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Understanding Transfer Pricing Behavior : The Influence of Tax Minimization, Bonuses, and Debt Covenants under Board Tenure Moderation

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ABSTRACT

This study examines the influence of debt covenants, tax minimization, and bonus mechanisms on transfer pricing, with board tenure as a moderating variable. A quantitative approach is applied using secondary data from non-financial companies listed on the Indonesia stock Exchange during 2020-2024. The sample is selected through purposive sampling and consists 3.723 firm-year observations. Data analysis uses descriptive statistics, panel regression and Moderated Regression Analysis (MRA), processed with Eviews. The findings show that tax minimization and bonus mechanisms have a positive and significant effect on transfer pricing, indicating that managers tend to use transfer pricing strategies when they are motivated to reduce taxes or when compensation structures encourage such practices. In contrast, debt covenants do not significantly affect transfer pricing, suggesting that creditor monitoring does not strongly restrict managerial decisions related to internal pricing policies. The result further reveal that board tenure does not moderate the effect of debt covenant, tax minimization, pr bonus mechanisms on transfer pricing. Overall, this study concludes that managerial incentives and compensation-driven motives play a bigger role in shaping transfer practices compared to monitoring mechanisms such as debt agreements or board tenure. These findings provide insights for regulators, investors, and companies on understanding the internal factors that drive transfer pricing behavior in Indonesia firms.

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Introduction

The era of economic globalization has accelerated the transformation of domestic companies into multinational enterprises (MNEs). The openness of international markets and advancements in information and communication technology enable firms to expand their business reach across countries through foreign direct investment (FDI). This phenomenon creates the need to establish transfer pricing policies among related companies as a mechanism to regulate profit allocation and optimize tax efficiency [1].

Transfer pricing refers to the determination of prices for goods, services, or intangible assets traded between entities within the same corporate group. Ideally, this practice should adhere to the arm's length principle as outlined by the OECD (Organization for Economic Corporation Development). However, in practice, transfer pricing are often utilized by multinational companies to shift profits to countries with lower tax rates in order to minimize global tax burden (tax minimization) [1]. Transfer pricing is not merely an accounting issue, it has become a global phenomenon that affects national revenue stability. According to findings from the United Nations Conference on Trade and Development (UNCTAD), developing countries lose more than USD 100 billion annually due to transfer pricing practices. Furthermore, according to the Global Financial Integrity annual report, Indonesia could potentially to lose up to Rp 100 trillion in tax revenue each year as a result of these activities [2].

The phenomenon of transfer pricing in Indonesia is also evident from several high-profile cases uncovered in recent years. One frequently highlighted case involves tax adjustments against Google Indonesia, where the Ministry of Finance found that most of Google's digital advertising revenue from Indonesian users was recorded as revenue for Google Asia Pacific Pte LTd., based in Singapore, resulting in significantly lower taxes paid

in Indonesia. A similar case occurred with PT Adaro Energy, which shifted profits to its Singapore based subsidiary through coal sales pricing scheme, thereby reducing the taxes payable in Indonesia what would have been appropriate. These cases demonstrate that transfer pricing is not merely an accounting issue but often decision influenced by managerial incentives and internal corporate governance.

One internal factor believed to drive aggressive transfer pricing is debt covenants. Companies with high leverage are typically bound by contractual obligations set by creditors, such as financial ratio limits or minimum profit requirements. When a company approaches a covenant violation, managers have strong incentives to adjust reported profits through accrual manipulation, related party transactions, or transfer pricing in order to avoid penalties from creditors. Thus, debt covenant pressure can serve an important mechanism driving aggressive profit shifting, particularly for financially constrained firms.

Tax minimization is also considered to influence transfer pricing practices. This issue is quite complex because companies often use transfer pricing as a strategy to reduce tax burdens by shifting profits to affiliated entities in countries with lower tax rates [1]. Therefore, implementing transfer pricing in accordance with the arm's length principle is crucial to prevent abuse that could reduce national tax revenue [3]. A thorough understanding of the relationship between tax minimization and transfer pricing is essential, as it impacts tax revenue, tax compliance, and of the global taxation system.

