

CRANFIELD UNIVERSITY
Cranfield School of Management

Matthew Birtch
Supervisor: Professor Andrey Pavlov
Associate Supervisor: Dr. Matt Nnadi

**Examining transfer pricing to improve multinationals'
competitiveness.**

Cranfield School of Management
MSc by Research in Leadership and Management

Academic Year: 2024

Submission
Oct 2024

Table of Contents

Introduction	4
1.1 Research Scope	13
1.2 Research Motivation	13
1.3 Literature Review Approach	14
1.4 Competitiveness of a firm.....	14
1.5 Transfer Pricing	17
1.6 Transfer Pricing Methods	23
1.7 Formulary apportionment as an alternative	30
1.8 Review Question	31
1.9 The systematic literature review	31
1.9.1 Keyword development and systematic search	32
1.9.2 Screening process	35
1.9.3 Search string results.....	37
1.10 Grey Literature	39
2 Results.....	41
2.1 Descriptive and theoretical analysis	41
2.1.1 Topics covered	41
2.1.2 Research methods.....	42
2.1.3 Journals	43
2.1.4 Underlying theories.....	44
2.1.5 Transfer pricing and competitiveness	45
2.1.6 Transfer Pricing and Tax implications	49
2.2 Summary.....	54
2.3 Summary and suggested conceptual findings for strategic Transfer Pricing.....	54
3 Implications for Transfer Pricing	55
4 Limitations of Research.....	58
5 Conclusion	63
References.....	72

Examining transfer pricing as a means to improve a multinationals competitive strategy

Abstract

This research examines the strategic role of transfer pricing (TP) in enhancing the competitiveness of multinational enterprises (MNEs), focusing on the interplay between corporate strategy and international tax compliance. The study synthesizes existing literature on transfer pricing methods, corporate strategy, and competitiveness, employing a systematic research approach to assess whether current propositions address the complexities of TP as a strategic tool beyond mere tax minimization.

The evolution of corporate strategy, driven by theories such as internalization and the resource-based view, underscores the significance of TP in managing firm-specific advantages (FSA) and reducing transaction costs. This review highlights that TP not only serves as a mechanism for tax optimization but also as a strategic instrument for resource allocation and operational efficiency within MNEs. The research identifies gaps in the literature concerning the direct link between TP methods and firm competitiveness, suggesting a need for further empirical and conceptual analysis.

Additionally, the study addresses the implications of international regulatory frameworks, particularly the OECD's Base Erosion and Profit Shifting (BEPS) package and the arm's length principle, on TP practices. It discusses how these regulations influence MNEs' strategic decisions and competitiveness, emphasizing the challenges and opportunities presented by compliance requirements.

Highlights

- TP literature has been singly focused on the various calculation methods
- TP is calculated mostly as a cost mechanism
- Tax implications on TP are significant yet unclear and uncertain
- No theory has been created on the direct link of TP methods and the competitiveness of a firm

Keywords

Competitiveness, Corporate Strategy, Competencies, Multinational, Transfer Pricing.

Introduction

In the context of a globalised market, multinational corporations (MNC's) have increased in volume, accompanied by an ever-growing complexity in their operations. As these MNC's become more intricate, the drive for innovating and competitiveness has intensified, with revenue increases remaining a central objective for all multinationals. One strategy employed to maximize group profits is transfer pricing (TP), particularly through aggressive tax planning practices. The primary motives behind aggressive transfer pricing include the reduction of alignment between tax authorities, their limited enforcement resources, and the prevalence of harmful tax practices (Organisation for Economic Co-Operation and Development, 2017).

This review aims to examine the strategic role of TP in the broader framework of corporate strategy, particularly focusing on its impact on firm competitiveness. The research goes beyond the conventional discussion of TP as a tax-saving mechanism and delves into how it can be leveraged to create firm-specific advantages (FSAs) and optimize transaction costs, consistent with theories of internalization and the resource-based view (RBV) (Buckley & Casson, 2011; Collis & Montgomery, 1995).

The **key contribution** of this review lies in its exploration of the underdeveloped intersection between TP and competitiveness. While significant research has been conducted on TP's regulatory and tax dimensions, few studies have explicitly addressed how TP contributes to an MNE's strategic goals. By focusing on TP's potential to enhance competitiveness, this review advances our understanding of how MNEs can align TP with broader corporate objectives. The research also highlights the growing relevance of TP in a post-**Base Erosion and Profit Shifting (BEPS)** world, where regulatory scrutiny is intensifying, and firms must navigate a complex global tax landscape (OECD, 2017).

Furthermore, **this research paves the way for TP to be explored directly in the field of strategy**, a domain where its potential remains largely underexplored. Traditionally, TP has been confined to discussions of tax compliance, and this review breaks new ground by proposing that TP should be considered a central element in strategic planning for MNEs. By placing TP within the strategic management conversation, this research

provides a foundation for future studies to investigate TP as a tool that MNEs can use to gain competitive advantages beyond cost savings.

Key Highlights of the Review

Strategic Transfer Pricing as a Competitive Tool

This review underscores the potential of TP to act as a strategic lever within MNEs, beyond its tax-minimization function. The findings suggest that TP can significantly impact resource allocation, internal efficiencies, and market positioning, contributing to the long-term competitiveness of MNEs. The strategic use of TP enables firms to manage FSAs effectively and reduce transaction costs, consistent with **internalization theory** and **RBV** frameworks. This understanding marks a shift in how TP is conceptualized, moving from a financial compliance tool to a critical component of corporate strategy.

Contribution to Theoretical Understanding

By integrating TP into corporate strategy frameworks, this review provides a novel contribution to the **resource-based view** and **internalization theory**. It explores how TP practices can be aligned with strategic objectives, particularly in the context of **firm-specific advantages** and **transaction cost economics**. This perspective highlights the potential for TP to serve as a mechanism for firms to internalize and optimize their global operations, thus reinforcing their competitive positioning in international markets.

Gaps in Existing Literature

The review identifies significant gaps in current TP literature, particularly regarding the direct relationship between TP methods and firm competitiveness. Existing research has predominantly focused on TP's role in tax minimization, leaving a substantial gap in empirical and conceptual studies that explore its strategic potential. This gap presents opportunities for future research to investigate how different TP methods contribute to operational efficiency, profitability, and competitive advantage in various industry contexts.

Regulatory and Compliance Challenges

The review also addresses the evolving regulatory landscape, particularly in light of the **OECD's BEPS** framework. The impact of these regulations on TP practices is a critical area of concern for MNEs, as compliance requirements increasingly intersect with strategic objectives. The findings suggest that while BEPS and similar regulations aim to curb tax avoidance, they also create new challenges for MNEs seeking to leverage TP

strategically. Understanding how to balance regulatory compliance with competitive strategy is a key takeaway for both practitioners and academics.

Significance of the Review

The significance of this review lies in its ability to advance the **strategic understanding of transfer pricing** within MNEs. By moving beyond the traditional tax-centric view of TP, the review demonstrates how TP can be strategically aligned with corporate goals to enhance competitiveness. This contribution is particularly timely, given the increasing pressure on MNEs to comply with stringent international tax regulations while maintaining competitive advantages in a globalized market.

Furthermore, the review highlights the **immature nature of the field** when it comes to viewing TP through a strategic lens. It demonstrates that TP research, while well-developed in the context of tax compliance, lacks depth in exploring its broader applications within corporate strategy. This review, therefore, serves as a **call to action** for further empirical research into the ways TP can be used to enhance firm performance and competitiveness. It also opens the door for **transfer pricing to be studied within the field of strategy**, where its potential to influence competitive positioning, resource allocation, and operational efficiency can be explored more fully.

By synthesizing existing literature and identifying key gaps, this review not only contributes to the academic discourse on TP but also provides practical insights for MNEs. The strategic use of TP is a relatively unexplored but potentially powerful tool for improving operational efficiency and optimizing resource allocation, both of which are essential for sustaining competitive advantage in today's global market.

The strain placed on the international tax framework by harmful tax practices masquerading as transfer pricing has prompted the establishment of the OECD Transfer Pricing Mandate for Multinational Enterprises and Tax Administrations (TPG) in 1979. Central to these guidelines is the arm's length principle, which aims to ensure that transactions between related entities within a multinational enterprise are conducted as if they were between independent, unrelated parties., which is a fundamental tenet in transfer pricing, requiring that transactions between related entities within a multinational

enterprise be conducted as if they were between independent, unrelated parties. This principle ensures that intercompany prices reflect fair market values, thereby preventing profit manipulation and ensuring compliance with international tax regulations. It is pivotal in maintaining equitable tax bases across jurisdictions and fostering transparency and fairness in global trade. This tenet is the foundation of the Transfer Pricing Guidelines (TPG) which is consistently endorsed by OECD member countries as the sole feasible representation of an open market (OECD, 2015, p. 28).

The OECD has periodically updated the Transfer Pricing Guidelines (TPG) to align with international tendencies in transfer pricing, the development of corporate strategy, and the ongoing global growth of international firms. Over the past four decades, heightened multinational competition has catalysed the increase of firm-specific advantages (FSAs). Initially, FSAs conceptualised in terms of core competencies as a strategy to obtain competitive advantage (Prahalad & Hamel, 1990). Firm-specific advantages (FSAs) are unique assets, capabilities, or resources that provide a firm with a competitive edge over its rivals. These advantages can include proprietary technologies, specialized knowledge, strong brand reputation, efficient organizational processes, and exclusive access to valuable resources. FSAs enable firms to differentiate themselves in the marketplace, achieve superior performance, and sustain long-term competitive advantage.

The price at which group companies and divisions within a company transact for shared firm-specific advantages (FSAs) is known as transfer pricing. If an MNC assesses its affiliates individually based on return on investment and operating profit, transfer pricing mitigates distortions in the performance of individual entities by establishing appropriate prices for inter-company and divisional sales of products. The practice of TP gained prominence with the adoption of strategies impacted by Coase's transaction cost economics, emphasising reducing transaction costs by internalizing external markets. This internalization facilitates more efficient management within the organisation via internal pricing mechanisms (Rugman, 1980).

Internalization theory of the firm (Buckley & Casson, 2011; Rugman, 1980a, 1980b) and the resource-based view of the firm (Collis & Montgomery, 1995; Stalk, Evans, & Shulman, 1992; Wernerfelt, 1984) have been pivotal establishing growth of MNC's. These theoretical frameworks facilitated a strategic shift among multinationals, moving them away from reliance on licensing agreements. for their firm-specific advantages

(FSAs), instead opting to internalize these advantages within the organization. By doing so, they could better protect their competitively distinct resources and capabilities from external threats and appropriation. The integration of these theoretical frameworks into an organization's strategic planning underscores the notion that aggressive transfer pricing strategies can be employed to enhance a multinational's competitiveness. By internalizing FSAs, multinationals can optimize their global operations, reduce transaction costs, and leverage their unique assets more effectively. This approach supports the idea that strategic transfer pricing not only ensures compliance with international regulations but also serves as a tool for reinforcing a firm's competitive position in the global market.

By focusing on strategic fit, corporations have concentrated their efforts on enhancing shareholder wealth (Hamel & Prahalad, 1989) through the employment of transfer pricing strategies aimed at minimizing tax costs. Internationalization denotes the process through which firms extend their operations beyond their domestic boundaries, pursuing new markets and growth opportunities. This strategic endeavour typically encompasses exporting, licensing, franchising, joint ventures, and direct investment in foreign markets. MNC's are the primary agents of internationalization, characterized by their ability to operate in multiple countries while maintaining a centralized management structure. MNCs leverage firm-specific advantages (FSAs), such as proprietary technology, brand reputation, and managerial expertise, to establish a competitive presence in diverse geographical markets. As MNCs expand globally, they encounter a complex landscape of tax regulations and jurisdictions. One of the most significant challenges they face is transfer pricing, which involves setting prices for transactions between related entities within the same corporate group. These transactions can include the transfer of goods, services, intellectual property, and financial arrangements. The arm's length principle (ALP) mandates that these transactions be conducted as if they were between independent, unrelated parties, ensuring that transfer prices reflect fair market values.

Transfer pricing has profound tax implications for MNCs. By strategically setting transfer prices, MNCs can influence the distribution of taxable income across different jurisdictions. This practice can lead to tax base erosion in high-tax countries and profit shifting to low-tax or no-tax jurisdictions, thereby minimizing the overall tax burden. However, aggressive transfer pricing strategies can attract scrutiny from tax authorities and result in substantial penalties and reputational damage.

To address these issues, international organizations such as the Organization for Economic Co-operation and Development (OECD) have developed guidelines to ensure that transfer pricing practices are transparent and comply with the arm's length principle. The OECD's Base Erosion and Profit Shifting (BEPS) project, for instance, aims to curb tax avoidance by promoting stricter transfer pricing documentation and reporting requirements.

Moreover, the tax implications of transfer pricing extend beyond compliance risks. They also impact the competitive positioning of MNCs. Effective transfer pricing strategies can enhance operational efficiency, optimize resource allocation, and protect firm-specific advantages. By aligning transfer pricing with corporate strategy, MNCs can maintain a balance between tax optimization and regulatory compliance, ultimately supporting sustainable global growth.

This approach allows multinationals to effectively shift profits from high-tax jurisdictions to low-tax host countries. Utilizing transfer pricing has been a means to enhance shareholder wealth with minimal effort, particularly in multinationals facing declining competitiveness. The influence and underlying design of the methodologies leveraged in TP is evidenced by firms recording profit ratios twice that of the multi jurisdiction firms as a whole (Organisation for Economic Co-Operation and Development, 2015).

Expediting and establishing the BEPS package through OECD means, accomplished within just two years from the project's inception, highlights the substantial challenges and instability confronting the international tax framework. BEPS framework was developed to increase belief in the global tax framework and to make sure that profits get taxed in the jurisdictions where the underlying economic activities occur (OECD, 2018). BEPS initiatives, spearheaded by the OECD, signified a critical response to the growing concerns over aggressive tax avoidance strategies employed by multinational corporations (MNCs). In relation to transfer pricing, BEPS represented a concerted effort to address and rectify the misalignment between the location of economic activities and the reporting of profits. By introducing comprehensive guidelines and recommendations, BEPS aimed to ensure that transfer pricing practices adhered more closely to the arm's length principle, thereby reflecting the true economic value of intra-group transactions. This initiative sought to mitigate the artificial shifting of profits to low-tax jurisdictions, thereby protecting national tax bases and promoting fairness and transparency in the global tax system. The BEPS framework also emphasized enhanced documentation and

reporting requirements, enabling tax authorities to better scrutinize and regulate transfer pricing arrangements within MNCs. The BEPS package necessitated a shift in the motives underlying transfer pricing practices. By increasing transparency and scrutiny of transfer pricing activities, the BEPS action points are expected to curtail the use of aggressive transfer pricing strategies, which may have the perception as tax avoidance, in some cases tax evasion.

Transfer pricing serves a dual purpose: it helps to minimize the overall tax burden for the group and enables MNCs to leverage unique competitive assets to enhance competitiveness, as proposed by internalization theory. Similar to developments in corporate strategy, with an external focus (Porter, 1980) moving in the direction of internal focus (Prahalad & Hamel, 1990), and ultimately to developments in the resource-based view (RBV) (Collis & Montgomery, 1995)—there is a need for developments in transfer pricing desires and design. This evolution is crucial to prevent practices of tax avoidance and evasion. The evolution of transfer pricing strategies should prioritize aggressive transfer pricing aimed at enhancing competitiveness rather than solely focusing on tax minimization. By aligning transfer pricing practices with broader corporate strategies, multinational corporations (MNCs) can more effectively leverage their firm-specific advantages and market conditions to maximize operational efficiencies and economic gains. Adopting this strategic approach to transfer pricing can result in enhanced profitability, thereby increasing wealth for both shareholders and stakeholders.

Adopting aggressive transfer pricing for competitive advantage involves setting transfer prices that reflect the true economic value of intercompany transactions, facilitating optimal resource allocation across various business units and geographical markets. This not only ensures compliance with international tax regulations but also enhances the overall performance and market positioning of the MNC.

Moreover, this approach promotes transparency and accountability within the corporate structure, fostering stronger relationships with tax authorities and reducing the risk of legal disputes and penalties. By focusing on competitiveness, MNCs can sustain long-term growth and profitability, contributing to the overall stability and robustness of the global economic system.

The evolution towards aggressive transfer pricing for competitiveness integrates tax compliance with strategic business objectives, ultimately leading to enhanced financial performance and increased wealth for shareholders and stakeholders. This shift underscores the importance of viewing transfer pricing not merely as a tax tool but as a pivotal element of corporate strategy that drives economic success and sustainable growth.

The BEPS and the Country-by-Country (CbCR) standards are a critical component of the OECD's Base Erosion and Profit Shifting (BEPS) Action Plan, specifically outlined in Action 13. mandates that multinational corporations (MNCs) provide detailed financial and operational information on a country-by-country basis, thereby enhancing transparency in transfer pricing and international tax practices. Country-by-country reporting under the BEPS framework plays a pivotal role in enhancing transparency, improving compliance, and curbing profit shifting in transfer pricing practices. It equips tax authorities with the necessary tools to ensure that MNCs pay their fair share of taxes in the jurisdictions where they conduct significant economic activities and create value.

