

Transfer Pricing in the Perspective of Foreign Ownership and Audit Quality: A Study of Company Size Moderation

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Abstract

This study aims to examine the influence of foreign ownership and audit quality on transfer pricing, as well as the role of company size as a moderation variable, in manufacturing companies in the primary consumer goods sector listed on the Indonesia Stock Exchange. The research method is quantitative and causal, and data are collected from annual financial statements for the 2020–2024 period. The analysis techniques used are multiple linear regression and Moderated Regression Analysis (MRA). The results show that foreign ownership and audit quality significantly affect transfer pricing. The moderation test showed that firm size significantly moderated the relationship between foreign ownership and audit quality in transfer pricing. This means that the influence of these two variables tends to be stronger in large-scale companies. These findings confirm the importance of oversight of ownership structures and audit quality, especially in large companies that have complex cross-border transactions.

Keywords: Transfer Pricing, Foreign Ownership, Audit Quality, Company Size

1. Introduction

In the era of economic globalization, foreign investment in Indonesia has made manufacturing companies in the consumer goods sector a key instrument for foreign capital expansion. The presence of foreign ownership not only impacts ownership structures and strategic decision-making but also influences financial policy, including transfer pricing practices. In this context, transfer pricing is often used to allocate profits between cross-border affiliated entities and is a major focus of international tax avoidance.

Theoretically, *agency theory* explains that foreign owners as principals have an interest in maximizing net profit after tax through global fiscal efficiency. This encourages local management (agents) to implement financial strategies aligned with these goals, one of which is through legally designed, strategically designed transfer pricing. *Institutional theory* also reinforces that foreign-owned entities tend to be more open to global practices, including cross-jurisdictional tax optimization schemes, while maintaining formal compliance with local regulations.

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The complex ownership structure provides space for companies to set transfer prices for the sake of global fiscal interests, the higher the level of foreign ownership, the greater the tendency of companies to transfer pricing, especially in the context of Indonesian manufacturing companies that have cross-border affiliate networks. ([Pratama, 2020](#)). In line with that, [Tambunan et al. \(2022\)](#) in a study across Korean-Indonesian multinational entities emphasized that entities with foreign capital dominance have a strong tendency to carry out business restructuring and transfer pricing as part of international business strategies.

One important mechanism believed to reduce the potential for transfer pricing abuse is the high quality of audits. In this context, audit quality plays a role not only as an external oversight mechanism, but also as a control tool for the reporting of the Company's affiliate transactions and tax compliance ([Sari et al., 2023](#)). Theoretically, the agency theory approach explains that the difference in interests between management (agents) and shareholders (principals) creates a need for a supervisory mechanism, one of which is through external audits. Independent and high-quality auditors are believed to be able to detect irregularities in financial statements, including indications of deviant transfer pricing. Furthermore, information asymmetry theory highlights that auditors with high reputations and integrity can minimize information asymmetry between the company's internal parties and external stakeholders, thereby minimizing opportunistic managerial actions that have the potential to harm the state's public and fiscal interests

The high quality of audits significantly suppresses transfer pricing actions, especially in companies with tunneling incentives and aggressive tax planning. External auditors who have a good reputation and international affiliation tend to be more assertive in assessing the fairness of transactions between related parties ([Anggraini et al., 2025](#)). Another study, [Aganthasyah et al. \(2025\)](#) shows that audit quality, including audit committee experience and the reputation of public accounting firms, plays a role in minimizing tax evasion through transfer pricing, especially in vulnerable industries such as mining and manufacturing. Strong audit oversight not only serves as a detection tool, but also as an effective prevention mechanism against financial reporting manipulation and profit shifting.

In addition to foreign ownership and audit quality, the size of the company is another variable that cannot be ignored. The size of the company is believed to affect how management responds to incentives or pressure to carry out transfer pricing. In political cost theory, large companies are considered to be more sensitive to external pressures, such as government regulations, public opinion, and stakeholder expectations. Therefore, even though they can conduct transfer pricing, this tendency can be suppressed by public exposure and higher scrutiny. Conversely, small or medium-sized companies, which tend to have lower visibility, could be more flexible in implementing aggressive transfer pricing policies. This makes company size a potential variable to moderate the relationship between foreign ownership, audit quality, and transfer pricing practices ([Hidayah & Madjid, 2024](#))

2. Literature Review

2.1 Theoretical Foundations

2.1.1. Agency theory

Agency theory explains the contractual relationship between two primary parties, namely the principal and the agent, this relationship is formed because the owner of the Company entrusts the management of the Company to the agent in the hope that the agent will act in the interest of the owner ([Jensen & Meckling, 1976](#)).

