Strategic Determinants of Transfer Pricing in Indonesian Non-Financial Firms

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ABSTRACT

This study examines the effects of intangible assets, tax minimization, capital intensity, and corporate governance on transfer pricing among non-financial companies in Indonesia. The data were analyzed in EViews 12 using a fixed-effects panel model. The final sample comprises 4,220 firm-year observations from 844 non-financial companies over the study period. The results show that intangible assets and capital intensity are positively and significantly associated with transfer pricing. In contrast, corporate governance is negatively and significantly associated with transfer pricing. Tax minimization, while positive, is not statistically significant. Overall, the findings suggest that firms' asset structures and the effectiveness of corporate governance play a more influential role than tax-related motives in shaping transfer pricing practices in Indonesian non-financial companies.

Keywords: Transfer Pricing; Intangible Assets; Tax Minimization; Capital Intensity; Corporate Governance

Strategis Faktor-faktor Penentu Penetapan Harga Transfer pada Perusahaan Non-Keuangan di Indonesia

ABSTRAK

Studi ini bertujuan untuk menganalisis pengaruh aset tak berwujud, minimalisasi pajak , intensitas modal, dan tata kelola perusahaan terhadap penetapan harga transfer di perusahaan non-keuangan di Indonesia. Data penelitian dianalisis menggunakan perangkat lunak EViews 12 dengan pendekatan model efek tetap. Sampel penelitian terdiri dari 4.220 observasi yang berasal dari 844 perusahaan non-keuangan selama periode penelitian. Temuan penelitian mengindikasikan bahwa aset tidak berwujud serta intensitas modal memiliki pengaruh positif dan signifikan terhadap penentuan harga transfer. Sebaliknya tata kelola perusahaan berpengaruh berbeda dan menunjukkan pengaruh negatif dan signifikan. Sementara itu, minimisasi pajak memiliki pengaruh positif namun tidak signifikan terhadap penetapan harga transfer. Temuan ini menegaskan bahwa struktur aset perusahaan dan efektivitas tata kelola korporasi memiliki peran yang lebih dominan dibandingkan motivasi pajak dalam memengaruhi praktik penetapan harga transfer pada perusahaan non-keuangan di Indonesia.

Kata Kunci *Penetapan Harga Transfer; Aset Tak Berwujud; Minimalisasi Pajak; Intensitas Modal; Tata Kelola Perusahaan*

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INTRODUCTION

The development of global trade through various international organisations has encouraged individual firms to grow and transform into multinational companies capable of serving global market segments. International trade is one of the primary drivers of Indonesia's economic expansion, including import and export activities undertaken by numerous multinational corporations (Hidayah et al., 2025). As cross-border activities increase, public scrutiny and regulatory oversight have also intensified, particularly with respect to internal policies that may influence how profits are distributed across jurisdictions. One practice that has attracted substantial attention is transfer pricing, a managerial approach often used to enhance overall profitability and manage global tax exposure (Apriyanti et al., 2023). Transfer pricing refers to the internal pricing mechanism used by multinational companies to determine the value of transactions between affiliated entities involving goods and services. This mechanism is commonly employed as part of a broader tax management strategy, enabling firms to improve reported performance by shifting income to jurisdictions with more favourable tax systems while remaining within applicable regulatory frameworks (Kalra & Afzal, 2023, Wangui, 2017, Sebele-Mpofu et al., 2021).

Companies are required to apply transfer pricing policies in accordance with the arm's length principle to promote fair income allocation and to ensure that related-party transactions reflect conditions comparable to those observed between independent parties. These policies are grounded in principles of fairness and sound business ethics (Solikhah et al., 2021). Transfer pricing can represent a legitimate business practice when conducted independently and aligned with market conditions, but it may also be used as a tool for profit shifting when prices deviate from market values to benefit controlling shareholders or reduce tax liabilities (Yoon & Jin, 2021). However, illicit transfer pricing practices are frequently associated with efforts to reduce tax obligations by shifting taxable income from high-tax jurisdictions to countries classified as tax havens. Weak implementation and inadequate regulation of transfer pricing may result in tax avoidance, tax evasion, and illicit financial flows, leading to substantial economic losses. This remains a complex issue within international taxation (Maly & Dieterle, 2017).