Another internal factor that influences transfer pricing is the bonus mechanism. Managerial compensation schemes generally reward short-term accounting performance, which can encourage managers to engage in opportunistic actions, including shifting revenue between related entities to increase profits that serve as the basis for bonuses [4]. Previous empirical studies have confirmed that incentive-based compensation is associated with earnings manipulation and strategic transfer pricing practices, particularly when corporate monitoring systems are weak [5]. Therefore, bonus mechanism play an important role in shaping the manager's attitude towards transfer pricing decisions.

A review of prior research on transfer pricing indicates that research gaps still exist. [6] found that debt covenants have a positive effect on transfer pricing activities. However,

contrasting results were reported by [7] and [8], which states that debt covenant have no effect on transfer pricing. Similarly, findings from [2] and [9] indicate that tax minimization positively affects transfer pricing. On the other hand, [10] reported contradictory result, showing that tax minimization has no impact on transfer pricing. Research conducted by [11] and [12] found that bonus mechanism positively influence transfer pricing, which contrasts with the findings of [13] and [4], who reported that bonus mechanism have no effect on transfer pricing. These inconsistencies suggest that other variables may influence the relationships. Therefore, board tenure was selected as a moderating variable to examine whether it strengthen or weakens the effects of debt covenants, tax minimization and bonus mechanisms. Boards with longer tenure are expected to weaken these relationships because they tend to be more cautious and compliant with tax regulations.

The novel of this study does not merely lie in employing board tenure as a moderating variable, but in the way this research conceptualizes board tenure as an ambivalent governance mechanism. Longer tenure may enhance monitoring effectiveness through accumulated experience and deeper organizational understanding, yet it may also reduce independence and create excessive closeness with management, leading to potential entrenchment. This dual-perspective approach has rarely been addressed in prior studies, which generally treat board tenure only as an indicator of experience. Furthermore, this study offers empirical contribution by examining this dynamic within the context pf an emerging market characterized by concentrated ownership structures, using non-financial firms listed on the Indonesia Stock Exchange during 2020-2024. Thus, the study provides a more contextual and theoretically grounded understanding pf how board tenure may either strengthen or weaken governance effectiveness in controlling transfer pricing practices.

Agency theory explains the relationship between principal and agents, who often have differing interests and access to information [14]. Company owners seek to maximize investment returns, whereas managers are often motivated by the compensation and bonuses they receive. These differences in interest give rise to agency conflicts, which can encourage opportunistic managerial behavior, including transfer pricing practices. The company acts

as an agent attempting to minimize tax burden to increase profits, while the government, as the principal, expects to receive maximum tax revenue. The information asymmetry held by the company creates opportunities to engage transfer pricing for the purpose of tax avoidance. Positive accounting theory [15] suggests that managers tend to choose accounting policies that can enhance their personal welfare. Under bonus mechanisms, managers will strive to report higher profits in order to obtain greater incentives. One method they may use to achieve this is through transfer pricing practicers, which can increase reported profits in financial statements.

A debt covenant are loan agreements between a company as the debtor and its creditors, which sets specific limitations. [16]. According to the debt covenant hypothesis in positive accounting theory [17]. The higher the risk of a company violating its debt agreements, the greater the tendency for management to use accounting methods that can increase reported earnings. Higher reported earnings reduce technical default risk encourage managers to engage in transfer pricing actions [18]. By practicing transfer pricing, companies gain flexibility in meeting covenant constraints [16]. In other words, the larger the debt covenant obligations, the lower the effective tax rate (ETR) is likely to be. Several studies in the literature [6] [19] and [20] have found that debt covenants influence transfer pricing practices. Based on this explanation, the hypothesis can be formulated as:

H1: Debt Covenant has a positive effect on transfer pricing

Tax minimization refers to efforts by companies to reduce the amount of taxes paid without violating applicable regulations. When companies adopt aggressive tax minimization strategies, the complexity of transfer pricing practices tends to increase [21]. Based on the theory of agency [22], difference in interest between management and shareholders can trigger opportunistic actions in policy and transfer pricing decisions [23]. The higher the tax burden faced by a company, the greater the incentive for management to use transfer pricing by exploiting loopholes in tax regulations to reduce tax expenses. This occurs because managers aim to maximize after-tax profits to enhance performance and compensation, even if such actions may conflict with shareholders' goals of maximizing firm value.

