Transfer pricing in Indonesia: Do managers still utilize it as an effective strategy?

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ABSTRACT

This research aims to find out and analyze the effect of the bonus mechanism, tunneling incentive, and exchange rate on company decisions to perform transfer pricing practices in 35 manufacturing and mining sector companies listed on the Indonesia Stock Exchange for the 2018–2020 period. The population of this research is used in the manufacturing and mining sectors listed on the Indonesia Stock Exchange (IDX). This research is a type of quantitative research using secondary data in the form of the company’s annual report and financial statement. The Random Effect Model (REM) with panel data regression was used in this study using STATA version 16. Based on the test results and analysis, it can be concluded that the bonus mechanism has a significant positive effect on transfer pricing, the exchange rate has a significant negative effect on transfer pricing, and the tunneling incentive has no effect on transfer pricing.

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Introduction

Currently the topic of profit shifting in multinational companies is at the top of the issue at the international level (Mooij & Liu, 2018). Multinational companies are companies that do transactions with more than one country. The transaction involves parties who have a special relationship. Transactions carried out by multinational companies use transfer pricing activities. Multinational companies create a flow of transfer pricing activities which are marked by the transfer of capital, labor and so on with companies between countries (Darussalam et al., 2013, hlm. 3). The transfer is directly related to taxation. Transfer pricing activities carried out by multinational companies will be subject to double taxation because the taxes in each country are different, therefore multinational companies have obstacles in determining the appropriate transfer price because it involves more than one state tax. From this explanation, it can be concluded that transfer pricing is always related to taxes (OECD, 2017, hlm. 17–18).

In Indonesia, transfer pricing activities have been regulated in the Minister of Finance Regulation No. 22/PMK.03/2020 concerning procedures for implementing transfer pricing agreements. The regulation stipulates that the determination of prices in transfer pricing transactions is influenced by special relationships. Transfer pricing is a company policy in determining the price of a transaction for goods, services, intangible assets or other financial transactions. Transfer pricing activities are also supported by the Regulation of the Director General of Taxes Number 17/PJ/2020 which explains the procedures for the application, implementation and evaluation of transfer pricing which explains that the DGT together with the Taxpayer determine mutual agreement in determining the transfer price. Apart from the Ministerial Regulation, transfer pricing has also been regulated in Law Number 36 of 2008 concerning Income Tax, in article 18 paragraph 3 which explains that the Directorate General of Taxes has the authority to re-determine the amount of Taxable Income for Taxpayers who have a special relationship in accordance with with the fairness of business that is not influenced...
by special relationships. This is done by means of price comparisons. In the Regulation of the Director General of Taxes Number 32 of 2011 it is also explained that if the parties do not have a special relationship, it will be determined at a fair market price. Transfer pricing becomes an important issue in the international world when companies minimize tax payments by moving their capital and profits to more profitable countries (Rahman & Cheisiviyanny, 2020).

Quoted from Ekonomi.bisnis.com, it was stated that transfer pricing cases increased by 20% in 2019. Phenomena related to transfer pricing activities that are already familiar are found in manufacturing companies, namely PT. Toyota Motor Manufacturing Indonesia. PT. Toyota Motor Manufacturing Indonesia in 2014 conducted tax avoidance by means of transfer pricing. The DGT discovered the fraud when the company asked for a tax refund. The DGT found in 2004 that the gross profit at PT. Toyota Motor Manufacturing Indonesia decreased by 30%. In addition, there was a fraud in 2007 that the Japanese Toyota Motor Corporation company made a policy of PT. Toyota Motor Manufacturing Indonesia requires to make sales with a subsidiary in Singapore so that the company can continue sales to companies located in other countries. This is because the tax rate in Singapore is lower than the tax rate in Indonesia. This can be seen from the sales transactions of the company PT. Toyota Motor Manufacturing Indonesia with the Toyota company in Singapore is not fair. In addition, there is a phenomenon in the mining sector, namely the company PT. Adaro Energy, Tbk. In 2018, PT. Adaro Energy, Tbk conducts transfer pricing activities improperly with its subsidiary Coaltrade Services International in Singapore. PT. Adaro Energy, Tbk entered into a coal sales transaction with Coaltrade Services International at a price below the market price. Then, Coaltrade Services International resells the coal to other countries at market prices. PT. Adaro Energy, Tbk takes a loophole from transfer pricing activities in order to maximize revenue. According to. Ekonomi.bisnis.com explained that the mining sector company transferred profits to the offshore network.

The survival of a company is seen from the amount of profits obtained by the company so that the company gets good value from shareholders. This statement is also supported by research which states that the bonuses received by managers from company leaders are in accordance with the target and maximum profit (Ayu et al., 2017). With the right bonus, the indications for managers to carry out transfer pricing are higher because managers will tend to maximize their profits. Based on research Rezky & Fachrizal (2018) the effect of the bonus mechanism has an effect on transfer pricing. The results of this study are also supported by research conducted by Saifudin & Putri (2018) who argues that the bonus mechanism affects transfer pricing. On the other hand, in the results of research conducted by Ayshinta et al. (2019) inversely, the researcher states that the bonus mechanism has no effect on transfer pricing. This statement is also supported by research Rahman & Cheisiviyanny (2020) and research Ayu et al. (2017) which proves that the bonus mechanism has no effect on transfer pricing.