Based on data from the Organization for Economic Co-operation and Development (OECD) (2021), 2,423 recent tax disputes across 127 jurisdictions were resolved through the Mutual Agreement Procedure (MAP). Of these, 1,051 cases, or approximately 43.38%, involved transfer pricing. The high proportion of transfer pricing cases indicates that this practice continues to present a major challenge for tax systems, reflecting the complexity of related-party transactions and the limited capacity of tax authorities to monitor intra-group pricing effectively (Lestari & Azwar, 2025). This issue has important implications for developing countries such as Indonesia, where transfer pricing can contribute to tax base erosion.

Prior research suggests that several firm-level characteristics, including corporate governance, capital intensity, tax minimisation, and intangible assets, influence transfer pricing. However, the empirical evidence remains mixed. Rizkya & Isnalita (2020) report that intangible assets have a strong positive

association with transfer pricing, whereas Role et al. (2020) find a significant negative relationship. Similarly, Anisa et al. (2024) provide evidence that tax minimisation affects transfer pricing, while Aulia Isnaini (2024) finds no effect. Santosa et al. (2022) document that corporate governance significantly influences transfer pricing, which contrasts with the findings of Ramayanti Ekasari (2020), who reports that corporate governance does not materially affect transfer pricing. These inconsistent results highlight the absence of robust empirical conclusions regarding the determinants of transfer pricing, particularly in the Indonesian context. Accordingly, further research using a broader sample and additional explanatory variables is needed to provide more reliable and generalisable evidence.

Existing studies on transfer pricing in Indonesia have tended to focus on specific industrial sectors, which limits the generalisability of their findings. Studies by Murtanto & Bonita (2021), Saraswati (2021), and Baroroh et al. (2021) examine transfer pricing practices only in mining companies, while Nurwati et al. (2021) focus on firms in the automotive and components industries. This sector-specific approach may not fully capture the heterogeneous characteristics and transfer pricing behaviour of Indonesian firms more broadly. This study addresses this limitation by expanding the scope of analysis to include all non-financial companies listed in Indonesia, thereby offering a more comprehensive and representative account of transfer pricing practices. In addition, capital intensity—widely examined in the tax avoidance literature—remains relatively underexplored in transfer pricing research. By incorporating capital intensity alongside other key determinants, this study seeks to reconcile inconsistencies in prior findings and to provide a more holistic explanation of the factors shaping transfer pricing decisions among Indonesian non-financial firms.

Agency theory explains the contractual relationship between business owners as principals and managers as agents, whereby principals delegate authority to agents to oversee operations and make strategic decisions on their behalf. This delegation can create divergent interests and information asymmetry between the parties, potentially giving rise to agency conflicts in corporate management (Jensen, M. C., & Meckling, 1976). Managers are expected to manage the firm to deliver the profits anticipated by shareholders as principals, and ownership structure can influence the severity of agency problems between shareholders and managers (Ang et al, 2000). Greater disclosure of intangible assets may enhance transparency for shareholders, yet intangible assets may also become associated with conflicts when firms shift profits to subsidiaries to maximise group-level outcomes. In addition, high capital intensity can intensify agency conflicts because substantial fixed-asset holdings require managerial judgement regarding cost allocation, depreciation, and asset utilisation in related-party transactions. This discretion may enable managers, as agents, to use corporate assets to set transfer prices that shift profits to particular entities, potentially disadvantaging non-controlling shareholders and weakening alignment with principals' interests. Therefore, effective corporate governance is required as a control mechanism to reduce information asymmetry and constrain opportunistic managerial behaviour.

Building on this agency perspective, managers may have incentives to exploit flexibility in accounting and operational policies to improve reported financial performance (Jensen, M. C., & Meckling, 1976). One important source of such flexibility arises from intangible assets, defined as non-physical assets controlled by firms for use in future economic activities (OECD, 2010). Intangible assets often lack established markets and involve substantial subjectivity in valuation, making them difficult to measure and assess reliably despite their potential future economic benefits, particularly when deployed across multiple jurisdictions (Rizkya & Isnalita, 2020; Sari et al., 2022). The increasing attention given by Indonesian tax authorities to the valuation of intangible assets across different stages of transfer pricing audits, including planning and implementation, underscores their relevance in transfer pricing activities (Firmansyah & Yunidar, 2020). Intangible assets may also be used to reallocate profits from jurisdictions with relatively high tax burdens to those offering more favourable tax conditions (Irawan & Ulinnuha, 2022). This discussion suggests that intangible assets influence transfer pricing, consistent with the findings of Firmansyah & Yunidar (2020) and Irawan & Ulinnuha (2022).

