

Unveiling Complexities: A Mixed Methods Study of Investigating Transfer Pricing Audit Behaviours in Indonesia

MUHAMMAD DAHLAN

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Abstract

This study aims to investigate the voice of multiple actors in the tax system regarding transfer pricing audit behaviours in Indonesia. A convergent mixed methods approach was employed to uncover the behavioural aspects of transfer pricing audits using the extended theoretical lens of the Theory of Planned Behaviour (TPB). A survey was circulated to the tax auditors working at specific tax units in Indonesia dealing with MNEs' transfer pricing arrangements. At the same stage, semi-structured interviews were conducted with tax auditors, tax professionals working at MNEs, professional tax advisers, policymakers, and a tax court judge. The quantitative datasets were then analysed using the Partial Least Squares-Structural Equation Modelling (PLS-SEM), and qualitative interview outcomes were analysed using the Reflexive Thematic Analysis.

The survey results revealed that the tax auditors' behaviours regarding transfer pricing audits were associated with their behavioural intention, commitment posture, and perceived MNEs' transfer pricing knowledge. These predictors were statistically significant in explaining transfer pricing audit behaviours using the PLS-SEM approach ($p < 0.05$). In contrast, disengagement posture was insignificant in explaining this behaviour. As for the qualitative outcomes, themes and subthemes were generated from the transcripts, expanding multiple participants' perceptions of transfer pricing audit behaviours. For example, the interview outcomes uncovered that the tax auditors' intention was not a silent concept, as argued by the TPB model. Rather, it may actualise in many spectrums depending on the position in the audit teams. Finally, a mixed methods joint display was performed to integrate the two findings. This study employs a side-by-side table and a unique circular joint display during integration.

The current study contributes to transfer pricing literature by proposing an extended TPB model to explain transfer pricing audit behaviours. The extended model integrates other predictors such as deference posture, perceived tax knowledge, and behavioural intention. Practically, the findings of this study offer evidence-based policy sequence strategies that may be used by the Indonesian tax authority to optimise transfer pricing compliance actions in Indonesia and tax authorities elsewhere facing similar challenges.

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Personal Reflection

Pursuing this doctorate journey has been an equal balance of challenging and transformative experiences for me. As a PhD student using a mixed methods framework for my research, I was consistently tasked with juggling the systematic, numerical realm of quantitative data and the rich, narrative descriptions of qualitative inquiry. This dichotomous nature not only worked to inform my research process but also to influence my personal development as an individual and a doctoral student. The intersection of the two contrasting methods is one of the major challenges experienced in the research process, particularly when integrating quantitative and qualitative findings. Initially, I found it hard to balance the contradictory characteristics of the two approaches. The quantitative component needed robustness, objectivity, and concern for generalisability, whereas the qualitative component needed sensitivity, openness, and intense involvement with participants' lived experiences. It took me two weeks to develop the joint display visualisation and how to represent the integration of the mixed methods findings appropriately. I now appreciate the entire process and hard work put into generating a unique visualisation of research outcomes.

As a former tax auditor, I was worried that my background would negatively influence the research process and increase personal bias in the analysis. However, it turned out that my experiences and background inevitably shaped my understanding of the stories shared by the participants. To neutralise such influences, I employed strategies like reflexivity, journaling, and peer debriefing with my PhD supervisors, allowing for in-depth examination of my position in the research design. Such a strategy added to the validity of results and promoted an enhanced sense of self-awareness. I understood that research is not a solely objective process; it is very much contextualised by the researcher's voice and interactions with participants. Over time, I realised the synergistic advantages of both methods and how they could complement each other to enhance the conceptualisation of the research issue. From this experience, I came to value the importance of flexibility and adaptability in the research design process. Now I know that embracing the researcher's experience, knowledge, and voice in reflexive thematic analysis is also important to generate meaningful interpretation.

Furthermore, doing mixed methods research added a personal component I had not fully expected. The quantitative component, which dealt with numerical data and statistical analysis, sometimes felt abstract and removed. Making sure that all findings fit the requirements under the PLS – SEM was fairly tough. On the other hand, the qualitative component entailed intense personal engagement, as I sat and heard participants tell their own stories, expectations, and struggles around transfer pricing. I had to listen and re-listen to the recording and read and re-read the transcripts to ensure the results are valid and reliable. This process enhanced my appreciation of the research and the research participants. The process underscored the value of self-care and emotional stamina within research practice.

The whole process has illuminated the value of perseverance and dedication. There were times of uncertainty, especially when confronted with unforeseen obstacles in my personal life that hindered the research progress. These times subsequently proved to be opportunities for developing my research skills. Perseverance, determination, and dedication are the keys to overcoming every challenge and obstacle in the research process. The PhD journey has been a profoundly influencing experience on my researcher identity. I have gained an appreciation of the intricacy of human knowledge and enjoyed the efficacy of mixed methods for conveying this intricacy. I now identify as a researcher and a storyteller to tell the story of the underrepresented actors in tax research, weaving together quantitative facts and qualitative narratives to produce insightful knowledge in the discipline. This has, in turn, fostered an interest in interdisciplinarity and a dedication to applying mixed methodologies to uncover the issue around transfer pricing audit behaviour in Indonesia. I hope the findings of this study help DGT to better scrutinise a transfer pricing audit in Indonesia. In the future, it may increase the transfer pricing compliance, increase the tax revenue, and appreciate all the tax officials working towards this growing and complex issue.

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Chapter 1 Introduction

1.1. Research background

Multinational enterprises (MNEs) comprise several business units that operate, manage, and communicate with each other depending on the MNEs' structure. Due to the magnitude of MNEs' transactions, activities, and locations across many regions, their structures can be complex. They have to coordinate internal activities within their group members and manage their activities and relationships with outside parties, such as customers, competitors, contractors, and suppliers. Hence, the increasing function of MNEs and their interdependence with subsidiaries, affiliates, and outside parties in today's international economy creates a worldwide network of global value chains that provide access to MNEs' strategic and operational activities (Rugman and Eden 2017).

In addition, as global trading moves to borderless transactions and penetrates every part of the world, MNEs receive huge attention from governments worldwide. The reason is that their ability to exercise business operations and resources in many jurisdictions where they operate. MNEs may transfer goods, services, materials, and intangibles among group members and set the price for such transfers according to strategic purposes, which raises a transfer pricing aspect of MNEs (Cravens 1997). Transfer pricing can be defined as the price charged for any transaction among associated enterprises or affiliated entities (OECD 2022). In other words, transfer pricing determines the internal price for transactions between divisions, units, or segments under the same organisation (Trang 2016).

Further, due to the globalisation of business operations, cross-border transactions have sharply increased, thus making transfer pricing a vital area of international taxation. The general idea of transfer pricing is that it may be used in a company's decision to evaluate the performance of its divisions based on each division's contribution to the overall profitability of the company. The transfer price shall be calculated accurately to stimulate efficient resource allocation (Kim and Milner 2021). From this perspective, transfer pricing is a neutral condition in which a company aims to maximise its resources and structures to achieve higher profitability. It is understandable that, according to the normal course of business, a

firm wants to increase its profits while minimising costs (Cools and Rossing 2021). However, due to the nature of MNEs' transactions spread across nations, they are exposed to differences in tax rates. Hence, MNEs may justify their intrafirm cross-border transactions with tax-motivated transfer pricing (Zimmerman 2020).

Tax-motivated transfer pricing may be interconnected with a country's tax rates to determine the strategies of MNEs. Ideally, the price charged for transactions among the members of multinationals should reflect the market price, which an independent entity is willing to pay. This concept is known as the arm's length principle (ALP) (Srinivasan and Eden 2021). ALP means that the price charged for transactions between divisions or members of MNEs, regardless of their locations, will follow the standard of how much an independent entity is willing to pay for the same transaction in a free market (Rugman and Eden 2017; OECD 2022a). ALP provides an acceptable standard for transfer prices among divisions or firms under a group of MNEs, which may reflect transactions between independent entities.

However, multinationals may arrange any pricing system that supports their strategic objectives as a group, even though there are domestic tax regulations in the jurisdictions where they operate to prevent these actions. As such, there is a greater possibility that the prices for such transactions do not mimic those that would have been accepted in the external market under similar arrangements. Such pricing arrangements can violate market forces and not fall within the ALP. In this case, transfer pricing may shift MNEs' income to other countries with lower tax rates. From this perspective, transfer pricing is no longer neutral because companies artificially use it to shift their income or profits for tax purposes. This channel is known as transfer mispricing (Wier 2020). As such, transfer mispricing is one of the instruments used to shift MNEs' profits, erode countries' tax bases, and reduce tax revenue (Liu et al. 2020).

For the tax authorities, the arm's length price may be used as a starting point to scrutinise the pricing for intrafirm transactions connected to the tax consequences that may arise. By any chance, MNEs may engage in transfer mispricing to minimise their overall tax obligations or pursue other reasons within the companies' goals. According to the OECD, for whatever the considerations, "whenever intra-group transfers are not carried out at arm's length prices, the result is likely to be that profits are shifted from one company to another company in the group and the tax

liability of the relevant companies distorted in consequence” (OECD 1979, p.8). Tax officials are paying attention to the manipulation of such internal prices for transactions among members of multinationals. Therefore, the issue of transfer prices is of great importance to governments because they may lose tax revenue derived from such pricing policies by the MNEs. Further, tax administrations have conducted a wide range of responses to scrutinise MNEs’ transfer pricing arrangements, such as compliance requirements for documentation, the enactment of transfer pricing regulations, dispute resolution mechanisms, global coordination with other tax authorities, and enforcement action through transfer pricing audits (McNair et al. 2010). The increased scrutiny of transfer pricing aims to ensure that multinationals do not misprice the intercompany transactions (OECD 2022a).

In addition, the OECD argued that transfer mispricing may lead to base erosion and profit shifting (BEPS). According to the OECD (2014, p.8), BEPS relates to the “arrangements that achieve no or low taxation by shifting profits away from the jurisdictions where the activities creating those profits take place”. Hence, by this definition, BEPS derives from different tax rates and regulations across countries, resulting in different tax treatment for multinationals operating in many jurisdictions. Under BEPS, transfer pricing may no longer be neutral because multinationals can manipulate transfer prices to shift profit and avoid paying taxes (Mehafdi 2020). Empirical studies showed that BEPS practices by MNEs cost countries billions of tax revenue losses annually (Contractor 2016; Cobham 2020; IMF 2020; UNCTAD 2020; OECD 2022b). Although these practices affect many countries, according to the OECD, developing countries, including Indonesia, suffer disproportionately due to heavy reliance on corporate income tax, particularly from multinationals, and a lack of expertise in this area (OECD 2022a; Tax Justice Network 2024). In Indonesia, although corporate income tax contributes more than 30% to Indonesia's overall tax revenue structure, its tax ratio remains low compared to other developing countries (OECD 2024d). To protect the tax base from this behaviour, the Indonesian tax authority, the Directorate General of Taxes (DGT), has increased its compliance actions through tax audits, including the tax audit around transfer pricing.

To respond to the BEPS issue, the OECD developed action plans or initiatives as part of international collaborations among tax jurisdictions. The OECD introduced 15 initiatives that can be implemented across nations, not only for the OECD

members but also for other countries as part of the international development to tackle BEPS. The summary of 15 BEPS initiatives is further discussed in Chapter 2. Out of 15 initiatives, there are three actions related to transfer pricing: actions 8, 9, and 10. Indonesia has adopted these three initiatives into its domestic legislation and implemented them during transfer pricing audits.

Furthermore, a transfer pricing audit is a complex exercise for any tax authority, specifically in developing countries (Sebele-Mpofu et al. 2021b). Tax officials need a sophisticated understanding and knowledge of the international tax regime and the intricate business model of MNEs when conducting this audit. As a developing country, Indonesia also considers MNEs' transfer prices a critical concern because, if not addressed properly, they may pose significant risks to tax revenue generation. DGT has intensified a transfer pricing audit in recent years, employing stricter documentation requirements and penalty regimes to combat MNEs' behaviour to shift profit through transfer pricing.

Research around transfer pricing and its intersection with the tax auditor is still in its infancy. Recent studies argued that tax authorities in developing countries are encouraged to formulate clear transfer pricing legislation and to increase the capacity of their auditors dealing with MNEs' transfer pricing (Mashiri et al. 2021; Sebele-Mpofu et al. 2021b; Wealth et al. 2023). Governments in developing countries are more prone to substantial tax losses due to transfer pricing practices, mainly by large companies with subsidiaries across the globe. Further, transfer pricing may be related to many dimensions, such as business, accounting, tax, legal, ethics, and economics (Cristea and Nguyen 2016; Klassen et al. 2017a; Rugman and Eden 2017). Hence, addressing the transfer pricing issue from the government's perspective requires a comprehensive approach. One approach is to increase transfer pricing scrutiny by developing stricter regulations and conducting more transfer pricing audits.

A comprehensive review analysis concluded that research around transfer pricing could go beyond compliance and management issues and may corroborate different types of methodology (Kumar et al. 2021). Reflecting on this idea, the current study empirically investigates transfer pricing from a behavioural perspective with a mixed methods approach. It mainly aims to examine the tax auditors' behaviour around transfer pricing audit using one commonly used social science

theory, the Theory of Planned Behaviour (TPB) (Ajzen 1985; Ajzen 1991). Many studies have used this theory, yet the corroboration of TPB in the public sector context has rarely been used. In addition to TPB, the current study also incorporates the concept of motivational postures (Braithwaite et al. 1994; Braithwaite 1995) and perceived tax knowledge (Langham et al. 2012a) in constructing variables. The TPB postulates that individuals' attitude, subjective norm, and perceived behavioural control influence their intention to perform certain actions, subsequently affecting their actual behaviour. Under the TPB model, individuals' intention is assumed to be the only predictor of their behaviour (Ajzen 2020).

In addition, TPB explains any human behaviour and proposes a direct association between an individual's intention and behaviour. In the context of tax research, the theory has the potential to reshape and explain individuals' behaviour, such as that of taxpayers and tax auditors. (Langham et al. 2012a). In the study of tax avoidance, tax evasion, and tax compliance behaviour, TPB is used extensively as the main theory (Kaulu 2022). This theory may predict individuals' intention and behaviour in different settings, including in the business and management context (Bosnjak et al. 2020a). Also, the theory has been used extensively in studies exploring individuals' attitudes and behaviour (Ajzen 2001), including in the context of public organisations (Zhang et al. 2024) and public sector employees (Ahmad et al. 2023). However, in the context of the government auditors, the use of this theory is limited, and thus, the present study aims to contribute to this gap.

Moreover, the current study aims to expand the TPB framework by adding other dimensions of human behaviour's predictors, such as the strategic postures the tax auditor adopts, from cooperation to resistance, when conducting a transfer pricing audit, and perceived MNEs' transfer pricing knowledge. By incorporating these additional predictors, the current study aims to propose additional insights on transfer pricing audit behaviours, an underexplored area in the literature.

1.2. Research context: transfer pricing audit behaviour in Indonesia

It is argued that there has been a trend of increasing transfer pricing audits in developed nations like the US, the UK, Australia, and New Zealand (Li 2006). Developing countries, including Indonesia, on the other hand, are catching up to increase their transfer pricing scrutiny (Cooper et al. 2017). Nevertheless, developing

countries still face some challenges in conducting a transfer pricing audit, such as resource constraints, a lack of trained auditors, the presence of high disputes, a time-consuming litigation process, and a lack of comparable data (Silberztein 2009; Burgers and Mosquera 2017; Sebele-Mpofu et al. 2021b; Teles et al. 2023). Hence, exploring the behaviour of tax auditors in Indonesia, one of the developing countries, may highlight the importance of these issues.