Factors other than the bonus mechanism that cause transfer pricing practices, namely tunneling incentives. Tunneling incentives are activities carried out by majority shareholders for personal interests through company policies in transferring assets, resources to company profits. (Wijaya & Amalia, 2020). The higher the influence of the majority shareholder, the higher the indication of the company in carrying out transfer pricing practices. This is supported by the results of the research Ayu et al. (2017) which proves that tunneling incentives have an effect on transfer pricing. This statement is also supported by research Yulianti & Rachmawati (2019) and Jafari & Mustikasari (2018). On the other hand, in the results of the study Wijaya & Amalia (2020) has an inversely proportional result, namely proving that tunneling incentives have no effect on transfer pricing. This statement is also supported by research conducted by Saifudin & Putri (2018).

With the increase in tariffs, the company also sells products abroad in order to get a bigger profit. Transfer pricing practices are also influenced by the exchange rate factor. In the interaction of multinational companies there is an exchange rate because the exchange rate of each country is different so that it will cause exchange problems and the company will carry out transfer pricing to overcome this (Akhadya & Arieftiara, 2018). Exchange rate is the ratio of one currency to another and can be changed at any time (Ayshinta et al., 2019). This statement is also supported by research conducted by Devi & Suryarini (2020) which states that the exchange rate has an influence on transfer pricing and this statement is also supported by research Ayshinta et al. (2019). On the other hand, in the results of research conducted by Akhadya & Arieftiara (2018) proves that the exchange rate has no effect on transfer pricing and this statement is also supported by the results of research conducted by Sejati & Trityanto (2021) and Rahman & Cheisiviyanny (2020).

Based on the phenomena that occur and there are still inconsistencies from the results of research that has been done by previous researchers. Therefore, researchers feel they still need to carry out further research to improve previous research. The reflection of this research is from the research that has been done by Ayshinta et al. (2019) The difference from previous studies, in this study, is the transfer pricing calculation that the researcher uses, namely the calculation of Related Party Transaction Assets and Liabilities (RPTAL). In addition, the current study uses additional sectors, namely the manufacturing sector and the mining sector. Then, this study uses a different research period, namely 2018-2020. Therefore, the researcher intends to conduct a research entitled bonus mechanism, tunneling incentive, and exchange rate: the impact of transfer pricing practices.

**Literature Review**

**Agency Theory**

In this study, agency theory is used as the foundation for conducting research. The shareholder (principal) has a role to mentor the agent's performance and provide bonding fees to the agent. Each principal also provides a limit to the agent in order to keep the agent
away from fraud which will certainly harm both the company itself and the shareholders. With this bond, the agent also provides compensation for the profits obtained.

This theory also provides a statement that the principal and agent have a determination for personal interests and common interests so that the agent tries to maximize performance and manage the company, then the principal maximizes the company's financial resources (Ayshinta et al., 2019). The conflict (agency problem) that occurs in the contract creates a fee that must be paid from the company (agent) which can be understood as agency cost. In this theory it is also explained that each agent and principal have their own interests so that the bonus mechanism which is a variable in this study is one way to combine the two interests. However, it does not cover the conflict that occurs in the relationship when the majority shareholder is more selfish. The behavior of the majority shareholder is related to the tunneling incentive research variable. One of the variables in this study also explains that the exchange rate has risks that will be obtained by both parties.

**Positive Accounting Theory**

This theory defines that every company has managers who make decisions to determine the accounting methods used in the company so as to get high profits according to the company's conditions and needs. Positive accounting has the characteristics that there is problem solving that is in accordance with the reality of the state of practice in accounting. The purpose of this theory is to describe and anticipate the use of accounting practices. Watts and Zimmerman (1978) state that directly between management and financial statements have a special relationship. This theory is always updated as an effort to explain accounting regulations so that the company can face the future with all conditions (Hery, 2017, hlm. 106–107). This theory states about accounting strategies and how they are applied in companies (Akhadya & Arieftiara, 2018). Based on the above explanation of positive accounting theory, it can be attributed to the variables in this study, namely the bonus mechanism. The relationship of theory with these variables is reflected in the hypothesis on positive accounting theory is bonus planning. The hypothesis explains that managers can make decisions to use accounting methods or techniques that will be used in increasing certain profits. Managers can withdraw or move profits with the next period or with other companies that have a special relationship so that in making such transactions related to the topic in this study, namely transfer pricing.

**Transfer Pricing**

Transfer pricing becomes the company's strategy in conducting transactions with parties who have a special relationship. The strategy carried out is to form a reasonable price. The philosophy in the practice of transfer pricing carried out by every multinational company is to transfer company profits to other countries that have lower tax rates (Darussalam et al., 2013, hlm. 3). Transfer pricing is used to send the use of goods and services between company departments. In addition, it is also used to provide records of the performance of each division and build sales determination in accordance with the company's goals (Sulistyowati & Kananto, 2019). In the United States, transfer pricing is regulated by the state of the company that is related to the company's operational activities so that with this transfer pricing it is expected that there will be no buildup of costs or buildup of ownership (King, 2008, hlm. 12). Transfer pricing has two different opinions. Transfer pricing can be said to be a company's strategy to transact with companies that have a special relationship. Another opinion, transfer pricing becomes a policy to save tax costs because in doing transfer pricing is done by multinational companies.

**Bonus Mechanism**

It cannot be a company standing alone without an employee and a foundation in carrying out the operation of the company. In achieving the company's targets or goals require human resources or employees. Bonuses become employee income in the form of gratitude for passing or exceeding the targets set by the company and shareholders. There is a bonus mechanism to bring up the habits of a manager to maximize profits so that they will get a bigger bonus. Therefore, the bonus mechanism becomes the cornerstone of the way managers in the form of rewards for managers who tend to be abused. Bonuses are also based on the kindness of shareholders will meet the goals desired by shareholders. This bonus award is the basis for manipulation by each manager because the bonus is a wage beyond the salary given by the shareholder.