2.2 Hypothesis Development

The Effect of Foreign Ownership on Transfer Pricing

In the increasingly open global business landscape, the presence of foreign investors in domestic companies is no longer rare but part of the growth strategy of many entities, especially in the highly competitive consumer goods manufacturing sector. One impact of foreign ownership is a shift in decision-making orientation, with foreign investors, as principal parties, often prioritizing financial efficiency and tax management. Within the agency framework, the relationship between foreign owners and local management can create an incentive for management to design strategies that align with capital owners' interests, including through transfer pricing practices as a form of tax planning.

The results of [Pratama \(2020\)](#) confirm that foreign ownership is significantly positively correlated with transfer pricing practices, especially in manufacturing companies that have subsidiaries abroad. Another finding by [Kristina & Muhyarsyah \(2023\)](#) shows that a high proportion of foreign ownership increases the likelihood of companies regulating transaction prices between affiliates to strategically move profits. Entities with a dominance of foreign shareholders in the LQ45 index show more intensive transfer pricing practices than domestically owned companies ([Ramdhani et al., 2021](#)). The hypotheses proposed in this study are:

H1: Foreign ownership has a significant effect on transfer pricing

The Effect of Audit Quality on Transfer Pricing

The practice of transfer pricing is a common strategy for multinational companies, although it can be used legally as part of internal efficiency, it is often associated with the potential for tax evasion and profit manipulation. It is in this context that audit quality plays a crucial role as an external oversight mechanism to ensure that transfer pricing practices are carried out reasonably and in accordance with the arm's length principle. Referring to agency theory which explains that the existence of independent and qualified auditors is an important tool to reduce conflicts of interest between management and shareholders, including in maintaining transparency in affiliate transactions. Meanwhile, the monitoring hypothesis in the accounting literature emphasizes that reputable external auditors have a greater incentive to detect irregularities in financial statements, including the disclosure of unreasonable transfer prices.

The results of the research by [Ambarita & Gibtiyyah \(2024\)](#) and found that audit quality significantly influences transfer pricing practices. Auditors with a high reputation are considered to be more independent and careful in assessing the fairness of transactions between affiliated companies, thus reducing the potential to engineer transfer prices. This is in line with the research of [Anggraini et al. \(2025\)](#) which underlines the role of audit in moderating the relationship between tax planning incentives and transfer pricing actions, the higher the quality of audits, the lower the potential for transaction manipulation. The hypotheses proposed in this study are:

H2: Audit Quality has a significant effect on transfer pricing

Company Size Moderates the Influence of Foreign Ownership on Transfer Pricing

The size of the company reflects the operational complexity, resources it has, and the level of exposure to regulatory and public scrutiny. In this context, company size acts as a moderation variable, which can reinforce or weaken the influence of foreign ownership on strategic decisions, including transfer pricing. From the perspective of agency theory, large companies

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owned by foreign investors tend to have more complex agency relationships, due to the limitations of foreign owners in conducting direct supervision. In this situation, large companies can have two sides: they have more opportunities to transfer pricing through a global affiliate network, but they also have higher reputational pressure and scrutiny to comply with tax regulations.

The research of [Kalsum et al. \(2025\)](#) provides strong evidence that firm size moderates the relationship between foreign ownership and transfer pricing in Indonesian manufacturing companies, indicating that small companies with foreign ownership have a higher tendency to aggressive transfer pricing than large companies, which are more cautious due to reputational risks and high regulatory oversight. This is also supported by [Haryadi et al. \(2025\)](#) and [Pandia & Gultom \(2022\)](#) who state that large companies have more internal controls and audit resources, so pressure from foreign shareholders is less likely to encourage aggressive transfer pricing practices. The hypotheses proposed are:

H3: Company Size Able to Moderate the Influence of Foreign Ownership on Transfer Pricing

Company Size Moderates the Effect of Audit Quality on Transfer Pricing

The size of the company is a factor that can determine how much the influence of audit quality can function optimally. Large companies generally have more complex governance, more documented financial reporting, and greater scrutiny from the public and regulators. This situation allows high-quality auditors to work with more adequate data, smoother communication access, and a stronger internal control system. In contrast, in small companies, even if audits are conducted by reputable auditors, data limitations, internal structures, and oversight make the effectiveness of audit quality against transfer pricing control weaker. The larger the size of the company, the higher the effectiveness of audit supervision in suppressing tax avoidance practices through transfer pricing. Theoretically, monitoring theory states that external supervision will be more effective if the company is in conditions that allow open access to information and high transparency.