Consequently, Country-by-Country Reporting (CbCR) compels MNC's to improve their transfer pricing practices and methodologies. Enhanced competitiveness inherently improves processes, which in turn leads to superior financial outcomes. This approach not only aligns with the compliance objectives of BEPS but also supports the strategic goals of transfer pricing by enhancing group profitability through legitimate and transparent means. It reduces the risks associated with profit shifting and aggressive transfer pricing while promoting a fair and equitable distribution of tax liabilities across different jurisdictions. In doing so, MNCs can achieve a sustainable and competitive advantage, maintaining profitability and regulatory compliance without resorting to practices that distort taxable income.

In essence, country-by-country reporting fosters an environment where MNCs can pursue increased group profits through effective and compliant transfer pricing strategies. It ensures that profit allocations are transparent and justifiable, thereby aligning with the broader objectives of the BEPS initiative to curb tax base erosion and profit shifting. This ultimately supports the long-term financial health and competitiveness of MNCs while upholding the integrity of the global tax system.

This dissertation is motivated by the topical nature of Transfer Pricing over the past five years due to MNC's being thrust into the spotlight for implementing transfer pricing to distribute income across geographies inflating profits. The review aims to analyse the literature that discussed Transfer Pricing as a strategic mechanism to allow a firm to create greater competitive advantage. This review first provides the major themes of Strategy & Competitiveness, Transfer Pricing and Taxation, then looking into the methods used in the research followed by a discussion. This is then followed by the results section which discusses the relevant articles and the applicable theories.

This review aims at showing what research has been conducted on the relationship of Strategy and Transfer Pricing (TP). There is a limited body of empirical and conceptual research examining how Transfer Pricing (TP) can be strategically employed to achieve advantages beyond cost savings. It shows a limited selection of journal papers that cover this area, and that further research is needed in this domain. Furthermore, the ambiguity surrounding the strategic intentions behind transfer pricing, coupled with the heavy reliance on positivist assumptions, raises questions about the strength and validity of any proposed linkages.

The literature review was rooted in the both International Competitiveness which "depends upon the linkages between a firm's unique, idiosyncratic capabilities (firm-specific advantages, FSAs) and its home country assets" (Rugman et al., 2011, p. 4) and Transfer Pricing which (Patel, 1981) goes on to discuss the five areas of 1-Taxes & Duties, 2-Restrictions on Remittance of Dividends, Royalties, Interest on Loans, Technical and Management fees, 3-Restrictions on Foreign Subsidiaries' Investments, 4-Changes in Exchange Rates, 5-Political and Social Reasons. These 5 areas occur both within the economic and behavioural areas of Transfer Pricing.

To advance the interpretation of TP in supporting competitiveness, this research takes the context of where the firm operates into account. This research follows Eden & Rugman (1987, pp. 56) ideas on Multinationals and TP as a function to set effective pricing. However, the strategic relevance of TP would rest on its ability to support corporate goals to achieve the strategic intent of the firm. This review attempts to unearth the strategic relationship between competitiveness and TP at a firm level.

To answer this the following research questions have been posed:

What functions has TP within the firm been servicing?

How has TP and its various constructs been linked with competitiveness and aligning to the strategic goals of the firm?

The paper details the various approaches and formulae of TP and considers the Tax implications of such within MNC's, along with the theoretical backgrounds of TP calculations. It also highlights that most, if not all the work performed within the literature to date is focused very much on the calculations of TP and Tax implications. The results are finally discussed in the context of the implications for theory as well as practice considerations. The paper below has four major section which are firstly the resulting theoretical background to the search, the method, a discussion on the results and finally a conclusion and next steps.

In conclusion, this review enhances our understanding of **transfer pricing as a strategic mechanism**, offering new insights into its role in firm competitiveness and highlighting the need for further research in this evolving field. Importantly, it sets the stage for future research to investigate TP within the strategic management domain, broadening the scope of TP studies to include its role in competitive strategy and long-term corporate success.

1.1 Research Scope

This research examines the role of transfer pricing in enhancing competitiveness. The pertinent literature encompasses corporate strategy, competitiveness, multinational corporations and transfer pricing methodologies.

1.2 Research Motivation

The motivation for this research stems from the need to explore and understand the strategic role of transfer pricing beyond its traditional view as a tax minimization tool. With the increasing complexity and globalization of multinational enterprises (MNEs), it becomes imperative to investigate how transfer pricing can be leveraged to enhance competitiveness and operational efficiency. The existing literature has primarily focused on the regulatory and compliance aspects of transfer pricing, leaving a significant gap in understanding its potential as a strategic mechanism for resource allocation and

performance measurement within MNEs. This study aims to fill that gap by examining how transfer pricing strategies can align with corporate goals to create firm-specific advantages (FSAs) and sustain competitive edge in the global market. Additionally, the research addresses the challenges posed by international tax regulations, such as the OECD's Base Erosion and Profit Shifting (BEPS) initiatives, and their impact on the strategic use of transfer pricing.

1.3 Literature Review Approach

This review aims to synthesise the existing knowledge pertaining to Transfer Pricing as it relates to Strategy with a focus on reviewing how Transfer Pricing effects competitiveness and what research currently exists that may determine if Transfer Pricing can be used to improve firm wide competitiveness. It has been clear from doing thorough journal reviews across level as well as looking at business articles and non-submitted white papers that very little literature exists in the intersection of competitive strategy and TP, hence the need for research in this area.

1.4 Competitiveness of a firm

Corporations that thrive across generations, adeptly adjust to the competitive environment (Henderson, 1989). In the context of globalization, where multinationals are at the forefront, internal pricing is crucial for their effective functioning. Hence, adapting transfer pricing intentions are imperative to maintaining competitive advantage.

Corporate strategy and competitiveness have continuously been developing over the years, with significant increases in developments in the past forty years, this can be seen in the increase of research in this field. These changes have been driven by facets of the prevailing macro environment, most notably globalization, the global growth of MNC's, and the development of neo-classical economics.

Concepts of transaction cost economics which lead to the internalization and vertical integration strategies, are tracked back to Ronald Coase's 1937 article, "The Nature of the Firm." Coase (1937) argued the distribution of production elements outside the firm is grounded on a price process, affecting both supply and demand for goods and services.

Within a firm, however, the allocation of resources is not solely based on price changes but also on internal directives (Coase, 1937, p.387).

Building on Coase's transaction cost economics, firms evolved by superseding the price mechanism to negate associated costs (Coase, 1937, p.390). Included in these costs are the cost for negotiations, information collection, and business contracts (Tadelis & Williamson, 2012). Additional costs encompass legal expenses, organizational costs, and those which are related to ineffective markets (Joskow, 1985). Within firms, lower costs are due to the suppression of the price mechanism, maintained due to the capability of the firm to exploit the market environment when inputs increase (Coase, 1937, p.392).

The internalization of resources and the emergence of multinationals driven by globalization can be traced back to Coase's. Coase (1937) developed the thesis that assuming exchange transactions were homogeneous is incorrect; the diversity of these transactions means costs vary considerably, influenced by both the costs method and the inside the organization of these exchanges (Tadelis & Williamson, 2012). Internalising resources that exist outside the organisation, can create an efficient decision-based method on available options, and transactions not dependent on the cost method could be internalised (Coase, 1937; Tadelis & Williamson, 2012).

In the 1960s, Coase introduced the concept of positive transaction costs, highlighting that zero transaction costs do not exist (Tadelis & Williamson, 2012). Consequently, corporate strategy evolved to include the growth of core competences as well as the resource-based view (RBV), beyond just reducing transaction costs improving competitiveness. Cost-minimizing agreements like a strategic alliance, often lead to increased transaction costs due to unforeseen contingencies, causing opportunism and the "hold-up" problem (Joskow, 1985). Therefore, corporate strategy evolved to vertical integration, facilitating the rise of corporates through expansion in diverse operations.

Corporate expansion was prominent throughout 1960 and early 1970, enabling firms to enter new business streams through acquisition or leveraging economies of scale (Ramanujam & Varadarajan, 1989). This required changes in administrative structures, systems, and management processes. Developments from expansion to strategic alignment, captured in Porter's five forces model, was driven due to the challenges in

being able to quantify efficiency, expansion and reducing the risks of trying to diversify (Porter, 1979; Ramanujam & Varadarajan, 1989; Stalk et al., 1992).

The rapidly changing competitive environment is a consistent context throughout this evolution. Hamel and Prahalad (1989) noted accelerating the rate of transformation, and Collis and Montgomery (1995) highlighted the challenges managers face due to global competition and technological change. In 1980 Michael Porter's five competitive forces had a large impact in the field of strategy, focusing on sustained competitive advantage by analysing the industry environment (Porter, 1980). This shifted the focus from product diversification to market differentiation and firm capabilities.

Focusing on a firm's capabilities allowed corporations to shift essential processes to new geographical areas, providing both specialisation and variegation benefits (Stalk et al., 1992). Firms orientated their strategies matching their strengths and weaknesses to industry structures, establishing defences against competitive forces (Porter, 1980).

Developments in corporate strategy are often informed by the current macro environment. An RBV of the firm was only applied twenty years after Penrose alluded to it in "The Theory of the Growth of the Firm" (Rugman & Verbeke, 2004; Wernerfelt, 1984). Although Penrose significantly impacted the theory of RBV, this impact was not intentional (Rugman & Verbeke, 2002). Similarly, transaction cost economics reached its pinnacle in the 1960s, many years post Coase introducing the theory (Tadelis & Williamson, 2012).

Throughout 1980 we see a "rebirth" of RBV, leveraging Porter's five competitive forces to analyse the fit of a firm's existing assets in an industry (Wernerfelt, 1984). The strategic objective to develop appropriate solutions where the firm's resources could be aligned to industry gaps. It became clear that to remain competitive, multinationals needed to develop required resources for competitive advantage.

The shift from current resources to developing required resources marked a significant change in corporate strategy in the 1980s, evolving from strategic fit to strategic intent. This customer-centric view emphasized supplying customers with desired products rather than those the firm believed they needed.

Strategic intent, an Eastern business model, revitalized corporate competitiveness (Hamel & Prahalad, 1989). The focus on resource-opportunity fit led to a decline in Western competitiveness by overlooking potential competitors' intentions (Hamel & Prahalad, 1989). Strategic intent involves aiming to become an industry leader by improving current resources to create a foundation for future leadership. Hamel and Prahalad (1989) believed strategic alignment creates uniformity in time sensitive initiatives while allowing flexibility for further areas of strategic development. This shifted corporate strategy where there was an outside in focus in general to one of inside out, beginning with the development of core competencies (Prahalad & Hamel, 1990). Founded on internalisation theory from Buckley and Casson, Rugman, and Hennart (Rugman et al., 2011). The RBV combined internal development of core competencies with industry analysis to achieve competitiveness. Firms now used resource capabilities as strategic management tools (Collis & Montgomery, 1995; Stalk et al., 1992).

Stalk et al. (1992) connected abilities to workflow optimisation, while Collis and Montgomery (1995) expanded the concept to include tangible and intangible resources. The RBV required analysing internal resources necessary for success in a competitive environment and developing these into competitively distinct resources (Collis & Montgomery, 1995).

The development of corporates to becoming globally integrated firms are closely tied to firm strategy, to both internationalise whilst becoming more cost effective while increasing revenues and general competitiveness through methods beyond expenses reduction. Ronald Coase's 1937 paper, "The Nature of the Firm," is foundational for the development of firms as well as MNC's (Rugman, 1980; Kapler, 2007; Buckley & Casson, 2011; Rugman, Verbeke, & Nguyen, 2011; Hashai & Buckley, 2014; Verbeke & Kano, 2015).

1.5 Transfer Pricing

Transfer pricing refers to the method by which prices are set for transactions of goods, services, or intangibles between related entities within a MNC. These intra-group transactions must adhere to the arm's length principle, which dictates that transfer prices should reflect the conditions that would prevail between independent, unrelated parties.

This practice is crucial for ensuring that profits are appropriately allocated among the different jurisdictions in which the MNE operates, thereby preventing tax avoidance through profit shifting to low-tax regions. Transfer pricing plays a significant role in both corporate strategy and international tax compliance, impacting the distribution of taxable income and the overall financial health of MNEs.

Transfer pricing occurs when divisions, subsidiaries, or entities within a multinational enterprise (MNE) engage in intra-group transactions involving goods, services, or intangibles. These transactions must be priced according to the arm's length principle, ensuring that the terms reflect those that would be agreed upon by unrelated parties under similar circumstances. This process is crucial for the accurate allocation of income and expenses among different tax jurisdictions, preventing profit shifting and tax avoidance.

Consider a hypothetical example involving a multinational corporation, Globex Inc., which operates two subsidiaries: one in Country A (a high-tax jurisdiction) and another in Country B (a low-tax jurisdiction). Subsidiary A manufactures high-tech components, while Subsidiary B assembles these components into finished products. In this scenario, Subsidiary A sells components to Subsidiary B. If Globex Inc. sets the transfer price for these components significantly higher than the market price, it will result in higher revenues and profits for Subsidiary A, which are taxed at the higher rate in Country A. Conversely, Subsidiary B will report lower profits, thereby reducing the overall tax burden in the low-tax jurisdiction of Country B.

To comply with the arm's length principle, Globex Inc. must ensure that the transfer price for the components reflects the price that would have been charged between independent enterprises under similar conditions. This might involve conducting a comparable uncontrolled price (CUP) analysis, examining the prices charged in similar transactions between unrelated parties. Alternatively, Globex Inc. could use other transfer pricing methods, such as the resale price method or the cost-plus method (discussed later), to determine an appropriate transfer price. By adhering to the arm's length principle and employing rigorous transfer pricing methodologies, Globex Inc. can ensure that its intra-group transactions are compliant with international tax regulations.

The development of corporate strategy, culminating via the increase of global corporations, leads to further utilisation as well as exploitation of transfer pricing to

increase revenue through tax cost reduction, thereby fostering the notion of competitiveness (Joskow, 2010). This development prompted the establishment of the OECD Transfer Pricing Guidelines (TPG), aimed at preventing firms taking advantage of transfer pricing to practice tax reduction both legally and illegally in domestic and international markets.

TPG is the comparison of inter-group trade, informing whether the trades are indeed viewed at arm's length. It is necessary to be able to independently decide this because inter-group trades are controlled, allowing prices to be changed and for the firm to take advantages of these changes. The firm is able to do this by moving recognised trade and transactions to the most efficient jurisdiction resulting in it reducing perceived profits.

There are multiple definitions of the arm's length agreement (Schjelderup & Sorgard, 2008; Usman, 2010; Cravens, 1997):

- Correctly sharing corporate profits,
- Equal bargaining power of affiliates in related party transactions,
- Ensuring price consistency across firms in multiple jurisdictions
- Ensuring price consistency between related and unrelated entities
- Ensuring conditions remain the same between related and unrelated entities

The core tenant of the arm's length principle is to ensure that controlled transactions remain the same whether between a related or an unrelated party. This allows for comparison of a controlled transactions to similar uncontrolled transactions. When the arm's length principle has been broken, profits typically accrued to a party but did not accrue due to controlled transactions should be restated, and the relevant taxes levied on that party (OECD, 2017, p.33).

Arm's length principles or the "separate entity" test, both of which do not always take into account for economies of scale nor developments of diversification across a global firm (OECD, 2015, p.27), contradict the theories underpinning the operations of MNC's. Leveraging the reduction of expenses of operations that have been designed to develop economies of scale, intentionally driving the MNC's strategic direction, is invalidated by implementing and enforcing arm's length principles.

TPG enforces arm's length principles to reduce corporates trying to increase tax advantages or disadvantages, which creates an anti-competitive market and ultimately stunts global growth (OECD, 2012, p.38). This results in stopping the firm moving its advantages in the current market, between jurisdictions via a transfer price. MNC's have tried to move their competencies in innovation and design to areas where they can leverage their Firm Specific Advantages (FSA) to try and optimise input expenses. Tgis has resulted in the internalization of the country business environment which leads to the dominance of MNC's (Dix, 2010).

TPG also demonstrates that the arm's length principle creates progress towards developing international trade as well as investment due to eliminating tax advantages and disadvantages (OECD, 2018, p.32). Firms have argued that growth in global markets occurs when the strategy is adopted to increase competitive advantages of multinational firms, ultimately driving a reduction in transaction costs and the cost of trade internally transferring expertise and knowledge, thereby enhancing a multinational's competitiveness (Cravens, 1997; Alles & Datar, 1998; Nielsen et al., 2003; Eden, 2003; Schjelderup & Sorgard, 2008; Dix, 2010; Joskow, 2010; Lin & Chang, 2010).

Within the development of corporate strategy, the primary objective has been on attaining competitive advantages and distinguishing organizations to surpass their competitors. The claim that the arm's length principle seeks to eliminate tax benefits derived from competitive advantages contradicts the fundamental rationale behind the formation of international firms.

The researcher acknowledges that delta in tax rates as well as legislation offering diverse brackets of tax breaks to incentivise foreign direct investment (FDI) have led multinationals to be attracted to low-tax areas and use transfer pricing to further minimise their tax costs. Competitiveness is not created by tax relief measures alone (Prahalad & Hamel, 1990), but research indicates that these tax relief measures do play a key role in moving operations and capital to a specific market (Lin & Chang, 2010). Below we can see the differences in corporate tax rates that create these differentials (PWC, 2022).