H_1: Intangible assets exert a positive influence on transfer pricing when assessed using the RPTAL measure.

Companies generally seek to improve the efficiency of operating costs to maximise profits, and corporate income tax payments are often viewed as costs that reduce net income. This perception encourages firms to adopt various legally permissible strategies to reduce their tax burden. This behaviour is consistent with agency theory, which characterises the relationship between company owners (principals) and managers (agents) as one marked by information asymmetry and divergent interests (Jensen, M. C., & Meckling, 1976). Under these conditions, managers may be incentivised to make decisions that improve reported financial performance in order to enhance compensation and reputation, even when such decisions generate agency costs borne by shareholders. One strategy commonly used in this context is tax minimisation, which seeks to reduce taxable income and increase after-tax profits. In multinational corporations, tax minimisation is often implemented through transfer pricing, whereby profits are shifted from high-tax jurisdictions to affiliated entities in lower-tax jurisdictions (Claessens & Djankov, 1999; Tang, 2016). Transfer pricing therefore offers managers a flexible mechanism to meet performance targets while simultaneously reducing the firm's overall tax burden. Consistent with this argument, prior evidence indicates that firms with stronger incentives to minimise taxes are more likely to engage in transfer pricing (Kenneth J. Klassen, Petro Lisowsky, 2017). Fatmi & Amin (2023) also show that transfer pricing is associated with tax reduction, suggesting that firms that actively minimise taxes are more inclined to use transfer pricing to manage taxable income across related entities. Accordingly, the likelihood and intensity of transfer pricing practices are expected to increase as tax minimisation rises.

H_2: Tax minimization exerts a positive influence on transfer pricing when assessed using the RPTAL measure.

Capital intensity reflects a firm's financial decision to invest in fixed assets that generate depreciation expenses. It captures the extent of resources committed to fixed assets—such as buildings, machinery, land, and production equipment—

used in daily operations (Putri Aisyah et al., 2024). High investment in fixed assets is typically intended to expand production capacity and improve operational efficiency, and it may also support revenue growth. Jusman & Nosita (2020) note that firms undertaking capital-intensive investments tend to hold a relatively large proportion of fixed assets. From an agency theory perspective, high capital intensity can heighten the potential for agency conflicts because it increases information asymmetry between managers as agents and owners as principals (Jensen, M. C., & Meckling, 1976). Managers exercise considerable control over shareholders' fixed assets, including decisions regarding depreciation methods, cost allocation, and the use of assets across affiliated entities within a business group (Tiyanto & Achyani, 2022). This discretion allows managers to influence cost and profit structures between entities, creating opportunities for fixed assets to be used as part of transfer pricing arrangements. Consistent with this view, Apep et al. (2021) and Sevi Lestya Dewi (2022) find that capital intensity is associated with transfer pricing practices, particularly where transfer pricing is used to manage profits and shift operating income across related entities. These findings suggest that managerial flexibility in selecting transfer pricing policies—and the scope for opportunistic behaviour—tends to increase with greater capital intensity.

H_3: Capital Intensity exerts a positive influence on transfer pricing when assessed using the RPTAL measure.

Agency theory further suggests that differences in interests between managers and owners may give rise to agency conflicts (Jensen, M. C., & Meckling, 1976). Hasnan et al. (2016) argue that transfer pricing can exacerbate such conflicts by providing managers with opportunities to misuse authority and manipulate profits, particularly when corporate governance is weak and oversight is ineffective. Conversely, strong corporate governance and effective monitoring mechanisms are expected to constrain opportunistic managerial behaviour through enhanced oversight, board independence, and audit quality, thereby encouraging transfer pricing decisions that are more efficient and aligned with fairness principles (Chien & Hsu, 2010; Marchini et al., 2018). In addition, good corporate governance supports more transparent and accountable financial decision-making in related-party transactions, reflecting the board of directors' strategic oversight role (Permani et al., 2023; Oktriasih, 2024). Consistent with this argument, Dinca & Fitriana (2019) report that effective board supervision reduces firms' propensity to engage in transfer pricing practices.