Generally, a transfer pricing audit investigates MNEs' business processes and internal pricing policy (Kalra and Afzal 2023). From this perspective, a transfer pricing scrutiny in jurisdictions connects with the capital inflow from MNEs' foreign investment and how these actors set a transfer price among their members (Choi et al. 2020). It can be concluded that there is an interplay between FDI, transfer pricing, and increased regulatory mechanisms in locations where MNEs are operating (Sandonis and Yermukanova 2024). As one of the developing countries where corporate income tax significantly contributes to the total tax revenue, Indonesia aims to increase its state revenue and boost economic growth by encouraging more foreign investment inflows (Lindblad 2015; Dang and Nguyen 2021). As Southeast Asia's largest economy, with a growing middle class, Indonesia is seen as an attractive multinational market. Indonesia matters in the global economy due to its strategic location, size, and resources, and is among the biggest emerging markets by Gross Domestic Product (GDP) (The Economist 2022). Despite being known as the "reluctant giant" due to the government's ineffectiveness in projecting its power internationally (Nehru 2016), Indonesia remains an attractive destination for foreign investment (OECD 2020b). The presence of large firms is a critical factor in collecting more tax revenue, as taxation shares the largest fraction of the overall state revenue in Indonesia. However, the need for more large firms' investment comes with tax consequences. Multinational firms have abundant resources to allocate income across global subsidiaries and arrange transfer prices that may not be aligned with the market conditions (Cristea and Nguyen 2016). Hence, they may not pay or pay little tax in Indonesia due to their ability to reduce the overall tax payment through the internal transfer prices policy.

According to the latest DGT performance report 2024, a transfer pricing audit is one way to increase DGT's effort to collect more tax revenue and monitor MNEs' tax compliance (DGT 2025). However, the report states that the transfer pricing audit

has not been conducted effectively due to the complexity of this type of audit and a lack of understanding around transfer pricing from the DGT's tax auditor. DGT needs to increase the auditors' competence, skill, and knowledge on transfer pricing to audit multinationals effectively. Therefore, studying transfer pricing audit behaviour in Indonesia is worth considering, as well as investigating what factors affect the auditor's behaviour when conducting a transfer pricing audit.

This study examines the behavioural aspect of transfer pricing audits in DGT. Further, to gain more insights into this behaviour, the tax auditor's perception of transfer pricing audits will be elaborated on with other views from tax professionals, tax advisers, policymakers, and a tax court judge. With this approach, it is expected that, in this study, transfer pricing audit behaviour is seen from multiple lenses and multiple actors. This approach is chosen because the transfer pricing issue connects closely with MNEs, tax consultants (intermediary parties between the DGT and MNEs), policymakers around transfer pricing regulations, and a tax court judge to settle transfer pricing disputes.

1.3. Problem statement and research gap

The main objective of this research is to explore the tax auditors' behaviours related to transfer pricing in Indonesia. Tax auditors are the central participants in the present study to develop research questions and hypotheses during the quantitative and qualitative stages. However, to complement and expand the analysis, the current study also incorporates other participants to be interviewed who directly or indirectly interact with the tax auditors, such as corporate taxpayers as part of the multinationals' group, tax advisers, tax policymakers, and tax court judges. Little has been written about their impact on the growing transfer pricing problem. The urgency of researching transfer pricing is because the Indonesian tax authority focuses on these issues, as reflected by domestic legislation on transfer pricing. It is committed to managing them seriously, particularly during the audit process.

Further, in terms of theoretical framework, while the Theory of Planned Behaviour is quite robust in predicting individuals' intention and behaviour, it has weaknesses when the setting involves a third party (Langham et al. 2012a). In this research, the behaviour of tax auditors mostly relies on the tax policy and action taken by taxpayers, and vice versa. Taxpayers and tax officers are two

interconnected actors in the tax system, and their cooperation is critical as additional motivations to maintain compliance behaviour (Alm et al. 2022a). Also, the role of tax advisers is critical to connect and facilitate the interests of taxpayers and tax officials regarding transfer pricing, mainly during tax audits (Rogers and Oats 2022). As such, another concept is incorporated in the model of this research: the Motivational Postures. It captures the interaction between the two actors that can contribute to the development of responsive cooperation among them (Braithwaite 2014). A study by Smart (2013) showed that social distance can be used to measure motivational posture and was positively connected to an individual's tax behaviour. Hence, the current study aims to extend this concept to assess tax auditors' behaviour concerning transfer pricing.

In addition, because behaviour is complex, particularly when involving a third party (Langham et al. 2012a), another variable is needed to capture the behaviour of the tax auditor in conducting a transfer pricing audit. It is anticipated that the tax auditor's behaviour in conducting a transfer pricing audit will be affected by their assessment of MNEs' knowledge of the intricate transfer pricing regulations. The awareness of the tax law has also been incorporated in the extended TPB model developed by Langham et al. (2012), which observed that "the complexity of the tax system itself is shown to have a great effect on the outcome of compliance behaviour". Transfer pricing is considered a complex issue, and the actors dealing with transfer pricing require good knowledge and understanding of the international best practices, domestic tax laws, and other non-tax aspects (Rogers and Oats 2022).

Prior research showed that three factors in the Theory of Planned Behaviour have a significant influence on explaining the taxpayers' intention to comply and their compliance behaviour (Bobek et al. 2007; Nurwanah et al. 2018; Taing and Chang 2021b; Bani-Khalid et al. 2022b; Markonah and Manrejo 2022). Further, the auditor's behaviour, judgement, and decision-making can be explained by the factors in the theory (Buchan 2005; Khan et al. 2013; Cyr et al. 2020). In addition, Motivational Postures have already been used to explain taxpayers' behaviour regarding the tax system (Braithwaite 2003a; Braithwaite et al. 2007; Puspitasari and Meiranto 2014; Sadjiarto et al. 2020) and the tax audit (Mohd Yusof et al. 2014; Araújo Marques et al. 2020; Zieser 2021).

However, incorporating the Theory of Planned Behaviour and Motivational Postures has, to the researcher's knowledge, never been explored in the current development of the BEPS regime, particularly with the transfer pricing and its countermeasures by the BEPS initiatives 8, 9, and 10. Hence, this study aims to fill and extend the research gap by exploring the behaviour concerning these issues from the tax authority's perspective. The involvement of other actors in the tax system, such as tax professionals, tax advisers, and tax policymakers, is essential to capture the intertwined relationship among their roles, mainly to anticipate the scrutiny in the form of a transfer pricing audit. Research on the tax behaviour mostly focuses on one actor, usually from the taxpayers' side. As such, this study offers new perspectives because it covers the tax auditors, the under-researched actor in the tax system. Additionally, the incorporation of tax professionals, tax advisers, policymakers, and the tax court judge during interview sessions adds new insights into transfer pricing audit behaviours in Indonesia.

Moreover, from a literature perspective, research around transfer pricing audit behaviour is still limited. Most studies regarding tax audit behaviour are predominantly derived from the auditor's judgment during audit work for a non-transfer pricing setting. It can be seen in several earlier studies, such as the IRS revenue agents' decision making process in audit work regarding taxpayer's negligence on tax laws (Roberts 1995), the communication strategy in tax auditing involving the IRS agents and the taxpayers to settle the case (Pentland and Carlile 1996), the tax auditor's behaviour regarding numerical and verbal standard of tax law in assessing penalties in the US and New Zealand (Hite and Sawyers 2000), the examination of the tax auditors and tax practitioners attitudes regarding tax auditing process (Hasseldine and Hansford 2003), the tax auditor's behaviour in the Greek tax authority on the use of information technology to detect tax infringements (George and Diavastis 2015), and the use of competitive negotiation strategy by the tax auditors in Germany to yield a higher probability of agreement on audit findings (Blaufus et al. 2022). These studies stipulate that the trend in tax audit research revolves around the behaviour of the tax auditors and practitioners in broader idea of tax audit, not necessarily related to transfer pricing.

More specifically, in the context of transfer pricing audit behaviour, only a few studies aim to uncover the phenomenon. For example, a study by Sebele-Mpofu et

al. (2021b) find that developing countries are encouraged to formulate clear transfer pricing regulations and invest in resource development to enhance the tax auditors' commitment to transfer pricing audit. In another study, Mashiri et al. (2021) argue that transfer pricing audit can be seen as a game-theoretic concept between the tax authority, multinational corporations, and tax consultants. The cooperative behaviour of the taxpayers (MNCs) depends on the presence of tax consultants and the frequency of a transfer pricing audit. It is argued that an increased focus on transfer pricing audit is a rational consequence of a growing business landscape of large companies (Chan et al. 2015).

Given the above literature, there is limited empirical evidence on the behavioural dynamics of transfer pricing audits, particularly related to factors affecting the tax auditor's behaviour in scrutinising transfer pricing. For instance, in Indonesia, the tax auditors face difficulties during the transfer pricing audit process (Mulyani 2010; Muhammadi et al. 2016). However, it is unclear whether these challenges affect their behaviour in transfer pricing audits. Further exploration is needed to explore the factors that may affect transfer pricing audit behaviour in the Indonesian tax authority. Without a greater understanding of a behavioural perspective on transfer pricing audits, enforcement action in developing countries like Indonesia remains weak due to resource issues, ineffective regulations, and the shortage of comparable data (Sebele-Mpofu et al. 2021b). Accordingly, this study aims to explore transfer pricing audit behaviour in Indonesia and investigate predictors that may contribute to the behaviour of tax auditors in performing a transfer pricing audit. The research seeks to fill the existing gap in the literature and provides actionable initiatives for the tax authority to strengthen its transfer pricing audit effectiveness.

1.4. Research questions and hypothesis

The current study intends to use a convergent mixed methods approach to answer research questions and to test research hypotheses. It is considered convergent because the quantitative and qualitative stages are conducted concurrently due to the need to capture attitudes contemporaneously and cost and time constraints (Tashakkori and Teddlie 2021). The two methods will be conducted in the form of a survey circulated to the tax auditors in DGT and semi-structured interviews not only with the auditors but also with tax professionals, tax advisers,

policymakers, and tax court judges. A mixed methods approach may capture in-depth exploration of transfer pricing audit behaviour that may not be achieved through a single method. A survey result highlights the association between variables in this study from the statistical perspective, and a qualitative interview explores in-depth participants' voices and views regarding transfer pricing audit. As such, the use of a combined approach equally placed quantitative and qualitative results to investigate the phenomenon in this study (Creswell and Creswell 2022a).

Having identified the problem statement and research gap around the transfer pricing audit behaviour study, this study proposes quantitative research questions as follows:

1. Do perceptions of attitudes, subjective norms, and perceived behavioural control as posited in the Theory of Planned Behaviour influence the tax auditor's intention to conduct a transfer pricing audit, which subsequently affects their behaviour?
2. Do the tax auditors' perceptions of the tax professionals' knowledge of transfer pricing regulations influence their behaviour in conducting transfer pricing audits?
3. Does social distance, as noted in Motivational Postures theory, placed between the tax auditor and the tax authority influence transfer pricing audit behaviour?

To answer research questions, this study addresses the directional hypotheses, which are commonly used in the current development of mixed methods research (Creswell and Plano Clark 2018) and are based on certain theoretical grounds (Cho and Abe 2013). The hypotheses are mainly focused on what factors influence tax auditors' behaviour to conduct transfer pricing audits, which are addressed as follows:

- H1: Tax auditors' attitude, subjective norms, and perceived behavioural control are positively associated with their behavioural intention to conduct a transfer pricing audit.
- H2: Tax auditors' behavioural intention is positively associated with their behaviour to conduct a transfer pricing audit.
- H3: Tax auditors' perception of tax professionals' knowledge of transfer pricing is positively associated with their behaviour when conducting

a transfer pricing audit.

H4: Tax auditors' deference posture is positively associated with their behaviour to conduct a transfer pricing audit.

H5: Tax auditors' defiance posture is negatively associated with their behaviour to conduct a transfer pricing audit.

In addition, based on the theoretical framework, the nature of mixed methods, and the quantitative constructs employed in this study, the qualitative research questions that aim to answer are as follows:

1. How do the tax auditors perceive transfer pricing audit?
2. How do the tax auditors perceive the tax professionals' and tax advisers' behaviour related to the transfer pricing audit?
3. What are the future directions of transfer pricing in Indonesia?

Lastly, in the mixed methods study, the researcher needs to explicitly state mixed methods questions to mix, link, emerge, or integrate quantitative and qualitative research questions (Tashakkori and Creswell 2007a). In convergent mixed research, which this study employs, it is better to closely link the confirmation of quantitative and qualitative findings to address mixed methods questions (Creswell 2022a). The two databases can be integrated using a mixed methods approach employed in the study. As such, based on this concept, a mixed methods question is stated in this study as follows:

To what extent do quantitative instrument data measurement results on transfer pricing behaviour resemble interview findings for tax auditors working at the Indonesian tax authority?

Moreover, this study employs three analyses to answer the above research questions and test the hypotheses. First, for the quantitative surveys, the datasets will be analysed using partial least square structural equation modelling (PLS-SEM) (Hair et al. 2022). PLS-SEM is part of the structural equation modelling, which aims to capture and investigate complex associations among variables (Chin 1998). The main consideration in applying the PLS-SEM is the predictive relevance (Sarstedt et al., 2014; Shmueli et al., 2016) related to the study's intention to predict which factors contribute significantly to explaining transfer pricing audit behaviours. Second, qualitative interview outcomes are analysed using a reflexive thematic analysis

(Braun and Clarke 2022). This approach supports the reflexivity of the researcher's prior knowledge around transfer pricing audits. Last, the two quantitative and qualitative data findings will emerge and be triangulated using the joint display analysis (Creswell and Creswell 2022). The integration process is important in a mixed methods study to generate meaningful insights, generate multiple perspectives, and draw inferences from the two analyses (Creswell and Plano Clark 2018). Detailed descriptions of these approaches are presented in Chapter 4 of this study.

1.5. The importance of the study

Practically, the importance of the study can be summarised in four key areas. First, research around the tax auditor, mainly in developing countries, is still limited due to the intricate approval from the tax institution (Hite and Sawyer 2000). The role of the tax auditor is critical in the tax system to foster tax compliance (Ackerman and Hobster 2002). At this point, the incorporation of the tax auditor in this study provides additional knowledge about the tax auditor's imbalance element in the literature. Second, the study is expected to allow the specific empirical evidence on transfer pricing audit behaviour to be explored in a non-Western setting. Studies on transfer pricing are mainly conducted in the Western and OECD countries (Klassen and Laplante 2012; Vicard 2015a; De Simone et al. 2017; Davies et al. 2018; Mescall and Klassen 2018; Liu 2020; Fuest et al. 2022). Despite transfer pricing being a concern of tax authorities in developed and developing countries (Borkowski 1997; Kalra and Afzal 2023), more studies are needed to uncover this issue from the perspective of developing nations and non-OECD members (Amidu et al. 2019; Wier 2020). Therefore, the current study exemplifies the need for more research around transfer pricing in the non-Western context, mainly in connection with the audit process.