**Tunneling Incentive**

As an investor, the company has authority over the company that must follow the rules that apply to the country. Tunneling is described as an activity carried out by the majority shareholder in transferring both property and profits for personal interests so that it can harm minority shareholders (Johnson et al., 2000). Tunneling can be implemented with a policy made by the majority shareholder for the company to make sales transactions to parties who have a special relationship below the agreed price of both assets or securities owned by the company and do not inject funds to the company. In addition, the majority of shareholders can choose people, especially families to get important positions in the company. Transfer of assets to companies or parties that have a special relationship with unnatural prices so that the profits obtained by shareholders, especially the majority of ownership, are the maximum.

**Exchange Rate**

Financial Accounting Standards Board (FASB) defining exchange rate is the ratio of one currency to another currency that can be transferred at any time (Ayshinta et al., 2019). Distinguishing the use of both functional and reporting currencies there are several
ways, namely by looking at the subsidiaries that if the company stands alone (independent), then use the subsidiary's currency into a functional currency. If it is the other way around, then the parent company's currency becomes the functional currency (Pangestuti, 2020, hlm. 190). It can be concluded that the exchange rate is determined by one currency with another (Abbas & Eksandy, 2020). The nominal exchange rate is defined by the price of foreign currency contained in domestic currency or vice versa. While the real exchange rate is defined as the face value that has been adjusted to the price at home and abroad (Simorangkir & Suseno, 2004, hlm. 4–5). Both exchange rates in the event of a change will change both the company's position in competition and change the comparison of domestic and foreign prices (Ayshinta et al., 2019). Companies affected by the risk of such changes in value lead to transfer pricing practices. In accordance with agency theory, shareholders and the company will strive to get maximum profits.

**Profitability**

Profitability becomes an illustration of how the company can use the property so as to benefit from the treasure (Dewi & Suardika, 2020). The profit is seen from how much sales are generated, the assets that increased in the period and the results of shares that can be distributed to shareholders. In increasing the value of the company can be reflected from the profit obtained to the maximum by the company and shareholders will provide value that the company's performance is good so that shareholders and companies will do everything possible to get the full profit. With the greater the profit owned by the company, the greater the tax that will be generated. Taxes become a burden for companies so that in minimizing these taxes, the company makes transfer pricing.

**Leverage**

(Kasmir, 2016) the calculation of leverage reflects the company's ability to pay off debts both long term and short term. Companies that have higher capital then low leverage results and vice versa. A low level of leverage will increase the profitability ratio, but the company has a greater responsibility to pay for it and get the risk of bankruptcy if it cannot pay (Wardani & Kurnia, 2018). With interest obligations that have the nature of reducing taxes, then quite a lot of multinational companies that practice transfer pricing with parties who have a special relationship.

**Research Model**

The current research topic is discussing transfer pricing. There are several factors that affect transfer pricing practices, namely the bonus mechanism. The bonus mechanism is the incentive obtained by the company from shareholders for performance that has met the target. There is a bonus mechanism to bring up the habits of a manager to maximize profits so that they will get a bigger bonus. In addition to the bonus mechanism, another factor is tunneling incentive. Tunneling incentive is the majority shareholder who transfers both assets and profits to the parent company or parties that have a special relationship so that it can harm minority shareholders. The next factor is the exchange rate (the value of currencies that can be exchanged). The value can change so that companies that use the regulation become exposed to risk on the exchange rate.

Transfer pricing is a dependent variable of this study. While the bonus mechanism, tunneling incentive, and exchange rate as independent variables of this study. The difference from other studies in this study using control variables, namely profitability and leverage. The chart of this study can be as follows:

![Figure 1: Research Model Information: Dotted Lines Are Control Variables](image)
Hypothesis

Bonus Mechanism on Transfer Pricing

Based on positive accounting theory, managers will decide to use certain accounting methods or techniques in achieving the company's goals, which are to increase company profits over a certain period. Managers will withdraw or move profits using transfer pricing practice activities. Previous research has suggested that bonus mechanisms have a positive influence on transfer pricing practices. This statement is contained in the research (Rezky & Fachrizal, 2018) which states the bonus becomes the determinant of managers to carry out transfer pricing practices. Based on the description, the theory has been explained and supported by the results of previous research so that hypotheses can be formulated into:

\[ H_1 : \text{Bonus Mechanism has a positive effect on Transfer Pricing practices} \]

Tunneling Incentive on Transfer Pricing

In accordance with agency theory, shareholders and companies have a contractual relationship to achieve common goals. Activities carried out by the majority shareholder can provide a policy for the company to conduct transactions with parties who have a special relationship. In addition, you can choose a person or family to get an important position contained in the company. From this explanation, transfer pricing activities are used by shareholders to get maximum profits by transferring property and profits to other companies they control. Shareholders put pressure on the company to transfer pricing at a low price so that revenue from the company becomes low. Therefore, the greater the influence of shareholders, the more likely it is that shareholders will practice transfer pricing. Therefore, the majority of shareholders are indicated to be greater in carrying out transfer pricing activities. This statement is also supported by the results of research conducted by Meliyana & Saodah, 2020 Tunneling incentives encourage the company's decision to carry out transfer pricing practices. Based on the description, the theory has been explained and supported by the results of previous research so that hypotheses can be formulated into:

\[ H_2 : \text{Tunneling Incentive has a positive effect on Transfer Pricing practices} \]