H_4: Corporate Governance exerts a negative influence on transfer pricing when assessed using the RPTAL measure.

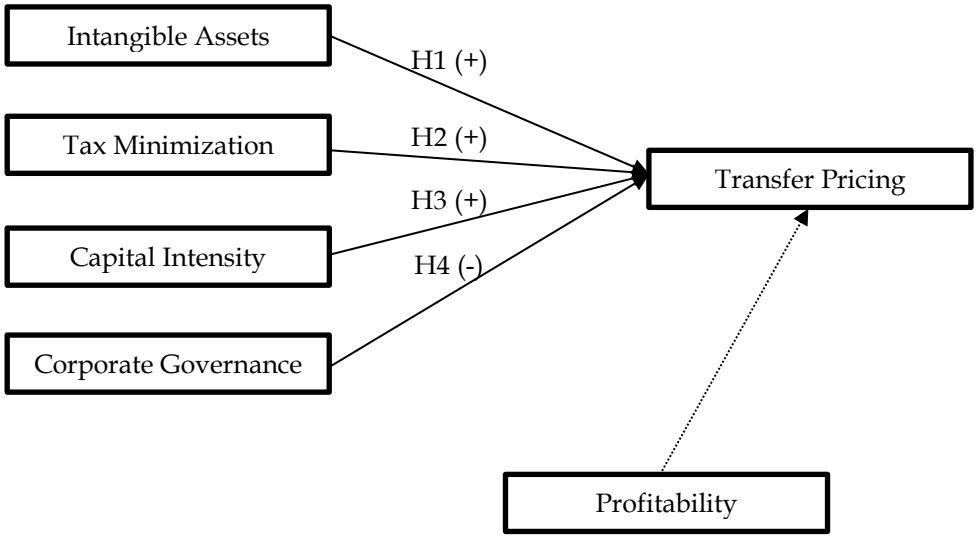

Figure. 1 Research Model

Source: Research Data, 2025

RESEARCH METHODS

Table 1 summarises the sampling criteria applied in this study for the 2020–2024 observation period. The year 2020 was selected as the starting point because it captures the early phase of transfer pricing implementation in Indonesia. The sample comprises non-financial companies listed on the Indonesia Stock Exchange (IDX) over 2020–2024. Non-financial firms were chosen because their operational activities, financial structures, and accounting and taxation practices are relatively comparable, making them more suitable for examining transfer pricing behaviour. Data were drawn from annual reports and financial statements obtained from the official IDX website and Refinitiv.

To mitigate the influence of extreme observations, the analysis uses an unbalanced panel dataset in EViews version 12. The winsorisation technique was applied to all variables by replacing observations below the 1st percentile and above the 99th percentile with the nearest valid values. This procedure was implemented for the dependent variable (transfer pricing), the independent variables (intangible assets, tax deductions, capital intensity, and corporate governance), and the control variable (profitability) (Solikhah et al., 2024). Purposive sampling was employed based on criteria relevant to the study. The final sample consists of 4,220 observations from 844 companies.

Table. 1 Sampling Criteria

No	Criteria
1	Non-financial companies that were listed between 2020 and 2024 on the Indonesia Stock Exchange (IDX).
2	Non-financial companies that regularly release comprehensive financial statements for the 2020–2024 period.
3	Non-financial companies that meet the study's sampling criteria and supply the data required for variable measurement.

Source: Research Data, 2025

This research examines the association between the independent and dependent variables. The operational definitions and measurement approaches applied to each variable are presented in the following section.

Transfer pricing is a dependent variable that regulates the prices used in transactions between divisions of multinational companies, where related entities determine the value of transactions within acceptable limits (Hidayah et al., 2025). According to Utama (2015) transfer pricing is calculated as follows:

$$\text{RPTAL}=\frac{RPT\ Assets+RPT\ Liabilitas}{Equity} \quad \ldots\ldots (1)$$

Intangible Assets according to PSAK 19, intangible assets classified under non-current or other assets in financial reports are resources granting economic value and legal entitlement to their owners. According Novira (2020) intangible assets is calculated as follows:

$$\text{IA}=\ln(Intangible\ Assets) \quad \ldots\ldots (2)$$

Tax minimization is a strategy implemented by companies to minimize their tax burden through the use of various policies and mechanisms permitted under applicable tax regulations. According to Santosa et al. (2021) variable is measured using the Effective Tax Rate (ETR) formula:

$$\text{ETR}=\frac{Total\ Income\ Tax\ Expense}{Pre-Tax\ Earnings}\text{x}100\% \quad \ldots\ldots (3)$$

