are considered.

A study by Muhammadi *et al.* (2016) focused on Indonesia and explored the difficulties faced by tax auditors when examining transfer pricing of intangible assets. The findings revealed several obstacles, including limited institutional capacity, regulatory gaps, and inadequate disclosure by taxpayers. Indonesian tax auditors generally rely on legal frameworks and comparative analysis when handling transfer pricing cases. This study utilized a qualitative research design.

In Mauritius, Beebeejaun (2018) assessed the reasons behind transfer pricing abuse among corporations in Ghana. The study concluded that the absence of comprehensive transfer pricing legislation allows companies to adjust internal prices to reduce tax liabilities. The author recommended legal reforms and stronger regulatory oversight. This research relied on critical and comparative analysis of relevant laws and case materials.

Agana and Zamore (2019) studied multinational companies operating in Ghana, assessing whether international transfer pricing is used to shift profits. Their results indicated significant differences in capabilities and profitability between Ghanaian-controlled entities (GCEs) and foreign-controlled entities (FCEs). However, the

evidence did not show clear income-shifting behavior by FCEs. This study adopted regression analysis.

Amidu *et al.* (2019) also examined Ghanaian firms and found widespread use of transfer pricing and earnings management practices as mechanisms for tax avoidance between 2008 and 2015. Regression analysis was used to test these relationships.

Another study by Hummel *et al.* (2019) explored how the effectiveness of a tax-compliant transfer pricing system relates to its integration within the management control framework. Using SEM, the results suggested that firms often engage in earnings manipulation and transfer pricing practices, reinforcing the link between internal controls and compliance outcomes.

In the Indonesian context, Sari *et al.* (2020) analyzed income shifting through transfer pricing in sales, purchases, and management service transactions. Using regression models, they found no indication of transfer pricing manipulation in sales transactions, but strong evidence of such behavior in purchases and management fees. Importantly, they noted that specific anti-avoidance rules (SAAR) significantly reduced manipulative practices in sales transactions.

Choi *et al.* (2020) investigated how transfer pricing incentives affect multinational firms' internal production decisions. Using the CP method, the study showed that tax-motivated foreign direct investment (FDI) may lead to inefficient production structures, although consumers may benefit from lower prices. The study also demonstrated how differences in the strictness of transfer pricing regulation can shape tax competition between countries. Excessively lenient regulation may result in a "race to the bottom," whereas stricter rules may shift tax strategies and allow source countries to raise tax rates.

Steens *et al.* (2022) evaluated how country-level risk affects firm profitability using data from manufacturing firms. Their results showed a positive association between country risk indicators and return on sales (ROS), suggesting that firms operating in riskier countries may adjust internal prices to preserve profitability.

The most recent study, by Kohlhase and Wielhouwer (2023), examined European multinationals involved in extra-EU trade. The study assessed differences in transfer pricing components set by headquarters (HOs) and business units (BUs). Regression analysis revealed that BUs play a greater role in tax planning than HOs, even though compensation incentives do not explicitly promote such behavior. The findings also indicated that BUs strategically allocate trade-related costs using incoterms to reduce tax liabilities without modifying transfer prices.

Conclusion

Transfer pricing remains a major concern for both host countries where multinational corporations operate and home countries where these corporations originate. From the articles analyzed, it is evident that most studies aim to understand, limit, or regulate abusive transfer pricing practices. While quantitative methods particularly regression and SEM dominate the research, qualitative approaches and specialized methods such as the CP model are also used.

Across the studies, a consistent conclusion emerges: transfer pricing is closely linked to tax avoidance, and many MNCs strategically manipulate internal prices to lower their tax burdens. This issue is especially critical in developing countries, where tax revenues play a central role in supporting public expenditures.

Future research should focus on evaluating the real effectiveness of transfer pricing regulations, understanding how transfer pricing strategies influence broader economic outcomes, and developing policy frameworks that strike a balance between corporate flexibility and tax fairness. Continued academic attention is essential, particularly in low-income countries where the consequences of tax avoidance are most severe.

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