Exchange Rate on Transfer Pricing

In accordance with agency theory, shareholders (principal) and companies (agents) will try to get maximum profits and will avoid risks that will harm both parties. Companies affected by the risk of such changes in value lead to transfer pricing practices. Transfer pricing becomes the company's protector of exchange rate risk. Currently, companies will sell more products abroad using transfer pricing so that the profits obtained by the company are even greater. Therefore, with the strengthening of a foreign exchange rate, the stronger the company will be in making transfer pricing (Ayshinta et al., 2019). Previous research suggesting that exchange rates have an influence on transfer pricing practices is found in research Ayshinta et al., 2019 and Dewi & Suardika, 2020 which states that the company will face risks from the exchange rate so that the company uses transfer pricing to move funds to companies that have a strong currency value. Based on the description, the theory has been explained and supported by the results of previous research so that hypotheses can be formulated into:

\[ H_3 : \text{Exchange Rate has a positive effect on Transfer Pricing practices} \]

Research Methodology

Types of Research

This study uses quantitative methods. It can be said to be a quantitative method because this study uses data in the form of numbering (Sugiyono, 2019, hlm. 16). With these quantitative methods, data analysis uses statistics (Sugiyono, 2019, hlm. 206). In processing hypothesis tests so as to produce data analysis, researchers were assisted by computer programs namely STATA version 16 and Microsoft Excel 2019.

Population and Sample

The population of this study is the manufacturing and mining sector listed on the Indonesia Stock Exchange (IDX) with a period of 2018-2020. The sample becomes a sorting of the population in the study. In sorting the population, there are groups of sample techniques and groups used by researchers, namely non probability sampling. Non probability sampling is a technique that provides limits in selecting samples so that other samples that are not selected cannot affect the selected sample. In non probability sampling researchers use purposive sampling techniques, it is caused by the technique in determining samples using certain criteria (Sugiyono, 2019, hlm. 128–133).

Data Types and Sources

This research is quantitative research so that the data used is secondary data. The secondary data used in this study is the financial statements and annual reports of companies in all manufacturing and mining sectors that have been recorded on the Indonesia Stock Exchange from 2018-2020. This research data source can be obtained on the official IDX website (www.idx.co.id) and the official websites of agencies related to this research.
Research Variable Measurement

The dependent variable in this study is transfer pricing. In its measurement, transfer pricing uses related party transaction of assets and liabilities (RPTAL). RPT itself clarifies the group of property, obligations, sales and expenses in financial statements with parties who have a special relationship. This RPTAL measurement uses the sum between the company's assets and the amount of the company's debt and is divided by the total of equity. (Utama, 2015).

The independent variables in the study were the bonus mechanism, Tunneling Incentive, and exchange rate:

Bonus Mechanism
This measurement refers to research Herawaty & Anne, 2019. Based on this explanation, the calculation of the index can be formulated to be:

\[
\text{Indeks Trend Laba Bersih} = \frac{\text{Laba Bersih Tahun } t}{\text{Laba Bersih } t - 1}
\]

Tunneling Incentive
This calculation refers to research Rahayu et al., 2020. If the calculation is formulated to be:

\[
\text{Tunneling Incentive} = \frac{\text{Jumlah Kepemilikan Saham Terbesar}}{\text{Jumlah Saham Beredar}}
\]

Exchange Rate
This calculation refers to the calculation of the research studied by Rosad et al., 2020. When the calculation is formulated it will be:

\[
\text{Exchange Rate} = \frac{\text{Laba/Rugi Selisih Kurs}}{\text{Laba Rugi Sebelum Pajak}}
\]

The regression models in this study are:

\[
RPT_{it} = \alpha + \beta_1 MB_{it} + \beta_2 TI_{it} + \beta_3 ER_{it} + \beta_4 PROF_{it} + \beta_5 LEV_{it} + e_{it}
\]

Information:
- \( RPT_{it} \): Related Party Transaction (Transfer Pricing Calculation)
- \( \alpha \): Constant
- \( MB_{it} \): Bonus Mechanism
- \( TI_{it} \): Tunneling Incentive
- \( ER_{it} \): Exchange Rate
- \( PROF_{it} \): Profitability
- \( LEV_{it} \): Leverage
- \( e_{it} \): Error
- \( i \): Company
- \( t \): Year

Results and Discussions

Descriptive Research Objects

The data source used in this study was obtained through the official website of the Indonesia Stock Exchange (IDX) as well as the official website of the relevant company. This research population has been listed on the Indonesia Stock Exchange (IDX) with a period of 2018 to 2020 consisting of companies with a manufacturing sector of 167 companies and the mining sector as many as 45 companies. In sampling research is determined using non probability sampling techniques with purposive sampling method. Here are the details of the criteria in the selection of research samples:
Table 1: Number of Research Samples

<table>
<thead>
<tr>
<th>Information</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing Sector and Mining Sector Companies Listed on IDX with period 2018-2020</td>
<td>212</td>
</tr>
<tr>
<td>Criteria</td>
<td></td>
</tr>
<tr>
<td>Companies that do not consistently publish financial statements on the IDX and the company’s official website with the period 2018-2020</td>
<td>(4)</td>
</tr>
<tr>
<td>Companies that suffered losses during the period 2018-2020</td>
<td>(97)</td>
</tr>
<tr>
<td>Companies that have a shareholding below equal to 20%</td>
<td>(9)</td>
</tr>
<tr>
<td>Companies that have no affiliation</td>
<td>(0)</td>
</tr>
<tr>
<td>Companies that do not have research calculation data</td>
<td>(32)</td>
</tr>
<tr>
<td>Number of Research Samples</td>
<td>70</td>
</tr>
<tr>
<td>Samples Affected by Outlier</td>
<td>(35)</td>
</tr>
<tr>
<td>Number of Samples After Outlier</td>
<td>35</td>
</tr>
<tr>
<td>Research Period</td>
<td>3</td>
</tr>
<tr>
<td>Total Samples During the Observation</td>
<td>105</td>
</tr>
</tbody>
</table>