Capital intensity is a ratio that shows the comparison between fixed assets and total assets of a company, which describes the extent to which the company's assets are dominated by fixed assets (Putri, Citra Lestari, & Maya, 2016 in Darsani & Sukartha, 2021). According to Aisyah et al. (2024), this variable is measured using the following formula:

$$CI=\frac{Totaln\ Fixed\ Assets}{Total\ Assets} \quad \ldots\ldots (4)$$

The number of board members or the number of board members in office at the conclusion of the fiscal year serves as a proxy for corporate governance in this study. According to Oktriasih (2024), board size is determined based on the total number of board members of the company.

$$\text{Board Size} = \text{Total members of the board of directors at company} \quad \ldots\ldots (5)$$

In this research, profitability is treated as a control variable that represents the firm's effectiveness in generating earnings over a specific period. This variable is evaluated by relating profit performance to the company's operational scale, including assets and equity. Return on Assets (ROA) is employed as the proxy for profitability, as it measures the proportion of net income generated from total asset utilization, reflecting the firm's return after accounting for interest and tax obligations (Nurwati et al., 2021). According to Oktriasih (2024), ROA is calculated using the following formula:

$$ROA=\frac{Income\ After\ Tax}{Total\ Assets} \quad \ldots\ldots (6)$$

The empirical analysis employs a Fixed Effects Model (FEM) analyze the effect of transfer pricing on intangible assets, Tax Minimization, Capital Intensity and Corporate Governance. Profitability as also controlled in the model. The following is how the regression equation is created:

$$RPTAL_{i,t} = \propto + \beta_1 IA_{i,t} + \beta_2 ETR_{i,t} + \beta_3 CI_{i,t} + \beta_4 BoardSize_{i,t} + \beta_5 ROA_{i,t} + \varepsilon_{i,t} \quad (7)$$

Where:

$\propto$	= Constant
$RPTAL_{i,t}$	= Related Party Transaction
$\beta_1 - \beta_4$	= The regression coefficient of each independen variable
β_5	= The regression coefficient of each control variable
IA	= Intangible Assets
ETR	= Tax Minimization
CI	= Capital Intensity
$BoardSize$	= Corporate Governance
ROA	= Profitability
$\varepsilon_{i,t}$	= Residual Errors

RESULTS AND DISCUSSION

Descriptive statistics are used to provide a summary of the characteristics, diversity, and basic distribution patterns of all variables in this study. Table 2 presents the minimum, maximum, mean and standard deviation for 4,220 firm-year observations, thereby helping to clarify the financial and operational profiles of companies in relation to transfer pricing practices.

Table. 2 Descriptive Statistical Results

Model	N	Min.	Max.	Mean	Std. Dev.
RPTAL	4220	0.000	0.593	187.191	0.272
IntangibleAssets	4220	14.756	30.342	27.786	4.136
ETR	4220	-63.556	138.128	7.793	32.989
CapitalIntensiy	4220	0.028	0.969	0.574	0.271
BoardSize	4220	2.000	15.000	14.324	2.506
ROA	4220	-0.616	0.295	0.013	0.113

Source: Research Data, 2025

Table 3 shows that transfer pricing (RPTAL), the dependent variable, has a standard deviation of 0.272, which is notably higher than its mean. This indicates substantial dispersion in related-party transactions and suggests that transfer pricing intensity varies considerably across the sampled firms. In contrast, intangible assets have a mean of 27.79 and a standard deviation of 4.13, implying that the proportion of intangible assets is relatively stable and does not differ markedly among firms. Overall, most companies appear to maintain moderate-to-high intangible asset holdings consistently over time.

Unlike intangible assets, tax minimisation (ETR) exhibits much greater variability, with a mean of 7.793 and a standard deviation of 32.989. This wide dispersion reflects significant differences in firms' tax burdens. The presence of negative minimum values further suggests that some firms received tax refunds or reported fiscal losses. For capital intensity, the mean value of 0.574 indicates that, on average, fixed assets account for more than half of total assets. The standard deviation of 0.271 suggests moderate variation in fixed-asset holdings across firms.