Third, the study explores what factors influence the tax auditors' behaviour regarding transfer pricing audit, a concept in the international tax regime known for its complexity (Grabski 1992), using the proposed extended TPB framework. The study challenges the claims that intention is the sole factor affecting an individual to perform a specific action. The application of an extended TPB model is something worth exploring as a reflection of the development of this widely applied theory (Tornikoski and Maalaoui 2019; Canova and Manganelli 2020). The recent meta-

analysis also revealed that extending the theory to account for other variables that determine individuals' behaviour is an idea many researchers have proposed and tested in different settings (Hagger and Hamilton 2025). Therefore, the current study intends to contribute to the proliferation of research testing and literature around the TPB model, particularly in the setting of transfer pricing audit behaviours.

Last, the current study aims to contribute to the literature on using partial least square structural equation modelling (PLS-SEM) as part of the mixed methods and the incorporation of the tax auditor in tax research. A vast number of studies in social science and accounting have used the PLS-SEM to analyse the statistical findings accurately (Lee et al. 2011; Nitzl 2016; Hair et al. 2019b; Hair Jr et al. 2020; Dash and Paul 2021). Nevertheless, only a few studies have incorporated the PLS-SEM in combination with another method as part of a mixed methods study (Kurtaliqi et al. 2024). The literature is even more limited in the context of transfer pricing research. Hence, this study aims to mix the PLS-SEM with reflexive thematic analysis to uncover transfer pricing audit behaviours in the Indonesian setting.

Further, although the above explanation outlines the important role of the tax auditors in this study, other types of participants are also incorporated, particularly during the interview stage. These include the tax professionals working at multinationals, professional tax consultants, tax policymakers, and tax court judges. The roles of these actors are also critical in shaping the landscape of the transfer pricing regime in any tax jurisdiction, including Indonesia. When talking about international transfer pricing, most likely, MNEs are depending on the knowledge from an external party, such as professional tax advisers or consultants (Cools and Rossing 2021a). Also, resolving transfer pricing disputes between the tax authority and MNEs likely involves the tax litigation process (Shiers 2010; Bakker and Levey 2011; Sebele-Mpofu et al. 2021b). Therefore, the current study's goal is to unveil transfer pricing audit behaviours in Indonesia by involving participants other than the tax auditors.

1.6. Thesis structure

This study is outlined in eight chapters. Firstly, Chapter 1 provides a general background of the overall study. Following this part, Chapter 2 explains the conceptual framework of the study. It consists of five main topics related to the

emergence of the BEPS regime, the BEPS initiatives proposed by the OECD, the theoretical framework of behaviour, the behavioural aspects of transfer pricing, and the social distance between the tax auditors and DGT. Next, Chapter 3 describes why Indonesia matters as a research context. After this exploration, Chapter 4 puts forward the research methodology and data collection strategy employed in the current study.

Then, Chapter 5 reports the survey results using the analytical tool of PLS-SEM, which includes sample characteristics, descriptive statistics, PLS-SEM model evaluation, hypotheses testing, and robustness checks. Chapter 6 presents interview findings in the form of qualitative themes and subthemes to answer research questions. Chapter 7 discusses the integration process of quantitative and qualitative outcomes to answer a mixed methods research question. This chapter also provides explanations of the contributions of this study (theoretical, methodological, and practical) and proposed policy recommendations. Lastly, Chapter 8 gives a general conclusion of the study with additional explanation on the study limitations and directions for future research.

Chapter 2: Literature Review

2.1. Introduction

This chapter aims to critically review the emergence of transfer pricing and the theoretical underpinnings used in this study. Following this section, section 2.2 describes the issue of base erosion and profit shifting (BEPS) and transfer pricing. This part is essential to give a foundation for the overall discussion regarding transfer pricing audit behaviour in the current research. Next is section 2.3, which explores the BEPS initiatives, one of which is the action plan related to transfer pricing. Section 2.4 explains the theoretical framework employed in this study to assess the participants' transfer pricing audit behaviour. The next section is 2.5, which thoroughly reviews the behavioural aspect of the transfer pricing audit. Then, section 2.6 explains the motivational postures to comply with transfer pricing regulations. Finally, section 2.7 concludes this chapter.

2.2. Tax-motivated transfer pricing and developing countries

In general, the contribution of MNEs is critical to the development of the world's economy and shaping the global economy by providing the movement of capital and knowledge among countries (Mulyani 2010), contributing to a country's revenue generation (Kim and Milner 2021), and integrating the global production system (Todorova 2020). Multinational enterprises are a group of corporations from different jurisdictions tied together by common ownership and the group's strategy, and which own, operate, and control activities related to income creation in different countries (Kim and Milner 2021; de Marchi et al. 2022).

The operation of MNEs across multiple countries attracts policymakers in the home and host countries related to the movement of resources and business activities. One of these is taxing rights and regulatory concerns among tax authorities where MNEs' affiliates operate. This concern is linked with different tax treatment among countries in MNEs' value chain transactions because each jurisdiction may have a slightly different tax regime. Moreover, the use of advanced techniques and strategies by MNEs concerning their cross-country transactions raises tax consequences regarding value creation and tax allocation between nations (Zachariadis 2019). However, aligning business profits and taxing rights

derived by MNEs and their affiliated parties may not be straightforward. The allocation of MNEs' tax obligation raises tax challenges such as understanding different tax regimes across the globe, interpreting the intricate tax legislations for cross-border transactions, and aligning taxing rights with localisation of MNEs' activities (Foss et al. 2019).

Furthermore, under the current tax regime, parents, affiliates, and subsidiaries of multinational firms are treated as separate entities subject to corporate income tax in each location of the home and host countries where they are registered and operated. As such, multinationals are considered as "loose collections of separate entities operating in different countries, rather than as conglomerates making profits in a global marketplace" (Bray 2013). This system creates inconsistencies due to different tax treatment among tax jurisdictions. Furthermore, in current rapidly changing cross-border transactions, MNEs are spreading across nations, and their activities under the global value chains have substantially increased (Mudambi and Puck 2016). One factor influencing MNEs' strategy to invest and operate in a specific location is the tax rate level for their business profits. Multinationals are concerned with a country's market size, resources, and the rates of their corporate income tax (Coeurderoy and Verbeke 2016). For this reason, tax rate is also a challenge for policymakers across nations to attract MNEs' capital investment, and they aim to lower their corporate income tax rates to the lowest possible number (this strategy is also known as a race to the bottom) (Devereux et al. 2002). However, according to the OECD, this practice endangers a country's tax base and leads to harmful tax practices (OECD 2019). Therefore, international coordination and cooperation is needed to tackle this challenge.

In response to the increasing ease of being able to generate income without having a physical presence in the market, allocation of taxing business profits under international tax regime should be associated with location of economic activities aligned with value creation and the level of activity by each of MNEs' group (OECD 2015a). In addition, the challenge to bridge the value creation and a country's taxing rights is driven by MNEs' behaviour to seek tax jurisdictions with low- or zero-income tax rates as their place of activities. They aim to minimise their tax burden by localising profits and constructing operations in lower-tax countries (Foss et al.

2019).¹ On the other hand, many tax authorities, mainly in less developed countries, are facing problems with institutional and human capacity to enforce tax laws for global transactions conducted by MNEs' group members. These problems emerged due to difficulties in mobilising tax revenue and increasing the skills of tax officials (Mills 2017). Additionally, the development of the tax system is not at the same pace as the level of global changes in value chain arrangement by MNEs. In recent years, MNEs' global transactions have expanded and accumulated significant added value (Cuervo-Cazurra and Pananond 2023). With this concern, policymakers should adapt their tax regimes to the changing world. Thus, this may be a great challenge for many tax authorities to adjust to the trend of the global economy (Zachariadis 2019).

MNEs are sophisticated organisations that consist of different business units spread across countries. In the context of taxation, they have the resources, abilities, and skills to avoid paying income tax for their intrafirm global transactions (Owens and Tavares 2018). This concern leads to another tax challenge regarding the transfer pricing aspects of multinationals (Tavares 2016). In general, transfer pricing, or transfer prices, can be defined as prices charged for transactions between affiliated entities (OECD 2022a). This concept is derived from the accounting and economic aspects of the corporation to maximise its profits (Eccles 1985). Initially, transfer prices are required in non-tax environments for performance measurement and control. On the other hand, tax-motivated transfer mispricing is associated with a transfer pricing arrangement that uses the country's tax rate difference to shift tax income (Clausing 2003; Quint and Rudsinske 2020). Due to the nature of tax-motivated transfer pricing being related to tax treatment in different international locations within MNEs' affiliates, this concept is also referred to as international transfer pricing (Sansing 2014; Rossing et al. 2017; Hemling et al. 2022). Also, the terminology "international" shows the magnitude of such arrangements, which may lead to profit shifting among countries and unequal tax apportionment for the benefits of MNEs.

Initially, the issue of international transfer mispricing is a concern of governments in less developed countries due to a lack of expertise, institutional

¹In practice, it is a case of maximising after-tax returns or profits.

capacity to manage this issue, and difficulty in assessing the correct transfer prices (Lall 1979; Plasschaert 1985). Nonetheless, current research shows this trend is also linked with developed countries (Borkowski 1997; Kwak et al. 2020; Liu et al. 2020; Ting 2020; Rogers and Oats 2022). Most tax jurisdictions now consider the global development of MNEs' activities across national boundaries an issue concerning the arrangement of international transfer pricing conducted by MNEs and their affiliates.

The empirical evidence of tax-motivated transfer pricing has been proven in many studies. However, these data are mainly for developed countries (Fuest and Riedel 2010). Despite how significant the effect of tax-motivated shifting to such economies is, the situation is considerably more serious in emerging economies (Mills 2019a). The reasons are that developing countries face financial constraints, have limited resources to deal with complex cross-border profit shifting, and lack domestic tax legislations to challenge multinationals' position regarding their manipulation of transfer prices (Wier and Erasmus 2022). Also, not to mention the fact that many developing countries heavily rely on foreign investments from multinational firms (IMF 2011; Janský and Palanský 2019), which makes such economies have little power to question MNEs' arrangement on intrafirm prices. Hence, based on these concerns, tax-motivated international transfer mispricing that leads to profit shifting is critical to address for developing countries (United Nations 2021), as they are more sensitive to being exposed to such schemes implemented by MNEs (Fuest and Riedel 2010; Fuest et al. 2013).

Additionally, according to the OECD (2014), one of the challenges encountered by developing countries in fighting MNEs' transfer pricing arrangements is the tax officials' ineffective audit capabilities and skills. Further, using a case study of transfer pricing challenges in Africa, Readhead (2016) mentions that a lack of knowledge and capability among tax officials in developing countries drives aggressive transfer mispricing by multinational firms. It seems that "addressing capacity problems in developing countries is a long-term project" (McNair et al. 2010). This issue is combined with limited access for tax authorities to obtain complete information on MNEs' transactions, even when this information is exchanged with other tax jurisdictions.

One reason developing countries are more prone to the effect of international profit shifting is their heavy reliance on corporate tax income (OECD 2014; Crivelli et

al. 2016a). Hence, the tax base is vulnerable to eroding in developing countries, and their tax revenue is at risk. As an illustration, Figure 2.1 depicts the proportion of corporate tax income in the fraction of total tax revenue for the OECD and non-OECD countries.² This study uses OECD-wide data to simplify the differentiation between developed (OECD members) and developing (non-OECD) countries, as has been used in other research (Burgers and Mosquera 2017).³ While non-OECD members consist of a wide range of economies, for simplification, they can be grouped as developing countries because most of those countries are represented as low and lower-middle-income countries (Crivelli et al. 2016a).

The data in Figure 2.1 is derived from the OECD Global Revenue Statistics Database for the last twenty years, from 2000 to 2020 (OECD 2020a). This figure shows that developing countries, including Indonesia, which is not an OECD member, depend greatly on corporate tax compared to advanced economies. As tax revenue is a main source of national income in developing nations, reducing corporate tax bases jeopardises governments' ability to provide excellent public services to their citizens.⁴ Indonesia's reliance on corporate tax revenue is higher than that of other developing countries. Therefore, addressing the issue of corporate profit shifting motivated by taxation is critical in the Indonesian context, as the country mostly relies on corporate taxpayers.

Using different datasets from the OECD Global Revenue Statistics Database, the capacity of a country's efforts in collecting tax revenue can also be seen by exploring total tax revenue as a fraction of gross domestic product (GDP). The ratio indicates the proportion of the total production of goods and services in a specific time that the government collects through taxes (Teera and Hudson 2004; OECD 2020a). The tax-to-GDP ratio is shown in Figure 2.2. Despite the increasing trend of

²All tables and figures in this study are presented in APPENDIX A and APPENDIX B, respectively.

³The World Bank addresses another approach to classifying countries: low-income, lower-middle income, upper-middle income, and high-income countries. The former two categories are equal to developing countries, and the latter two are developed countries (Hamadeh et al. 2021). In addition, there is also a distinction between the Global South and the Global North (Odeh 2010). Global South refers to developing countries, and Global North implies advanced economies.

⁴Latin America and the Caribbean are excluded from the analysis due to the incompleteness of the datasets.

the government's ability to collect total taxes from its domestic output, the numbers remain low in developing countries compared to the OECD members. This figure implies that low- and middle-income countries are struggling to explore all possible tax potential from economic activities. Without sufficient tax revenue, governments are unable to provide basic public services (Brandt 2022). The struggle is even more evident in Indonesia because the country has a lower tax-to-GDP ratio than other countries.

From an international tax perspective, this pattern potentially creates unfair tax treatment if multinationals operating in developing countries aim to shift their income or profit away from such jurisdictions to low-tax locations, or even to tax havens. Hence, the issue of profit shifting in the form of transfer mispricing is critical to address in the context of developing nations. The reason is that such behaviour may erode countries' tax bases and jeopardise their economic development and revenue mobilisation (Mills 2017).

Studies on profit shifting out of developing countries mainly rely on empirical data using quantitative analysis to assess the magnitude of the shifting (Pak 2007; Crivelli et al. 2016; Oxfam 2019; Brandt 2022; Tørsløv et al. 2022; Wier and Zucman 2022), with exception of Baker (2005) who quantifies the profit flows from developing countries based on interviews with trading companies.⁵ However, these approaches raise concerns with the difficulty of interpreting and generalising information on profit shifting and prices being transferred in intrafirm transactions. In developing countries, it is unclear whether the magnitude of profit shifting is motivated by tax-induced or other reasons, such as the complexity of business regulations, high corruption, political instability, economic uncertainty, or perhaps fiscal deficits. As such, it is critical to explore this phenomenon from another view.

Instead of assessing the quantitative nature of profit shifting and transfer pricing, the study also needs to capture other explorations. For example, how are the behaviours of the tax auditors in developing countries to address transfer pricing arrangements by MNEs during the tax audit process, and what are their perceptions on MNEs' and tax advisers' behaviour regarding transfer pricing audits. This

⁵The possible secondary data used by researchers are revenue statistics from the IMF, World Bank, or OECD, foreign affiliate statistics, bilateral balance of payment, trade statistics, and data of foreign direct investments.

approach is scarce, or even limited, in the literature. Hence, this study aims to fill this gap by exploring the behaviour of tax auditors and other participants concerning transfer pricing audits.

2.3. The OECD and BEPS action plan

2.3.1. The institutional capacity of the OECD

The OECD is an international organisation founded in 1961, consisting of developed economies, to establish evidence-based international standards and to address several global issues, including economic development, education, job creation, and international tax alignment. It allows governments across countries to share experiences, find answers to global challenges, and identify good practices and guidelines that can be used as a common standard.