Descriptive Statistics

Table 2: Descriptive Statistical Data

<table>
<thead>
<tr>
<th>Variable</th>
<th>Obs</th>
<th>Mean</th>
<th>Std. Dev.</th>
<th>Min</th>
<th>Max</th>
</tr>
</thead>
<tbody>
<tr>
<td>RPT</td>
<td>105</td>
<td>0.0989165</td>
<td>0.1167901</td>
<td>0.0002357</td>
<td>0.5716917</td>
</tr>
<tr>
<td>MB</td>
<td>105</td>
<td>1.076654</td>
<td>0.4239817</td>
<td>0.1698335</td>
<td>2.99625</td>
</tr>
<tr>
<td>TI</td>
<td>105</td>
<td>0.5546563</td>
<td>0.2045163</td>
<td>0.2032102</td>
<td>0.9320449</td>
</tr>
<tr>
<td>ER</td>
<td>105</td>
<td>-0.0029247</td>
<td>0.0384762</td>
<td>-0.2254541</td>
<td>0.1369123</td>
</tr>
<tr>
<td>PROF</td>
<td>105</td>
<td>0.070608</td>
<td>0.0431203</td>
<td>0.0020272</td>
<td>0.1822644</td>
</tr>
<tr>
<td>LEV</td>
<td>105</td>
<td>0.4266639</td>
<td>0.1730106</td>
<td>0.0880397</td>
<td>0.7130524</td>
</tr>
</tbody>
</table>

Note: RPT = Transfer Pricing; MB = Bonus Mechanism; TI = Tunneling Incentive; ER = Exchange Rate; PROF = Profitability; LEV = Leverage. Source: STATA V.16 output processed by researchers (2021)

In Table 2, the average value reflects that the average manufacturing and mining sector companies transfer pricing with related parties amounting to 9.98% of their total equity. The standard deviation value of transfer pricing is 0.1167901 which indicates smaller than the average value, the transfer pricing value has a low distribution and fluctuations. The minimum value of variable transfer pricing in the manufacturing company sector and the mining company sector is 0.0002357. This value is found in PT. Gudang Garam, Tbk period 2020. The maximum value on this transfer pricing variable is 0.5716917. The maximum value is found in Kabelindo Murni company, Tbk in the period 2018.

The average value of the bonus mechanism is 1.076654 or 107.67% which reflects that the average research in obtaining bonuses based on the amount of the company’s overall profit of 107.67%. The standard deviation rate of 0.4239817 reflects a mean value greater than the standard deviation value so that it can be stated that this variable has a high distribution and fluctuations. Minimum value of 0.1698335 owned by Kabelindo Murni company, Tbk in 2020. Maximum value of 2.99625 located at Harum Energy company, Tbk in 2020.

The average of tunneling incentives amounted to 0.5546563 or 55.46% which can be concluded that the average research sample controlled by the majority shareholder amounted to 55.46% of the total outstanding shares. The standard deviation of 0.2045163 reflects a greater mean value compared to the standard deviation value so that tunneling incentives in the manufacturing company sector and the mining company sector have a high distribution and fluctuations. Garudafood Putra Putri Jaya, Tbk in 2019 has a minimum value on this variable. It can be concluded that the company has the lowest shareholding, which is 20.321%. J Resources Asia Pacific, Tbk has a maximum value of 0.9320449.

The exchange rate has a mean value of -0.0029247 or -0.29% which reflects that the average company in the study experienced a loss at the exchange rate difference. The standard deviation rate of 0.0384762 can be concluded that the standard deviation value of the variable is greater than the mean value. Therefore, the exchange rate has a low distribution and fluctuations. Barito Pacific company, Tbk in 2018 has a minimum value of -0.2254541. Harum Energy company, Tbk in 2020 has a maximum value of 0.1369123.

The mean profitability obtained in this study amounted to 0.070608 or 7.06% which reflects that the average company in the study sample has a profitability rate of 7.06% which can be said to be a high ability to use the company's assets effectively and efficiently. The standard deviation value is 0.0431203 so that from both values it can be concluded that this variable has a high spread and high
fluctuations because the mean value is greater than the standard deviation value. J Resources Asia Pacific Company, Tbk in 2020 has a minimum value of 0.0020272. The maximum amount obtained by Siantar Top company, Tbk in 2020 amounted to 0.1822644. The mean value of 0.4266639 or 42.67% reflects that the average company in the study sample had a leverage level of 42.67%. The standard deviation of 0.1730106 which reflects the mean value greater than the standard deviation value has a reflection that leverage has a high distribution and fluctuation of value. Harum Energy company, Tbk has a minimum value of 0.0880397 on this variable in 2020. In Astrindo Nusantara Infrastruktur company, Tbk in 2020 has a maximum value of 0.7130524.

Model Specification Test

Chow Test

Table 3: Chow Test Statistics Results

<table>
<thead>
<tr>
<th>Probability</th>
<th>0.0000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sig.</td>
<td>0.05</td>
</tr>
</tbody>
</table>

Source: STATA output V.16 data processed by researchers (2021)

Based on Table 3 above, it can be interpreted that the probability value has a smaller value than the significant value, which is 0.0000. Therefore, it was H₀ rejected so that the appropriate model in this study was a fixed effect model.