The results of the research of [Santosa et al. \(2021\)](#) also prove that large companies tend to implement better governance, including more transparent transfer pricing documentation, so that the effect of audit quality is more significant on large companies than small ones. Furthermore, [Herlina et al. \(2023\)](#) stated that the size of the company strengthens the influence of audit quality on fiscal decisions, because large companies tend to choose highly reputable auditors in order to maintain market credibility. The hypotheses proposed are:

H4: Company Size is able to moderate the Influence of Audit Quality on transfer pricing

3. Research Method

Research methods This study is a quantitative study with a causal approach, which aims to examine the influence of independent variables (foreign ownership and audit quality) on dependent variables (transfer pricing), as well as the moderating role of company size. This approach is suitable for testing the relationships between variables using empirical data. The population in this study is manufacturing companies in the primary consumer goods sector listed on the Indonesia Stock Exchange in 2019-2023. Using the purposive sampling method, 16 companies were obtained. The tests used were descriptive statistical tests, classical assumptions, multiple linear regression, t tests and moderate regression analyses tests.

Variable transfer pricing is measured using the amount of receivables of the parties divided by the total receivables multiplied by 100% according to the measurement used by [Ambarita &](#)

[Gibtiyyah \(2024\)](#). The foreign ownership variable in this study was measured using the amount of share ownership owned by foreign parties divided by the total outstanding shares multiplied by 100% according to the one used by [Santosa et al. \(2021\)](#). Audit quality is measured following the research of [Anh et al. \(2018\)](#) namely by giving a value of 1 if the company is audited by the Big Four KAP and given a value of 0 if the company is audited by the Non-Big Four KAP and for the variable size of the company is calculated using the Natural Total Asset logarithm

4. Findings and Discussions

4.1 Descriptive statistical test results

The results of the statistical test carried out were obtained as shown in table 1 below.

Table 1. Descriptive statistical test results

	N	Minimum	Maximum	Mean	Std. Deviation
Transfer Pricing	80	0,00005	0,95816	0,2104112	0,26432487
Foreign Ownership	80	0,05000	0,9304	0,6046169	0,18073556
Audit Quality	80	0,000	1,000	0,750	0,436
Company size	80	22,47	36,08	31,31	0,567

Source: Data Processing Output

The transfer pricing variable, measured by the ratio of affiliate transactions to total receivables, ranges from 0.0000 to 0.9581, with an average of 0.2104. This means that in general, around 21.04% of the company's transactions are transactions with related parties, indicating the potential for price fixing between affiliated entities. The maximum value is quite high (95.81%), suggesting that some companies have a very dominant share of affiliate transactions. The standard deviation of 0.2643 indicates considerable variation in transfer pricing practices across companies in the sample.

The foreign ownership variable had an average of 0.6046 (60.46%), close to two-thirds of the shares, indicating that most of the companies in the sample are owned by foreign investors. This reinforces the relevance of testing the influence of foreign ownership on transfer pricing. The standard deviation of 0.1807 indicates a difference in ownership structure between companies, from a minimum of 5% to a maximum of 93%.

The audit quality variable is a dummy variable that is coded 1 if the company is audited by the Big Four Public Accounting Firm (KAP), and 0 if not. The statistical results showed an average of 0.75, indicating that 75% of the sample companies were audited by the Big Four KAP, suggesting the high quality of audits in this sector.

The company size variable, measured by the natural logarithm of total assets, has an average of 31.31 and a range of 22.47 to 36.08. This shows that the companies in the sample have a considerable scale of assets, but there is wide variation between the smallest and largest companies. The size of these companies is also relevant to be tested as a moderation variable, as the complexity and transparency of large companies can affect transfer pricing practices and audit effectiveness.