Table 1: Median corporate tax rate %

Country region	2017	2018	2019	2020	2021	2022
----------------	------	------	------	------	------	------

Africa	27.4	29.5	28.9	27.9	28.1	26.9
Latin America	26.4	29.1	27.2	29.1	26.9	27.1
North America	34.4	33.9	32.9	32.9	34.1	32.9
OECD	24.8	26.1	24.9	24.9	23.9	25.1
Asia	23.1	22.9	23.1	23.1	22.1	23.1
Europe	22.6	21.8	21.0	21.0	18.9	21.1
Global	23.6	23.9	23.9	24.8	24.1	24.0

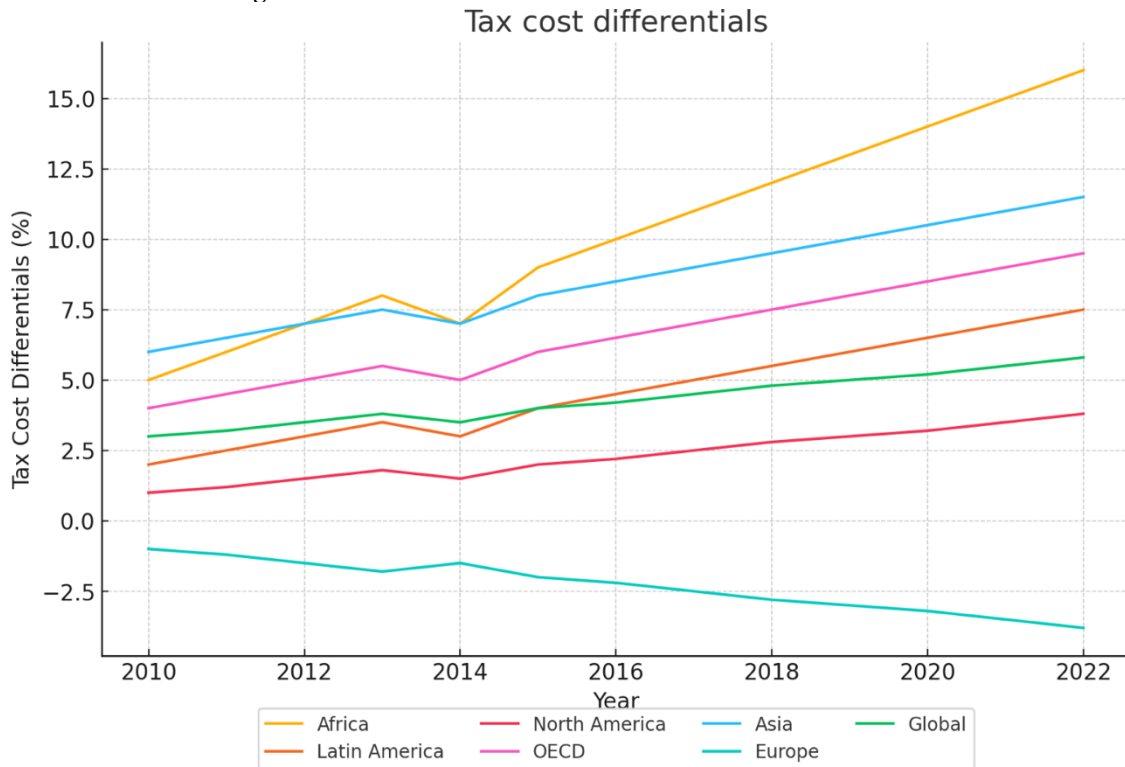
Looking at the median corporate tax rates across the globe in relation to a \$1 billion taxable income within an MNC and the subsidiary for every region reveals a substantial tax cost differential, as illustrated in Figure 1. This differential highlights why a multinational might prefer establishing operations in Africa or LATAM over Western Europe. While acknowledging the different corporate taxes as well as regulations are not the sole considerations, a tax rate differential of 50% between Western Europe and LATAM translates to a \$115 million reduction in tax on a \$1 billion tax-based revenue.

Lin and Chang (2010) identify primary purposes and role of transfer pricing as enhancing market competitiveness, enabling the agile movement of funds across the organisation, alleviating the tax costs through optimised tariff costs as well as taxes on revenue, and reducing regulatory requirements via trade regulations preventing this, exchange controls, and dividend export restrictions. Their research indicates that while multiple causes influence transfer pricing motives—primarily tax minimization and group profit maximization—there is also a notable shift among Taiwanese multinationals. These shifts are increasingly focused on enhancing competitiveness and achieving revenue goals (Lin & Chang, 2010).

The research conducted by Eden (2003) has substantiated the evolution of transfer pricing motives among multinationals., which reveals a shift from the primary focus on profit maximization through tax minimization to a more balanced approach that emphasizes increased competitiveness. This paradigm shift indicates that multinationals can no longer solely rely on tax minimization strategies as their core motive for transfer pricing, as highlighted in further research by Eden (2016). The transition underscores a need for strategies that enhance overall corporate competitiveness while maintaining compliance with international tax regulations.

Furthermore, the conceptual appeal, underlying assumptions, and operational complexities associated with the economic models used for determining intracompany prices add another layer of difficulty to the strategic deployment of transfer pricing across global offices. Brem and Tucha (2006) explain that these economic models, despite their theoretical robustness, encounter significant practical challenges when applied in real-world multinational settings. The assumptions embedded within these models often fail to capture the dynamic and multifaceted nature of global markets, leading to potential misalignments between theoretical predictions and actual business practices.

The operational difficulties arise from the need to gather comprehensive and comparable market data, ensure consistency with the arm's length principle, and adapt to varying regulatory environments across different jurisdictions. These challenges necessitate a meticulous and adaptive approach to transfer pricing, one that balances economic theory with practical considerations and regulatory compliance. Consequently, while the strategic use of transfer pricing can offer competitive advantages, it requires a sophisticated understanding of both economic principles and the complex realities of multinational operations.

Figure 1: Tax cost % differences

It is apparent that tax differentials, as previously mentioned, can significantly influence transfer pricing motives. This influence arises primarily from the disparities in tax rates and regulations, which arm's length principles mitigate. Investigation indicates a shift towards enhancing competitiveness through means other than tax minimization.

1.6 Transfer Pricing Methods

The main objectives of the Transfer Pricing Guidelines (TPG) are to ensure that transactions between related parties comply with the arm's length principle, preventing tax evasion and avoidance by discouraging profit shifting to low-tax jurisdictions. The TPG aims to promote a fair distribution of profits among countries where multinationals operate, ensuring taxation aligns with economic activities and value creation. Additionally, the guidelines provide clear and consistent rules to reduce disputes, enhance transparency, and minimize the risk of double taxation. By doing so, the TPG supports economic development by ensuring countries receive their fair share of tax revenue from multinational enterprises. (OECD, 2017, p.59). Table 3 outlines the methods applicable to the categories of transfer pricing methods.

Table 2: Transfer pricing approaches

Traditional Transaction Methods (TTM)	Transactional Profit Methods (TPM)
Comparable Uncontrolled Price (CUP) Determines the arm's length price of a controlled transaction by comparing it to the price charged in a similar transaction between independent entities under comparable conditions.	Transactional Net Margin Method (TNMM) Determines the arm's length price by comparing the net profit margin earned in a controlled transaction to the net profit margins earned in comparable uncontrolled transactions.
Resale Price method (RPM) Determines the arm's length price by subtracting an appropriate gross margin from the resale price at which a product purchased from a related entity is resold to an independent party.	Transactional Profit Split Method (TPSM) Determines the arm's length price by splitting the combined profits from a controlled transaction between related entities based on the relative value of their contributions, as would be expected between independent parties in comparable circumstances.
Cost Plus method (CPM) Determines the arm's length price by adding an appropriate gross profit mark-up to the costs incurred by a supplier in a controlled transaction.	

Each of these approaches has its own strengths, weaknesses, and optimal contexts for application. According to the OECD, there is international consensus that these five approaches best approximate the arm's length principle (OECD, 2012).

According to the Members of the UN Tax Committee's Subcommittee on Practical Transfer Pricing Issues (2016, p.4), the appropriate transfer pricing approach is determined through a functional analysis of the controlled transaction and its comparability with uncontrolled transactions, a process often referred to as benchmarking. This functional analysis aids in understanding the transaction's specifics, establishing a basis for comparability, and determining the accuracy of the chosen approach. Each of the five accepted transfer pricing methods is more suitable for certain types of related-party transactions than others. The analysis ensures that the selected method aligns with the nature of the transaction and the economic reality of the parties involved.

General transfer pricing practices do not align with many of the corporate strategy models such as firm-specific advantages (FSA) or internalisation theory (Rugman et al., 2011),

which underpin the formation of MNC's. When comparing controlled and uncontrolled transactions to adhere to the arm's length principle it is inherently flawed. Internalization theory, which forms the foundation of multinational corporations, aims to minimize transaction costs by internalizing markets, thereby creating both consumer and producer surplus. The shortcomings of the arm's length principle are evident not only because no two multinationals are identical in their organisational design (Chiang & Del Gaudio, 2013) as well as due to the reduction of customer excess (Behrens, Peralta, & Picard, 2014).

Requirements to determine transaction comparability has given rise to a specialized skill set and industry, adding significant administrative and financial burdens to multinationals for transfer pricing compliance. Afik & Lahav (2015), Bauer & Langenmayr (2013), and Keuschnigg & Devereux (2013) emphasize that multinationals implement unique strategies that differentiate them from other organizations, making it nearly impossible to accurately compare their internal transactions with those of other multinationals or independent organizations. This differentiation stems from the diverse ways in which multinationals manage their operations, resources, and competitive advantages, which leads to significant variability in their internal transactions. Consequently, establishing comparability for transfer pricing purposes becomes highly challenging due to the inherent differences in how these entities operate and structure their intra-firm transactions.

Furthermore, changes multinationals must make in host countries to recombine FSAs and country-specific advantages (CSAs) to ensure relevance and competitiveness further illustrate the unique nature of these entities (Verbeke & Kano, 2015). The TPG associates comparability with the evaluation of potential transactions by independent firms, comparing realistically available alternatives and engaging in commerce that is advantages and more profitable or the same commerce to from other vendors suppliers but at lower costs (Organisation for Economic Co-Operation and Development, 2010, p.42). Before becoming multinationals, organizations faced the same "make or buy" decisions, ultimately choosing to "make" instead of "buy" by internalizing whilst combining individual firms and markets through diverse corporate strategies.

The multitude of transfer pricing methods highlighted below, illustrate the adoption of an arm's length transaction. TPG (2017) shows, "The selection of a transfer pricing method

always aims at finding the most appropriate method for a particular case” (p.61). Multiple methods are applied with equal reliability, the preferred methods are the traditional transaction methods (TTM) over the transactional profit methods (TPM) and the comparable uncontrolled price (CUP) method over other transfer pricing approaches (OECD, 2012, p.62). Showing the increase in complex an MNC’s market, the increase in input costs associated with ensuring adherence to the arm’s length principle and establishing the reliability and appropriateness of the selected transfer pricing methods.

1.6.1 Traditional Transaction Method TTM

1.6.1.1 Comparable Uncontrolled Price (CUP)

The Comparable Uncontrolled Price (CUP) method is a traditional transaction method used in transfer pricing to determine the arm’s length price for transactions between related parties. Recognized by the Organisation for Economic Co-operation and Development (OECD) in its Transfer Pricing Guidelines, the CUP method compares the price charged for goods or services in a controlled transaction with the price charged in a similar uncontrolled transaction between independent parties under comparable circumstances.

The application of the CUP method involves several steps. First, it requires identifying comparable transactions between unrelated parties. These comparable can be either internal, involving the same taxpayer, or external, involving independent entities. Next, the comparability of the controlled and uncontrolled transactions is evaluated by examining various factors, such as the characteristics of the property or services, functions performed, contractual terms, economic circumstances, and business strategies. If differences exist that could affect the price, reasonable adjustments are made to ensure comparability. Finally, the price from the uncontrolled transaction, after adjustments, is used as the benchmark to determine the arm’s length price for the controlled transaction.

For example, if Company A sells a product to its subsidiary, Company B, the CUP method would compare this transaction with similar sales to independent third parties. Adjustments might be necessary to account for differences, such as payment terms, to ensure a fair comparison. The adjusted price from the third-party transaction would then serve as the benchmark for setting the transfer price between Company A and Company B.

The CUP method has several strengths, including its direct comparability and conceptual simplicity. However, it also faces challenges, such as the difficulty in finding exact comparable uncontrolled transactions, the need for adjustments that can introduce subjectivity, and the variability of market conditions that can affect comparability. While the CUP method is a fundamental approach in transfer pricing due to its straightforward nature when exact comparables are available, its practical application can be limited by data availability and the necessity for adjustments. Effective use of the CUP method requires a thorough analysis of transactions and conditions to ensure compliance with international standards and to reflect true market conditions. (OECD and Development Secretariat, 2017).

1.6.1.2 Resale Price Method (RPM)

The Resale Price Method (RPM) is a traditional transaction method in transfer pricing used to determine the arm's length price for goods and services sold between related parties. According to the Organisation for Economic Co-operation and Development (OECD) Transfer Pricing Guidelines, the RPM is particularly well-suited for sales and marketing operations, such as distributors, where the reseller adds value to the goods or services received from an affiliated company before reselling them.

The application of the RPM begins by examining the gross margin achieved by an organization reselling a product purchased from an affiliated company. To determine an appropriate arm's length price for the original purchase, an appropriate gross margin, based on an uncontrolled comparable transaction, is deducted from the resale price. This gross margin should cover selling and administrative costs and yield an appropriate profit after accounting for other costs associated with purchasing the product.

For instance, if a distributor within a multinational group resells products acquired from an affiliated manufacturer, the RPM would compare the gross margin of this controlled transaction with the gross margins of similar transactions between independent distributors and manufacturers. Adjustments may be necessary to account for differences in functions performed, risks assumed, and market conditions to ensure comparability.

The RPM's strengths lie in its ability to provide a straightforward comparison when there are reliable and comparable gross margins from uncontrolled transactions. However, it also presents challenges, such as finding truly comparable uncontrolled transactions and making necessary adjustments to account for differences between the controlled and uncontrolled transactions. The Resale Price Method (RPM) is an essential tool in transfer pricing for ensuring that transactions between related parties are conducted at arm's length. While it offers a clear framework for comparison in sales and marketing contexts, its effectiveness depends on the availability of reliable comparable and the accuracy of necessary adjustments to reflect true market conditions. (OECD and Development Secretariat, 2017).

1.6.1.3 Cost Plus Method (CPM)

The Cost Plus Method (CPM) is a traditional transaction method in transfer pricing, utilized to determine the arm's length price for transactions involving the sale of goods or services between related parties. As outlined in the Organisation for Economic Co-operation and Development (OECD) Transfer Pricing Guidelines, this method is particularly suited for transactions where the supplier does not incorporate valuable unique intangible assets or assume unusual risks.

The application of the CPM starts with the supplier's cost of producing goods or providing services to an affiliated company. An appropriate mark-up is then added to this cost to determine the arm's length selling price. This mark-up is determined by referencing comparable uncontrolled transactions and is calculated after accounting for direct and indirect production or supply costs but before including overhead expenses.

For example, if a manufacturing company within a multinational group sells products to an affiliated distributor, the CPM would compare the mark-up on these products with the mark-ups observed in similar transactions between independent manufacturers and distributors. Adjustments may be necessary to account for differences in functions performed, risks assumed, and market conditions to ensure comparability.

The strengths of the CPM lie in its direct application to manufacturing and service activities where costs are a significant component of the transaction price. It provides a

clear framework for determining appropriate mark-ups based on comparable transactions. However, challenges include finding truly comparable uncontrolled transactions and making necessary adjustments to reflect differences accurately.

The Cost-Plus Method (CPM) is a vital tool in transfer pricing for ensuring that transactions between related parties are conducted at arm's length. While it offers a straightforward approach for manufacturing and service contexts, its effectiveness relies on the availability of reliable comparable and the precision of adjustments needed to account for differences in transactions and market conditions. (Organisation for Economic Co-Operation and Development Secretariat, 2017).

1.6.2 Transactional Profit Method (TPM)

1.6.2.1 Transactional Net Margin Method (TNMM)

The Transactional Net Margin Method (TNMM) is a transfer pricing method that evaluates the net profit margin derived from controlled transactions and compares it to the net profit margin from comparable uncontrolled transactions. This method uses a ratio to an appropriate base such as costs, sales, assets, or operating profits. The TNMM operates similarly to the Resale Price Method (RPM) and the Cost Plus Method (CPM), but focuses on net profit rather than gross profit or mark-up. It is particularly suited for manufacturing and service activities where it may be difficult to find exact comparable for gross profit margins. The TNMM ensures that the profit allocation between related parties reflects what would have been earned in transactions with independent parties under similar circumstances. (OECD and Development Secretariat, 2017).

1.6.2.2 Transactional Profit Split Method (TPSM)

The Transactional Profit Split Method (TPSM) is a transfer pricing method that aims to divide the total profits (or losses) arising from controlled transactions between related parties in a manner that approximates the division of profits that would have occurred between independent parties in comparable uncontrolled transactions. This method is particularly useful when transactions between related parties are highly integrated, and it is difficult to evaluate them separately. The TPSM allocates profits based on the relative value of each party's contribution to the overall profit, considering factors such as functions performed, assets used, and risks assumed. This method ensures that the profit allocation reflects the economic realities of the related parties' contributions, aligning with

what would have been achieved in arm's length transactions. (OECD and Development Secretariat, 2017).