Lagrange Multiplier Test

Table 4: Lagrange Multiplier Test Statistical Results

<table>
<thead>
<tr>
<th>Probability</th>
<th>0.0000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sig.</td>
<td>0.05</td>
</tr>
</tbody>
</table>

Source: STATA output V.16 Data Processed by Researchers (2021)

Based on Table 4 above, it can be interpreted that the probability value has a value smaller than the significant value, which is 0.0000. Therefore, it was H₀ rejected so that the appropriate model in this study was a random effect model.

Hausman Test

Table 5: Hausman Test Statistical Results

<table>
<thead>
<tr>
<th>Probability</th>
<th>0.2522</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sig.</td>
<td>0.05</td>
</tr>
</tbody>
</table>

Source: STATA output V.16 Data Processed by Researchers (2021)

Based on Table 5 above, it can be interpreted that the probability value has a value greater than the significant value, which is 0.2522. Therefore, it was H₁ rejected so that the appropriate model in this study was a random effect model.

Classic Assumption Test

Normality Test

Table 6: Normality Test Results

<table>
<thead>
<tr>
<th>Variabel</th>
<th>Skewness</th>
<th>Kurtosis</th>
</tr>
</thead>
<tbody>
<tr>
<td>RPT</td>
<td>1.864422</td>
<td>7.038757</td>
</tr>
<tr>
<td>MB</td>
<td>0.937519</td>
<td>6.180052</td>
</tr>
<tr>
<td>TI</td>
<td>0.0663378</td>
<td>1.910517</td>
</tr>
<tr>
<td>ER_w</td>
<td>0.8561919</td>
<td>6.149263</td>
</tr>
<tr>
<td>PROF</td>
<td>0.6510964</td>
<td>2.633379</td>
</tr>
<tr>
<td>LEV</td>
<td>-0.233988</td>
<td>1.998364</td>
</tr>
</tbody>
</table>

Source: STATA V.16 Output Processed by Researchers (2021)

Based on Table 6 above, it produces normal distributed data after a 1% winsorize (cuts 1 99). The winsorize causes the data to become normally distributed by looking at skewness values that are less than 3 and kurtosis values that are less than 10.
Multiclonality Test

**Table 7: Multiclonality Test Results**

<table>
<thead>
<tr>
<th>Variable</th>
<th>VIF</th>
<th>Tolerance</th>
</tr>
</thead>
<tbody>
<tr>
<td>MB</td>
<td>9.13</td>
<td>0.109519</td>
</tr>
<tr>
<td>TI</td>
<td>9.14</td>
<td>0.109428</td>
</tr>
<tr>
<td>ER</td>
<td>1.08</td>
<td>0.929600</td>
</tr>
<tr>
<td>PROF</td>
<td>5.30</td>
<td>0.188694</td>
</tr>
<tr>
<td>LEV</td>
<td>9.07</td>
<td>0.110313</td>
</tr>
<tr>
<td>Mean VIF</td>
<td>10.87</td>
<td></td>
</tr>
</tbody>
</table>

*Source: STATA V.16 Output Processed by Researchers (2021)*

Based on Table 7 above, the results of the multiclonality test stated that the regression model has been free from multiclonality because the VIF value is less than 10 and the value of 1 /VIF is more than 0.10.

Autocorrelation Test

**Table 8: Wooldridge Test Results**

<table>
<thead>
<tr>
<th>Probability Standardized</th>
<th>0.0000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sig.</td>
<td>0.05</td>
</tr>
</tbody>
</table>

*Source: STATA V.16 Output Processed by Researchers (2021)*

Based on Table 8, conclusions can be drawn from the resulting probability value. These values indicate that linear regression models have been freed from autocorrelation.

Heteroscedasticity Test

**Table 9: Breusch Pagan Godfrey Test**

<table>
<thead>
<tr>
<th>Chi2(1)</th>
<th>16.39</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prob &gt; Chi2</td>
<td>0.0001</td>
</tr>
</tbody>
</table>

*Source: STATA V.16 Output Processed by Researchers (2021)*

Based on Table 9 which shows the results of the Breusch Pagan Godfrey test, it can be stated that regression models are still exposed to heteroskedasticity so as to overcome it using the General Least Square (GLS) test. Here are the results of the General Least Square test:

**Table 10: General Least Square Test Results**

<table>
<thead>
<tr>
<th>Coefficient</th>
<th>Generalized Least Squares</th>
</tr>
</thead>
<tbody>
<tr>
<td>Panels</td>
<td>Homoscedastic</td>
</tr>
<tr>
<td>Correlation</td>
<td>No Autocorrelation</td>
</tr>
</tbody>
</table>

*Source: STATA V.16 Output Processed by Researchers (2021)*

Based on Table 10, the test can overcome heteroscedasticity so that it can be concluded that the regression model has been free from heteroskedasticity.

Hypothesis Test

Determination Coefficient Test

**Table 11: Adjusted R Square Test Square**

| Overall | 0.1113 |

*Source: STATA V.16 Output Processed by Researchers (2021)*

Based on Table 11 above, it can be concluded that the results of the determination coefficient test are 0.1113. Therefore, the value shows that the influence of the bonus mechanism, tunneling incentive, exchange rate, profitability and leverage on manufacturing sector companies and mining sector companies listed on the Indonesia Stock Exchange is 11.13%.

Model Significance Test

**Table 12: Model Significance Test Result (Statistical Test F)**

<table>
<thead>
<tr>
<th>Prob &gt; chi2</th>
<th>0.0376</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sig</td>
<td>0.05</td>
</tr>
</tbody>
</table>

*Source: STATA V.16 Output Processed by Researchers (2021)*
Judging from Table 12 which presents the results of the $f$ statistical test, it can be concluded that the mechanism of bonuses, tunneling incentives, exchange rates, profitability and leverage simultaneously have an influence on transfer pricing. This is due to a probability value smaller than 0.05.