Regarding taxation, the OECD serves as a critical policy forum to address some concerns, such as transfer pricing, digital economy, taxing rights among countries, and the capacity development of tax officials. Started with 20 countries as members, currently the OECD membership has expanded to 38 economies across the globe, from North and South America to Europe and the Asia-Pacific, which represent 62.2% of the world's total GDP (Runde et al. 2020). Costa Rica is the 38th member to join the OECD in 2021. The timeline of the OECD membership is illustrated in Figure 2.3. In addition, some countries that do not join the OECD as members serve as key partners. These countries work closely with the OECD, actively participate in policy discussions, and enhance cooperation with other OECD members. The key partners of the OECD are Brazil, China, India, Indonesia, and South Africa.

Furthermore, to provide a consistent view on transfer pricing arrangements, the OECD has released transfer pricing guidelines to bridge the interests of multinationals and tax authorities. The guidelines started with the 1979 report on transfer pricing and multinational enterprises, and the latest version is the 2022 transfer pricing guidelines for multinational enterprises and tax administrations. From this perspective, it is critical to capture the issue of transfer pricing from the eyes of the two actors, taxpayers and tax officials, which this study aims to explore. As one of the key partners, Indonesia has also adopted the OECD transfer pricing guidelines on its domestic tax regulations. As such, the ability of the OECD as an international

institution to develop useful insights and guidelines on technical matters around transfer pricing is beneficial for its members and non-members.

2.3.2. A brief background of the BEPS action plan

To combat profit shifting by multinationals, the OECD released 15 BEPS action plans consisting of four major strands: tax treatment, transfer pricing, documentation, and dispute resolution. Out of these four elements, this study explores the tax auditors' behaviour regarding the transfer pricing regime under BEPS initiatives 8, 9, and 10 and its possible audit mechanism by the Indonesian tax authority, the Directorate General of Taxes (DGT). The reason is that transfer pricing is a critical issue in developing countries and is one of the major determinants of the BEPS (Andrus and Oosterhuis 2017). Also, as can be seen in Figure 2.1 and Figure 2.2, corporate tax contributes a major amount to Indonesia's tax revenue structure. However, it still has a lower tax ratio than other developing countries. Hence, Indonesia seems vulnerable to multinationals' transfer pricing actions.

The BEPS action plans endorsed by the OECD, as stipulated in Table 2.1, have been implemented in domestic tax regulations among members of the OECD Inclusive Framework, including Indonesia. The four initiatives, Actions 5, 6, 13, and 14, are the minimum standard that should be regulated in the tax legislation of the Inclusive Framework members, while the other actions serve as recommendations to implement (Burgers and Mosquera 2017). The Inclusive Framework includes countries covering the OECD and non-OECD members as part of the international collaboration to tackle BEPS.⁶

This study focuses on Actions 8, 9, and 10 regarding transfer pricing due to the importance of such arrangements, mainly for developing countries. To address the issues in these action plans, the OECD released the final report in 2015, consisting of recommendations on the actions needed to respond to transfer pricing transactions by multinationals (OECD 2015). Also, the report summarises the importance of MNEs' operational profits being aligned with economic activities and value created by each of their affiliates. Then, to accommodate the guidance stipulated in the report, under current transfer pricing guidelines, the OECD adopted

⁶Currently, there are around 145 countries and jurisdictions as members of the OECD/G20 Inclusive Framework.

initiatives under actions 8, 9, and 10 of 2015 final reports in its 2022 Transfer Pricing Guidelines for Multinational Enterprises, which the members of the Inclusive Framework may incorporate such guidelines in their domestic transfer pricing legislations.

Further, in the context of developing countries to combat BEPS, the OECD released specific reports in 2014 (OECD 2014) and 2021 (OECD 2021) to address the revenue mobilisation issue and align the global tax rules arising from BEPS arrangements. Likewise, in the 2021 report, the OECD aims to support developing countries to increase their capacity to tackle BEPS issues. According to the OECD, "...for developing countries, addressing BEPS is of particular significance as they rely more heavily on corporate income tax than developed countries do, particularly from multinational enterprises" (OECD 2022b). One of the supports needed by developing countries is to increase the tax officials' skills in transfer pricing tax audits. With the increasing concern of BEPS across tax jurisdictions, increased understanding of transfer pricing cases by tax officials is critical so that developing countries can secure their tax base. This can be done by setting up tax audit capacity, mainly when facing transfer pricing transactions. Consequently, the role of tax audit is essential in protecting a country's tax base.

2.3.3. BEPS and tax audit

An increasing trend of transfer pricing transactions by multinationals should be mitigated by the tax authority where MNEs' subsidiaries, affiliates, or members are operating, physically or digitally. One of the effective countermeasures to challenge MNEs' position on their transfer pricing strategies is conducting a tax audit. Generally, the term "audit" originated with the old Roman Empire (Kraus and Platkus 2007), which means "to listen or to question" (Domingues et al. 2011). In concept, an audit is "a systematic, independent, and documented process for obtaining audit evidence and evaluating it objectively to determine the extent to which the audit criteria are fulfilled." (Domingues et al. 2011). In another view, the International Auditing and Assurance Standards Board (IAASB) defines an audit as:

"An assurance engagement in which the objective is a reduction in assurance engagement risk to an acceptably low level in the circumstances of the engagement as the basis for a positive form of expression of the practitioner's conclusion." (IAASB 2005, p.1).

However, a precise definition of an audit is obscure because no agreement about what exactly auditing is (Humphrey and Owen 2000). The concept of audit disseminates alternately from the financial and corporate context to a new policy, such as taxation. According to the OECD, a tax audit is “an examination of whether a taxpayer has correctly assessed and reported their tax liability and fulfilled other obligations” (OECD 2006). The basis for the tax audit is tax regulations in certain jurisdictions where taxpayers need to obey and fulfil their obligations according to such regulations. This concern is rooted in the fact that most countries, including Indonesia, implement the self-assessment regime for income tax. Hence, taxpayers may calculate, pay, and report their tax (James and Alley 1999; OECD 2004b). Hence, tax authorities rely more on post-filing measures such as the tax audit to monitor taxpayers’ compliance with the tax laws (Okello 2014).

The role of the tax audit under the audit division in any tax authority is important to combat BEPS practices. As such, building the capacity and competency of tax officials in international profit shifting and transfer pricing must be done, particularly for the tax auditor or tax examiner in developing economies. According to Rahman and Scapens (1986), developing countries risk international transfer mispricing and profit shifting due to a lack of domestic transfer pricing legislation and inadequate expertise and skilled staff to address this growing issue. One way to scrutinise these scenarios is by conducting a transfer pricing audit, so developing countries may defend their tax base. For this reason, the tax auditors' skills, knowledge, and competency are critical so they may challenge multinationals' transfer pricing strategies, which are likely to use prominent tax advisers or accounting firms to help them.

The role of the tax auditors is not merely for verification tasks. They work beyond verifying and reviewing activities for any discrepancies between taxpayers' tax returns and factual transactions (Biber 2010). Also, the role of the tax auditors in the audit process is important because they serve to foster taxpayers' future tax compliance (Brychta et al. 2020). From the perspective of the BEPS regime, tax auditors not only deal with technical assessment of calculating an arm's length price, determining the transfer pricing method, and reviewing documentation as the basis for pricing policy, but also interpreting legislation and international guidelines concerning transfer pricing. Their function is extended from what society believes the

tax authority only collects “revenue through the process of detecting noncompliance and imposing penalties” (Braithwaite 2003b). In the growing development of the international tax regime, the tax auditors need to deal with the intricate yet under-regulated arrangements by multinationals regarding transfer pricing. Also, transfer pricing is the area of tax strategy explored by MNEs to minimise overall tax payment, but it is not easy to be audited by the tax authority (Mulyani 2010; Chan et al. 2015).

Furthermore, conducting an audit of MNEs involves complex technical tax issues, and transfer pricing is considered the most central one (Shongwe 2019). The OECD states that “transfer pricing is not an exact science” (OECD 2022a), which leaves room for subjective interpretation and judgement by the tax officials and taxpayers (Lyal 2015). However, the role of transfer pricing audit is critical to fostering future compliance, improving tax revenue mobilisation, and strengthening the tax base (Wickerson 1994; Liu 2014; Sebele-Mpofu et al. 2021c). In this regard, tax auditors are likely to use their judgments to conclude whether multinationals’ transfer pricing strategies align with international guidelines and domestic regulations. They also determine whether MNEs’ profits have been shifted to other tax jurisdictions at some point.

In addition, because of their critical function, the OECD considers tax auditors as the “public face” of every revenue authority (OECD 2006, p.5). In light of this concern, this study aims to investigate the tax auditors’ behaviour regarding transfer pricing audit in the Indonesian context. Studies on transfer pricing and BEPS issues are mostly explored from multinationals’ perspectives. Hence, literature regarding the voice of the tax auditors in developing countries is limited (Chan and Chow 1997). Moreover, the tax bodies in the OECD members are also increasing their audits regarding transfer pricing issues, and more multinationals are being audited (Ackerman and Hobster 2002). Consequently, this study intends to provide additional knowledge on exploring transfer pricing practices from the perspectives of tax auditors, whose voices and views around these issues are limited in the literature.

Furthermore, research on the tax audit initially analyses the taxpayers’ attitude toward being audited by tax officials (Chang et al. 1987) and the use of statistical sampling in the tax audit (Bright et al. 1988). Nevertheless, the most explored area of research in the tax audit is related to compliance and noncompliance behaviour of the taxpayer (Murray 1995; Park and Hyun 2003; Kleven et al. 2011; Hofmann et al.

2014; Gangl et al. 2019; Hebous et al. 2023; Kasper and Rablen 2023). Concerning the tax auditors' behaviour, the number of studies is limited in both developing and developed countries. This may be due to data secrecy and difficulty in obtaining approval from the tax authority to study the auditors' behaviour (Hite and Sawyer 2000). The exploration of research publication related to the tax auditors' behaviour is shown in Table 2.2.

Table 2.2 reveals that research around the tax auditors' behaviour is still scarce, specifically in developing countries and in the subject of exploring their perception of transfer pricing in the BEPS regime. One study related to the perception of the tax auditors and MNEs on transfer pricing was conducted within the pre-BEPS timeframe in Indonesia (Mulyani 2010), and one study explored the tax auditors' difficulties in conducting transfer pricing audits, specifically for intangible assets, in the post-BEPS era (Muhammadi et al. 2016a). As such, this study aims to give additional insights and to fill the knowledge gap in the field of the tax auditors' behaviour regarding transfer pricing using the behavioural approach, which has never been explored in the Indonesian context or any other developing countries.⁷

2.3.4. Transfer pricing audit quality

2.3.4.1. The concept of audit quality in financial reporting

Theoretically, the tax audit quality concept, more specifically, transfer pricing audit quality, has not yet been explored. The possible explanation is that the transfer pricing regime differs among tax jurisdictions. Each has different rules and regulations in assessing the arm's length principle, applying the transfer pricing method, making adjustments, and analysing required documentation on transfer pricing transactions. As such, the exploration of transfer pricing audit quality can be extended to the concept of audit quality in the commercial audit framework. According to DeAngelo (1981), the quality of audit services can be defined as a market-based assessment of the probability that a company's financial statements

⁷To give a balanced view regarding this issue, the current study aims to also incorporate other parties in the Indonesian tax system, mainly during the interview stage, such as the tax professionals, tax advisers, tax bureaucrats, and tax court judge. As such, while the focus of this study is the tax auditors, exploring other actors' perception around transfer pricing gives an insightful knowledge which, as far as the author concerns, never been conducted in other studies.

and accounting systems contain material errors, and the auditor will discover and report them. The breach found by the auditor will depend on the auditor's knowledge and capacity, the audit procedures employed during the examination, and the use of appropriate sampling on the document. In addition, other relevant definitions of audit quality include the probability of avoiding material errors being issued in the unqualified audit report (Lee et al. 1999), the information fineness reported on by the auditor (Davidson and Neu 1993), the level of audit process and procedure that aligns with the audit standards (Watkins et al. 2004), appropriately assessed all reliable and relevant evidence that aligns with generally accepted accounting principles (Francis 2011), and the level of audit effort to comply with audit regulations and standards (Steller and Pummerer 2021). All these definitions stipulate that audit quality embraces various dimensions, mainly focused on the auditor's competency and the use of auditing standards in preparing the audit report.

From another perspective, the International Auditing and Assurance Standards Board (IAASB) confirms that audit quality encompasses the quality of audits conducted consistently using appropriate evidence (IAASB 2021). According to IAASB, a quality audit is built with relevant elements such as inputs, processes, outputs, interactions, and contextual factors, and presented in Figure 2.4. While the framework provides general guidelines on how to assess audit quality for financial reporting, its application to transfer pricing audit is worth exploring. In general, both audits involve two actors: auditors and legal entities. In financial reporting audits, auditors need to verify companies' financial statements under the umbrella of the accounting framework to form a reasonable opinion. On the other hand, transfer pricing audit deals with investigating companies' transfer pricing arrangements, as reported in the tax returns, compared to domestic and international transfer pricing guidelines. As such, the assessment of audit quality in financial audits can also be applied in transfer pricing audits with some adjustments, given the different nature, scope, timing, evidence, regulations, and standards that may affect the tax auditors' judgment. The OECD also supports this concept, which states that a good tax audit quality should be measured by relevant output, meet required technical and procedural standards, and focus on targeted risks (OECD 2006). One of the crucial risks to address in the tax audit is attributed to transfer pricing (Pavone 2020).

2.3.4.2. The framework of transfer pricing audit quality

Many tax authorities are imposing transfer pricing audits to ensure MNEs' activities on cross-border transactions comply with domestic and international transfer pricing guidelines. According to Li and Paisey (2007, p.xvi), tax authorities are likely to impose penalties in the event of non-compliant transfer pricing behaviour. Therefore, enforcing transfer pricing regulations through a tax audit mechanism is a way to assess MNEs' transfer pricing strategies according to the framework developed by the tax authorities. Any deviation from such arrangements with transfer pricing regulations will result in additional tax revenue, with possible penalties.

While transfer pricing is not an exact science (OECD 2022a) with many areas for subjective interpretation, both from multinationals and tax administrations, the presence of its regulation is critical. Multinationals as corporate taxpayers are rational economic actors weighing the cost and benefit analysis in complying with the tax regulations, following the tax evasion model developed by Allingham and Sandmo (1972). According to this model, all taxpayer income is equally unknown to the tax authority, which leads to the concern about the amount of income the taxpayer should report on the tax return. If the tax official discovers the underreported income during the audit, the taxpayer must pay an additional penalty (Allingham and Sandmo 1972; Sandmo 2005). When the benefits of non-compliance exceed the costs, taxpayers tend to evade paying taxes or complying with tax regulations.⁸ As such, increasing audit probability would deter non-compliant behaviour of the taxpayers (Sebele-Mpofu et al. 2021c).