4.2 Multiple linear regression and hypothesis test results

The results of the regression test in this study can be seen in Table 2 below

Table 2. Multiple linear regression test results

Model	B	Std. Error
Constant	0,201	1,344
Foreign Ownership	1.712	0,526
Audit Quality	0,417	0,208

Source: Data Processing Output

The foreign ownership variable has a coefficient value of 1.712 with a standard error of 0.526. This coefficient indicates that a 1-unit increase in the proportion of foreign ownership increases the transfer pricing value by 1.712, holding the other variables constant. The direction of this positive relationship suggests that companies with higher levels of foreign ownership are more likely to engage in transfer pricing. Meanwhile, the audit quality variable showed a regression coefficient of 0.417 with a standard error of 0.208. This coefficient value indicates that every 1 unit increase in audit quality will increase the transfer pricing value by 0.208, assuming the other variables are fixed. This indicates that companies audited by reputable auditors tend to have higher rates of transfer pricing.

Table 3. MRA test results

Model	B	Std. Error	t	Sig
Constant	2,443	0,357	6,834	0,000
Foreign Ownership	-1.256	0,538	-2.335	0,022
Audit Quality	-1,533	0,031	-38,779	0,000
Foreign Ownership * Company size	0,042	0,017	2,480	0,016
Audit Quality * Company size	0,048	0,001	46,095	0,000

Source: Data Processing Output

As a result, the variable of foreign ownership interaction with the size of the company showed a positive coefficient of 0.042 and a significance value of 0.016, which means significant at the 95% confidence level. This suggests that company size has been shown to moderate the relationship between foreign ownership and transfer pricing. The positive sign of the coefficient indicates that, in larger companies, foreign ownership tends to increase transfer pricing practices. In other words, the larger the company, the stronger the influence of foreign ownership on the increase in transfer pricing, which may be due to the complexity of the international business structure owned by large companies and the wider opportunities to regulate transfer prices between affiliated entities.

Meanwhile, the interaction of audit quality with company size also showed significant results, with a coefficient value of 0.048 and a significance of 0.000. This suggests that firm size moderates the relationship between audit quality and transfer pricing positively. This means that while audit quality directly suppresses transfer pricing, the influence becomes stronger when the company has a larger scale. Large companies tend to have more mature organizational structures and information systems, so auditors can carry out supervisory functions more effectively.

Table 4. Results of the t test

Model	t	Sig	Kesimpulan
Constant	0,150	0,881	
Foreign Ownership	3.252	0,002	Accepted

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Audit Quality	2,007	0,049	Accepted
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Source: Data Processing Output

Based on the test results in table 4, it is known that the foreign ownership variable has a positive and significant effect on transfer pricing. This is shown by the calculated t-value of 3.252 which is greater than the t-table of 1.664 with a significance value of 0.002, which is below the significance level of 5%. This means that the larger the proportion of shares owned by foreign parties, the higher the tendency of companies to carry out transfer pricing. Furthermore, the audit quality variable also showed a positive and significant influence on transfer pricing, with a calculated t-value of 2.007 greater than the t-table of 1.664 and a significance value of 0.049. This means that companies audited by the Big Four Public Accounting Firm (KAP) tend to have higher transfer pricing values.

4.3 Discussion

The Effect of Foreign Ownership on Transfer Pricing

The results of the hypothesis test in this study show that foreign ownership has a significant and positive effect on transfer pricing practices. These findings reinforce the theoretical arguments presented in the previous chapter, particularly in the framework of agency theory, where foreign investors as principals have an interest in maximizing profit efficiency globally. Therefore, company management tends to respond to these pressures and expectations by developing a financial strategy that benefits the owner, one of which is through a transfer pricing mechanism.

Practically, companies with a dominance of foreign shareholders usually have a cross-border affiliate network, which allows for flexibility in the pricing of transactions between entities within the group. This can be used to divert profits to countries with lower tax rates, as long as they are within the limits of applicable tax regulations. These findings are consistent with the results of research by [Pratama \(2020\)](#) and [Kristina & Muhyarsyah \(2023\)](#) which stated that the high proportion of foreign ownership encourages companies to optimize the structure of costs and tax burdens through transfer pricing arrangements. This is also the case with the results of [Haryadi et al. \(2025\)](#) research which emphasizes that foreign ownership often brings aggressive managerial practices in terms of financial and tax management, thus pressuring managers to formulate policies and carry out transfer pricing.

Additional support is also obtained from the study by [Tambunan et al. \(2022\)](#) which explains that multinational companies in the manufacturing sector, particularly those originating from East Asia such as Korea and Japan, generally have internal control systems and transfer pricing schemes integrated into their global strategies. This causes local companies that are acquired or have affiliations with foreign companies to tend to follow the same pattern, including in tax management. Companies with foreign ownership structures tend to have cross-border operational connectivity, which allows and encourages the use of transfer pricing as a tax planning tool ([Hidayah & Madjid, 2024](#)).