**Partial Regression Test**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Regression Model</th>
<th>Random Effect Model</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Coefficient</td>
<td>t</td>
</tr>
<tr>
<td>_cons</td>
<td>-0.0067842</td>
<td>-0.15</td>
</tr>
<tr>
<td>MB</td>
<td>0.0228128</td>
<td>1.73</td>
</tr>
<tr>
<td>TI</td>
<td>-0.1239968</td>
<td>-1.64</td>
</tr>
<tr>
<td>ER</td>
<td>-0.2239591</td>
<td>-2.44</td>
</tr>
<tr>
<td>PROF</td>
<td>0.358384</td>
<td>2.01</td>
</tr>
<tr>
<td>LEV</td>
<td>0.2911803</td>
<td>3.07</td>
</tr>
</tbody>
</table>

Note: *<0.10; MB = Bonus Mechanism; TI = Tunneling Incentive; ER = Exchange Rate; PROF = Profitability; LEV = Leverage. **Source:** STATA V.16 Output Processed by Researchers (2021)

Based on Table 13, the constant value of -0.0067842 reflects the transfer pricing variable will decrease by 0.0067842. Assess the significance of the bonus mechanism variable of 0.083 which means the significance value is smaller than 0.10. Therefore, it can be concluded that the variable bonus mechanism has an influence on transfer pricing practices. The coefficient value of the bonus mechanism variable is 0.0228128 with a positive sign, then the bonus mechanism variable has a positive influence on the variable bound by this study, then the first hypothesis is accepted. The magnitude of the tunneling incentive of -1.64 and the significance value of 0.101 is greater than 0.10 so it can be concluded that the tunneling incentive free variable has no influence on transfer pricing practices. The coefficient value on the tunneling incentive variable is 0.1239968 with a negative sign. It can be concluded that tunneling incentives have no influence on transfer pricing practices, so the second hypothesis is rejected. The exchange rate has a value of -2.44 and the significance value of the exchange rate of 0.015 which has a value smaller than 0.05 which can be concluded that the exchange rate has an influence on transfer pricing practices. The coefficient value on the exchange rate variable is 0.2239591 and has a negative sign. It can be concluded that the exchange rate has a negative coefficient on transfer pricing, then the third hypothesis is rejected.

**Spearman Correlation Test**

<table>
<thead>
<tr>
<th>Spearman’s rho</th>
<th>MB</th>
<th>TI</th>
<th>ER</th>
<th>PROF</th>
<th>LEV</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spearman’s rho</td>
<td>0.0217</td>
<td>-0.2049</td>
<td>-0.0493</td>
<td>-0.0573</td>
<td>0.3111</td>
</tr>
<tr>
<td>Prob &gt;</td>
<td>t</td>
<td></td>
<td>0.8263</td>
<td>0.0360</td>
<td>0.6174</td>
</tr>
</tbody>
</table>

**Source:** STATA output V.16 data processed by researchers (2021)

Based on Table 14, Spearman’s rho results from the bonus mechanism obtained 0.0217 which is smaller than 0.05, it can be concluded that the bonus mechanism has a correlation with transfer pricing. The probability possessed by the bonus mechanism is also 0.8263 which means that the bonus mechanism has a very strong relationship with the intention of managers doing transfer pricing practices. Hasil spearman's rho of -0.2049 which is smaller than 0.05 so it can be concluded that tunneling incentive has a correlation with transfer pricing. The value of the probability of tunneling incentive is 0.0360 which means that the relationship between tunneling incentive and transfer pricing is very weak. The result of spearman's rho is -0.0493 which has a value smaller than 0.05 so that the variable exchange rate has a correlation with transfer pricing. The strength of the relationship between exchange rate and transfer pricing can be said to be strong because it has a probability value of 0.6174. Spearman's rho result is -0.0573 so this profitability has a correlation with transfer pricing because it has a value smaller than 0.05. Then, the strength of the relationship between profitability and transfer pricing can be said to be strong because the probability value of 0.5612. spearman's rho result of 0.3111 is greater than 0.05 so it can be concluded that leverage has no correlation with transfer pricing. The strength of the leverage relationship with transfer pricing has a small value so that the strength is quite weak.

**Discussion**

**Bonus Mechanism on Transfer Pricing Practices**

This research resulted in a bonus mechanism that positively affected transfer pricing practices in the manufacturing company sector and the mining sector with the period 2018-2020 listed on the Indonesia Stock Exchange. The bonus mechanism becomes a mechanism that must be run to ensure the interests of shareholders guided by managers by providing bonuses that are calculated.
based on profit. The bonus becomes a reward after the company can achieve or exceed the predetermined targets (Prananda & Triyanto, 2020). The bonus itself is always associated with the company's profit which if the company's profits are high then the bonus obtained is high (Khasanah & Suryarini, 2020). Therefore, based on the phenomenon in this study, quite a lot of companies are doing transfer pricing practices to increase company profits so that the bonuses that will be obtained are high. This explanation is in line with research conducted by Rezky & Fachrizal (2018), Saifudin & Putri (2018), and Rachmat, (2019). From the research stated that the bonus mechanism has an influence on transfer pricing practices. This reflects this variable to determine the company in deciding to practice transfer pricing because the company will further increase the company's profit by doing transfer pricing practices. Bonuses are seen from how the company manages so that it gets high profits (Rezky & Fachrizal, 2018). Transfer pricing is an activity between the company and parties that have a special relationship so that they can achieve common goals. By using the practice of transfer pricing as an increase in company profits into activities carried out to increase the value of the company. Quite a lot of important things that can provide positive value to the company, such as good company value in the public eye, presenting financial statements that are in accordance with standards as well as reliable and reliable financial statements (Ayshinta et al., 2019). By using transfer pricing activities to get high bonuses, it becomes its own motivation for the company so that it can improve the company's performance. Directors and management increase the company's profits every year so as to get the bonuses that will be received. Transfer pricing is used to increase the company's profits as expected (Rachmat, 2019).