In the context of transfer pricing transactions, violating the arm's length principle, or applying an inappropriate transfer pricing method compared to the transfer pricing guidelines and domestic regulations, is likely to occur without effective tax audits. A study by Rathke (2019) reveals that the low probability of tax audit drives MNEs to use a non-arm's length price for their intrafirm transactions as a

⁸Even though this model is initially developed on the individual taxpayer basis, but the concept can be equally applied to the corporation. The costs of being non-compliant are related to the additional tax payment with penalties if taxpayers are caught by the tax authorities through tax audit mechanism. Taxpayers need to calculate the possibility of being audited if they want to not to be comply with the tax regulations.

shifting strategy. Even when a transfer pricing audit is conducted, the subjectivity in interpreting regulations and guidelines, the lack of tax auditors' capacity, and the ineffectiveness of domestic transfer pricing regulations are issues connected with the transfer pricing audit (McNair et al. 2010; Shongwe 2019; Wier 2020). From the perspective of developing countries, scholars argue that general tax audits and transfer pricing audits in such countries are ineffective due to a lack of domestic legislation and tax officials' capacity (Biber 2010; Ramachandran et al. 2012; Baharud-din et al. 2014; Shongwe 2019). As such, further study is needed to explore the reasons behind this behaviour (Rablen 2014). In addition, the uncertainty and subjectivity in determining the arm's length price drives MNEs to charge such prices that can benefit them as a group to minimise tax revenue mobilisation (Sebele-Mpofu 2021). From this view, it is essential to develop a framework of tax audit quality specifically designed to address transfer pricing issues because the tendency to shift profits by MNEs would decrease with the introduction of stricter transfer pricing legislation and more transfer pricing audits (Bakke et al. 2019).

In a contextual perspective, according to Marques and Pinho (2016), transfer pricing is characterised by the framework of statutory regulation on the general application of transfer pricing, documentation obligation, enforcement mechanism through transfer pricing audit, and penalty aspects for failure to comply with statutory rules. Also, in Lohse and Riedel (2013), requirements on transfer pricing documentation and the presence of transfer pricing rules are the main drivers of the transfer pricing framework. Moreover, the selection of cases, the assignment of knowledgeable tax auditors, and the output measures are crucial factors in conducting a tax audit (Hasseldine and Bebbington 1991; OECD 2006; Brychta et al. 2020). Therefore, concerning these variables and the framework in Figure 2.4, assessing transfer pricing audit quality in this study can be summarised in the following manner:

a) Inputs

A quality transfer pricing audit starts with the assignment of knowledgeable and well-trained tax auditors who can finish the audit within the timeframe. Transfer pricing is a complicated area for most tax officials (Mashiri 2018; Brychta et al. 2020), extensive training on transfer pricing is needed before performing the audits (Blumenthal and Ratombo 2017; Nguyen et al. 2019). Another factor to consider is a

clear audit plan that captures the use of effective audit techniques and the completion of the audit (OECD 2006). A transfer pricing audit plan contains relevant risks and issues to be explored further by the auditor, lists of documents to be prepared by the taxpayers being audited, and possible interview questions. An audit plan is a live document and should be updated throughout the audit process.

b) Process

A tax audit needs to be performed according to a high standard based on the audit standard operating procedures. According to the OECD (2006), relatively “poor quality audit activity is likely to have a detrimental effect on compliance”. Further, according to Chalu and Mzee (2018), the tax audit standard is important in building an effective tax audit. As such, transfer pricing audits shall be carried out at the highest standard possible due to their complexities and importance for tax authorities.

c) Outputs

Similar to in financial statement audit, the output of a transfer pricing audit is the audit report, which contains the audit findings, legal bases, audit techniques, evidence gathered during the audit, deficiencies in tax payment and penalties imposed, and comparisons of actual and planned outcomes (OECD 2006, p.45).⁹ Then, the report must be signed off by all audit members. Also, a quality audit must be reported within the timeframe according to the audit procedures. Another concept of tax audit output is the monetary measure collected because of non-compliant behaviour of taxpayers. However, this output level may not apply to a transfer pricing audit because taxpayers will likely challenge the audit findings.¹⁰ Many transfer

⁹In practice, this is not always the case. A tax audit may also be closed with no tax deficiency in a way that taxpayers have already reported the actual amount of tax payment in their tax returns according to the tax laws and regulations. However, in transfer pricing audit, the probability of deficiency is higher to be anticipated between taxpayers and tax auditors because there are many rooms for different interpretations such as transfer pricing methods, use of comparable data, the level of arm's length price, and legal issues (Lo and Wong 2007; United Nations 2021).

¹⁰One of the reasons is the value of additional tax payment with penalties in transfer pricing adjustment is likely higher compared to general tax audit without transfer pricing issues.

pricing disputes are growing in many tax jurisdictions, including Indonesia (Silberztein 2009; Baistrocchi and Roxan 2012). Thus, the use of monetary measurement to capture transfer pricing audit quality may not be reliable.

d) Key interactions

Interactions between actors involved in the transfer pricing audit are crucial as part of the audit process. According to the OECD (2006, p.48), the communication skills of the auditors are seen by many revenue bodies as important capabilities. Additionally, communication skills to increase interactions are critical not only among the audit team members, but also with senior management to maintain quality assurance of the audit and with taxpayers being audited to minimise disputes and maximise audit yield (Barrogard et al. 2018a; Sebele-Mpofu et al. 2021c). A good interaction with taxpayers is important during the provision of evidence because transfer pricing requires a substantial amount of documentation to prove that taxpayers' arrangements have been substantiated with proper evidence (Holtzman and Nagel 2014; Jaffer 2019).

e) Contextual factors

Lastly, transfer pricing assessment can also be addressed using the contextual environment, which, directly or indirectly, may affect audit quality. These factors are present in international guidelines, domestic legislations, and comparable data. Empirical studies find that implementing international guidelines and domestic legislations is the foundation of transfer pricing arrangements by MNEs and results in effective transfer pricing audit (Tan and Braithwaite 2018; Beebeejaun 2019; Tørsløv et al. 2020). The intricate nature of transfer pricing “signifies the need for comprehensive and well-developed audit skills and expertise to unpack any irregularities or to appraise transactions for compliance with transfer pricing legislation effectively” (Sebele-Mpofu et al. 2021c). This concern is also supported by the reality of MNEs' intrafirm activities, which are formally designed to avoid tax legislations opportunistically (Biondi 2019).

Transfer pricing audits can be very costly for MNEs (Mescall and Klassen 2018). Moreover, because there is no exact ‘truth’ in transfer pricing and with the help of prominent tax consultant, taxpayers prefer to challenge the findings rather than to pay additional tax payment and penalty.

Another external factor is the issue of comparable data that may lead to uncertainty and unclarity of the transfer price charged, thus resulting in disputes between taxpayers and tax auditors (Cooper et al. 2017). The availability of comparable data is important because tax authorities often struggle to determine an arm's length price due to a lack of comparable companies (Biondi 2017). As such, the enforcement action to establish an arm's length price, mainly during the transfer pricing audit, can be time-consuming and cumbersome both for taxpayers and tax auditors (Sebele-Mpofu et al. 2021c), which may impede the transfer pricing audit process (McNair et al. 2010). Putting together all relevant factors to assess audit quality in the context of transfer pricing audits, this study uses a framework, as shown in Figure 2.5, that can be used to justify the transfer pricing audit behaviour variable.

2.3.5. Knowledge gap: silent literature on the effectiveness of transfer pricing legislation and transfer pricing audit behaviour in developing countries

2.3.5.1. Research gap on the effectiveness of transfer pricing legislation

Numerous studies have been conducted to explore tax-motivated transfer pricing. These studies are mostly concerned with applying the arm's length principle for intrafirm transactions compared to the actual price charged among members of multinationals, and how the price varies following the statutory income tax rates in different jurisdictions (de Mooij and Liu 2020). According to these studies, which mainly focused on high-income countries, there is empirical evidence of tax-motivated transfer pricing in which intrafirm pricing depends on tax rate differentials for US multinationals (Clausing 2016; Flaaen 2017; Clausing 2020), French firms (Vicard 2015a; Davies et al. 2018; Vicard 2022), Denmark MNEs (Cristea and Nguyen 2016), the UK large firms (Liu et al. 2017; Langenmayr and Liu 2023), and German multinationals (Fuest et al. 2022). For developing countries, a study by Wier (2020) provides empirical evidence of transfer mispricing to minimise tax bills and shift profits to low-tax jurisdictions conducted by multinationals in South Africa. The study incorporates confidential data from the South African Revenue Service (SARS) from 2011 to 2015 and contributes to the first direct evidence of transfer mispricing in a less developed country.

To curb MNEs' behaviour of mispricing their intrafirm charge, many tax jurisdictions impose transfer pricing legislations as guidance for both tax officials and taxpayers to implement the arm's length standard and other requirements regarding transfer pricing.¹¹ The dimension, design, and requirements of transfer pricing legislations vary among countries and across time (de Mooij and Liu 2020). Transfer pricing regulations exist under countries' national tax laws and are generally regulated based on international standards such as the OECD transfer pricing guidelines (Zinn and Riedel 2014). In addition, the complexity of transfer pricing legislation depends on the focus of such countries in combating profit shifting through transfer mispricing. To date, transfer pricing regulations in the US are known to be one of the toughest and most detailed regulations compared to other nations (PricewaterhouseCoopers 2011). Scholars argue that the "stricter regulations could increase the cost of transfer mispricing and, indeed, are found to be effective in curbing the extent of profit shifting in advanced economies" (de Mooij and Liu 2020, p.273).¹² Also, the enactment of transfer pricing regulations can increase the attention of MNEs to reduce transfer mispricing and thus protect the domestic tax base (Fuest et al. 2013).

As in transfer pricing research, the literature on the effectiveness of transfer pricing regulations to deter transfer mispricing and increase MNEs' compliance with such regulations comes from developed countries. Overesch and Wamser (2010) investigate the impact of the German debt-to-equity rule on the use of internal loans. The empirical analysis shows that the changes in the thin capitalisation rule reduce internal borrowing for German multinationals and increase their compliance. This finding is consistent with other studies, such as thin-capitalisation rules effectively reduce excessive deduction of interest expenses for German large firms (Buettner et al. 2012), that the restrictions of thin capitalisation rules reduce US multinationals' debt ratio and reduce loans from the parent company (Blouin et al. 2014), and that the introduction of anti-tax avoidance regulations reduces internal debt in UK

¹¹These can be several concerns, such as the use of transfer pricing methods, documentation, penalty, country-by-country reporting, and dispute resolution.

¹²The possible explanation is due to higher penalty rate for non-compliance of transfer pricing regulations in advanced economies. As such, it would be very costly for taxpayer if the transfer mispricing arrangement is found by the tax authority.

multinationals and increases the probability of reallocation in their business activity (Bilicka et al. 2022).

Furthermore, the initiative of transfer pricing regulation named Controlled Foreign Company (CFC) rules limits German multinationals from shifting passive assets to low-tax locations (Ruf and Weichenrieder 2012) and reduces the use of internal debt (Buettner and Wamser 2013).¹³ In another study, using 27,278 samples of European foreign subsidiaries Marques and Pinho (2016) assess the interaction between the strictness of transfer pricing regulations and intra-company transfer mispricing. The finding suggests that implementing stricter transfer pricing regulations and tighter enforcement of such rules deters profit shifting behaviour of European multinationals through transfer mispricing. Hence, MNEs' compliance with transfer pricing legislation is increased. This result is similar to Lohse and Riedel (2013), which finds that tightened transfer pricing documentation rules significantly reduce shifting behaviour for multinationals in 26 European countries.

Using German datasets of 21,278 foreign subsidiaries located in 39 countries of 5,267 MNEs spanning from 1996 to 2007, Buettner et al. (2018) find that thin-capitalisation rules adversely affect multinational foreign investment. However, the introduction of transfer pricing rules does not have a significant effect on foreign direct investment. This can explain why German multinationals use internal debt to shift profit rather than transfer pricing of goods or services. In contrast, a study by de Mooij and Liu (2020) reveals that adopting transfer pricing regulations does affect MNEs' affiliates when they invest in foreign subsidiaries. This finding has policy consequences that may influence policymakers not to apply more stringent transfer pricing rules to prevent the adverse impact on investment.

Other studies regarding the effectiveness of transfer pricing regulations are the investigation of country-by-country (CbCr) reporting rules and corporate profit shifting. Several studies are connected to this issue. Using companies from more

¹³According to OECD, a CFC is defined as foreign company that is controlled by resident taxpayer either directly or indirectly (OECD 2015b). Under CFC rules, income from foreign subsidiaries will be imposed as part of the income of resident taxpayer. Each jurisdiction has different requirement within the meaning of control. In Germany, any foreign subsidiary pays foreign tax at a rate lower than 25% will be included in German corporate tax base and subject to higher income tax rate (Clifford 2019). The OECD responses the arrangement of CFC under BEPS action 3.

than 100 countries derived from the ORBIS commercial database, Hugger (2020) concluded that in response to CbCr legislations, there is a reduction in profit shifting at the subsidiary level among multinational firms worldwide, and the reduction is stronger in companies with experience being audited by tax authorities. De Simone and Olbert (2022) find that the requirement of CbCr significantly reduces the number of subsidiaries in tax havens and low-tax European countries for multinationals in the EU. This finding concludes that multinational firms in the EU aim to reduce their aggressive tax practices due to a more scrutinised regime of reporting requirements. Furthermore, using data from ORBIS in 2018, the adoption of CbCr rules significantly decreases European multinationals' inclination to shift their profits and increases their tax rates by one to two percentage points (Joshi 2020). Also, the introduction of CbCr reduces income shifting arrangements by European banks after the enactment of CbCr regulations (Joshi et al. 2018).

The above studies on the effectiveness of transfer pricing regulations are from the views of advanced economies. In contrast, the literature is silent for developing countries, as only one similar study explores the effectiveness of transfer pricing legislation and how multinationals behave in those jurisdictions. As such, analysis of this issue in developing countries is missing, given that many less developed countries (LDCs) have enacted transfer pricing regulations (Teles et al. 2023). A recent empirical study by Teles et al. (2023) using corporate tax revenue and FDI data for more than 120 developing countries finds that enacting transfer pricing regulations in such countries increases corporate tax revenue by 10 per cent. However, such laws do not significantly affect the level of FDI. This non-response result seems intriguing because the additional burden and requirement on transfer pricing activities may reduce multinationals' investment in developing countries. According to this study, one possible explanation is the institutional capacity issue in LDCs, such as corrupt behaviour.

2.3.5.2. Research gap on transfer pricing audit behaviours

As for transfer pricing audit behaviours, studies have not extensively explored this phenomenon, particularly in developing countries, given the argument that tax officials are still struggling to understand the transfer pricing concept (Issah et al. 2021). Studies are focusing more on the effectiveness of the transfer pricing method, behaviour in respect to transfer pricing practices, and transfer pricing audit

challenges and strategies. For example, a study by Muhammadi et al. (2016) using case studies of transfer pricing audit documents and interviews with 16 tax auditors in Indonesia finds that the Indonesian tax auditors encounter difficulties, such as a lack of transparency, limited cooperation, and limited access to documentation, regulations, and human resources issues during the audit process concerning transfer pricing of intangible properties. The result is consistent with an earlier study by Mulyani (2010), who uncovers the behaviour of the tax auditors in DGT who prefer not to undertake a transfer pricing audit due to some challenges, such as a lack of training, unclear career structures and rotation policies, and a lack of comparable data. The study also finds that the behaviour of local subsidiaries of foreign MNEs prefers not to have refund claims to prevent being audited for their transfer pricing arrangements.