1.7 Formulary apportionment as an alternative

Formulary apportionment (FA) represents an alternative approach to traditional transfer pricing methods, aimed at taxing the global profits of multinational enterprises (MNEs) in a manner that diverges from the arm's length principle. Unlike the arm's length principle, which treats each affiliate as a separate entity and often nullifies cost advantages, FA proposes a holistic allocation of global profits based on a specific formula. This formula typically considers multiple factors such as costs, assets, payroll, and sales to proportionally distribute profits among the connected entities of an MNE.

Proponents of FA argue that this method addresses some of the inherent flaws in the arm's length principle, particularly its failure to account for the integrated nature of MNC operations and its potential to distort the allocation of tax liabilities. By using a formula that reflects the economic reality of the MNE's global operations, FA aims to enhance customer welfare and create consumer surplus through more integrated operations.

Formulary apportionment suggests that the global profits of MNEs be allocated among the various jurisdictions where they operate, based on a set of predefined criteria. For instance, an MNE's profits could be apportioned according to the proportion of its total turnover, assets, or payroll in each jurisdiction. This approach could mitigate the incentive for profit shifting and reduce the administrative and compliance costs associated with adhering to the complex arm's length standard.

However, the adoption of FA faces significant challenges. The Organisation for Economic Co-operation and Development (OECD) has rejected this method, citing the substantial international coordination and consensus required, as well as the need for agreement on a universal formula. Despite these challenges, FA remains an important proposal for curbing tax-driven transfer pricing and protecting the tax bases of developing countries, as it offers a potentially more equitable and simplified approach to taxing MNEs' global profits (Behrens et al., 2014; Chiang & Del Gaudio, 2013; Martini, Niemann, & Simons, 2012).

1.8 Review Question

This review critically examines the role of transfer pricing in enhancing the competitiveness of MNC's. By completing a detailed literature review and analysing the critical theoretical frameworks, empirical studies, and regulatory guidelines, this review seeks to elucidate if existing research in strategic transfer pricing has reviewed firm competitiveness whilst considering the impacts of tax liabilities, the alignment of internal incentives whilst leveraging market conditions to create competitive advantages.

How have MNC's historically utilised transfer pricing beyond mere tax minimization, and what literature supports the strategic use of transfer pricing for enhancing competitive advantage? This question aims to explore the historical context and evidence supporting the use of transfer pricing as a strategic tool rather than solely a tax incentive.

What theoretical frameworks and conceptual models have been proposed in the literature to explain the strategic benefits of transfer pricing in MNC's? This question focuses on identifying and evaluating the theoretical foundations and conceptual models that explain how transfer pricing can be leveraged for strategic benefits, including resource allocation, cost efficiency, and competitive positioning.

In what ways do regulatory environments and international guidelines influence the strategic use of transfer pricing by MNCs, and what are the implications for global tax compliance and competitiveness? This question examines the impact of regulatory frameworks, such as the OECD guidelines and BEPS initiatives, on the strategic implementation of transfer pricing by MNCs, considering both compliance and competitive implications in different jurisdictions.

1.9 The systematic literature review

To answer the review questions, this research assesses existing literature, focusing on academic literature, but drawing on consultancy publications to compare the state of knowledge in academia and industry. This section describes the detailed steps taken to collect and analyse the input material. It reviews the existing literature and addresses what aspects of Transfer Pricing could improve the competitiveness of a firm.

Exclusion Criteria and Search Strings: Emphasis on Strategic Considerations over Taxation

The exclusion criteria were rigorously defined to ensure that only studies aligning with the research focus on transfer pricing (TP) as a strategic decision were included. Given that much of the TP literature is concentrated on tax minimization (Eden, 2003), the exclusion of tax-focused studies was necessary to maintain the emphasis on TP as a mechanism for enhancing multinational enterprises' (MNEs) competitiveness. This approach was implemented through the use of specific search strings, which deliberately excluded tax-related discussions. For example, queries such as *{transfer pricing} AND strategy AND NOT tax* were used to isolate literature that examined TP within a strategic management framework, excluding the traditional tax compliance lens (Lin & Chang, 2010).

This filtering process was vital because the dominance of tax-centered literature, particularly in the context of the OECD's Base Erosion and Profit Shifting (BEPS) initiative (OECD, 2017), posed a significant risk of shifting the research focus away from its core objective. Including tax-related studies would have skewed the research towards compliance and fiscal considerations, detracting from the exploration of TP's strategic role in fostering competitive advantages within MNEs (Collis & Montgomery, 1995). By adhering to strict exclusion criteria, the study maintained its focus on TP's strategic implications, allowing for a more targeted analysis of how TP can be employed to optimize firm-specific advantages (FSAs) and contribute to overall competitiveness.

Systematic reviews aim to reach reasonable conclusions "about what is and is not known" (Denyer and Tranfield, 2009, p. 671) using a rigorous methodology to identify, select and analyse existing research. Adapted methodologies from medical sciences for management research, Tranfield et al. (2003) developed a three-stage process, describing the planning, conducting and reporting of the review. Their process has been followed for this review and will be outlined in this section.

1.9.1 Keyword development and systematic search

The review question can be broken down into three major components: Transfer Pricing, Strategy and Competitiveness. As all three areas are complex concepts with different terminologies used by different authors, different synonyms have to be considered in the

literature review. Table 3 defines the different terms for each of these, which will form the keywords for the search strings.

Table 3: Keywords

Review question component	Authors
Transfer Pricing	Transfer pricing (Nielsen, Raimondos-Moller & Schjelderup 2003; Baldenius & Reichelstein, 2006; Schjelderup and Sorgard 2008; Lin & Chang 2010; Usman 2010;)
	Tax (Schjelderup & Weichenrieder, 1999; Chee, F. Y., & Blenkinsop, P. 2015; Chiang, B., & Del Gaudio, B. 2013)
Strategy	Business strategy (Burney <i>et al.</i> , 2009; Fauver, L., & Fuerst, M. E. 2006; Fu, Q., Zhou, S. X., Chao, X., & Lee, C.-Y. 2012; Nachum, L., & Zaheer, S. 2005; Oxley, J. E., & Schnietz, K. E. 2001; Safarian, A. E. 2003; Wang, T., Thomas, D. J., & Rudi, N. 2014)
	Corporate strategy (Dutta, S., & Reichelstein, S. 2003; Mata, J., & Portugal, P. 2000; Kumar, M. V. S. 2009)
	Strategic planning (Caglio, A., & Ditillo, A. 2008; Williams, J. J., & Seaman, A. E. 2001)
Competitiveness	Competitive (Bhaumik, S. K., Driffield, N., & Pal, S. 2010; Campbell, J. T., Eden, L., & Miller, S. R. 2012; Chenhall, R. H. 2003)
	Performance (Kenney, M., Massini, S., & Murtha, T. P. 2009; Nobeoka, K., Dyer, J. H., & Madhok, A. 2002; Rugman, A. M., & Verbeke, A. 2002.)

Tax is included as an additional keyword, as the concept often includes aspects of Transfer Pricing. These resulting search string elements are described in Table 4.

Table 4: Search string element definition

Number	Search String
1	({transfer pricing} AND strategy AND NOT tax) Science Direct & Scopus ("transfer pricing" AND strategy NOT tax) ABI/Inform & BSC ("transfer pricing") AND strategy NOT tax

	Taylor & Francis
2	({transfer pricing} AND {strategic planning} AND NOT tax) Science Direct & Scopus ("transfer pricing" AND "strategic planning" NOT tax) ABI/Inform & BSC (("transfer pricing") AND ("strategic planning") AND NOT tax) Taylor & Francis
3	({transfer pricing} AND {competitive strategy} AND NOT tax) Science Direct & Scopus (("transfer pricing") AND ("competitive strategy") AND NOT tax) Taylor & Francis ("transfer pricing" AND "competitive strategy" NOT tax) ABI/Inform & BSC
4	({transfer pricing} AND {corporate strategy} AND NOT tax) Science Direct & Scopus (("transfer pricing") AND ("corporate strategy") AND NOT tax) Taylor & Francis ("transfer pricing" AND "corporate strategy" NOT tax) ABI/Inform & BSC
5	({transfer pricing} AND {business strategy} AND NOT tax) Science Direct & Scopus (("transfer pricing") AND ("business strategy") AND NOT tax) Taylor & Francis ("transfer pricing" AND "business strategy" NOT tax) ABI/Inform & BSC
6	({transfer pricing} AND {business unit strategy} AND NOT tax) Science Direct & Scopus (("transfer pricing") AND ("business strategy") AND NOT tax) Taylor & Francis ("transfer pricing" AND "business unit strategy" NOT tax) ABI/Inform & BSC
7	({transfer pricing} AND strategy AND tax) Science Direct & Scopus (("transfer pricing") AND strategy AND tax) Taylor & Francis ABI/Inform & BSC

These search strings were then combined in the following two ways to reflect the main review question (full search strings are included in Appendix A):

Transfer Pricing within a 5-words distance of the keywords strategy

- Transfer Pricing within a 3-words distance of the keywords tax and strategy

These were applied to title and abstract searches in Science Direct, Taylor & Francis, ABI/Inform, Business Source Complete and Scopus. They were then reduced to peer-reviewed journals with no time restriction. These databases were selected, as they contain a large number of peer-reviewed articles in business and management. ABI provides access to 3,900 journals, covering a variety of business and management subjects since 1971. EBSCO contains over 3,700 publications with over 1,900 from peer-reviewed journals, covering all aspects of business and management (Cranfield University, 2017).

Additionally, conference proceedings for the last five years were reviewed manually, to include the latest research that might not yet be published. Specifically, the following conferences were reviewed, due to their strong Transfer Pricing Stance:

- International Bar Association (IBA)
- Accessed through Google Scholar Advanced Search (Articles published in “*IBA*”, return articles between 2017 – 2023)
- Institute for Austrian and International Tax Law Papers published in 2015, 2017,2019,2023 were accessed online through WU Library (WU, 2016); papers from the 2016-2023 WU conference were not available
- TP Minds International (Informa)
- Accessed online through Informa

1.9.2 Screening process

The papers returned from the search strings were initially screened based on their title and abstract against the selection criteria provided in

Table 5. This was followed by a full text screening, in which the same selection criteria were applied. The papers remaining after both screening steps were taken forward into the analysis.

Table 5: Selection criteria (adapted from Watson *et al.*, 2015)

Criteria	Inclusion	Exclusion	Rationale
Context	Articles in the context of Transfer Pricing and Strategy within the MNC	Articles focusing on topics such as governance, trading tariffs, calculations of TP, policy	To ensure articles support answering review question
Topical fit: Transfer Pricing	Papers on Transfer Pricing models that focus on performance enhancement at the firm level or supporting the goals of the corporate Strategy	Focus on Transfer Pricing with no mention of the strategic fit in the organisation, Transfer Pricing as a finance function alone	To ensure articles support answering review question
		Models that focus on pricing of products only	
Topical fit: Competitiveness	strategic (vertical) alignment between Transfer Pricing and firm strategy	Integration of Transfer Pricing models and regulation	To ensure articles support answering review question
		Transfer Pricing papers conceptualising Transfer Pricing without Strategy (e.g. calculations of Transfer Pricing types only)	
Publication type	Peer-reviewed, scholarly and academic papers	Non-scholarly articles, Newspapers, trade publications, magazines and proceedings, working papers, theses, books	To ensure methodical rigour and comprehensiveness
			To capture most recent research
Date of publication	Over 20 years	None	To include development of core concepts over time
Language	English	All other languages	To avoid errors in translation
Sector / industry	All	None	To include differences between industries and avoid bias
Research method	All-Empirical, conceptual and literature reviews	None	To avoid bias

1.9.3 Search string results

A two-step search process was followed. The reason for this is that the initial search across the databases resulted in limited articles, the articles that met the search string criteria were also of journals from lower rankings as per the JCR (Journal Citation Reports). Table 6 highlights the first search process and shows an overview of the papers taken forward at each step. It indicates that the initial searches resulted in 3,508 papers, which were reduced to 136 papers after the title and abstract screening. The full text screening excluded another 127 papers, resulting in 19 papers. Due to the limited number no duplicates were removed, this resulted in 19 papers taken forward to the analysis. No relevant conference papers could be identified.

However, 1 paper that fully satisfied the selection criteria was included from references and supervisor recommendations, resulting in 20 papers included in the analysis.

Table 6: Search string results by process step

Search String						
Database	Science Direct	Taylor & Francis	ABI / Inform	Business Source Complete	Scopus	Total
Initial Results	739	58	2527	134	50	3508
Remove Duplicates	152	3	1035	19	12	1221
Title and abstract Screening	28	5	80	15	8	136
Full Text Screening	2	1	5	1	0	19
Conference Papers						0
Additional papers through reference search / supervisor recommendation						1
Total papers considered						20

Although quality aspects were assessed (see Appendix B), no papers were excluded due to quality criteria. Question one focuses on underlying assumptions that can be informed by all papers, independent of their quality, as all included papers are written by academics and therefore constitute the body of knowledge.

The data extraction included general paper information, data on the methodology chosen and (where applicable) details on strategic Transfer Pricing models, Corporate Strategy and the link with competitiveness. The full extraction template is provided in **Error! Reference source not found.**

1.10 Grey Literature

Due to the nature of the phenomenon of Transfer Pricing's impact on competitive strategy reviewing grey literature has allowed this review to augment the evidence base with regards to relevant work outside the academic conversation. Hence this review includes consultancy papers. Consultancies can be expected to do regular research and through their advisory role they shape the expectations of industry.

Consultancies were selected based on the Forbes 2023 ranking of America's Best Consultancies, which was compiled through surveying both management consultants and consulting clients for recommendations in different sectors and functional areas (Forbes, Inc. and Statista, Inc., 2016). The ranking was filtered for consultancies recommended in the functional area "Transfer Pricing", which resulted in 34 consultancies taken forward into the searching phase, as can be seen in Table 7.

While this approach limited consultancy papers to U.S. consultancies, this was expected to yield sufficient results, as the U.S. is a large market for consulting. Additionally, a large number of the identified consultancies operate on a global level and would report major findings or developments in other countries on their websites.

The consultancies' websites were searched for publicly available consultancy reports. The papers were subject to the same selection criteria as academic and conference papers, except for the publication type. Where the search strings were used in the keyword search terms. As the process of publishing in industry is different from academia, peer-reviewing could not be included as a selection criterion. However, to ensure a certain level of rigor in research, only evidence-based papers were included. Papers therefore had to explicitly describe a methodology or, at the very least, describe the used data.

Table indicates the number of papers identified for each of the consultancies after the initial screening and a second full text screening. The majority of papers in this second stage had to be excluded due to limited depth. The screening process resulted in 0 papers taken forward into the analysis. This was due to the narrow focus of these consulting papers focusing on Transfer pricing as purely a tax and pricing mechanism at the regulation level and no linkage to the improvement of corporate strategy or competitiveness of the firm as a whole.

Table 7: Consultancies considered (Forbes, Inc. and Statista, Inc., 2022)

Consultancy name	Number of papers found (title screening)	Number of papers included (full text screening)
A.T. Kearney	3	0
Accenture	1	0
Alexander Proudfoot	1	0
AlixPartners	0	0
Aon Hewitt	0	0
Avasant	0	0
Bain & Company	3	0
Booz Allen Hamilton	0	0
Capgemini	0	0
Censeo Consulting Group	0	0
Chainalytics	0	0
CSC (Computer Sciences Corporation)	0	0
Deloitte Consulting	10	0
EY Advisory Services	9	0
Gartner Consulting	n/a	n/a
Huron Consulting Group	0	0
Insight Sourcing Group	0	0
KPMG (Consulting Practice)	8	0
Kurt Salmon	0	0
L.E.K. Consulting	0	0
Logistics Consultants	3	0
McKinsey & Company	1	0
Navigant Consulting	0	0
Oliver Wight	0	0
Oracle Consulting	0	0
Point B	0	0
PricewaterhouseCoopers Advisory Services	3	0
Roland Berger Strategy Consultants	0	0
strategy&, part of the PwC network	2	0
The Boston Consulting Group	0	0
The Hackett Group	0	0
The Progress Group	0	0
Tompkins International	0	0
Vizient	0	0
Total	44	0

2 Results

2.1 Descriptive and theoretical analysis

This section provides an overview of the papers included in the analysis, focusing on academic literature.

2.1.1 Topics covered

Table demonstrates that the majority of papers are skewed towards Transfer Pricing, with only 5 papers covering competitiveness and the remaining 3 focused on Tax.

Table 9: Academic papers by topic area

Papers by topic area	Number of papers
Transfer Pricing	13 (65%)
Competitiveness	5 (25%)
Tax	2 (10%)
Total (without duplicates)	20

Note: Some papers cover more than one topic

Figure 2 shows how these topics have progressed over time. It demonstrates that apart from two early contributions (Eccles, 1987; Holmstrom, 1991), not much has been written on either topic throughout the 1980s. However, towards the mid 1990s, all three topics picked up, with an increasing number of contributions since 2003 and particularly in 2010, however these numbers are still very low and shows that overall limited research has been completed in this area.