**Tunneling Incentive on Transfer Pricing Practices**

This research resulted in a Tunneling Incentive that has no effect on transfer pricing practices in the manufacturing company sector and the mining sector with the period 2018-2020 listed on the Indonesia Stock Exchange. Tunneling incentive becomes an event that arises due to a mismatch of interests between shareholders so that this tunneling incentive becomes a policy determined by the majority shareholder in transferring either profits or property owned by the company to parties who have a special relationship for the benefit of the majority shareholder (Rifqiyyati et al., 2021). Both of the small tunneling incentives do not affect in the company decides to do transfer pricing practices. The results reflect that the majority shareholder does not have control over the company in carrying out transfer pricing practices (Ayshinta et al., 2019). This is because, to carry out transfer pricing practices, discussion of the company's operations or investments is required and produces a mutual agreement between shareholders (Wijaya & Amalia, 2020). The company performs transfer pricing to balance the company's profits (Saifudin & Putri, 2018). According to Koestman & Diyanty (2013) Explained that when the majority shareholder exercises maximum control, it will have an impact on the payment of cash dividends that are getting smaller and will cause conflicts between shareholders. From these conflicts directly impact investment and activities within the company.

**Exchange Rate on Transfer Pricing Practices**

This study resulted in variable exchange rates having a negative influence on transfer pricing practices in companies with the manufacturing sector and mining sector listed on the IDX in 2018-2020. This is supported by agency theory which explains that shareholders and companies will avoid the risks posed by profits or losses from foreign currency transactions in order to get maximum profits. In multinational companies have transactions that use foreign currency so that when a change occurs it will have a direct impact on the company. Currently, many companies do transactions with parties who have special relationships abroad so that the company gets greater profits. The higher the exchange rate, the lower the company performs transfer pricing practices. However, the lower the exchange rate, the company will tend to practice transfer pricing. This is in line with the research conducted by Abbas & Eksandy (2020), Tjandrakirana & Ermadiani (2020), and Darma (2020). According to Darma (2020) with the results of research that is not unidirectional or negative concluded that companies do transfer pricing not to move funds to a stronger currency, but to maximize profits. Supported by an explanation of Rosad et al. (2020) Exchange rates are related to transfer pricing practices, but not only due to currency differences. Exchange rates have several aspects that affect the value of the exchange rate difference, namely politics, inflation, natural disasters, and so on.

**Conclusions**

Judging from the explanation of the results of the data that has been done, it can be concluded from this study that the first hypothesis shows that the bonus mechanism has a positive influence on accepted transfer pricing practices. Based on the data that has been processed, the probability value of the bonus mechanism of 0.083 is greater than 0.10. Therefore, the result of this study is that the bonus mechanism has a positive influence on transfer pricing practices. The second hypothesis in this study, namely tunneling incentive has a positive influence on transfer pricing practices. However, this hypothesis was rejected. Based on research data, the probability value of the tunneling incentive is 0.101 which is greater than 0.10. Therefore, from these results this study resulted that tunneling incentives have no influence on transfer pricing practices. Then, the third hypothesis of this study is that exchange rates have a positive influence on transfer pricing practices. The probability value of the exchange rate is 0.015 which is smaller than 0.05. However, the coefficient value on the exchange rate is -0.2239591 which indicates it has a negative influence. Therefore, the third hypothesis of this study was rejected because the results of this study showed that exchange rates have a negative influence on transfer pricing practices.

Based on the discussion and conclusions that have been described, researchers have some suggestions that can be used as input for readers of this study. Here's what advice researchers can give:
i. For further researchers, it is expected to add the research population and years of observation so that the results obtained are more accurate and use other free variables, such as multinationality, debt covenant, tax minimization and so on.

ii. For stakeholders of the company is expected to make policies for the implementation of transfer pricing activities so that the company does not make deviations in transfer pricing practices.

iii. For manufacturing and mining sector companies are expected to be more strict in the implementation of transfer pricing practices and look more at transactions using foreign currencies.

iv. Proxies used in transfer pricing can use other proxies, such as Related Party Transaction Sales and Expenses or mix methods, namely using primary data and secondary data.

Researchers have conducted research in accordance with applicable research procedures, but did not close researchers facing limitations in carrying out this study. Here are the limitations faced by researchers:

i. Limited in research samples due to quite a number of companies that suffered losses, did not publish financial statements or annual reports and not many companies listed the advantages / losses of exchange rate differences in financial statements or annual reports in 2018-2020 so as to have a direct impact on this research sample.

ii. The result of the determination coefficient test value of 11.13% indicates that the bound variable of this study, namely transfer pricing is still influenced by other free variables outside of this study.

iii. Transfer pricing research data is limited in its measurements.

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Author Contributions: Conceptualization, Methodology, Data Collection, Formal Analysis, Writing—Original Draft Preparation, Writing—Review And Editing by authors with equal participation. All authors have read and agreed to the published the final version of the manuscript.

Institutional Review Board Statement: Ethical review and approval were waived for this study, due to that the research does not deal with vulnerable groups or sensitive issues.

Data Availability Statement: The data presented in this study are available on request from the corresponding author. The data are not publicly available due to privacy.

Conflicts of Interest: The authors declare no conflict of interest.

References


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