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Overly aggressive tax minimization practices may also overlook aspects of sustainability, ethics and integrity in transfer pricing policies. Companies pursuing tax efficiency aggressively without considering long-term risks may experience imbalances in risk management and business sustainability. Studies [24] [25] and [9] indicate that tax minimization is significantly related to transfer pricing practices, consistently showing that the stronger the company's pressure to reduce taxes, the greater the tendency to engage in transfer pricing as a mechanism to shift profits between entities within the same corporate group. Based on these theoretical and empirical findings, the second hypothesis can be formulated as:

H2: Tax minimization has a positive effect on transfer pricing.

Companies often implement mechanisms as incentive to motivate both majority and minority shareholders to focus more on achieving predetermined profit targets. When bonuses are calculated based on net income, manager or majority shareholders may be inclined to report higher profits in order to obtain larger bonuses in that period. The bonus plan hypothesis explains that managers tend to adopt certain accounting policies to increase reported earnings when the company applies a bonus system. One strategy that may be used is manipulating financial statements through transfer pricing practices, namely the arrangement of transaction prices between related parties to increase the company's net profit. [16]. Empirical findings show that the bonus mechanism has a positive and significant effect on transfer pricing. Conversely, research by [26] found that the bonus mechanism system has no effect on transfer pricing Based on these studies, the following hypothesis is fomulated:

H3: The bonus mechanism has a positive effect on transfer pricing.

Within the framework of agency theory, the contractual relationship between creditors and management creates potential conflicts of interest when firms approach the threshold of debt covenant violations. Debt covenants establish specific financial constraints, and the pressure to comply with these requirements may influence firms reporting decisions

and transaction structures, including the use of transfer pricing as a mechanism to adjust financial outcomes.

However, managerial responses to covenant pressure are not solely determined by external contractual factors, they are also shaped by internal governance mechanisms. One relevant mechanism is board tenure, which reflects the accumulation of institutional experience, organizational understanding and the board's monitoring capacity [27]. Boards with long tenure tend to demonstrate more established monitoring capabilities, which may influence how decisions related to financial reporting ad intra-group transactions, including transfer pricing, are managed. Conversely, boards with shorter tenure may have relatively limited oversight experience, allowing covenant pressure to remain more strongly associated with transfer pricing practices [28].

H4: Board tenure weakens the positive influence of debt covenant on transfer pricing.

Tax minimization is a strategy used by companies to reduce their tax burden through various mechanisms, including shifting profits to low-tax jurisdictions. This practice is commonly undertaken by multinational firms. Making transfer pricing a key instrument in tax avoidant strategies [29]. Differences in tax rates across countries create incentives for companies to shift income, meaning that tax minimization is closely associated with greater intensity of transfer pricing practices [30].

Board tenure represents the accumulation of institutional experience, knowledge pf operational processes, and the board's depth of understanding of financial reporting and corporate tax policies. Previous studies indicate that board tenure can moderate the relationship between managerial incentives and tax avoidance practices [31]. Board with longer tenure are considered to have stronger capabilities in identifying risks, understanding managerial opportunities, and directing corporate strategies, including tax-related policies [32], [33]. Therefore, firms with higher levels of board tenure may demonstrate different patterns of monitoring and decision-making when responding to tax minimization incentives.

H5: Board tenure weakens the positive influence of tax minimization on transfer pricing.

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Companies commonly implement profit-based bonus mechanism as part of managerial compensation schemes. When bonus determination is liked to reported financial performance, this arrangement may influence managerial decisions related to financial reporting and transactional structures, including the use of transfer pricing as an instrument for earnings management. Prior studies indicate that compensation incentives are associated with managerial flexibility in determining accounting policies and tax-related strategies, including transfer pricing [34].

However, strength of this influence is not bonus mechanism on transfer pricing is not uniform across firms and may vary depending on internal governance characteristics, particularly board tenure. Longer board tenure reflects accumulated institutional experience and a deeper understanding of monitoring processes. Which may enhance the board's ability to oversee managerial actions. Including those driven by bonus incentives. In such settings, relationship between bonus mechanism and transfer pricing practices tends to be weaker, suggesting that board tenure moderate and potentially mitigates the effect of bonus mechanisms on transfer pricing practices.

H6: Board tenure weakens positive influence of the bonus mechanism on transfer pricing.