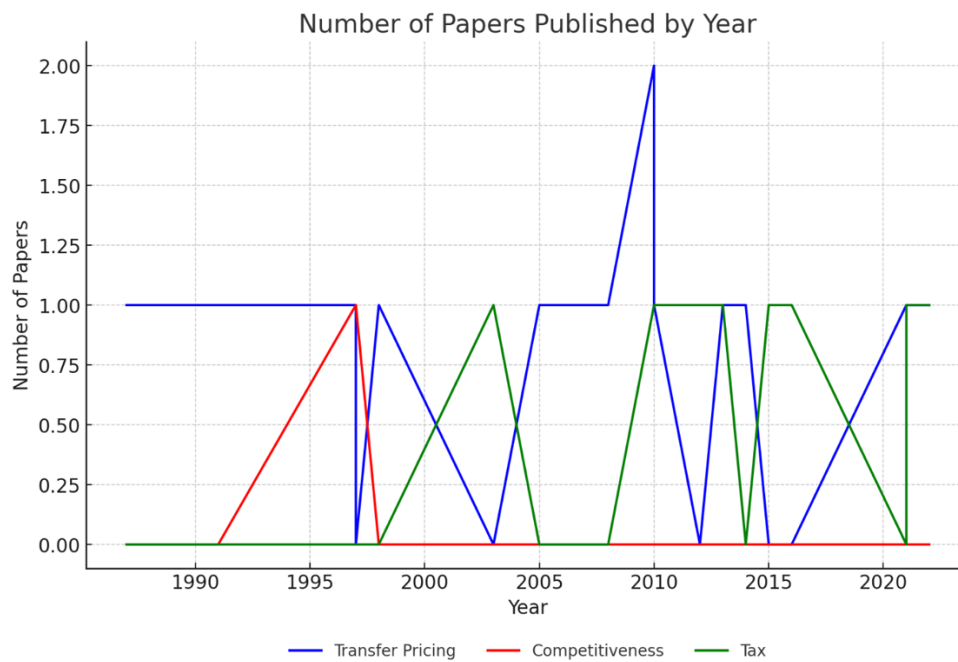


Figure 2: Topics published by year (academic papers)

2.1.2 Research methods

The research area is dominated by conceptual work, micro-economic theory or costing theory is used to motivate areas to increase competitiveness, we can see that only one case study and survey has been completed in the topic of strategic Transfer Pricing (see Figure 3).

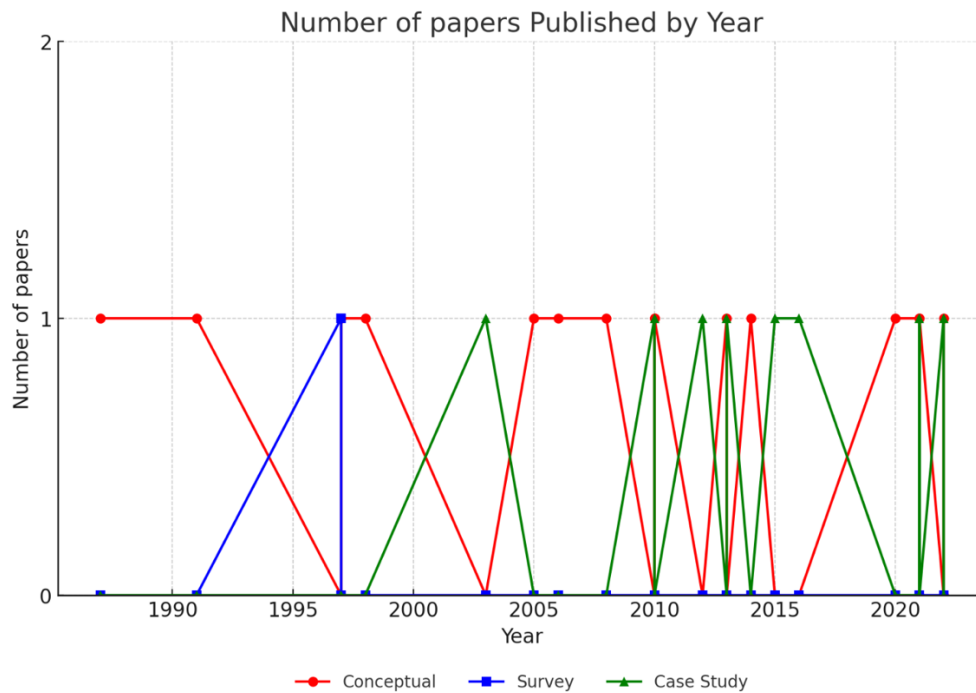


Figure 3: Methods used by year (academic papers)

This is related to the low number of research papers using interviews, which are useful to understand practitioners' views. For a relatively unexplored field like strategic Transfer Pricing, there seems to be little inductive and explorative research, indicating that existing research is driven by academic interests, rather than industry-driven issues.

2.1.3 Journals

Table 10 outlines the papers published in different journals. It indicates that no particular journal is targeted when publishing research on strategic Transfer Pricing as this is an area that has little research.

Table 10: Academic papers by journal

Journal	
American Journal of Sociology	2
Quarterly Journal of Economics	1
Southern Economic Journal	1
International Business Review	1
Management Science	3
Contemporary Accounting Research	1
Accounting Forum	1
International Tax and Public Finance	2
Industrial Management & Data Systems	1

The Tax Lawyer	1
The Journal of Decision Makers	1
The Antitrust Journal	1
Journal of International Economics	2
Journal of Public Economic Theory	2

2.1.4 Underlying theories

Table 11 indicates that a large proportion of the papers reviewed do not clearly state a theoretical perspective for their research. As Colbert (2004, p. 341) argued, “without good theory, the field [...] could be characterized as a plethora of statements regarding empirical relationships and/or prescriptions for practice that fail to explain why these relationships exist or should exist”, indicating that a lack of theory is a serious obstacle to determining strategic Transfer pricings impact on corporate success.

Table 11 also indicates that much of the research within tax looks at “the arm’s length standard, which has been adopted by all OECD tax authorities, requires MNEs to use these external prices as transfer prices” (Eden, 2003). Whilst areas of Transfer Pricing and Strategy look at theories of structure such as “Vertical Integration” (Hamilton and Mqasqas, 1997) and Oligopolistic Competition (Nielsen et al., 2005).

The papers that focus on Transfer Pricing as a strategic mechanism do not really have a set theory that they use beyond looking at generalised corporate performance.

Table 11: Academic papers by theory

Papers by theory used	Number of papers			
	TP	Strategy	Competitiveness	total
No theory stated	0	2	2	4
Arm’s Length	4	1	1	3
Vertical Integration	0	1	1	2
Economic Structure	0	1	1	2
Formulae Appointment	2	0	0	1
Aggressive Pricing	2	1	1	3
Pricing	4	0	0	1
Ring Fencing	2	0	0	1
Cournot Competition	0	1	1	2
Spatial Competition	2	1	0	2
Internalisation Theory	3	2	1	5

Note: Some papers cover more than one topic and/or used more than one theory

2.1.5 Transfer pricing and competitiveness.

Transfer pricing, the setting of prices for transactions between related entities within MNC's, is a critical aspect of global business strategy and tax regulation. This practice influences tax liabilities, financial performance, and competitive positioning. This synthesis integrates perspectives from key academic contributions to provide a comprehensive understanding of the strategic dimensions of transfer pricing, with a particular focus on how these practices relate to a firm's competitiveness.

Alles and Datar (1998) explore the strategic implications of transfer pricing, highlighting how firms use it to achieve competitive advantage. They argue that transfer pricing can align incentives within the firm, mitigate conflicts of interest, and optimize overall firm performance. By strategically setting transfer prices, firms can ensure that each division operates efficiently and contributes positively to the firm's overall goals. For example, transfer pricing can incentivize divisional managers to focus on cost control and efficiency improvements, leading to enhanced competitiveness at both the divisional and corporate levels.

Cravens (1997) supports this view, noting that transfer pricing strategies enable MNEs to manage financial performance, comply with tax regulations, and enhance strategic decision-making. She emphasizes that effective transfer pricing policies can help firms allocate resources more efficiently, thereby improving operational efficiency and competitiveness. By setting transfer prices that reflect market conditions, MNEs can ensure that their internal transactions are fair and efficient, which can lead to better decision-making and resource allocation.

Eden (2003) discusses the benefits of transfer price manipulation, particularly in terms of tax savings and profit maximization. She points out that transfer pricing can be used to shift profits to low-tax jurisdictions, thus reducing the overall tax burden. This practice can provide firms with additional financial resources that can be reinvested in competitive activities, such as research and development, marketing, and expansion into new markets. However, Eden (2016) extends this analysis to the digital world, emphasizing the increasing complexity of transfer pricing in the context of digital goods and services. She

highlights that in the digital economy, firms must carefully manage their transfer pricing strategies to remain competitive while complying with complex regulatory requirements.

Transfer pricing rules and guidelines, such as those established by the OECD, aim to ensure that transactions between related parties are conducted at arm's length, reflecting market conditions. Behrens et al. (2014) examine how these rules impact market distortions, finding that strict transfer pricing regulations can reduce profit shifting but may also create economic inefficiencies. They argue that while stringent regulations are necessary to prevent tax avoidance, they can also increase compliance costs and administrative burdens for MNEs. These increased costs can reduce a firm's competitiveness by diverting resources away from core business activities.

Keuschnigg and Devereux (2013) highlight that the arm's length principle, while intended to prevent tax avoidance, can distort the organizational structure of MNEs by incentivizing complex intra-firm arrangements. They suggest that alternative methods, such as formulary apportionment, may offer more effective solutions for allocating profits among different jurisdictions. By simplifying the transfer pricing process, firms can reduce compliance costs and administrative burdens, thereby enhancing their competitiveness.

Dix (2010) traces the evolution of the arm's length standard, demonstrating its relevance in contemporary cost-sharing agreements. He argues that the principle remains a cornerstone of international tax law, despite ongoing challenges in its application. He emphasizes the need for continuous adaptation of the arm's length standard to address the complexities of modern business transactions. By ensuring that transfer pricing rules are fair and reflect economic realities, firms can compete on a level playing field, which can enhance overall market competitiveness.

Yao (2013) further explores how the arm's length principle influences MNEs' location choices, suggesting that tax considerations play a significant role in determining where firms establish their operations. He notes that the interplay between tax incentives and business strategies can significantly impact the global distribution of economic activities. For instance, favourable tax regimes in certain jurisdictions can attract MNEs to establish operations there, even if these locations are not optimal from an operational perspective. This can lead to economic distortions and inefficiencies, as resources are allocated based

on tax considerations rather than business fundamentals, potentially harming competitiveness.

Holmstrom and Tirole (1991) analyse the relationship between transfer pricing and organizational form, suggesting that transfer pricing policies can influence the internal structure and behaviour of firms. They propose that transfer pricing can serve as a mechanism for decentralization, allowing divisions to operate semi-autonomously while still aligning with overall corporate objectives. This decentralization can lead to increased efficiency and innovation, as divisions are empowered to make decisions that best suit their specific circumstances. However, it also requires robust internal controls and performance measurement systems to ensure that divisional decisions align with corporate goals.

Nielsen et al. (2005) and Schjelderup and Sorgard (2008) discuss the strategic use of transfer pricing in oligopolistic markets. They argue that transfer pricing can be employed as a competitive tool, enabling firms to adjust prices strategically in response to market conditions and rival behaviours. By manipulating transfer prices, MNEs can influence market dynamics, such as competition and market entry barriers. For example, an MNE might set low transfer prices for inputs supplied to its subsidiaries in competitive markets to undercut rivals and gain market share. Conversely, high transfer prices might be used to extract profits from subsidiaries in less competitive markets.

This perspective is echoed by Usman (2010), who highlights how MNCs use transfer pricing to enhance value through strategic price setting and profit allocation. He argues that effective transfer pricing strategies can create synergies within the firm, leading to overall value maximization. For instance, transfer pricing can be used to allocate resources to the most profitable parts of the business, thereby enhancing overall corporate performance. Usman also notes that transfer pricing can facilitate internal trade and collaboration between different parts of the MNE, leading to greater innovation and efficiency.

Martini et al. (2012) investigates the impact of transfer pricing on investment and production decisions, finding that tax-induced distortions can lead to suboptimal resource allocation. They highlight the trade-offs faced by MNEs when making decisions about investment locations and production processes, as transfer pricing considerations can

sometimes conflict with operational efficiency. For example, an MNE might choose to locate production in a high-cost jurisdiction with favourable tax rates, rather than in a more efficient location with higher taxes. This can lead to higher overall costs and reduced competitiveness.

Mpofu et al. (2021) provide a detailed exposition of how MNEs use transfer pricing to avoid taxes in developing countries, illustrating the significant tax revenue losses faced by these nations. They argue that transfer pricing practices exacerbate income inequality and undermine the fiscal capacity of developing countries to invest in public goods and services. For instance, profit shifting through transfer pricing can erode the tax base in developing countries, leading to lower tax revenues and reduced funding for essential services such as healthcare, education, and infrastructure.

Rogers and Oats (2021) offer a contemporary view on transfer pricing, discussing how evolving economic and regulatory landscapes are shaping transfer pricing practices. They argue that increased scrutiny and changing attitudes towards tax avoidance are driving MNEs to adopt more transparent and compliant transfer pricing strategies. They also highlight the role of technological advancements in facilitating better monitoring and enforcement of transfer pricing regulations. For example, data analytics and blockchain technology can enhance the ability of tax authorities to detect and prevent abusive transfer pricing practices.

The academic literature on transfer pricing reveals its multifaceted nature, encompassing strategic, regulatory, economic, and behavioural dimensions. MNEs leverage transfer pricing to achieve various objectives, from tax minimization to competitive positioning and organizational efficiency. However, the practice also raises significant regulatory and ethical concerns, particularly regarding tax avoidance and economic distortions. As global tax regulations continue to evolve, the importance of understanding and effectively managing transfer pricing remains paramount for MNEs and policymakers alike. It is clear from the literature though that very little research exists within the intersection of Transfer Pricing and the competitiveness of the firm, further research in this area is needed to better understand the benefits and risks of moving Transfer Pricing from a compliance tool driven by OECD norms to strategic tool adopted and driven by firms themselves.

2.1.6 Transfer Pricing and Tax implications

Alles and Datar (1998) explore the strategic implications of transfer pricing, highlighting how firms use it to achieve competitive advantage. By strategically setting transfer prices, firms can manage their internal resource allocation and performance measurement systems, aligning divisional incentives with overall corporate objectives. This alignment not only improves efficiency but also facilitates tax optimization by shifting profits to low-tax jurisdictions. This strategic alignment allows MNEs to mitigate internal conflicts, optimize their global tax liabilities, and enhance overall firm performance.

Cravens (1997) emphasizes the role of transfer pricing in managing financial performance and compliance with tax regulations. She points out that strategic transfer pricing enables MNEs to shift profits across borders, thereby minimizing the global tax burden. This practice can enhance a firm's financial flexibility, allowing it to reinvest tax savings into competitive activities such as research and development, marketing, and market expansion. By aligning transfer pricing policies with market conditions and corporate strategies, firms can enhance their competitive positioning while maintaining compliance with tax authorities.

Eden (2003) discusses the benefits of transfer price manipulation, particularly in terms of tax savings and profit maximization. She argues that MNEs can use transfer pricing to exploit differences in national tax rates, shifting profits to low-tax jurisdictions and reducing the overall tax burden. This strategy can provide MNEs with a competitive edge by lowering their effective tax rate and increasing their after-tax profits. Eden (2016) extends this analysis to the digital economy, highlighting the challenges and opportunities posed by intangible assets and digital transactions. Effective management of transfer pricing in this context can significantly enhance a firm's competitive position by leveraging tax advantages associated with digital goods and services, which are often difficult to value and regulate.

Afik and Lahav (2015) explore the role of advance pricing agreements (APAs) in managing transfer pricing risks. APAs are agreements between MNEs and tax authorities that establish transfer pricing methods for future transactions. These agreements provide certainty and reduce the risk of tax disputes, allowing MNEs to plan their operations with

greater confidence. This stability can enhance a firm's competitiveness by reducing compliance costs and administrative burdens associated with transfer pricing disputes, thus allowing firms to focus more on their core business activities.

Transfer pricing rules and guidelines, such as those established by the OECD, aim to ensure that transactions between related parties are conducted at arm's length, reflecting market conditions. Behrens et al. (2014) examine how these rules impact market distortions, finding that strict transfer pricing regulations can reduce profit shifting but may also create economic inefficiencies. They argue that while stringent regulations are necessary to prevent tax avoidance, they can increase compliance costs and administrative burdens for MNEs, potentially reducing their competitiveness. Firms must balance the need to comply with these regulations against the costs associated with implementing and maintaining complex transfer pricing systems.

Keuschnigg and Devereux (2013) highlight that the arm's length principle, while intended to prevent tax avoidance, can distort the organizational structure of MNEs by incentivizing complex intra-firm arrangements. They suggest that alternative methods, such as formulary apportionment, may offer more effective solutions for allocating profits among different jurisdictions. Simplifying the transfer pricing process can reduce compliance costs and administrative burdens, thereby enhancing firm competitiveness. Formulary apportionment, which allocates profits based on factors such as sales, assets, and payroll, could reduce the opportunities for profit shifting and simplify compliance. However, its implementation poses significant challenges, including the need for international consensus and harmonization of tax policies.