Board size, used as a proxy for corporate governance, averages 14 members with relatively limited variation, indicating broadly comparable board structures across the sample. This consistency suggests that governance arrangements among Indonesian listed companies are relatively uniform. Profitability (ROA) has a mean of 0.013 and a standard deviation of 0.113, indicating substantial differences in financial performance across firms. The negative minimum value shows that some firms experienced sizeable losses. This variation is important because profitability may shape incentives related to tax management and related-party transactions. Firms with low profitability or losses may face greater pressure to stabilise earnings, potentially strengthening incentives to employ transfer pricing mechanisms.

In panel data analysis, model specification typically requires several diagnostic tests—such as the Chow, Hausman, and Lagrange multiplier tests—to determine the most appropriate estimation approach among the Common Effects Model (CEM), Fixed Effects Model (FEM), and Random Effects Model (REM). Based on these tests, the Fixed Effects Model (FEM) provides the most appropriate and reliable estimates for this study. As reported in Table 3, both the Hausman and Chow tests produce probability values of 0.000, which are below the 0.05 significance level. These results indicate that FEM is statistically preferred to REM for the panel regression. Accordingly, all subsequent analyses in this study employ the Fixed Effects Model (FEM).

Table. 3 Result of Panel Data Refression Model Selection

Model Specificaton	Statistics	P-Value	Model
Chow Test	Chi-square Prob	0.000	FEM
Hausman Test	Cross-section random	0.000	FEM

Source: Research Data, 2025

As seen in Table 4, the regression analysis yields an F-statistic likelihood of 0.000, indicating that the independent factors taken together have a statistically significant effect on transfer price. Additionally, the coefficient of determination (R^2) of 0.848 indicates that the proposed model accounts for approximately 84.76% of the variation in the dependent variable.

Table. 4 Fixed Effect Model

Variable	Coefficient	t-Statistic	Prob.
Constant	125.554	3.367	0.001
IntangibleAssets	2.271	2.454	0.014
ETR	0.125	1.409	0.159
CapitalIntensity	90.050	4.855	0.000
BoardSize	-3.626	-1.987	0.047
ROA	-170.087	-3.780	0.000
R-squared			0.848
Prob (F-statistic)			0.000

* Significance at the level 5%

Source: Research Data, 2025

The regression equation for transfer pricing determinants with RPTAL measurement is as follows, based on Table 4:

$$\text{RPTAL} = 125.554 + 2.271\ IA\ + 0.125 ETR\ + 90.050\ CI - 3.626\ BoardSize - 170.087\ ROA + e \quad \text{..... (2)}$$

Table 4 reports the estimated coefficients, t-statistics, and probability values for the independent variables with respect to the dependent variable, based on multiple regression using a fixed effects model. These results provide empirical evidence on the relationships among variables using firm-level panel data. The constant term is 0.001, indicating that when intangible assets, tax minimization, capital intensity, and corporate governance are assumed to be zero, the predicted value of transfer pricing (RPTAL) is 0.001.

The regression test for Hypothesis 1 evaluates the partial effect of intangible assets on transfer pricing. The hypothesis is supported when the significance value is below 0.05. Intangible assets (X1), proxied by Ln (Intangible Assets), are statistically significant at the 5% level (p = 0.014) with a positive coefficient of 2.271. This result indicates that intangible assets are positively associated with transfer pricing, supporting the first hypothesis that firms with higher intangible assets tend to exhibit greater transfer pricing intensity. In Indonesian non-financial companies, intangible assets—such as rights to use intellectual property including patents and copyrights—may facilitate intra-group transactions that increase the scope for transfer pricing. Because intangible assets can be transferred or licensed across affiliated entities, firms may allocate these assets to related parties in lower-tax jurisdictions (Wahyudi Ickhsanto & Fitriah Nur, 2021). This finding is consistent with Rizkya & Isnalita (2020), who report a positive effect of intangible assets on transfer pricing. The association may reflect the greater discretion available in valuing intangible assets, given their future economic potential and the inherent difficulty of measurement and verification, particularly when benchmarking against fair value (Sari et al., 2022).