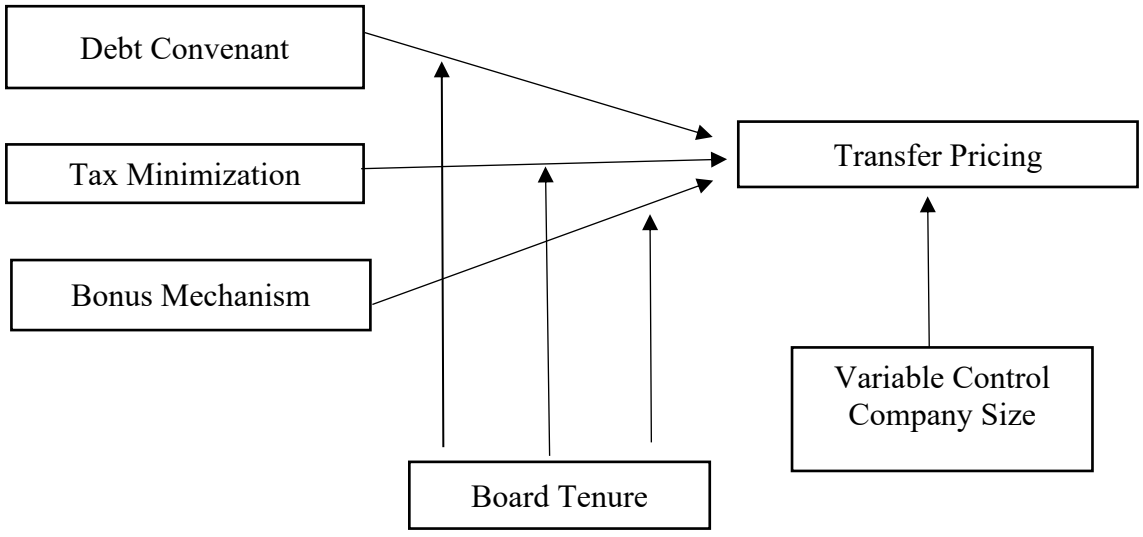

Figure 1 Research Framework

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Method

Research Approaches

This research employs a quantitative method using linear panel data regression. The study is utilizes secondary data sourced from Refinitiv LSEG database. The population consists of non-financial firms listed on the Indonesia Stock Exchange (IDX) during 2020-2024. The sample was selected through a purposive sampling techniques, based on the criteria of non-financial companies that consistently released their financial report throughout 2020-2024In this study, a winsorization procedure is applied to reduce the influence of extreme or outlier values on the dependent variables (RPTAL), all independent variables (DER, ETR, Bonus Mechanism), and moderating variable (Board tenure). The winsorization follows the approach commonly used in prior international studies, including [35], by replacing the lowest 1% and highest 99% off the observations with the nearest non-extreme values. This treatment ensures that the data distribution becomes more stable and that the regression estimates are not biased by highly extreme observastions.

Sample

Table 1. Purposive Sampling

No	Criterion	Sum
1	Non-financial companies listed on the IDX in 2020-2024	842
2	Firms that have incomplete financial report disclosures.	42
3	Have data related to foreign ownership, tax burden, management compensation, and board of directors data	38
Number of final sample companies		762
Total firms-years of observation		3723

Source: Researcher's processed data, 2025

This research utilizes the annual financial reports of non-financial firms listed on the Indonesia Stock Exchange (IDX) from 2020 to 2024 as its primary data source. The initial sample comprises 842 publicly listed companies during this period. A purposive

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sampling technique was applied to ensure that the selected firms met the predefined research criteria. Following the screening process, 762 companies qualified for inclusion, resulting in a total of 3723 observations used in the analysis. The detailed sample selection procedure has been presented above.

The data in this research were examined using panel data linear regression with the assistance of the Eviews software. Panel data regression is employed when the study incorporates a combination of cross-sectional and time-series observations. In this study, panel regression analysis was used to assess the effects of debt covenant, tax minimization, and bonus mechanism on transfer pricing. Board tenure serve as as moderating variable and is evaluated through interaction terms using the Moderated Regression Analysis (MRA) approach.