In another setting, the tax auditors in the Zimbabwe tax authority also face challenges during a transfer pricing audit. A study by Sebele-Mpofu et al. (2021c) assesses the effectiveness of a transfer pricing audit as one of the measures to enhance MNEs' compliance. Using three transfer pricing cases and interviews with 27 participants from the tax auditors, the Ministry of Finance agents, and the tax consultants, the findings suggest that a lack of clarity in domestic transfer pricing legislation, a lack of expertise in tax the authority, the complexity of MNEs' transactions, and the shortage of comparable data affect the tax auditors' effectiveness in conducting a transfer pricing audit. A continuous evaluation of transfer pricing legislation and intensive training to increase the tax auditors' knowledge around transfer pricing are needed to embark on a more effective transfer pricing audit. The findings align with another study by Wealth et al. (2023), who argue that the inadequacy of resources in the tax authority, especially in a developing country, is a common issue to curb MNEs' transfer pricing. They are not fully equipped to deal with transfer pricing issues and are still learning the basic principles, which may affect the effectiveness of transfer pricing audits in developing countries. Therefore, the governments need to train and retain staff in the transfer pricing and large taxpayer units that handle an increased transfer pricing audits (Chan et al. 2015; Issah et al. 2021).

The above studies are examples of transfer pricing audit research in the context of developing countries. From the findings, it is argued that capacity

limitations, regulatory issues, and technical challenges shape a transfer pricing audit in those countries. However, research remains limited in the behavioural aspect of a transfer pricing audit, particularly in assessing the factors contributing to the tax auditors' behaviour. The auditors face many challenges, but the underlying causes are still underexplored. The present study seeks to understand this phenomenon through the lens of the behavioural aspect of a transfer pricing audit in Indonesia, incorporating not only the tax auditors, but also MNEs, consultants, policymakers, and a tax court judge.

2.3.5.3. What makes developing countries worth exploring?

From previous exploration, it can be concluded that transfer pricing audit behaviour refers to the strategies, practices, and decision-making processes employed by the tax authority scrutinising the internal pricing policy and design of the taxpayers (mostly MNEs) with their associated entities in other jurisdictions. It sits at the intersection of international taxation and the domestic tax regime and is critical to protect countries' tax base (OECD 2022a). While research around transfer pricing and transfer pricing audit has a global dimension, exploring it through the lens of developing countries offers a compelling area of investigation. They face institutional capacity constraints and are more vulnerable to profit shifting actions by large corporations (Jones et al. 2018; Cobham 2020).

Further, the tax structure of many developing countries, including Indonesia, makes them highly dependent on corporate income tax from a small pool of large taxpayers, often dominated by foreign companies (OECD 2022c). This contrasts with high-income countries, where corporate income tax has a smaller contribution than personal income tax. Consequently, developing countries are more prone to the erosion of the tax base through transfer pricing manipulation by MNEs that may disproportionately impact their fiscal capacity. Moreover, the lack of reliable comparable data and detailed transfer pricing legislation complicates the audit process regarding transfer pricing (Sebele-Mpofu et al. 2022).

Moreover, institutional and capacity constraints related to transfer pricing audit behaviour further underscore the importance of research in the context of developing countries. While tax administrations in developed nations have transfer pricing experts and specialists to handle the issue (Dharmapala 2020; Ní Chasaide 2021),

developing countries, on the other hand, are lacking in trained transfer pricing auditors to scrutinise the complex issue of transfer pricing (Issah et al. 2021; Wealth et al. 2023). Hence, there is a considerable enforcement gap between tax officials in developed and developing countries in conducting transfer pricing audits. The gap is magnified by the challenges in applying the OECD Transfer Pricing Guidelines to the local context of transfer pricing issues in each of the tax authorities in developing countries. This opens an interesting research arena for exploring transfer pricing audit, not only from a technical perspective but also the behavioural dimension of what factors affect tax officials' behaviour regarding a transfer pricing audit.

On a related note, research shows that when the audit capacity of the tax administration is perceived as low by MNEs, they may increase the use of profit-shifting channels like transfer pricing for their intercompany transactions (Tran and An 2023). This behavioural response by MNEs provides a research space and area for empirical investigation, especially when tax officials in developing countries are seen to have a lack of understanding and knowledge around transfer pricing (Shongwe 2019; Wier 2020). Therefore, based on this explanation, research around transfer pricing audit behaviour in developing countries is not only academically underexplored but also provides practical relevance to strengthen effective enforcement regarding transfer pricing.

To sum up, concerning the missing literature, the present study aims to provide insights on how transfer pricing regulations affect multinationals' compliance with such regulations in Indonesia, which subsequently triggers the tax authority to audit the multinationals. Indonesia is one of the developing nations that started addressing transfer pricing regulations in its 1984 income tax law during the first tax reform era. Accordingly, there are several regulations related to transfer pricing in the current situation in response to the 1984 income tax law amendment. Another contribution of this study is that, instead of using commercial and financial databases as in previous studies, the transfer pricing issue is explored by collecting primary data using a survey and interviews with the Indonesian tax auditors. Further, there are additional interviews with other actors such as the tax professionals working at MNEs, the tax advisers helping MNEs with transfer pricing issues, the tax policymaker, and a tax court judge dealing with transfer pricing cases. The use of these actors is essential because formal transfer pricing regulations may limit the

choice of intrafirm price in MNEs' transactions and hence reduce the scope of the tax audit (Teles et al. 2023). Therefore, effective regulations around transfer pricing might enhance certainty for Indonesian multinationals, lower their tax burden, and increase compliance with transfer pricing regulations.

2.4. Theoretical framework of behaviour

2.4.1. Theory of reasoned action

The behaviour concept in this study follows a framework from Ajzen's well-established Theory of Planned Behaviour (TPB) (Ajzen 1985; Ajzen 1991). According to this theory, individual intentions are a central driver influencing people's behaviour. Intentions are "indications of how hard people are willing to try, of how much of an effort they are planning to exert, to perform behaviour" (Ajzen 1991). Hence, a stronger intention is likely to lead to actual performance. Initially, TPB is an extended version of the earlier theory explaining human behaviour, the Theory of Reasoned Action - TRA (Fishbein and Ajzen 1975; Ajzen and Fishbein 1980). According to TRA, behavioural intentions are the function of attitudes and subjective norms toward the behaviour.

Attitudes are derived from an individual's beliefs about a particular act that would contribute to overall attitudes, and subjective norms related to beliefs about motivation to act would also depend on other individuals or groups (Fishbein and Ajzen 1975; Buchan 2005). As such, TRA posits that intentions affect behaviour through attitudes and/or subjective norms (Madden et al. 1992), as illustrated in Figure 2.6. Arguably, attitudes and subjective norms, which influence the relationship between intentions and subjective norms, can be seen by people's confidence, commitment, and willingness to perform an act (Ajzen and Fishbein 1980; Buchan 2005). It can be concluded that, according to TRA, people behave sensibly based on all available information and the consequences of their actions (Ajzen 1985).

2.4.2. Theory of Planned Behaviour – an extended version of TRA

2.4.2.1. Theoretical framework

In TRA, an individual's intention is a central variable in conducting certain behaviour. However, this could happen if the behaviour is under volitional control – free will to perform or not to perform certain behaviour (Ajzen 1985; Ajzen 1987). In 1985, Ajzen introduced the Theory of Planned Behaviour, a revised version of TRA,

adding the perceived behavioural control factor. This factor is “an exogenous variable that has both a direct effect on behaviour and an indirect effect on behaviour through intentions” (Madden et al. 1992). Also, the perceived behavioural control refers to “the person’s belief as to how easy or difficult performance of the behaviour is likely to be” (Ajzen and Madden 1986). It is anticipated that perceived control over behaviour will likely increase if individuals or groups have more opportunities and fewer obstacles. Also, perceived behavioural control is empirically proven to affect humans’ judgement and behaviour (Rothbaum et al. 1982; Infurna and Reich 2016; Skinner 2016). Based on this explanation, the path model for TPB is shown in Figure 2.7. It shows that in addition to humans’ attitude and subjective norm, perceived behavioural control directly affects intentions to do a particular action, and such intentions serve as a mediating factor in the relationship between the effect of perceived behavioural control, attitude, and subjective norm on behaviour.

According to the exploration of the TRA and TPB, it can be concluded that the TRA is a subset of the TPB. The clear distinction between the two strands is that the TPB incorporates the perceptions factor into the model in addition to the attitudes and subjective norms that may influence people’s intentions and behaviour. In the frequently asked questions on TPB, Ajzen (2020) states that behavioural control is relevant in TPB because people do not have perfect volitional control over the behaviour of interest. As such, this theory is relevant for this study as it aims to explore individuals’ perception (tax auditors and tax managers) in a particular condition that may affect their behaviour on transfer pricing. In addition, the use of TPB in this study is supported by the plethora of empirical studies in social science incorporating this theory and is considered “the most applied theory in the social and behavioural sciences” (Bosnjak et al. 2020a).

2.4.2.2. The application of the Theory of Planned Behaviour

While TPB has been applied in many studies, the first empirical evidence to test the theory comes from a study by Ajzen and Madden (1986), who carried out an experiment with undergraduate students as respondents.¹⁴ The first experiment involved 169 students taking the social psychology module. The study was intended

¹⁴In the paper, there were two experiments exploring the behaviour of undergraduate students. However, in this literature review only the first experiment is described to give an idea of the application of TPB.

to explore students' attendance behaviour in regular class meetings and was conducted through a survey. The survey was developed according to the constructs in the TPB model using a 7-point scale. The results showed that the three factors (students' attitude, subjective norm, and perceived behavioural control) significantly predict their intentions to attend the class. In addition, perceived behavioural control (a variable that differentiates TRA over TPB) was strongly correlated with intention to participate in the class, and this correlation was not mediated by attitude and subjective norm and was independent of the influence of past behaviour. Lastly, intention alone significantly affects students' behaviour, and a direct effect of behavioural control on class attendance was not present (Ajzen and Madden 1986).

Since then, numerous studies have been stimulated by the TPB over the years (La Barbera and Ajzen 2020), such as alcohol consumption behaviour (Cooke et al. 2016; Caputo 2020; Willis et al. 2020), health behaviour (Steinmetz et al. 2016b; Ajzen and Schmidt 2020), transportation studies (Elliott and Armitage 2009; Brijs et al. 2011) Interventions in the workplace (Sheeran and Silverman 2003; Nishiuchi et al. 2007; Gayed et al. 2018), environmental issues (Greaves et al. 2013; Canova and Manganelli 2020; Bouarar and Mouloudj 2021), political science (Barbera and Ajzen 2020), and academic misconduct during the COVID-19 pandemic (Ababneh et al. 2022).

Moreover, in the tax research, TPB has been added to the extant literature, mainly in tax compliance matters. In Bobek and Hatfield (2003), researchers examined taxpayers' intentions to comply with tax regulations using three groups of respondents in the US: university students, parents from a local elementary school, and random residents in the local community. Besides three constructs from TPB (attitude, subjective norm, and perceived behavioural control), the study added a moral obligation variable to the model. Each construct consisted of a non-compliance scenario. The scale used in this study was 7-Likert scale following Ajzen and Madden (1986). The findings revealed that an individual's belief that cheating to pay tax is illegal behaviour was connected to the attitude of tax compliance behaviour. This attitude was then related to compliance intentions. The variables in TPB were justified to influence tax compliance. Also, moral obligation added a significant role to the model. This study was the first to explain compliance with tax regulations using the full construct of TPB. Subsequent research supported the findings of this study,

particularly in the context of the taxpayer's behaviour on the tax refund process (Bobek et al. 2008), perception of penalty for non-compliance behaviour (Benk et al. 2011), and the tax compliance behaviour of small and medium enterprises (Bani-Khalid et al. 2022b).

In another study, Langham et al. (2012) explored the use of TPB to investigate business taxpayers' compliance in Australia to report actual income and deductions in their 2011 tax returns. The final samples were 234 businesses that participated in the study. Two additional variables were added in the TPB constructs, such as the taxpayer identity (characteristics, honesty, and instrumentality) and the perceived cooperation of the tax office (related to the access for services from the tax office). The findings showed that intentions were not directly correlated to compliance behaviour due to the complexity and difficulty of the tax laws, which reduced intention to comply. The study concluded that "intention can only be leveraged for compliance strategies when the tax system creates the optimal environment for taxpayers to comply successfully". This result shared similar concerns as those of Taing and Chang (2021), who found that compliance intentions significantly influenced perceptions of tax complexity and tax fairness.

A study from Kaulu (2022) focused on applying TPB to evaluate tax evasion intention in 152 individual taxpayers. This study added taxpayer egoism (Weigel et al. 1999) as a mediating variable between attitude, subjective norm, perceived behavioural control, and tax evasion intention. In addition, constructs in TPB were divided into several factors, such as tax morale, tax fairness, trust in government, power of authority, tax complexity, tax information, and tax awareness. The result showed that tax complexity was positively associated with tax evasion intention, meaning that the more complex the tax system is, the more likely taxpayers are to have the intention to evade tax. This association was mediated by taxpayer egoism.¹⁵ As such, policymakers should address tax complexity to reduce the intention of conducting tax evasion. While this intention is not always performed as actual behaviour, attention to this issue needs to be escalated by policymakers.

¹⁵Egoism is defined as a person's excessive concern for the benefit of his/her own advantage (Weigel et al. 1999).

Based on the above exploration, the application of TPB in the tax literature is silent from the views of the tax authority. Most (if not all) studies are focusing on individual taxpayers. Therefore, this dissertation aims to fill this knowledge gap by articulating TPB in the context of the tax authority addressing the transfer pricing issue in the post-BEPS regime.

2.4.3. Motivational Postures

2.4.3.1. Theoretical framework

Other than TPB, this study also aims to incorporate the concept of motivational posture to set out behaviour. Previous studies have explored Motivational Postures to depict the relationship between regulates and regulator (Braithwaite et al. 1994; Braithwaite 1995). Theoretically, this concept provides an idea of how individuals need to follow certain actions required by the regulatory body (Braithwaite et al. 2007, p.13). This idea derives from social distance, in which individuals or groups choose how far they want to be from the regulatory authority. Some prefer close contact and communication, while others want minimal exposure to the authority (Braithwaite et al. 2007). In other words, Motivational Postures address the evaluation made, revised, shared, challenged, and elaborated among individuals and groups to position themselves in connection with the authority (Braithwaite 2003a). They set out beliefs, make judgments on their rationalisation, use values and philosophies to uphold their choices to place themselves in the eyes of “legally sanctioned authorities” (Bersoff 1999; Braithwaite 2003a).

In the initial concept, four postures have been constructed based on preliminary research, which are known as basic motivational postures: commitment, capitulation, resistance, and disengagement (Braithwaite et al. 1994; Braithwaite 1995). However, one posture, game playing, was added in a study of tax compliance to indicate non-compliance behaviour (Braithwaite 2003a; Braithwaite 2004; Braithwaite et al. 2019). According to Braithwaite (2003c), commitment and capitulation, are associated with positive connection to the authority and are known as deference postures. On the contrary, the other postures, resistance, disengagement, and game playing reflect defiance to the authority. In the current study, only the initial four postures are incorporated because the game playing is irrelevant in social distancing between the tax officials and their institution. These

postures will be explored in the tax auditors' behaviour concerning transfer pricing audits. A detailed explanation of the four postures is presented in Table 2.4.