The regression test for Hypothesis 2 examines tax minimization, proxied by ETR. The results show a significance level of 0.159 (> 0.05) with a coefficient of 0.125, indicating that tax minimization does not have a statistically significant effect on transfer pricing. Accordingly, Hypothesis 2 is rejected. From an agency theory perspective, transactions with related parties may also generate additional tax-related costs or consequences for affiliated firms, which can reduce the attractiveness of using transfer pricing solely as a tax minimization tool. In addition, when affiliated firms engage in substantial purchases from a parent

company, the tax burden borne by the affiliate may increase, potentially weakening incentives to intensify transfer pricing. This result aligns with Aulia Isnaini (2024), who similarly finds that tax minimization does not influence transfer pricing.

The regression test for Hypothesis 3 indicates a significance value of 0.000 (< 0.05) with a positive coefficient of 90.050, showing that capital intensity has a positive and significant effect on transfer pricing. Thus, Hypothesis 3 is accepted. High capital intensity reflects a large proportion of fixed assets, which can increase managerial discretion in determining depreciation methods, allocating costs, and arranging asset utilisation across affiliated entities. This discretion may create opportunities to set intra-group prices in ways that support profit management and tax efficiency within a corporate group. Transfer pricing may also be used to maintain cash flow stability and optimise the group's overall tax position (Putri Aisyah et al., 2024). Consistent with this argument, Dewi & Oktaviani (2021) and Corinna Theodora Gunawan (2022) report that firms with substantial fixed assets have greater flexibility to manage tax costs through profit shifting, supporting the findings of this study.

The regression test for Hypothesis 4 yields a coefficient of −3.626 with a significance value of 0.047 (< 0.05). These results indicate that corporate governance, proxied by the number of board members, has a negative and significant effect on transfer pricing, supporting Hypothesis 4. This finding is consistent with agency theory, which suggests that stronger monitoring can reduce conflicts of interest between managers and owners and limit opportunistic behaviour. Yohana et al. (2022) note that the board of commissioners plays an important role in supervising managerial policies, including decisions related to related-party transactions. A sufficiently sized board may strengthen oversight, reduce internal conflicts, and limit managerial opportunities to manipulate profits through transfer pricing. More effective monitoring can encourage decisions that better reflect the firm's overall interests and improve transparency in financial reporting. This evidence is in line with Fernanda et al. (2023), who find that corporate governance is negatively associated with transfer pricing.

Profitability, measured by return on assets (ROA), is included as a control variable. The regression results show a significance value of 0.000 with a coefficient of −170.087, indicating a significant negative association between profitability and transfer pricing. This suggests that more profitable firms tend to exhibit lower transfer pricing intensity, potentially because they face less pressure to manage reported earnings through intra-group arrangements and may attract greater scrutiny from investors and other stakeholders (Adelia, 2021). This result is consistent with Mineri & Paramitha (2021), who document that profitability has a significant negative influence on transfer pricing practices.

CONCLUSION

The findings indicate that internal firm characteristics and governance practices explain much of Indonesian non-financial firms' propensity to engage in transfer pricing. This study examines the effects of intangible assets, tax minimisation, capital intensity, and corporate governance on transfer pricing behaviour among non-financial firms in Indonesia. The empirical results show that intangible assets

and capital intensity are significant determinants of transfer pricing decisions, consistent with agency theory, which emphasises conflicts of interest and information asymmetry between managers and shareholders. In particular, higher levels of intangible assets and capital intensity appear to provide greater managerial discretion in structuring and pricing related-party transactions, thereby facilitating profit shifting within corporate groups. By contrast, tax minimisation does not consistently emerge as the primary driver of transfer pricing, suggesting that firms' decisions are shaped by considerations beyond tax motives alone. The results also indicate that corporate governance mechanisms—particularly the monitoring role of the board of commissioners—help constrain and shape firms' transfer pricing policies.

Several limitations should be considered when interpreting these findings and in guiding future research. First, the use of single proxies for the dependent and independent variables may limit the extent to which the analysis captures the complexity of transfer pricing, which can involve multiple transaction types and managerial strategies. Second, the relatively narrow set of explanatory variables may not fully reflect other important determinants, such as ownership structure, audit quality, tax risk, and regulatory dynamics. Future research could therefore broaden measurement approaches, incorporate additional variables relevant to related-party transaction practices, and extend the analysis using cross-country data. These extensions would support a more comprehensive understanding of the factors influencing transfer pricing and strengthen the contribution to the development of theory and practice in tax oversight.

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