Variable Measurement

Table 2. Research Variables

Variabel	Definition	Indicator
Transfer Pricing	The amount charged between two or more companies for goods or services transferred to affiliated or consolidated entities [36].	Transfer Pricing can be calculated using the formula: $\text{RPT AL} = \frac{(\text{RPT Asset} + \text{RPT Liabilies}}{\text{Total Equity}}$ [37]
Debt Convenant	Debt agreements serve to protect creditors from managerial actions that may compromise their interests, such as distributing excessive dividends or allowing capital to fall below the predetermined level [38].	$\text{DER} = \frac{\text{Total lialibilities}}{\text{Total Equity}}$
Tax Minimazation	Tax Minimazation is a strategy to minimize the tax burden owed through the act of transferring costs and finally transferring income to the country with low tax rates.	$\text{Tax Minimazation} = \frac{\text{Tax Expense}}{\text{Profit Before Tax}}$

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Bonus Mechanism	Compensation or incentives provided to company management as a from of acknowledgment for achieving the performance targets established by the form [39].	$\text{INTRENDLB} = \frac{\text{Net Income t}}{\text{Net Income t} - 1}$ [40]
Board Tenure	Board Tenure is a unique characteristic that can be observed from the experience of the board of directors in a particular company and is a determining factor for assessing the board of directors [41].	$\text{Board Tenure} = \frac{\text{Total tenure of all board members}}{\text{number of board members}}$
Firm Size	Firm size is the scale of how big or small person is company that can demonstrate the stability, balance, and capabilities of the company in carrying out their economis activities[42].	SIZE = Ln (Total Assets)

Source: various source processed by researched, 2025

The measurement of transfer pricing in this study uses the proxy of Related Party Transaction Assets and Liabilities (RPTAL), as this indicator is able to capture the potential for transfer pricing practices from both inflow and outflow perspectives. Inflows reflect the likelihood of transfer pricing occurring through purchases of goods or services from foreign related parties. Conversely, outflows indicate the potential for transfer pricing through sales to related parties. Therefore, RPTAL is considered a more comprehensive measure of the intensity of economic relationships between entities within a group and the opportunities for profit shifting carried out through transfer pricing mechanisms

The regression models used in this study are presented as follows:

Equation 1. Model examining the influence of debt covenant, tax minimization, and bonus mechanism on transfer pricing with firm size included as a control variable:

$$TP_i = \propto + \beta_1 DER + \beta_2 ETR + \beta_3 BM + \beta_4 SIZE + \varepsilon \text{..(1)}$$

Equation 2. Model assessing the moderating role of board tenure on the relationship between debt covenant, tax minimization, and bonus mechanisms on company value with firm size serving as a control variable

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$$TP_i = \propto + \beta_1 DER + \beta_2 ETR + \beta_3 BM + \beta_4 [DER * BT_i] + \beta_5 [ETR * BT] + \varepsilon_i) + \beta_6 [BM * BT] + \beta_7 SIZE.. \quad (2)$$

Information:

TP = Transfer Pricing
DER = Debt Covenant
ETR = Tax Minimization
BM = Bonus Mechanism
BT = Board Tenure
P9α = constant
β_1–β_7 = coefficient regression
ε = error term

Results and Discussion

Desccriptive Statistics Results

Table 3. Descriptive Statistics

	Mean	Median	Maximum	Minimum
RPT AL	3.3807	0.3139	8.1425	0.0000
THE	0.9440	0.2890	148.02	0.0000
ETR	7.5081	0.0139	138.12	-63.5562
BONUS MECHANISM	7.9114	1.1030	41.746	-1.1798
BOARD TENURE	1.8713	0.0000	14.750	-0.1820
FIRM SIZE	24.431	27.422	33.730	0.0000

Source: Data processed with Eviews, 2025

Based on the table presented, the transfer pricing (TP) variable has a mean of 3.38 with values ranging from 0.00 to 8.14, indicating substantial variation in related-party transactions. The DER variable shows a mean of 0.94 with a wide range between 0.00 and

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148.03, reflecting large differences in leverage levels across firms. ETR has an average of 7.51, with minimum and maximum values of –63.56 and 138.13, demonstrating considerable variation in tax burdens. The Bonus Mechanism variable records a mean of 7.91 within a range of –1.18 to 41.75, while Board Tenure shows a mean of 1.87 and values from –0.18 to 14.75. Lastly, the control variable Firm Size has an average value of 24.43, ranging from 0.00 to 33.73, indicating diverse company sizes within the sample.