2.4.3.2. Empirical evidence of motivational postures

Motivational Postures was derived from an early study on nursing homes in Australia (Braithwaite et al. 1994; Braithwaite 1995). The study aimed to answer research questions related to regulatory style and the motivation of the regulators' compliance within Australia's nursing home industry. The data were collected through a survey distributed to 410 nursing homes' directors and inspector teams – the two central actors in the industry. The survey was developed to answer the responses of these two key players to the regulatory process and assess their compliance with thirty-one standards. A set of standards has been designed and discussed to measure compliance in another literature (Braithwaite et al. 1990). Following the survey, interviews were also conducted to obtain regulatory perception and experience. The findings showed that inspector teams perceived directors of nursing homes as responsible and competent. In addition, from an institutional perspective, regulatory difficulties played a critical role in explaining noncompliance behaviour from the nursing homes. From the motivational postures perspective, the result captured that the regulators in nursing homes were perceived as managerial accommodators, similar to commitment and capitulation postures. A few respondents favoured the other two postures, resistance and disengagement, which were linked to the problems in the regulatory process. Another study contribution was that personal belief, motivation, social, and institutional factors were critical in shaping the regulatory posture and regulatory process.

Next, a study by Braithwaite (2003c) was the first to address motivational postures in the tax compliance area. A set of surveys on tax matters was sent to 7,754 people in Australia under a national tax survey, with a response rate of 29%. In the surveys, there were 29 statements to measure five postures using a 1-5 Likert scale. The finding revealed that commitment posture dominated the response, with around 92%, meaning that most respondents placed themselves socially close to the tax authority and had a positive orientation towards the tax institution. As for the defiance posture, resistance had a sizeable percentage of 55%, which respondents questioned the power of the tax authority. The presence of game playing was

minimal, 13%, and showed that behaviour to play with the spirit of the law was not a major concern of individual taxpayers.

Since then, several studies on motivational postures have been conducted in the taxation context, such as addressing defiance postures toward tax authorities (Braithwaite 2009; Braithwaite 2011b), motivational postures and conflict resolution with the tax authority (Braithwaite et al. 2007), regulatory encounters of the tax offenders (Murphy 2016), individual taxpayers' compliance (Smart 2013), and motivation to comply with the tax regulations for small business owner (Harris and McCrae 2005). In addition, a study by Barkworth and Murphy (2021) was unique in applying motivational postures in the corrections environment. It aimed to explore the idea of social distancing between prisoners and prison officials based on how the staff treated prisoners. A survey was conducted among prisoners in Australia, with the final sample consisting of 177 respondents. The five postures were corroborated following (Braithwaite 2009) using a 5-point Likert scale and self-reported compliance. The results showed that deference postures, commitment, and capitulation, were significantly explained the self-reported compliance. Conversely, as expected, resistance, disengagement, and game playing have a negative impact on compliance. It can be concluded that the higher the perceived defiant treatment, the less compliant the prisoner is with prison rules. Prisoners might obey the requirements and regulations according to the prison's system only to prevent problems rather than having full voluntary commitment (Crewe 2007). The study contributed to the research around prisoners' perceptions of procedural justice by extending motivational postures, which have not been explored.

Lastly, in 2022, the theory of motivational postures was applied to the child protection study (Braithwaite and Ivec 2022). The study aimed to explore third-party actors' views and perceptions on how responsive the child protection authority was and how this authority should be managed and operated. The use of third parties was justified because child protection should be a child-centred and inclusive practice. A web-based survey was conducted with 387 third parties to capture diverse voices. The 5-point Likert scale was used to assess motivational postures following the original rating in the previous study (Braithwaite 2009). Overall, the result showed that most respondents believed the child protection authority was fully responsible for the work (commitment posture). However, to influence further reform

of the child protection agency, there should be less connection between this institution and with political agenda when something goes wrong with how the child protection system works. Hence, more social distance should be fostered between the child protection body and the political castigation to support more effective and integrated child protection safeguarding in this regard (Crawford and L'Hoiry 2017).

Some empirical works above prove the use of the Motivational Postures concept in different areas to capture the social distance between society and authority. Social distance is formed in the two alignments, addressing deference and defiance behaviours. Defiant postures arise when social distance is increasing, which shows that people or groups are refusing to comply with the authority (Braithwaite and Ivec 2022). In other agendas, motivational postures are also explored in different kinds of literature, such as hospital reform (Smith-Merry et al. 2017), physical distancing measures in post-COVID pandemic (McCarthy et al. 2021), and environmental issues (Bartel and Barclay 2011). The objective of this dissertation is to add to the debate on the application of Motivational Postures in the post-BEPS transfer pricing context. This area is underexplored in the literature.

2.5. TPB and behavioural aspect of transfer pricing

2.5.1. Intentions – behaviours relation

As shown in Figure 2.7, intentions are the immediate antecedent and predictor of behaviour, and act as a critical factor to explain human behaviour. Intentions can be defined as humans' self-drive to perform certain actions or to obtain specific outcomes (Triandis 1980) and as an indication of humans' readiness to perform a given behaviour (Ajzen 1991). While intentions are important to predict behaviour, people sometimes do not have sufficient control to finally perform their intentions (Ajzen 1985). As such, in a study corroborating TPB, intentions and behaviour shall be constructed to align with the principle of compatibility (Ajzen 2020). Compatibility can be measured in two ways: measurement and scale compatibility. Both intentions and behaviours need to correspond to each other according to the context (Ajzen 2020). For example, if a study intends to predict the use of excellent accounting software within the finance and accounting department, then the questions for intentions should not be arranged for the adoption of technology in general. They need to be constructed specifically for the accounting

software. Also, the scale is important because intentions and behaviours should be assessed in a similar pattern, either using a probabilistic, Likert, or frequency scale.

Empirically, intentions are proven to predict actions in different contexts and are subject to explorative (Ajzen 1991) and meta-analytic (Sheeran and Orbell 1998; Sutton 1998; Armitage and Conner 2001; Sheeran 2002) reviews. While intentions serve as reliable predictions of behaviours (Ajzen 2011; Ahmad et al. 2023), their relation may also be insignificant, as shown in Kor and Mullan (2011). One possible reason is that the “lack of actual control over a behaviour will tend to reduce the predictive validity of intentions” (Ajzen 2011). Hence, ensuring people have control over the action is a critical notion of behavioural intention.

This study explores the tax auditors’ behaviour in producing a good-quality transfer pricing audit. Transfer pricing arrangements by multinationals are subject to more scrutiny through the audit procedure by the tax authority (Holtzman and Nagel 2014). As such, multinationals must intend to comply with tax regulations when setting the transfer prices to prevent substantial penalties for non-arm’s-length prices that are found during the audit. Subsequently, this intention can be articulated into the actual action of compliance. On the other hand, to fight mispricing intention and non-compliance behaviour of multinationals regarding transfer pricing, tax auditors must have adequate skills, expertise, and knowledge to conduct a transfer pricing audit (Sebele-Mpofu et al. 2021c). Their intention to conduct a high-quality transfer pricing audit is essential to produce excellent audit output according to the audit quality framework. The two scenarios of intentions–behaviours involving tax auditors and other participants in this study will be appropriately assessed using Ajzen’s TPB (Ajzen 1985; Ajzen 1991).

2.5.2. Attitudes toward behaviours

Among the three predictors of intentions, it is believed that attitudes are closely correlated with intentions compared to other predictors (Ajzen 2008). Attitudes are defined as a concept of individuals’ tendency to respond favourably or unfavourably, like or dislike, to psychological objects such as a person, an institution, an event, a physical thing, or any other aspect of life (Ajzen 1989; Eagly and Chaiken 1998). Positive attitudes are expected to support the tendency, and negative attitudes are expected to avoid the tendency (Ajzen and Sexton 1999). In

addition, attitudes are also related to the evaluation process (Ajzen and Fishbein 2000) and hypothetical disposition (Eagly and Chaiken 2005). To capture the evaluative nature of attitudes, some responses can be attributable to attitudes such as policy approval, personal preference, and individuals' judgment, which can be divided into the continuum of good–bad, desirable–undesirable, or pleasant–unpleasant (Fishbein and Ajzen 2010). The inclusion of cognitive (good–bad) and experiential (enjoyable–unenjoyable) attitudes is common in TPB studies (Ajzen 2019).

Other than the semantic differential to capture attitudes, the Likert scale is also widely used to test attitudes (Albarracín and Ajzen 2007), in which the items being asked provide individuals' beliefs, feelings, and perceptions of the attitudes addressed in the research (Fishbein and Ajzen 2010). As such, the items need to be constructed as valid indicators of attitudes and prevent ambiguity in surveys. Previous studies have incorporated both the Likert scale and the semantic differential in the context of tax research. For example, in Taing and Chang (2021) and Kaulu (2022), researchers used a five-point Likert scale to measure attitude towards tax (from 1= strongly disagree to 5= strongly agree). Both studies addressed attitudes based on questions such as “I think I should honestly declare all my tax liability”, “I think taxpayers should not underreport tax liability”, and “I will not evade paying tax even if I have a chance to”. However, in other studies, Alleyne and Harris (2017) and Owusu et al. (2020) incorporated seven-point anchored scales to assess attitudes toward tax evasion, such as tax evasion is (bad-good), engaging in tax evasion is (foolish-wise), and cheating on taxes is (unpleasant-pleasant). The scores were then averaged to present attitudes toward tax evasion. At the end, both Likert and anchored scales provided reliable measurement of a given construct of attitudes.

The current study aims to investigate the tax auditors' behaviours regarding transfer pricing audits. While the concept of transfer pricing is not always related to tax evasion (Cazacu 2017), the presence of mispriced transfer prices might fall into this context (Mehafdi 2000). In terms of transfer pricing, large multinationals exploit this arrangement extensively as one of their tax strategies, and yet difficult to audit by the tax authority (Chan et al. 2015). As such, the attitudes of the tax auditors on transfer pricing are critical to address as one of the variables affecting their intentions

to conduct transfer pricing audits according to the audit procedures, which in turn may be actualised into increased MNEs' transfer pricing compliance.

2.5.3. Subjective norm towards behaviour

According to Ajzen (1991, p.188), subjective norm is “the perceived social pressure to perform or not to perform the behaviour”. It is constructed using normative beliefs as the underlying determinants (p.189), and the term subjective is used to illustrate an individual's perception that other people expect a person to perform or not to perform certain behaviour (Fishbein and Ajzen 2010). There are two types of normative beliefs, injunctive and descriptive (Fishbein and Ajzen 2010; Ajzen 2020). The injunctive beliefs refer to the consideration of other parties (friends, family members, partner, colleagues, or supervisor) affecting an individual's action to perform certain behaviour. Conversely, descriptive norms deal with the perception of other people's behaviour. To measurement of injunctive and descriptive beliefs shall correspond with intention and behaviour. For example, if a study aims to ascertain tax evasion behaviour in individual taxpayers, the investigator may ask questions as follows (Alleyne and Harris 2017; Owusu et al. 2020; Taing and Chang 2021b):

Injunctive norm:

Most people who are important to me think I should not report my actual income on my tax return.

Agree: 1 : 2 : 3 : 4 : 5 : 6 : 7 : Disagree

Most people who are important to me think
I should: 1 : 2 : 3 : 4 : 5 : 6 : 7 : I should not
cheated on my taxes.

Descriptive norm:

Most people who are important to me do not report actual income on their tax return.

Agree: 1 : 2 : 3 : 4 : 5 : 6 : 7 : Disagree

Most people who are important to me
do: 1 : 2 : 3 : 4 : 5 : 6 : 7 : do not
cheated on their taxes.

Furthermore, to measure overall constructs of subjective norms, combining injunctive and descriptive norms is essential to provide a significant association between subjective norm and intention, as seen in several studies. A study by Jimenez and Iyer (2016) using a survey of 217 US taxpayers found that social norms affect personal beliefs of tax compliance, increasing intentions to comply with the tax

system. In seminal research on the slippery slope framework, Kirchler et al. (2008) believed that intentions to non-comply with tax regulations are a result of perceived non-compliance spreading in society. Another study by Hasan et al. (2017) involving 300 taxpayers in one of the developing countries, Bangladesh, found that according to the Structural Equation Modelling (SEM) analysis, subjective norm significantly impacts compliance behaviour through intention.

From the perspective of tax evasion, it is believed that the probability of tax audit affects tax evasion behaviour (White et al. 1993; Alm 2012) in the sense that low audit rates stimulate the taxpayers' behaviour to evade tax. Empirical studies show that subjective norms significantly influenced tax evasion's behaviour, such as a country's tax noncompliant profile is attributed to low individualism (Tsakumis et al. 2007), perceived tax complexity by society increases tax evasion intention through self-egoism (Kaulu 2022), and social norms influencing other taxpayers' behaviour having a positive relationship with tax compliance intention and reduce intention to evade tax (Taing and Chang 2021b). However, other studies provide contradicting results because subjective norms do not positively correlate with tax evasion (Bobek and Hatfield 2003; Alleyne and Harris 2017). The explanation could be that most respondents believe the intention to engage in tax evasion shall be viewed as a personal choice. Social influence is irrelevant to apply to this context. Hence, according to these studies, individual attitude and perceived behavioural control overshadow social norms in explaining the intention to commit tax evasion.

Transfer pricing arrangements by multinationals are multidimensional and complex (Tang 1997). The intentions to arrange transfer pricing come with different goals: profit maximisation, tax minimisation, performance evaluation, and risk-sharing (Chen 2005). Effective transfer pricing mechanisms involve many aspects, such as parent company objectives, MNEs' decision-making structures, decentralisation of subsidiaries or affiliates, and possible tax benefits (Chen 2005, p.3986). From the perspective of the tax auditors, the enactment of transfer pricing regulations in the form of the tax audit serves as a fundamental tool to assess MNEs' compliance (Sebele-Mpofu et al. 2021a). The quality of a transfer pricing audit is likely associated with the social norm because the tax auditors in the Indonesian tax authority are working in a team consisting of a junior auditor, a team leader, and a supervisor. Each of the members' perspectives on how to conduct a transfer pricing

audit may influence other members, according to Ajzen's subjective norms perspective (Ajzen 1985; Ajzen 1991). Therefore, subjective norm is expected to affect the tax auditors' behaviour to conduct a transfer pricing audit in the current study.

2.5.4. Perceived behavioural control towards behaviour

The perceived behavioural control (PBC) addresses the perception of ease or difficulties in performing certain behaviour, which affects an individual's intention on such behaviour (Ajzen 1991; Beck and Ajzen 1991). In other words, PBC relates to the perception of whether people can manage and engage in a given behaviour and have control over it using all available information, knowledge, skills, and possible challenges to overcome (Albarracin and Ajzen 2007). The concept of how different individuals perceive control to perform actions has been explored in the literature as a critical factor to better an individual's emotional well-being (Thompson and Spacapan 1991; Carver et al. 2000). Moreover, perceived control is believed to be constructed based on interactions with the social world (Skinner 2016), and in an organisational context, it is important to enhance productivity, satisfaction, and goal achievement (Greenberger et al. 1989).

Several studies have shown that PBC influences intention to perform behaviour, in which greater perceived control strengthens the attitude towards behaviour in the prediction of intention (Hukkelberg et al. 2014; Kothe and Mullan 2015; La Barbera and Ajzen 2020). To be more specific, Alleyne and Harris (2017) found that PBC is strongly correlated with tax evasion behaviour. Taxpayers feel that the possibility of getting caught by the tax authority for lowering their income and overclaiming expenses prevents them from evading their taxes. Hence, low perceived control predicts low intention to engage in tax evasion and increases barriers to being non-compliant taxpayers. This finding is consistent with the idea that increasing risk detection by the tax authority influences higher tax compliance (Carnes and Englebrecht 1995).