Dix (2010) traces the evolution of the arm's length standard, demonstrating its relevance in contemporary cost-sharing agreements. He argues that the principle remains a cornerstone of international tax law, despite ongoing challenges in its application. Ensuring that transfer pricing rules are fair and reflect economic realities allows firms to compete on a level playing field, enhancing overall market competitiveness. The OECD's (2010) documentation of various transfer pricing methods that align with the arm's length principle provides a comprehensive framework for MNEs to follow, ensuring that transfer prices reflect true economic value.

Yao (2013) explores how the arm's length principle influences MNEs' location choices, suggesting that tax considerations play a significant role in determining where firms establish their operations. The interplay between tax incentives and business strategies significantly impacts the global distribution of economic activities. Favourable tax regimes can attract MNEs to establish operations in certain jurisdictions, enhancing their global competitiveness. This strategic location choice allows firms to optimize their global tax liabilities while accessing new markets and resources.

Bauer and Langenmayr (2013) investigate the impact of tax rates on firms' decisions to outsource. They find that firms are more likely to outsource activities to low-tax jurisdictions to benefit from lower effective tax rates, thus improving their competitiveness. This sorting into outsourcing driven by tax considerations highlights the strategic role of transfer pricing in shaping firms' global operations. By outsourcing to jurisdictions with favourable tax regimes, firms can reduce their overall tax burden and improve operational efficiency.

Holmstrom and Tirole (1991) analyse the relationship between transfer pricing and organizational form, suggesting that transfer pricing policies can influence the internal structure and behaviour of firms. They propose that transfer pricing can serve as a mechanism for decentralization, allowing divisions to operate semi-autonomously while still aligning with overall corporate objectives. This decentralization can lead to increased efficiency and innovation, as divisions are empowered to make decisions that best suit their specific circumstances. However, it also requires robust internal controls and performance measurement systems to ensure that divisional decisions align with corporate goals.

Nielsen et al. (2005) and Schjelderup and Sorgard (2008) discuss the strategic use of transfer pricing in oligopolistic markets. They argue that transfer pricing can be employed as a competitive tool, enabling firms to adjust prices strategically in response to market conditions and rival behaviours. By manipulating transfer prices, MNEs can influence market dynamics, such as competition and market entry barriers. For example, an MNE might set low transfer prices for inputs supplied to its subsidiaries in competitive markets to undercut rivals and gain market share. Conversely, high transfer prices might be used to extract profits from subsidiaries in less competitive markets.

This perspective is echoed by Usman (2010), who highlights how MNCs use transfer pricing to enhance value through strategic price setting and profit allocation. Effective transfer pricing strategies can create synergies within the firm, leading to overall value maximization. Transfer pricing can facilitate internal trade and collaboration between different parts of the MNE, leading to greater innovation and efficiency. Usman also notes that transfer pricing can be used to allocate resources to the most profitable parts of the business, thereby enhancing overall corporate performance.

Chiang and Del Gaudio (2013) discuss the application of the arm's length standard and its implications for firm behaviour. They argue that consistent application of this standard can prevent profit shifting and ensure fair competition. By adhering to the arm's length principle, firms can avoid regulatory penalties and maintain a positive reputation, which can be a significant competitive advantage. Consistent and fair transfer pricing practices also contribute to a level playing field in the market, promoting healthy competition and innovation.

Choe and Matsushima (2013) explore the relationship between the arm's length principle and tacit collusion. They find that strict enforcement of the arm's length principle can reduce the likelihood of tacit collusion among firms, promoting fair competition and enhancing market efficiency. This regulatory environment can benefit competitive firms that rely on innovation and efficiency rather than collusive practices. By preventing collusion, strict transfer pricing enforcement ensures that market dynamics are driven by genuine competitive forces.

Martini et al. (2012) investigates the impact of transfer pricing on investment and production decisions, finding that tax-induced distortions can lead to suboptimal resource allocation. They highlight the trade-offs faced by MNEs when making decisions about investment locations and production processes, as transfer pricing considerations can sometimes conflict with operational efficiency. For example, an MNE might choose to locate production in a high-cost jurisdiction with favourable tax rates, rather than in a more efficient location with higher taxes. This can lead to higher overall costs and reduced competitiveness.

Mpofu et al. (2021) provide a detailed exposition of how MNEs use transfer pricing to avoid taxes in developing countries, illustrating the significant tax revenue losses faced

by these nations. They argue that transfer pricing practices exacerbate income inequality and undermine the fiscal capacity of developing countries to invest in public goods and services. This can have a broader impact on the competitiveness of firms operating in these regions, as inadequate infrastructure and public services can increase operational costs. Moreover, tax avoidance through transfer pricing can damage the reputation of MNEs, leading to increased scrutiny and potential penalties from tax authorities.

Rogers and Oats (2021) discuss how evolving economic and regulatory landscapes are shaping transfer pricing practices. They argue that increased scrutiny and changing attitudes towards tax avoidance are driving MNEs to adopt more transparent and compliant transfer pricing strategies. Technological advancements, such as data analytics and blockchain, can enhance the ability of tax authorities to detect and prevent abusive transfer pricing practices, promoting fair competition. Firms that proactively adopt transparent transfer pricing practices can avoid regulatory penalties and enhance their reputation, which can be a significant competitive advantage.

Participants at the UN Tax Committee's Subcommittee on Practical Transfer Pricing Issues (2013) provide a thorough overview of various transfer pricing methods, including the Comparable Uncontrolled Price (CUP) method, Resale Price Method (RPM), Cost-Plus Method (CPM), Transactional Net Margin Method (TNMM), and Profit Split Method (PSM). Each method has distinct strengths and weaknesses, and the selection of a particular method can greatly influence a firm's tax liabilities and competitive position. For example, the CUP method, which compares the price of intra-group transactions to similar transactions between unrelated parties, is often favoured for its simplicity and objectivity. However, it may not always be applicable, especially in cases involving unique or intangible assets.

Chee and Blenkinsop (2015) discuss high-profile cases where the EU ruled that tax deals between certain MNEs and member states were illegal, highlighting the importance of adhering to fair transfer pricing practices. These rulings underscore the potential reputational and financial risks associated with aggressive transfer pricing strategies. Firms that engage in tax avoidance through transfer pricing may face significant penalties and damage to their reputations, which can undermine their competitiveness.

The arm's length principle (ALP) is a foundational concept in transfer pricing that mandates transactions between related entities within a multinational enterprise (MNE) be conducted as if the entities were independent, unrelated parties. This principle ensures that the prices set for intercompany transactions reflect market conditions, thereby preventing artificial manipulation of profits to minimize tax liabilities. Utilizing ALP as a competitive model within the framework of transfer pricing can significantly enhance an MNE's competitive positioning. By adhering to ALP, MNEs can optimize their global tax strategy, ensuring compliance with international tax regulations and minimizing the risk of penalties and disputes with tax authorities. This compliance fosters a reputation of integrity and reliability, enhancing stakeholder trust and corporate reputation. Moreover, ALP facilitates better allocation of resources and efficiencies within the MNE, as transfer prices based on market conditions can lead to more accurate performance evaluations and incentivize subsidiaries to operate efficiently. Consequently, the strategic implementation of ALP in transfer pricing not only aligns with regulatory requirements but also drives competitive advantage through enhanced operational efficiency, risk management, and reputational benefits.

2.2 Summary

Within the results of Transfer Pricing, Competitiveness and Tax, we see that the major elements of pricing methods that is relevant to Transfer Pricing is indeed whether or not the transaction is deemed at arm's length or not. This in effect then determines which Transfer Pricing method is appropriate as outlined above. With regard to the research on Transfer Pricing as a strategic mechanism we see the limited work that has been completed revolves around Vertical Integration and Industry Structure, where the Transfer Price determines the degree and level of Vertical Integration. Craven 1997 paper attempts at testing this through a survey which discovers that managers deem Transfer Pricing as strategic, however there is no evidence of how this should or does take place.

2.3 Summary and suggested conceptual findings for strategic Transfer Pricing

Transfer pricing is pivotal in the operation and significance of MNC's, as demonstrated by the evolution of strategy and the rise of international organisations via internalization. The benefits of transfer pricing as a mechanism for cost reduction and to enhance competitiveness by transferring and safeguarding competitively distinct resources within a multinational indicate its importance as a core focus for all multinationals. The

responses to the initial questions— “What functions has TP been serving within the firm?” and “How have TP and its various constructs been linked with competitiveness and aligned with the strategic goals of the firm?”—can be summarized from the findings in the literature as follows:

Organizations typically do not maintain an internal transfer pricing department due to the associated costs of such a specialized function, and therefore, this task is often outsourced to consulting firms.

Transfer pricing is generally considered non-aggressive, with the primary considerations for its use and calculation being guided by OECD recommendations.

Multinational corporations (MNCs) differ significantly from one another, suggesting that comparability testing is largely a matter of discretion rather than a definitive measure of the arm’s length principle.

3 Implications for Transfer Pricing

Prior to this current study, the literature on transfer pricing (TP) primarily highlighted its role in tax optimization and compliance. When competing the literature review it was clear that very little research has been conducted in Transfer Pricing in relation to its impact on strategy, this can be seen by the prominent scholars and authors in the field of transfer pricing include Charles T. Horngren has contributed to the field through his work on cost accounting and managerial accounting principles, which underpin many transfer pricing methodologies. Richard M. Bird and Jack Mintz have offered substantial contributions through their analyses of tax policy and international tax regulation, emphasizing the economic and regulatory dimensions of transfer pricing practices. The early foundational works by Eccles (1987) and Holmstrom and Tirole (1991) laid the groundwork for understanding the principles and methods of TP, but it has been Lorraine Eden, whose extensive research has provided deeper insights into the complexities of international transfer pricing and its implications for global business strategy, and in that particular domain there still is to this day very limited research. These studies emphasized the importance of aligning transfer prices with market conditions to adhere to the arm's length principle, which is a cornerstone of international tax law (OECD, 2015). Additionally, the works of Alles and Datar (1998) and Lin and Chang (2010) explored the strategic implications of TP within the broader context of corporate strategy,

suggesting that TP could influence firm-specific advantages (FSAs) and competitive positioning. However, the empirical evidence linking TP directly to competitive advantage was limited, with most research focusing on TP as a mechanism for cost savings and tax minimization rather than as a strategic tool for enhancing competitiveness.

This research paper reveals a more nuanced understanding of TP's role in enhancing multinational corporations' (MNCs) competitiveness. Recent research by Eden (2003) and Eden (2016) demonstrates that TP is not merely a tool for tax minimization but can also be strategically employed to safeguard competitively distinct resources and optimize global operations. The findings underscore that effective TP practices, aligned with the OECD's BEPS framework, can enhance operational efficiency and foster sustainable competitive advantages by ensuring compliance and minimizing risks associated with aggressive TP methods.

This research highlights that TP can facilitate better resource allocation and performance evaluation across subsidiaries, contributing to the overall strategic goals of MNCs. For instance, strategically setting transfer prices can align incentives within the organization, promote the efficient use of resources, and enhance the firm's ability to compete in different markets. Moreover, the findings suggest that MNCs are increasingly recognising the value of TP in managing risks associated with currency fluctuations, regulatory changes, and market volatility.

This research also points out that the strategic use of TP can support innovation and knowledge transfer within MNCs. By setting appropriate transfer prices, MNCs can incentivise subsidiaries to develop and share new technologies and best practices, thereby enhancing the firm's overall innovation capacity. This strategic approach to TP aligns with the broader objectives of global competitiveness and long-term value creation.

The current findings align with and expand upon existing knowledge by integrating TP into the broader strategic management framework. While previous studies primarily viewed TP through the lens of tax compliance and cost management, recent insights highlight its strategic significance. This evolution is evident in the shift from purely economic models to more holistic approaches that consider TP as a strategic lever for achieving competitive advantage (Brem & Tucha, 2006).

The research also underscores the importance of regulatory frameworks, such as the OECD's BEPS initiative, in shaping TP practices and aligning them with global tax compliance and competitiveness goals. The BEPS framework, introduced in response to concerns about base erosion and profit shifting, provides guidelines that ensure TP practices reflect economic reality and are transparent. This regulatory backdrop reinforces the strategic use of TP by ensuring that MNCs can pursue competitive advantages without running afoul of tax authorities.

Furthermore, the research findings contribute to the existing literature by highlighting the role of TP in managing intra-firm transactions and resource flows in a manner that supports strategic objectives. This perspective aligns TP with the dynamic and competitive nature of modern MNC operations, reinforcing its role in strategic decision-making and long-term value creation.

To build on the current understanding of TP as a strategic tool, further research should focus on empirical studies that quantitatively assess the impact of TP on MNC competitiveness across different industries and regulatory environments. Investigating the interplay between TP practices and corporate strategy in diverse contexts can provide deeper insights into how MNCs can leverage TP for strategic advantage.

Additionally, exploring the role of digitalization and technological advancements in shaping TP strategies could offer valuable perspectives on the future of TP in a rapidly evolving global business landscape. Digital technologies, such as big data analytics and artificial intelligence, have the potential to transform TP practices by enabling more precise and real-time adjustments to transfer prices based on market conditions and intra-firm dynamics.

Research should also examine the effectiveness of the BEPS framework in promoting fair and transparent TP practices and its implications for MNCs' competitive positioning in various jurisdictions. Evaluating the impact of BEPS compliance on corporate behavior, tax revenues, and economic performance can provide valuable insights into the practical outcomes of these regulatory changes.

Finally, interdisciplinary studies incorporating insights from economics, law, and strategic management could enrich the understanding of TP's multifaceted role in contemporary business strategy. Such research could explore the legal, economic, and organizational dimensions of TP, providing a comprehensive view of its strategic implications and operational challenges.

4 Limitations of Research

Despite the valuable insights provided by this research on the strategic role of transfer pricing (TP) in enhancing multinational enterprise (MNE) competitiveness, several limitations arise from the methodology, scope, and context of the study. These limitations, if addressed, could not only provide a more comprehensive understanding of the relationship between TP and competitiveness but also shape the direction for future research in this domain.

Lack of Robust Empirical Evidence

One of the primary limitations of this study is the reliance on a systematic literature review, with a focus on conceptual and theoretical models. While the literature reviewed provides a solid foundation for the theoretical link between TP and competitiveness, the lack of robust empirical evidence weakens the ability to generalize the findings. Much of the existing research, as noted in this study, has cantered on tax compliance, profit maximization, and regulatory alignment, leaving a significant gap in empirical research that investigates how TP strategies influence competitiveness in measurable terms (Eden, 2003; Lin & Chang, 2010).

Most empirical studies in the domain of TP tend to analyse tax minimization strategies and their regulatory implications, rarely exploring how TP functions as a strategic tool for competitiveness (Cravens, 1997). This leaves a significant gap in understanding the quantitative effects of TP on market share, operational efficiency, and resource allocation within MNEs. Future research should therefore include quantitative studies that use performance metrics such as return on investment (ROI), market share, and operational margins to assess the competitive outcomes of specific TP strategies across different sectors.

Additionally, the current study draws heavily from secondary data sources, including journal articles and grey literature, but lacks primary data collection, such as interviews or case studies from corporate leaders in finance or strategic planning departments of MNEs. This limitation reduces the ability to directly observe how TP strategies are operationalized in real-world settings and across industries.

Over-Reliance on Theoretical Frameworks

This research is primarily anchored in established theoretical frameworks such as the internalization theory and resource-based view (RBV) (Buckley & Casson, 2011; Collis & Montgomery, 1995). While these frameworks are invaluable for understanding the strategic relevance of TP, they are not without their limitations. The internalization theory suggests that MNEs use TP to manage firm-specific advantages (FSAs) and reduce transaction costs. However, this theory primarily focuses on the internal mechanics of firms, potentially neglecting the external forces that influence TP decisions, such as shifting global tax policies, economic recessions, or geopolitical risks (Rugman & Verbeke, 2004).

Moreover, the RBV focuses on how firms leverage their unique resources and capabilities to gain a competitive edge, yet it doesn't fully account for the regulatory and compliance complexities of TP that could hinder strategic flexibility (Wernerfelt, 1984). These frameworks, while useful, may oversimplify the multifaceted dynamics of TP in practice, particularly as they relate to the rapidly evolving global business environment. The complex interplay between regulatory compliance and strategic intent is not adequately addressed by these models. More recent frameworks that incorporate digitalization, global value chains, and regulatory evolution, such as those presented in the OECD's Base Erosion and Profit Shifting (BEPS) initiative, would offer a more contemporary and nuanced understanding of TP (OECD, 2017).

Therefore, future research should strive to either extend these models or develop new theoretical frameworks that better integrate the regulatory, technological, and competitive dimensions of TP. This could include hybrid models that fuse insights from international taxation theory with strategic management principles to offer a more holistic view of TP in MNE strategy.

Data Availability, Transparency, and Comparability

A significant limitation encountered in TP research, and one acknowledged within this study, is the challenge of obtaining detailed, comparable data on intercompany transactions. The arm's length principle, which is foundational to TP compliance, necessitates comparing controlled transactions with those occurring between independent entities (OECD, 2017). However, the inherent differences between MNEs' internal structures, firm-specific advantages (FSAs), and market conditions make direct comparisons difficult.

Moreover, firms often treat TP data as proprietary and confidential, limiting the accessibility of detailed transaction data that would allow for a more granular analysis. Even publicly traded MNEs are rarely required to disclose the specifics of their intercompany transactions beyond what is necessary for compliance with accounting standards or tax authorities (Afik & Lahav, 2015). The limited availability of comprehensive TP data means that researchers often rely on aggregated or anecdotal data, which may not capture the nuanced strategic uses of TP.