Correlation Analysis

Table 4. Correlation Analysis

	RPTAL	**THE**	**ETR**	**BONUS MECHANISM**	**BOARD TENURE**
RPTAL	1				
THE	-0.0070	1			
ETR	0.1719	-0.012	1		
BONUS MECHANISM	0.3197	-0.0081	0.1983	1	
BOARD TENURE	0.0658	-0.0057	0.0555	0.4430	1
THE*BT	-0.0100	0.4288	0.0059	0.0540	0.1757
ETR*BT	0.0730	-0.0048	0.4457	0.2252	0.2767
BM*BT	0.1845	-0.0181	0.1129	0.6317	0.7826
SIZE	0.0032	0.0116	0.0408	0.0072	-0.0095
		THE*BT	ETR&BT	BM*BT	SIZE
THE*BT		1			
ETR*BT		0.0415	1		
BM*BT		0.1038	0.3582	1	
SIZE		0.0182	-0.0042	-0.035104	1

Source: Data processed with Eviews, 2025

Correlation analysis is an important stage in the analysis process to assess the statistical relationship between variables and ensure that there is no multicollinearity problem in the regression model. The correlation table above shows the correlation coefficient between the transfer pricing dependent variable and all independent and moderation variables. In general, the correlation values obtained are at low to moderate levels, where no very strong relationships between variables are found. The highest

correlation value emerged between board tenure and the interaction between the bonus mechanism and the board tenure (0.782619), which showed a fairly strong relationship, but was still below the threshold of serious multicollinearity (±0.90). In addition, other correlations such as between tax minimization and the interaction between tax minimization and board tenure (0.445770) as well as between the bonus mechanism and the interaction between the bonus mechanism and board tenure (0.631766) show a moderate but still acceptable relationship.

Meanwhile, the main variables such as debt covenant, tax minimization, bonus mechanism, board tenure, interaction between debt covenant and board tenure, interaction between tax minimization and tenure, and firm size have a relatively small correlation with rptal, so there are no concerns about multicollinearity in the model. Thus, all variables in the correlation table are declared worthy of inclusion in the next regression analysis because there is no too high correlation that can affect the stability of the model estimate.

Estimation Model

Table 5. Estimation Model

Test	Conditions	Equation	Prob. Result	Selected
Chow Test	H_0 Common Effect Model (CEM)	Equation 1	0.0000	FEM
	H_a Fixed Effect Model (FEM	Equation 2	0.0000	FEM
LM Test	H_0 Common Effect Model (CEM)	Equation 1	0.0000	REM
	H_a Random Effect Model (REM	Equation 2	0.0000	REM
Hausman Tets	H_0 Random Effect Model (REM	Equation 1	0.0000	FEM
	H_a Fixed Effect Model (FEM)	Equation 2	0.0000	FEM

Source: Data processed with Eviews, 2025

Various model selection tests were carried out to determine the most suitable estimation method. Based on the results of the Chow Test, both equation 1 and equation 2 have a probability value of 0.0000 so that it rejects Ho and shows that the Fixed Effect Model

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(FEM) is the right model. Meanwhile, the Lagrange Multiplier (LM) Test on both equations also yields a probability of 0.0000, so that H_0 is again rejected and the Random Effect Model (REM) becomes a suitable model compared to the Common Effect Model. Furthermore, the Hausman Test shows that in equation 1, the probability of 0.0000 makes H_0 rejected so that FEM becomes the best model, and in equation 2 the probability is also 0.0000 so that it again establishes FEM as the most appropriate model. Thus, the combination of the three tests consistently leads to the Fixed Effect Model (FEM) being the most appropriate model to be used in this study.

Hypothesis Test Results

Table 6. Hypothesis Testing for Equation 1 and 2

	Multiple Regression		Moderate Regression		
Variable	**Coefficient**	**t-Stat**	**Coefficient**	**t-Stat**	**Decision**
Coefficient.	3.2385	11.6908	3.4000	8.9277	
DER	-0.0033	-0.4130	-0.0045	-0,5141	H1 Rejected
ETR	0.0042***	3.1774	0.0047***	3.3843	H2 Accepted
BM	0.0491***	15.1974	0.0491***	15.1786	H3 Accepted
THE*BT			-0.0005	0.3261	H4 Rejected
ETR*BT			-0.0003	-1.1760	H5 Rejected
BM*BT			-0.0036	-0.6144	H6 Rejected
FS	-0.0009	-0.0098	-0.0097	-0.8750	
R	0.8141		0.8143		
Adjusted	0.7674		0.7673		
F-statistic	17.4198		17.3546		

*Note: The symbols ***, *, and * indicate significance levels of 1%, 5%, and 10%, respectively. This test applies the adjustment of standard errors following [43] using two-way clustered standard errors and covariance. All variable definitions are presented in Table 6.