The Effect of Audit Quality on Transfer Pricing

The results of the hypothesis test in this study show that audit quality also shows a positive and significant influence on transfer pricing. This means that companies audited by the Big Four Public Accounting Firm (KAP) tend to have higher transfer pricing values. Although these results appear to contradict initial expectations, these findings can be explained by the fact that companies that conduct transfer pricing on a large scale are actually more likely to use

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reputable auditors to give legitimacy to affiliate transactions ([Sari et al., 2023](#)). This means that the audit quality in this case can represent the complexity of the business and not just external control.

This finding is in line with the [Agyemang \(2025\)](#) which states that multinational companies tend to use the services of the Big Four KAP not to limit transfer pricing practices, but to ensure that their transfer pricing strategies are legally drafted, well documented, and can survive the tax audit process. Highly reputable auditors can provide an advisory role indirectly that strengthens transfer pricing documentation without compromising their practice ([Lestari et al., 2022](#)). Thus, audit quality does not necessarily suppress transfer pricing, but can be part of the Company's fiscal legitimacy strategy.

Another study by [Yazdifa et al. \(2025\)](#) found that in large and complex firms, audit quality correlates positively with fiscal aggressiveness, as these companies tend to rely on auditors' reputations to establish legitimacy over their tax structures. It also has to do with reputation signaling theory, which states that companies use high-quality auditors as a signal of compliance and credibility to regulators, without directly changing the substance of internal financial policy.

The Effect of Foreign Ownership on Transfer Pricing Moderated by Company Size

The results of the interaction between foreign ownership and company size show that in larger-scale companies, foreign ownership tends to have a stronger and positive effect on transfer pricing practices. This can be explained through the lens of agency theory, where foreign owners as principals face limitations in directly supervising local management, especially in large-scale multinational companies. In large companies, the operational complexity and large number of affiliated entities provide more room to transfer profits through transfer pricing. In other words, large companies owned by foreign investors have a higher capacity and flexibility to develop transfer pricing strategies as part of interstate tax planning. These findings are in line with the [Agyemang \(2025\)](#) which shows that foreign ownership is more encouraging tax avoidance practices in companies with broader global assets and networks

The Effect of Audit Quality on Transfer Pricing Moderated by Company Size

The moderation results between audit quality and company size also showed a significant and positive relationship. This means that audit quality is increasingly effective in reducing transfer pricing in companies that have large sizes. Within the framework of monitoring theory, the effectiveness of auditors in conducting supervision is highly dependent on the availability of an adequate internal control system and information, which is generally only owned by large companies. Large companies are typically more documented, transparent, and have more integrated accounting systems, which allow auditors to work more objectively and efficiently. Therefore, the existence of high-quality auditors in large companies is not only a symbol of reputation, but also really able to limit the manager's room to maneuver transfer prices. This is reinforced by the findings of [Yazdifa et al. \(2025\)](#) which state that the effectiveness of audits in controlling aggressive tax practices is much more visible in companies with large operational scales.

Another study by [Santosa et al. \(2021\)](#) also proves that large companies tend to implement better governance, including more transparent transfer pricing documentation, so that the effect of audit quality is more significant on large companies than small ones. Furthermore, [Herlina et al. \(2023\)](#) stated that the size of the company strengthens the influence of audit quality on fiscal decisions, because large companies tend to choose highly reputable auditors to maintain

market credibility.

5. Conclusion

This study concludes that foreign ownership and audit quality have a significant effect on transfer pricing practices in manufacturing companies in Indonesia. Foreign ownership tends to drive transfer pricing as a form of tax efficiency strategy, while high audit quality is also positively correlated, suggesting the role of auditors as a reinforcer of corporate fiscal policy legitimacy, rather than merely as a supervisor. The results of the moderation test showed that the size of the company strengthened the influence of both, meaning that large companies are more sensitive to the influence of foreign ownership and auditors in determining transfer pricing policies. Thus, the internal and external structure of the company is an essential factor in understanding the dynamics of profit shifting in the global business environment.

This study suggests that tax authorities increase supervision of large, foreign-owned companies because the potential for transfer pricing is higher among multinational companies. Companies are advised to make quality audits a governance-strengthening tool, not just formal compliance. Auditors need to be more critical of affiliate transactions, especially in multinational corporations. Further research is suggested to add other variables such as corporate governance or managerial incentives, as well as use cross-border data to enrich the global context.

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