Furthermore, cross-country comparisons are hampered by inconsistent regulatory reporting standards. Different countries adhere to varying levels of transparency in TP reporting, particularly in developing economies where TP enforcement is weaker or non-existent (Mpofu et al., 2021). As a result, findings from one jurisdiction may not be easily transferable to another, limiting the generalizability of the research. To mitigate these data challenges, future research could benefit from partnerships with regulatory bodies or firms willing to share anonymized data, or by leveraging technological advancements such as blockchain to ensure more transparent, standardized reporting of TP transactions.

Jurisdictional and Regulatory Variability

A key limitation that this research acknowledges is the inherent variability in TP regulations across different jurisdictions. While the study emphasizes the OECD's BEPS framework and its significant role in curbing tax avoidance through TP, this is only one part of a broader global regulatory landscape (OECD, 2015). The application of TP rules differs substantially between developed and developing economies, with varying levels of enforcement, transparency, and expertise in regulatory bodies.

In countries with weaker TP regulations or enforcement mechanisms, MNEs may be more likely to engage in aggressive TP practices that shift profits to low-tax jurisdictions, creating a competitive advantage not necessarily linked to operational efficiencies but to regulatory arbitrage (Usman, 2010). The BEPS framework aims to standardize TP regulations, but its application is not yet universal, especially in regions where TP regulations are still in developmental stages (OECD, 2017). This disparity makes it difficult to draw firm conclusions about the competitive advantages MNEs gain from TP across diverse regulatory environments.

For future research, it would be beneficial to undertake comparative studies across multiple jurisdictions to examine how regulatory environments impact the strategic use of TP. This could include in-depth case studies in emerging markets, where regulatory laxity may allow MNEs to implement more aggressive TP strategies, versus highly regulated markets, where the scope for TP as a competitive tool may be more restricted.

Strategic Use of TP vs. Tax Minimization

The study asserts that TP can be leveraged as a strategic tool to enhance competitiveness, rather than merely as a means for tax minimization. However, the practical realities of many MNEs may not align with this theoretical proposition. In practice, tax considerations often take precedence over strategic objectives, as MNEs seek to reduce their overall tax burden by shifting profits to low-tax jurisdictions (Eden, 2003; Usman, 2010).

This tax-first approach is partly driven by the significant cost savings that can be achieved through TP manipulation, which may outweigh the potential long-term benefits of enhanced competitiveness. Moreover, the regulatory scrutiny placed on TP, particularly in the wake of BEPS, may limit the extent to which TP can be used as a flexible strategic tool. MNEs may be reluctant to use TP for strategic purposes due to concerns over compliance risks and potential penalties from tax authorities (Lin & Chang, 2010).

Therefore, future research should seek to explore the conditions under which TP can genuinely serve as a strategic tool beyond tax minimization. This could involve exploring specific industries or regions where regulatory constraints are less severe, allowing MNEs to experiment with more innovative TP strategies that align closely with corporate goals.

Limited Consideration of Digitalization and Intangibles

The rise of the digital economy poses new challenges and opportunities for TP, particularly in relation to the pricing of intangibles such as intellectual property, digital services, and software (Eden, 2016). The research under review does not fully address the complexities of TP in the digital economy, where intangibles play an increasingly significant role in MNE value creation. The existing frameworks for TP, including the arm's length principle, struggle to accurately capture the value of digital goods and services, leading to potential distortions in both taxation and competitiveness (OECD, 2020).

Future research should investigate how MNEs can navigate these new challenges and leverage digitalization to enhance their TP strategies. This may involve developing new methods for valuing intangibles, such as real-time market data analysis, and exploring how digital tools can streamline TP compliance while also contributing to competitive advantage.

Recommendations for Future Research

To address these limitations and expand the field of TP research, several avenues for future exploration are suggested:

1. **Quantitative Empirical Studies:** There is a clear need for empirical studies that directly assess the impact of TP on MNE competitiveness using measurable performance indicators such as market share, operational margins, and resource allocation efficiency.
2. **Jurisdictional Comparisons:** Comparative studies that analyse how different regulatory environments influence the strategic use of TP, particularly focusing on developing economies and regions with varying levels of TP enforcement.
3. **Interviews and Case Studies:** Engaging with corporate leaders through interviews or case studies could provide primary data on how TP is practically deployed in decision-making processes across industries.

4. Digitalization Impact: Investigate how the digital economy and the rise of intangible assets are reshaping TP practices, with a focus on how digitalization might both complicate and enhance the strategic use of TP.

5. Hybrid Theoretical Models: Develop new theoretical models that integrate taxation, competitive strategy, and regulatory compliance to better capture the complexities of modern TP practices.

5 Conclusion

The evolution of corporate strategy has consistently focused on creating distinctions between firms. This evolution has progressed from vertical relationships and integration to the changes of organizations' products and markets, ultimately leading to a concentration of key business of multinationals. This progression leads to the internalisation of business environments, enabling more efficient management within a firm's organisational structures and the creation of firm-specific advantages (FSAs)—a amalgamation of internalisation and core competencies that provide multinationals with a distinct edge above their competitors.

A systematic literature review has demonstrated competition can gain an edge over rivals through decreasing input and output costs, and development of core competencies. Competitiveness can be attained by implanting theoretical models of transaction cost economics and internalization whilst combining the alignment of resources (RBV) and the development of core competencies, seen in the empirical studies reviewed.

It has been shown that the tax arm's length principle, grounded in comparability, is an impractical approach for fostering growth and international trade, as proposed by the Transfer Pricing Guidelines (TPG). Removing the advantages created by multinationals, including tax-related benefits, will likely diminish their competitiveness and, consequently, the welfare of their customers. Such measures could potentially obstruct multinationals' efforts toward continuous improvement and innovation—key strategies for differentiation from competitors—by eliminating the incentive of future. However further research is needed to create strong theoretical linkages backed by empirical study of how Transfer Pricing could be utilised to reach Corporate strategic objectives.

This review identifies a lack of research in strategic Transfer Pricing literature and highlights 9 major research questions that should be addressed in future research.:

- Is there correlation between firm transfer pricing and market share in a localised industry (a specific country)?
- The use of formulary apportionment for transfer pricing regulation as opposed to the arm's length principle as a pragmatic paradigm to increased competitiveness.
- Could formulary apportionment reduce tax evasion and unethical tax practises?
- If a global tax rate is used, would competitiveness be driven by a more tangible factor condition?
- Should the apportionment of tax revenues be based on an average tax rate of all the countries in which a multinational does business?
- The impact on countries with high corporate tax rates when using an average tax rate.
- Does an internal transfer pricing department have an impact on the competitive advantage of a multinational?

This review also outlines a need for strong theoretical linkages backed by empirical studies on how transfer pricing can be utilized to achieve corporate strategic objectives.

The propositions and costing model link tax and strategic transfer pricing, providing a theoretical foundation for future research. The academic literature on transfer pricing reveals its multifaceted nature, encompassing strategic, regulatory, economic, and behavioural dimensions. MNEs leverage transfer pricing to achieve various objectives, from tax minimization to competitive positioning and organizational efficiency. However, this practice also raises significant regulatory and ethical concerns, particularly regarding tax avoidance and economic distortions.

As global tax regulations continue to evolve, understanding and effectively managing transfer pricing remains paramount for MNEs and policymakers alike. Integrating these perspectives highlights the critical role of transfer pricing in shaping a firm's competitiveness in the global market. Future research should empirically test the conceptual models and propositions defined in this review, as current literature lacks in-depth exploration of strategic transfer pricing mechanisms.

The empirical evidence linking transfer pricing directly to competitive advantage is limited. Most research has focused on transfer pricing as a mechanism for cost savings and tax minimization rather than as a strategic tool for enhancing competitiveness. As such, further interdisciplinary studies incorporating insights from economics, law, and strategic management are essential to enrich the understanding of transfer pricing's multifaceted role in contemporary business strategy.

Overall, this research highlights the complex interplay between transfer pricing, corporate strategy, and international tax compliance, underscoring the need for ongoing investigation and refinement of transfer pricing practices to support the strategic objectives of MNEs in an increasingly competitive global landscape.

Appendix A Actual search strings

Table 7: Actual search strings

(arbitrage AND (strategy OR {strategic planning}) AND tax) (arbitrage AND (strategy OR "strategic planning") AND tax)
({transfer pricing} OR arbitrage) AND strat* AND tax ("transfer pricing" OR arbitrage) AND strat* AND tax
(arbitrage AND (strategy OR {strategic planning}) AND NOT tax) (arbitrage AND (strategy OR "strategic planning") AND NOT tax)
(arbitrage AND (strategy OR {strategic planning} OR {business strategy}) AND NOT tax) (arbitrage AND (strategy OR "strategic planning" OR "business strategy") AND NOT tax)
(arbitrage AND (strategy OR {strategic planning} OR {business strategy}) AND competiti* AND NOT tax) (arbitrage AND (strategy OR "strategic planning" OR "business strategy") AND competiti* AND NOT tax)
(arbitrage AND (strategy OR {strategic planning}) AND competitiveness AND tax) (arbitrage AND (strategy OR "strategic planning") AND competitiveness AND tax)
(arbitrage AND (strategy OR {strategic planning}) AND competitiveness AND NOT tax) (arbitrage AND (strategy OR "strategic planning") AND competitiveness NOT tax)
({transfer pricing} OR arbitrage) AND strat* AND NOT tax "transfer pricing" OR arbitrage AND strat* AND NOT tax ("transfer pricing" OR arbitrage) AND strat* NOT tax
({transfer pricing} OR arbitrage) AND strat* AND competiti* AND tax ("transfer pricing" OR arbitrage) AND strat* AND competiti* AND tax
("transfer pricing" OR arbitrage) AND strat* AND competiti* AND NOT tax ({transfer pricing} OR arbitrage) AND strat* AND competiti* AND NOT tax
({transfer pricing} AND strategy AND NOT tax) ("transfer pricing" AND strategy NOT tax)
((transfer pric*) AND strategy AND tax) (("transfer pric*") AND strategy AND tax)
({transfer pricing}) AND ({decision making}) AND competiti* AND NOT tax ("transfer pricing") AND ("decision making") AND competiti* AND NOT tax
({"transfer pricing"}) AND ("decision making") AND competiti* AND tax ("transfer pricing") AND ("decision making") AND competiti* AND tax
(({transfer pricing}) AND (strategy OR {strategic planning}) AND competitiveness AND tax) (("transfer pricing") AND (strategy OR "strategic planning") AND competitiveness AND tax)
(({transfer pricing}) AND strategy AND competitiveness AND tax) (("transfer pricing") AND strategy AND competitiveness AND tax)
({transfer pricing} AND strategy AND competitiveness AND NOT tax) ("transfer pricing" AND strategy AND competitiveness NOT tax) (("transfer pricing") AND strategy AND competitiveness NOT tax)
(({transfer pricing} OR {strategic transfer pricing}) AND strate* AND tax) (("transfer pricing" OR "strategic transfer pricing") AND strate* AND tax)

{transfer pricing} AND (strategy OR {strategic planning} OR {business strategy}) AND tax ("transfer pricing" AND (strategy OR "strategic planning" OR "business strategy") AND tax)
(({transfer pricing}) AND (strategy OR {strategic planning})) AND tax (("transfer pricing") AND (strategy OR "strategic planning") AND tax)
(({transfer pricing}) AND strategy AND tax) (("transfer pricing") AND strategy AND tax)
{transfer pricing} AND (strategy OR {strategic planning}) AND competitiveness AND NOT tax ("transfer pricing" AND (strategy OR "strategic planning") AND competitiveness NOT tax)
("transfer pric?") AND strategy AND competiti* AND tax (("transfer pric*") AND strategy AND competiti* AND tax) ("transfer pric*" AND strategy AND competiti* AND tax)
{transfer pricing} AND ({strategic device}) AND NOT tax ("transfer pricing") AND ("strategic device") AND NOT tax
{transfer pricing} OR ({strategic transfer pricing}) AND strate* AND NOT tax ("transfer pricing") OR ("strategic transfer pricing") AND strate* AND NOT tax
{transfer pricing} AND (strategy OR {strategic planning} OR {business strategy}) AND competiti* AND tax ("transfer pricing" AND (strategy OR "strategic planning" OR "business strategy") AND competiti* AND tax)
{transfer pricing} AND {decision making} AND tax ("transfer pricing") AND ("decision-making") AND tax
("transfer pricing") OR ("strategic transfer pricing") AND strate* AND ("global competition") AND NOT tax {transfer pricing} OR ({strategic transfer pricing}) AND strate* AND ({global competition}) AND NOT tax ("transfer pricing" OR "strategic transfer pricing") AND strate* AND ("global competition") NOT tax
(({transfer pricing} OR {strategic transfer pricing}) AND strate* AND ({global competition}) AND tax) (("transfer pricing" OR "strategic transfer pricing") AND strate* AND "global competition" AND tax)
("transfer pric*") AND strategy NOT tax)
("transfer pric?" AND strategy AND competiti* AND NOT tax ("transfer pric*" AND strategy AND competiti* AND NOT tax) (("transfer pric*") AND strategy AND competiti* NOT tax)
{transfer pricing} AND (strategy OR {strategic planning} OR {business strategy}) AND NOT tax ("transfer pricing" AND (strategy OR "strategic planning" OR "business strategy") AND NOT tax) ("transfer pricing" AND (strategy OR "strategic planning" OR "business strategy") NOT tax)
{transfer pricing} AND (strategy OR {strategic planning}) AND NOT tax ("transfer pricing" AND (strategy OR "strategic planning") NOT tax)
{transfer pricing} AND (strategy OR {strategic planning} OR {business strategy}) AND competiti* AND NOT tax ("transfer pricing" AND (strategy OR "strategic planning" OR "business strategy") AND competiti* AND NOT tax) ("transfer pricing" AND (strategy OR "strategic planning" OR "business strategy") AND competiti* NOT tax)
{transfer pricing} AND {decision-making} AND NOT tax ("transfer pricing") AND ("decision making") AND NOT tax
(({transfer pricing}) AND ({strategic device}) AND tax) (("transfer pricing") AND ("strategic device") AND tax)
{transfer pricing} AND ({strategic device}) AND competiti* AND tax ("transfer pricing") AND ("strategic device") AND competiti* AND tax

{transfer pricing} AND {strategic device} AND competiti* AND NOT tax
"transfer pricing" AND "strategic device" AND competiti* AND NOT tax

Appendix B Quality assessment

Table 8: Quality criteria for quality assessment (adapted from Wong *et al.*, 2012)

Element	Level				
	0 – Absence	1 – Low	2 – Medium	3 – High	Not applicable
Contribution	The article does not provide enough information to assess this element.	The paper does not make an important contribution and adds little to the body of knowledge.	The article builds on existing theories.	The article significantly advances existing theories.	This element is not applicable to this paper.
Theory	The article does not provide enough information to assess this element.	The paper does not articulate any theoretical basis.	The paper poorly articulates the theoretical basis.	The paper has a strong theoretical basis.	This element is not applicable to this paper.
Understanding of previous literature (literature review)	The article does not provide enough information to assess this element.	Inadequate literature review, showing significant gaps in understanding.	Basic understanding demonstrated through discussion of core issues.	Excellent review of previous literature.	This element is not applicable to this paper.
Theoretical framework development	The article does not provide enough information to assess this element.	The paper does not demonstrate how hypotheses are developed or discuss any underlying assumptions.	The paper provides some insight into propositions and hypotheses development.	Propositions, developed hypotheses and core assumptions are clearly articulated.	This element is not applicable to this paper.
Methodology	The article does not provide enough information to assess this element.	Flawed research design and executed with inappropriate methods.	Research design or execution could be improved.	Strong research design and solid execution using appropriate methods.	This element is not applicable to this paper.
Data analysis	The article does not provide enough information to assess this element.	Data inaccuracy, inconclusive findings and weak connection between results and theory.	Some data gaps, but results can be related to the underlying theory.	Rigorous data analysis with a strong link between results and theory.	This element is not applicable to this paper.