The table presents the estimated results for regression equations and moderation regression, so that the following equation form is obtained.

Equation 1 :

RPTAL = 3.2385 - 0.0034DER + 0.0042ETR + 0.0491BM – 0.0186 - 0.0009SIZE…… (3)

Equation 2 :

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RPTAL = 3.4000 -0.0045DER + 0.0047ETR + 00.491BM - 0.0005 - 0.0003 – 0.0036 – 0.0097SIZE…… (4)

Discussion

The Effect of Debt Covenant on Transfer Pricing

The result of model 1 and model 2 indicate that debt covenants, proxied by DER, do not have a significant effect on transfer pricing practices. This finding suggests that debt pressure is not consistently associated with a higher tendency to shift income, and therefore does not fully support the debt covenant hypothesis, which posits that highly leveraged firms are more indicates that covenant mechanisms and creditor monitoring may generate financial discipline that limits the flexibility of firms to utilize transfer pricing as a profit-adjustment tool. Moreover, the evidence reinforces that the relationship between leverage and transfer pricing is context-dependent, in may cases, debt is primarily allocated for operational financing and productive investment rather than income relocation strategies. Accordingly, leverage cannot be regarded as a universal determinant of transfer pricing, and this result is consistent with prior studies such as [6], [7], [8] and [44], which likewise report that debt pressure does not necessarily trigger transfer pricing activities.

The Effect of Tax Minimization on Transfer Pricing

The result from model 1 and model 2 indicate that tax minimization positively influences transfer pricing practices. This finding suggests that firms' efforts to reduce their tax burden systematically encourage management to adjust transfer prices among group entities. However, this relationship is not merely automatic. The effect of tax minimization on transfer pricing can be shaped by factors such as corporate structure complexity, board oversight capacity, and the effectiveness of tax regulations. From an agency theory perspective, managers exploit tax avoidance opportunities to enhance after-tax profits, although such strategies carry the risk of aggressive practices that may not align with shareholders' long-term interests [45].

Moreover, the consistency of the positive influence across both models indicates that tax minimization functions as a relatively stable economic motive, yet its effectiveness remains contingent on the firm's operational context and internal policies. Profit shifting to low-tax jurisdictions, a common practice among multinational firms, highlights that transfer pricing is not merely a response to fiscal pressures but also part of a broader tax planning strategy [25], [21], [46], [47] and [48]. Accordingly, these findings demonstrate that tax minimization is a significant driver of transfer pricing practices, although its impact remains context-dependent and may vary according to internal and external organizational conditions.

The Effect of the Bonus Mechanism on Transfer Pricing

The analysis from model 1 and model 2 indicates a positive relationship between performance-based bonus mechanism and transfer pricing. This suggests that managers adjust intercompany pricing response to financial incentives to achieve higher reported profits [11]. While previous studies have emphasized that bonus structures can serve as strategic levers for profit optimization [12], these findings between managerial and firm interests, but also the influence of short-term performance pressures on managerial behavior.

From an agency theory standpoint, bonuses are intended to align managerial actions with corporate objectives. However, the evidence implies that such incentives may also encourage opportunistic behavior, especially where oversight is limited or performance metrics are narrowly defined [49]. This challenges the assumption that managerial responses to bonuses can intensify aggressive accounting practices such as transfer pricing.

Moreover, board characteristic, such as tenure, may influence how bonus mechanisms affect managerial decisions. Longer-tenured boards can possess deeper institutional knowledge and stronger monitoring capacity, yet may also develop closer ties with management, potentially reducing independent oversight. This indicates that the effectiveness of bonus mechanisms in constraining opportunistic transfer pricing depends on both the incentive design and the governance context of the firm.

Moderating Role of Board Tenure on the Effect of Debt Covenant on Transfer Pricing

The results indicate that board tenure does not moderate the effect of debt covenants on transfer pricing practices, leading to the rejection of H4. Theoretically, longer board tenure is expected to enhance institutional knowledge and monitoring capacity, thereby restraining opportunistic behavior. However, the findings suggest that extended tenure does not add value to the effectiveness of monitoring, particularly when firms face covenant pressures.

This outcome aligns with the literature, which argues that long tenure does not necessarily strengthen oversight but may induce an entrenchment effect, reducing board independence and the rigor of managerial evaluation [50]. The effectiveness of monitoring appears to be more influenced by tenure diversity and substantive board independence rather than the mere length of service [51]. In emerging market context, limited board access to information and dominant controlling shareholders further weaken the role of board tenure as a governance mechanism. Consequently, in this study, the relationship between debt covenant and transfer pricing is independent of board tenure characteristics.

Moderatng Role of Board Tenure on the Effect of Tax Minimization on Transfer Pricing

The interaction between tax minimization and board tenure was not significant, indicating that board tenure does not moderate the relationship between tax minimization and transfer pricing, resulting in the rejection of H5. While firms with higher effective tax rates are generally incentivized to implement tax avoidance strategies, including transfer pricing, longer board tenure did not enhance monitoring capacity or restrain managerial decisions in this context.

This outcome is consistent with studies suggesting that tenure alone may not adequately reflect governance effectiveness, especially or highly technical tax environments [27], [31]. It underscores that board experience by itself is insufficient to influence managerial responses to tax pressures, emphasizing the importance of considering broader governance quality and contextual factors when evaluating the moderating role of board tenure in tax-related strategic decisions.

Moderating Role of Board Tenure on the Effect of Bonus Mechanism on Transfer Pricing

The analysis indicates that board tenure does not moderate the relationship between the bonus mechanism and transfer pricing, leading to the rejection of H6. While bony schemes are designed to incentivize managers to improve profit performance, they can also create opportunities for opportunistic behavior, including earnings management through transfer pricing. Theoretically, longer board tenure is expected to enhance monitoring and limit such behavior. However, the results show that tenure alone does not significantly alter managerial responses to bonus incentives.

Several factors may explain this outcome and bonus policies are often embedded in managerial contracts, leaving limited discretion for boards to intervene. Second, long-tenured board members may develop closer ties with management, potentially reducing oversight independence and effectiveness. Third, the complexity of transfer pricing, especially in firms with cross-border related party transactions or conglomerate structures, limits the board's ability to detect subtle manipulations. These findings suggest that board tenure, in isolation, is insufficient to constrain managerial actions driven by bonus mechanism, highlighting the need to consider other governance attributes and contextual factors when assessing its moderating role [28], [49].

Conclusion

This study provides empirical evidence on the influence of tax minimization, debt covenants, and bonus mechanisms on transfer pricing practices in non-financial companies listed on the Indonesia Stock Exchange, while also examining the moderating role of board tenure, the findings reveal that tax minimization and bonus mechanisms have a significant positive effect on transfer pricing, indicating that companies facing high tax burdens or strong performance-based incentives tend to adjust intercompany pricing to ptimize reported earnings. In contrast, debt covenants and firm size did not show a significant effect, suggesting that external pressures from debt obligations or company scale do not consistently determine transfer pricing behavior. Notably, board tenure did not moderate the

relationships between the independent variables and transfer pricing, highlighting that longer board service alone may not be sufficient to curb opportunistic managerial practices.

These results have several implications for policymakers, investors, and corporate managers. For regulators, the findings emphasize the need to monitor companies with aggressive tax planning or bonus-driven performance schemes, as these factors are strongly associated with transfer pricing behavior. For investors, understanding the role of board composition and tenure is critical in evaluating governance quality and potential exposure to transfer pricing risks. For corporate managers, the study underlines that board tenure, without complementary governance mechanisms such as independent monitoring and effective audit committees, may not effectively mitigate profit-shifting practices.

The study has some limitations, that offer avenues for future research. First, the analysis is limited to non-financial firms in Indonesia, which may constrain the generalizability of the findings to other contexts. Second, the study does not incorporate other governance variables such as board independence, gender diversity, or audit committee quality, which could interact with board tenure to influence transfer pricing. Third, changes in tax regulations and enforcement intensity were not considered, which may affect managerial behavior in profit shifting. Future research can expand the sample include additional governance dimensions, and employ alternative measures of transfer pricing, such as sales to related parties or intercompany service transactions, to provide deeper insights into the determinants and moderating of transfer pricing.

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