Appendix C Core Papers

- Alles, M. & Datar, S. (1998). Strategic Transfer Pricing. *Management Science*. Vol 44, No 4, pp, 451-461.
- Behrens, K., Peralt, S., & Picard, P. M. (2014). TRANSFER PRICING RULES, OECD GUIDELINES, AND MARKET DISTORTIONS. *Journal of Public Economic Theory*, 16(4), 650–680. <http://doi.org/10.1111/jpet.12075>.
- Brem, M., & Tucha, T. (2006) Transfer Pricing: Conceptual Thoughts on the Nature of the Multinational Firm. *Vikalpa: The Journal for Decision Makers*. Vol 31, Issue 2
- Cravens, K. (1997). Examining the Role of Transfer Pricing as a Strategy for Multinational Firms. *International Business Review*, Vol.6 No. 2, pp 127-145.
- Dix, E. (2010). From General to Specific: The Arm's-Length Standard's Evolution and Its Relevancy in determining Costs to be shared in Cost-Sharing Agreements. *The Tax Lawyer*, Vol.64, No. 1, pp, 197-221
- Eccles, R (1987). The Transfer Pricing Problem: A Theory for Practice. *American Journal of Sociology*, Vol. 92, No 5 pp 1283-1285.
- Eden, L. (2003). The internationalization benefits of Transfer Price Manipulation. Working paper. Texas A&M University.
- Eden, L. (2016). Multinationals and Foreign Investment Policies in a Digital World. ICTSD. WEF Paper.
- Holmstrom, B., & Tirole, J. (1991). Transfer Pricing and Organisational Form. *JLEQ*, V7, No 2, pp 201-220
- Hamilton, L., & Mqasqas (1997). Direct vertical integration Strategies. *Southern Economic Journal*, Vol 65, No 1, pp 220-234
- Joskow, P. L. (2010). *Vertical Integration. Issues in Competition Law and Policy*. The Antitrust Bulletin, Vol.55, No.3. pp, 546-586
- Keuschnigg, C., & Devereux, M. P. (2013). The arm's length principle and distortions to multinational firm organization. *Journal of International Economics*, 89(2), 432–440. <http://doi.org/10.1016/j.jinteco.2012.08.007>
- Lin, C.-W., & Chang, H.-C. (2010). Motives of transfer pricing strategies – systemic analysis. *Industrial Management & Data Systems*, 110(8), 1215–1233. <http://doi.org/10.1108/02635571011077843>
- Martini, J. T., Niemann, R., & Simons, D. (2012). Transfer Pricing or Formula Apportionment? Tax-Induced Distortions of Multinationals' Investment and Production Decisions. *Contemporary Accounting Research*, 29(4), 1060–1086. <http://doi.org/10.1111/j.1911-3846.2012.01140.x>
- Mpofu, S., Mashiri, E & Schwartz, S. (2021) An exposition of transfer pricing motives, strategies and their implementation in tax avoidance by MNEs in developing countries. *Cogent Business & Management*. Vol 8, Issue 1
- Nielsen, S., Moller, P. & Schjelderup, G. (2005) Formula Apportionment and Transfer Pricing under Oligopolistic Competition. *EPRU*, Vol 10, No, 5.
- Rogers, H., Oats, L. (2021) Transfer Pricing: Changing views in changing times. *Accounting Forum*. Volume 46, Issue 1.

- Schjelderup, G. & Sorgard, L. (2008). Transfer Pricing as a Strategic Device for Decentralized Multinationals. *International Tax and Public Finance*, Vol 4, pp 277-290.
- Usman, R. (2010). How Should MNC's use Transfer Prices to enhance value. *Journal of International Business and Economics*. Vol, 10. No, 1. pp. 213-223
- Yao, J. Te. (2013). The arm's length principle, transfer pricing, and location choices. *Journal of Economics and Business*, 65, 1–13.
<http://doi.org/10.1016/j.jeconbus.2012.09.004>

References

- Afik, Z., & Lahav, Y. (2015). Risk Transfer Valuation in Advance Pricing Agreements Between Multinational Enterprises and Tax Authorities. *Journal of Accounting, Auditing & Finance*, 31(2), 203–211.
- Alles, M. & Datar, S. (1998). Strategic Transfer Pricing. *Management Science*. Vol 44, No 4, pp, 451-461.
- Bartunek, R.-J. (2015). Amazon, Apple ‘very different’ from Fiat, Starbucks tax cases: EU. Retrieved 24 October 2015, from <http://www.reuters.com/article/2015/10/21/us-eu-taxavoidance-apple-amazon-com-idUSKCN0SF0ZT20151021?mod=related&channelName=businessNews>
- Bauer, C. J., & Langenmayr, D. (2013). Sorting into outsourcing: Are profits taxed at a gorilla’s arm’s length? *Journal of International Economics*, 90(2), 326–336. <http://doi.org/10.1016/j.jinteco.2012.12.002>
- Behrens, K., Peralt, S., & Picard, P. M. (2014). TRANSFER PRICING RULES, OECD GUIDELINES, AND MARKET DISTORTIONS. *Journal of Public Economic Theory*, 16(4), 650–680. <http://doi.org/10.1111/jpet.12075>.
- Birkinshaw, J., Hood, N., & Jonsson, S. (1998). Building Firm-Specific Advantages in Multinational Corporations: the Role of Subsidiary Initiative. *Strategic Management Journal*, 19(3), 221–241. <http://doi.org/10.1002>
- Buckley, P. J., & Casson, M. (2011). Marketing and the multinational: Extending internalisation theory. *Journal of the Academy of Marketing Science*, 39(4), 492–508. <http://doi.org/10.1007/s11747-010-0243-0>
- Cravens, K. (1997). Examining the Role of Transfer Pricing as a Strategy for Multinational Firms. *International Business Review*, Vol.6 No. 2, pp 127-145.
- Chee, F. Y., & Blenkinsop, P. (2015). EU rules Starbucks, Fiat tax deals illegal, Rocking system. Retrieved 24 October 2015, from <http://www.reuters.com/article/2015/10/21/us-eu-taxavoidance-idUSKCN0SF0US20151021>
- Chiang, B., & Del Gaudio, B. (2013). TRANSFER PRICING AND ARM’S-LENGTH STANDARD. *American Journal of Business Research*, 6(1), p49-62. Retrieved from <http://0-eds.b.ebscohost.com/innopac.up.ac.za/ehost/detail/detail?vid=5&sid=2bf8d694-e817-489e-a627-df261e0719a9@sessionmgr103&hid=103&bdata=JnNpdGU9ZWwhvc3QtbGl2ZSZzY29wZT1zaXRl#db=tnh&AN=93336457>
- Choe, C., & Matsushima, N. (2013). The arm’s length principle and tacit collusion. *International Journal of Industrial Organization*, 31(1), 119–130. <http://doi.org/10.1016/j.ijindorg.2012.12.001>
- Coase, R. H. (1937). The Nature of the Firm. *Economica*, 4(16), 386–405. <http://doi.org/10.1111/j.1468-0335.1937.tb00002.x>
- Collis, D. J., & Montgomery, C. A. (1995). Competing on Resources : Strategy in the 1990s. *Harvard Business Review*, 73, 118–128. <http://doi.org/Article>
- Denyer, D. and Neely, A. (2004), ‘Introduction to special issue: Innovation and productivity performance in the UK’, *International Journal of Management Reviews*, Vol. 5/6 Issue 3&4 pp. 131–135.

- Denyer, D. and Tranfield, D. (2008), Producing a Systematic Review, In Buchanan, D. (ed.), *The Sage Handbook of Organizational Research Methods*, London: Sage, pp. 671–689.
- Dix, E. (2010). From General to Specific: The Arm's-Length Standard's Evolution and It's Relevancy in determining Costs to be shared in Cost-Sharing Agreements. *The Tax Lawyer*, Vol.64, No. 1, pp. 197-221
- Dolma, S. (2010). The central role of the unit of analysis concept in research design. *Istanbul University Journal of the School of Business Administration*, 39(1), 169–174. Retrieved from <http://eds.b.ebscohost.com.uplib.idm.oclc.org/ehost/pdfviewer/pdfviewer?vid=33&sid=557e1ca9-810b-4e4f-ae0a-c29c73493ce2@sessionmgr103&hid=117>
- Eccles, R (1987). The Transfer Pricing Problem: A Theory for Practice. *American Journal of Sociology*, Vol. 92, No 5 pp 1283-1285.
- Eden, L. (2016). Multinationals and Foreign Investment Policies in a Digital World. ICTSD. WEF Paper.
- Eden, L. (2003). The internationalization benefits of Transfer Price Manipulation. Working paper. Texas A&M University.
- Hamilton, L., & Mqasqas (1997). Direct vertical integration Strategies. *Southern Economic Journal*, Vol 65, No 1, pp 220-234
- Hamel, G., & Prahalad, C. K. (1989). STRATEGIC INTENT. *Harvard Business Review*, 67(3), 63–78. Retrieved from <http://search.ebscohost.com/login.aspx?direct=true&db=bth&AN=8906050158>
- Hashai, N., & Buckley, P. (2014). Is Competitive Advantage a Necessary Condition for the Emergence of the Multinational Enterprise? *Global Strategy Journal*, 4(1), 35–48. <http://doi.org/doi: 10.1111/j.2042-5805.2013.01069.x>
- Henderson, B. D. (1989). The origin of strategy. *Harvard Business Review*, 67(6), 139–143. Retrieved from <http://content.ebscohost.com/ContentServer.asp?T=P&P=AN&K=9001080593&S=R&D=bth&EbscoContent=dGJyMNHr7ESeprl4zOX0OLCmr0qep7VSrq%252B4SrKWxWXS&ContentCustomer=dGJyMPGnr0ixr7NJuePfgeyx44Dt6fIA>
- Holmstrom, B., & Tirole, J. (1991). Transfer Pricing and Organisational Form. *JLEQ*, V7, No 2, pp 201-220
- Joskow, P. L. (2010). *Vertical Integration. Issues in Competition Law and Policy*. The Antitrust Bulletin, Vol.55, No.3. pp. 546-586
- Kapler, J. K. (2007). The Theory of the Firm, the Theory of Competition and the Transnational Corporation. *Competition & Change*, 11(4), 287–306. <http://doi.org/10.1179/102452907X239484>
- Kay, N. M. (2005). Penrose and the growth of multinational firms. *Managerial and Decision Economics*, 26(2), 99–112. <http://doi.org/10.1002/mde.1213>
- Keller, B. W., & Yeaple, S. R. (2016). The Gravity of Knowledge. *The American Economic Review*, 103(4), 1414–1444.
- Keuschnigg, C., & Devereux, M. P. (2013). The arm's length principle and distortions to multinational firm organization. *Journal of International Economics*, 89(2), 432–440. <http://doi.org/10.1016/j.jinteco.2012.08.007>
- Kilduff, M., Mehra, A., & Dunn, M. B. (2011). From Blue Sky Research To Problem Solving: A Philosophy of Science Theory of New Knowledge Production. *Academy of Management Review*, 36(2), 297–317. <http://doi.org/10.5465/AMR.2011.59330922>

- Kirca, A. H., Hult, G. T. M., Roth, K., Cavusgil, S. T., Perry, M. Z., Akdeniz, M. B., ... White, R. C. (2011). Firm-specific assets, multinationality, and financial performance: A meta-analytic review and theoretical integration. *Academy of Management Journal*, 54(1), 47–72. <http://doi.org/10.5465/AMJ.2011.59215090>
- Leng, M., & Parlar, M. (2012). Transfer pricing in a multidivisional firm: A cooperative game analysis. *Operations Research Letters*, 40(5), 364–369. <http://doi.org/10.1016/j.orl.2012.04.009>
- Lin, C.-W., & Chang, H.-C. (2010). Motives of transfer pricing strategies – systemic analysis. *Industrial Management & Data Systems*, 110(8), 1215–1233. <http://doi.org/10.1108/02635571011077843>
- Martini, J. T., Niemann, R., & Simons, D. (2012). Transfer Pricing or Formula Apportionment? Tax-Induced Distortions of Multinationals' Investment and Production Decisions. *Contemporary Accounting Research*, 29(4), 1060–1086. <http://doi.org/10.1111/j.1911-3846.2012.01140.x>
- Members of the UN Tax Committee's Subcommittee on Practical Transfer Pricing Issues. (2011). *Working Draft Chapter 5: Transfer Pricing Methods*. Retrieved from http://www.un.org/esa/ffd/wp-content/uploads/2011/06/20110607_TP_Chapter5_Methods.pdf
- Munro, V. (2013). Stakeholder Preferences for Particular Corporate Social Responsibility (CSR) Activities and Social Initiatives (SIs). *Journal of Corporate Citizenship*, (September), 72–105. Retrieved from <http://0-search.ebscohost.com/innopac.up.ac.za/login.aspx?direct=true&db=bth&AN=94230477&site=ehost-live&scope=site>
- Nielsen, S., Moller, P. & Schjelderup, G. (2005) Formula Apportionment and Transfer Pricing under Oligopolistic Competition. *EPRU*, Vol 10, No, 5.
- Organisation for Economic Co-Operation and Development. (2010). *OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations*. Retrieved from www.oecd.org/publishing/corrigenda
- Organisation for Economic Co-Operation and Development. (2015). *Explanatory Statement OECD/G20 Base Erosion and Profit Shifting Project*. Retrieved from www.oecd.org/tax/beps-explanatory-statement-2015.pdf
- Organisation for Economic Co-Operation and Development Secretariat. (2010). *Transfer pricing methods*. Retrieved from <http://www.oecd.org/ctp/transfer-pricing/45765701.pdf>
- Podsakoff, P.M., MacKenzie, S.B., Bacharach, D.G. and Podsakoff, N.P. (2005), 'The Influence of Management Journals in the 1980s and 1990s', *Strategic Management Journal*, Vol. 26, pp. 473–488.
- Porter, M. E. (1980). Industry Structure and Competitive Strategy: Keys to Profitability. *Financial Analyst Journal*, 4(4), 30–41. Retrieved from <http://0-eds.a.ebscohost.com/innopac.up.ac.za/ehost/pdfviewer/pdfviewer?sid=c084e383-31c2-44d8-ba99-6901dd884b59%2540sessionmgr4005&vid=30&hid=4105>
- Porter, M. E. (1990). The Competitive Advantage of Nations. *Harvard Business Review*, 68, 73–93. <http://doi.org/Article>
- Porter, M. E. (2008). The five competitive forces that shape strategy. *Harvard Business Review*, 86(January), 78–94. <http://doi.org/Article>
- Prahalad, C. K., & Hamel, G. (1990). The Core Competence of the Corporation. *Harvard Business Review*, (May-June), 79–91. Retrieved from <http://search.ebscohost.com/login.aspx?direct=true&profile=ehost&scope=site&auth>

- type=crawler&jrnl=00131172&AN=4729017&h=rvA9tZdRuFu258A1qiFinMs4sV+3offPFtOl4kVV6bpcIxxQ1ccI7o2YcADrmWPWaKPehjCDQs+M2SqueeUyhzQ==&crl=c
- Ramanujam, V., & Varadarajan, P. (1989). Research on Corporate Diversification: a Synthesis. *Strategic Management Journal*, 10(6), 523–551. Retrieved from <http://search.ebscohost.com/login.aspx?direct=true&db=bth&AN=12496754&site=ehost-live>
- Rugman, A. M. (1980a). Internalization Theory and Corporate International Finance. *California Management Review*, 23(2), 73–79. Retrieved from <http://search.ebscohost.com/login.aspx?direct=true&db=bth&AN=4760051&site=ehost-live&scope=site>
- Rugman, A. M. (1980b). The New Theory of the Multinational Enterprise: Internationalization Versus Internalization. *Columbia Journal of World Business*.
- Rugman, A. M., Oh, C. H., & Lim, D. S. K. (2012). The regional and global competitiveness of multinational firms. *Journal of the Academy of Marketing Science*, 40(2), 218–235. <http://doi.org/10.1007/s11747-011-0270-5>
- Rugman, A. M., & Verbeke, A. (2002). Edith Penrose's contribution to the resource-based view of strategic management. *Strategic Management Journal*, 23(8), 769–780. <http://doi.org/10.1002/smj.240>
- Rugman, A. M., & Verbeke, A. (2004). A Final Word on Edith Penrose. *Journal of Management Studies*, 41(1), 205–217. <http://doi.org/10.1111/j.1467-6486.2004.00429.x>
- Rugman, A. M., Verbeke, A., & Nguyen, Q. T. K. (2011). Fifty Years of International Business Theory and Beyond. *Management International Review*, 51(6), 755–786. <http://doi.org/10.1007/s11575-011-0102-3>
- Saunders, M., & Lewis, P. (2012). *Doing research in business & management: An essential guide to planning your project*. London: Pearson Education.
- Schjelderup, G. & Sorgard, L. (2008). Transfer Pricing as a Strategic Device for Decentralized Multinationals. *International Tax and Public Finance*, Vol 4, pp 277–290.
- Stalk, G., Evans, P., & Shulman, L. E. (1992). Competing on capabilities: The new rules of corporate strategy. *Harvard Business Review*, 70(2), 57–69. Retrieved from <http://web.b.ebscohost.com/ehost/detail/detail?sid=26aeb178-c6bf-4406-82fe-b14a14134856@sessionmgr115&vid=21&hid=124&bdata=JnNpdGU9ZWhvc3QtBG12ZQ==#db=bth&AN=9206292186>
- Tadelis, S., & Williamson, O. E. (2012). Handbook of Organisation Economics. In R. Gibbons & J. Roberts (Eds.), *The Handbook of Organisational Economics* (pp. 159–189). Princeton University Press. Retrieved from <http://ssrn.com/abstract=2020176>
- Usman, R. (2010). How Should MNC's use Transfer Prices to enhance value. *Journal of International Business and Economics*. Vol, 10. No, 1. pp. 213–223
- Verbeke, A., & Kano, L. (2015). The New Internalization Theory and Multinational Enterprises from Emerging Economies: A Business History Perspective. *Business History Review*, 89(3), 415–445. <http://doi.org/10.1017/S0007680515000689>
- Wegner, T. (2012). *Applied Business Statistics: Methods and Excel-based applications*. (P. Carter, Ed.) (Third edit). Cape Town: Juta Academic.
- Wernerfelt, B. (1984). A resource-based view of the firm. *Strategic Management Journal*, 5, 171–180. <http://doi.org/10.1002/smj.4250050207>

Yao, J. Te. (2013). The arm's length principle, transfer pricing, and location choices. *Journal of Economics and Business*, 65, 1–13.
<http://doi.org/10.1016/j.jeconbus.2012.09.004>