PBC can be measured using a direct question about the capability to perform behaviour (Albarracin and Ajzen 2007, p.156). Possible questions that can be asked to assess respondents' perception in the tax context are (Alleyne and Harris 2017; Taing and Chang 2021b):

For me to cheat on taxes, it is.

Difficult: 1 : 2 : 3 : 4 : 5 : 6 : 7 : Easy

Even I had a good reason, I could not bring myself to cheat on taxes.

Unlikely: 1 : 2 : 3 : 4 : 5 : 6 : 7 : Likely

The contents of tax declaration forms are hard to understand.

Strongly disagree: 1 : 2 : 3 : 4 : 5 : 6 : 7 : Strongly agree

Generally, I think the tax system is complicated.

Strongly disagree: 1 : 2 : 3 : 4 : 5 : 6 : 7 : Strongly agree

I know the chances of being audited by tax officials about my tax issue.

Strongly disagree: 1 : 2 : 3 : 4 : 5 : 6 : 7 : Strongly agree.

It is argued that multinationals continuously explore the loopholes in the tax system to arrange intrafirm prices that would benefit them to minimise the overall tax burden. From the perspective of TPB, MNEs perceived transfer pricing as a tool to achieve their objectives. A study by Cravens (1997) revealed that executives in MNEs perceived that transfer pricing would influence measurement in corporate performance and business strategy. However, the manipulation of transfer prices, or transfer mispricing, is a challenge perceived by tax authorities (Beebeejaun 2019). An interesting study by Klassen et al. (2017) using a survey of 219 tax executives in the US multinationals revealed that most respondents perceived “lack of disputes with tax authorities” as a critical objective of transfer pricing arrangements. This result gives a notable observation because it is believed that the goal of transfer prices is to minimise global tax payment (Eden 2001; Bartelsman and Beetsma 2003; Sikka and Willmott 2010; Trang 2016; Rugman and Eden 2017).

In addition, the tax auditors might not be able to cope with the complex organisational structures of multinationals and trace various transactions in many tax jurisdictions (Reurink and Garcia-Bernardo 2021). Hence, MNEs’ transfer pricing arrangement presents formidable challenges for the tax auditors to follow the audit trail of MNEs’ transactions (Dharmapala 2020; Ní Chasaide 2021; Sebele-Mpofu et al. 2021c). On the other hand, tax auditors also have a responsibility to increase the taxpayers’ compliance and to raise additional tax revenue through the audit process (OECD 2006). Hence, the tax auditors, specifically in a developing country like Indonesia, might perceive transfer pricing audit as a huge additional burden due to a lack of necessary skills, knowledge, and resources while maintaining the compliance level of the taxpayers. As such, addressing this issue from the perspective of the tax

auditors using TPB is worth exploring. The lack of control over responsibilities in conducting transfer pricing audit would put special risk to the tax authority to achieve its goals in collecting tax revenue, increasing taxpayers' compliance, and minimising tax disputes. This concern is consistent with Thompson and Spacapan (1991), who noted that feelings of control are critical in institutions to maintain positive outcomes.

2.6. Motivational postures and motivation to comply with transfer pricing regulations

2.6.1. Deference postures

Braithwaite et al. (1994) and Braithwaite (1995) note that deference postures consist of two positive perceptions and nuances to authority: commitment and capitulation. The concept of deference relates to the perception of people in the organisation who often believe that group authorities and rules are legitimate and, thus, voluntarily follow the organisation's decisions (Tyler 1997). In addition, an effective organisation needs to influence its members and shape the behaviour of group members (Tyler and Lind 1992). The organisational structure of multinationals presents the necessity to balance delegation of power, responsibility, and competence from the parent company to its affiliates and subsidiaries while maintaining a coherent group strategy (Mattes 2010). In structuring the intrafirm price, multinationals need to coordinate their pricing policy to align with the overall business decision and goal congruence (Blouin et al. 2018; Blouin and Robinson 2020). The motive of transfer pricing is beyond tax minimisation. It is widely used as a tool to increase efficiency and to bring the benefits of economies of scale (Beebeejaun 2019). For these reasons, preserving commitment and capitulation for MNEs' members is essential to achieve an effective transfer pricing policy.

Under deference postures, the issue of transfer pricing is seen in the light of understanding the decision-making process of MNEs and tax authorities that would influence transfer pricing policy. Committed multinationals assess their transfer price according to the arm's length principle under domestic tax regulations and international guidelines. MNEs would place themselves socially close and minimise disputes with authorities for transfer price arrangements.

In the view of the tax auditors, because they are considered as "privileged interlocutors that can influence taxpayers' motivational postures" (Araújo Marques et al. 2020), their roles are critical to investigate under motivational postures theory.

The statements representing commitment and capitulation for the tax auditors are adjusted in the context of institutional regulatory compliance between the regulator (tax authority) and its officers. The exploration of the literature database shows that no previous study has addressed this issue using motivational postures theory. Therefore, the statements presented below are adapted from other studies with similar institutional problems (Braithwaite et al. 1994; Braithwaite and Ivec 2022).

Commitment

- I enjoy the responsibility of being a tax auditor.
- For me, there is nothing more important than doing tax audit work that respects taxpayers, but at the same time, enforcing tax regulations.
- I am committed to ensuring that my audit work is conducted with the highest standard possible according to the audit standard procedures.

Capitulation

- The tax authority is supportive and protects us during our work as long as we do the right thing according to the regulations.
- The audit regulations may not be perfect, but they work well for most of us.
- The tax authority is encouraging tax auditor who have difficulty meeting their audit standards through no fault of their own.

The above statements are expected to be adjusted to the transfer pricing behaviour context. Similar to TPB, the statements in motivational postures may use a five-point or seven-point Likert scale to indicate how strongly respondents agreed or disagreed with the items (Braithwaite and Ivec 2022).

2.6.2. Defiance postures

Initially, defiance postures are constructed using two forms: resistance and disengagement (Braithwaite et al. 1994; Braithwaite 1995). Resistance defiance connects with actions against an authority's standpoint to change practices of what has been ruled by the authority, while disengagement considers the authority unworthy of having power (Braithwaite 2009). Later, another posture, game playing, is added to the model to reflect defiance behaviour (Braithwaite 2003a). The statements reflecting defiance postures concerning the socially distant measurement between the tax auditors and the tax authority may be inspired by previous studies exploring organisational problems through the lens of motivational postures (Braithwaite et al. 1994; Braithwaite and Ivec 2022) as follows:

Resistance

- The tax authority is more interested in catching you for doing the wrong thing during the audit process than helping you.
- It is impossible to satisfy the tax authority completely.
- If you do not cooperate with the tax audit department, they will get tough with you.

Disengagement

- I do not care if I am not doing the right thing by the tax authority.
- If I find out I am not obeying tax audit procedures, I am not going to lose any sleep over it.
- I do not think there is much that can happen to me if I choose to disobey tax audit procedures.

A study by Mulyani (2010) revealed that the unclear tax audit policies and preference not to conduct transfer pricing audits present challenges for the tax authority to scrutinise MNEs' operations during transfer pricing audits. The study also found that MNEs perceived tax auditors in developing countries tend to be corrupt, which raises a question about their competence. Based on this empirical evidence, it is worth exploring the defiance postures of the tax auditors regarding transfer pricing audit to uncover their motivation to comply, or not to comply, with transfer pricing domestic regulations.

2.7. Hypotheses development

Based on the exploration in previous sections, TPB posits that an individual's intention is the primary predictor of their behaviour, and this intention is shaped by three aspects: attitude, subjective norm, and perceived behavioural control (Ajzen 1991). Guided by this framework, this study examines tax auditors' behaviour in conducting high-quality transfer pricing audits through this theoretical lens. Transfer pricing arrangements by multinationals are routinely scrutinised via tax audits (Holtzman and Nagel 2014). Ideally, multinationals intend to comply with tax regulations when setting transfer prices, and that intent translates into actual compliant behaviour. Conversely, to counteract any mispricing or non-compliance by multinationals, tax auditors need sufficient skills, expertise, and knowledge to effectively audit transfer pricing (Cooper et al. 2017). Auditors' intention to perform a high-quality transfer pricing audit is crucial, as it drives thorough audit work that aligns with the regulatory framework.

In connection with the TPB, tax research has focused primarily on taxpayer behaviour, with little attention to public-sector perspectives such as tax auditors in

transfer pricing audits. The current study addresses this gap by applying the TPB framework to tax auditors' behaviour. According to this framework, among the three predictors of an individual's intention, it is believed that attitudes are closely correlated with intention compared to subjective norm and perceived behavioural control (Ajzen 2011). As for the subjective norm, it is used to illustrate an individual's perception that other people expect a person to perform or not to perform certain behaviour (Fishbein and Ajzen 2010). In the context of a transfer pricing audit, each of the audit members' perspectives on how to conduct a transfer pricing audit may influence other members according to Ajzen's subjective norms perspective. Further, under perceived behavioural control, the tax auditors examine the ease and difficulties in performing a transfer pricing audit. It reflects the auditors' ability to successfully execute a transfer pricing audit using all available information, knowledge, and resources despite many challenges (Ajzen 1991; Albarracin and Ajzen, 2007). When auditors believe they have the resources, authority, and legislative clarity to challenge an MNE's transfer pricing arrangements effectively, they are more likely to initiate and sustain an in-depth transfer pricing audit. Accordingly, this study hypothesises that:

H1: Tax auditors' attitude, subjective norms, and perceived behavioural control are positively associated with their behavioural intention to conduct a transfer pricing audit.

Next, according to TPB, an individual's behavioural intention is the immediate predictor of actual behaviour (Ajzen 1991). Intention is the crucial factor in the pathway to perform a transfer pricing audit, as it leads auditors to allocate time, effort, and strategic plan to handle transfer pricing cases. Hence:

H2: Tax auditors' behavioural intention is positively associated with their actual behaviour to conduct a transfer pricing audit.

Furthermore, the growing emphasis on transfer pricing has led tax authorities to strengthen enforcement against profit shifting by MNEs (West and Wilkinson 2024). Transfer pricing rules are notoriously complex, requiring significant technical and administrative expertise (Steens et al. 2022). As a result, many MNEs employ tax advisers to mitigate their transfer pricing risks, especially when scrutinised by the tax authority. This reliance on experts often prompts tax auditors to examine

multinationals' transfer prices during tax audits (Langham et al. 2012). This study therefore includes tax auditors' perceptions of tax professionals' transfer pricing knowledge as another factor potentially influencing audit behaviour. Considering both a taxpayer-related factor (external expertise) and an auditor-related factor provides a more holistic view of the audit process (Chalu and Mzee, 2018). Hence:

H3: Tax auditors' perception of tax professionals' knowledge of transfer pricing is positively associated with their behaviour when conducting a transfer pricing audit.

In addition, as explained in previous section, this study extends the TPB model by incorporating other predictors that may affect transfer pricing audit behaviour. One of the additional predictors is the motivational posturing (Braithwaite 1995). It argues that individuals adopt different postures toward regulatory authorities, which in turn influences their behaviour (Murphy 2016). This study posits that an auditor's motivational posture will affect their performance in a transfer pricing audit. The study distinguishes between deference postures (compromising commitment and capitulation) and defiance (resistance and disengagement) as proxies for the tax auditors' level of engagement with their authority.

In a deferential posture, auditors approach transfer pricing issues with an emphasis on understanding both MNE and tax authority decision-making processes, which influence transfer pricing policy. The relationship between the tax authority (regulator) and its auditors (officers) reflects an internal compliance dynamic akin to the tax authority-taxpayer relationship. Therefore, this study hypothesises that an auditor's deference posture is positively associated with their transfer pricing audit behaviour.

H4: Tax auditors' deference posture is positively associated with their behaviour to conduct a transfer pricing audit.

Conversely, a defiant posture (disengagement or resistance) is expected to be negatively associated with auditors' transfer pricing behavior (Braithwaite 2009). Indeed, unclear audit policies and unwillingness to engage in transfer pricing audits have been noted as challenges that hinder tax authorities from effectively scrutinizing MNE operations during transfer pricing audits (Muhammadi et al. 2016; Mashiri et al.

2021; Sebele-Mpofu et al. 2021). Thus, tax auditors with a defiant stance may be reluctant to undertake transfer pricing audits.

H5: Tax auditors' defiance posture is negatively associated with their behaviour to conduct a transfer pricing audit.

2.8. Conclusion

In summary, this chapter comprehensively explains the background of transfer pricing, transfer pricing audit, and the underpinning Theory of Planned Behaviour. As one of the most used theories in social science (Bosnjak et al. 2020a), the Theory of Planned Behaviour, which derives from the Theory of Reasoned Action, provides a framework to understand the tax auditors' transfer pricing audit behaviour concerning the post-BEPS regime. According to this theory, the auditors' intention to conduct a transfer pricing audit depends on their attitudes and beliefs, subjective norms, and perceived behavioural controls, which then affect their behaviour (Ajzen 1985; Ajzen 1991).

Some empirical evidence on the validity of TPB to predict people's behaviour is cited in this study, and thus, supports the justification for using this theory to explore the tax auditors' behaviour. In addition, there is a silent literature on TPB in the context of transfer pricing audit. Therefore, this study intends to fill this knowledge gap in the current debate of transfer pricing literature. This chapter also discussed the proposed framework to assess transfer pricing audit quality, which was mainly adapted from the same concept in the commercial or financial audit to be used in the construction of the survey. This is essential to capture the tax auditors' effectiveness in conducting transfer pricing audits, which, hopefully, increases the compliance level of MNEs with transfer pricing regulations.

Other than TPB, the next section of this chapter discusses the concept of Motivational Postures as additional theoretical underpinnings for assessing behaviour (Braithwaite et al. 1994; Braithwaite 1995). This theory was originally explored in the context of the home nursing industry, which was then implemented in other areas such as taxation, child protection, and justice (Braithwaite 2003a; Braithwaite et al. 2007; Murphy 2016; Braithwaite and Ivec 2022). The underlying concept of Motivational Postures is the social distance between the regulators and the people, meaning that people develop different postures towards regulatory

authority (Braithwaite 2009). This theory fits with the objective of this study, which is to explore the distancing behaviour of tax auditors and tax authorities. The postures range from deference to defiance. The more distance the tax auditors place between themselves and the tax authority, the more challenging it is for the authority to deal with a transfer pricing audit.

In conclusion, the theoretical background explored in this chapter is used in the context of the tax auditors in Indonesia. As such, the next chapter outlines why Indonesia is important to be investigated. It can be said that the two theories will be used as a framework around transfer pricing behaviour under the Indonesian tax regime.

Chapter 3: Indonesian Context

3.1. Introduction

This chapter discusses the tax system and transfer pricing regime in Indonesia. As previously noted, transfer pricing arrangements by multinationals in the BEPS era are increasing. Hence, it is worth mentioning to address this issue from the Indonesian point of view. Following this section, there will be a brief explanation of the Indonesian tax system and tax reforms initiated by DGT. Next is section 3.3, which explores the history of domestic legislation covering transfer pricing in Indonesia. This section also covers the trend in foreign direct investment derived from multinationals, which may affect the presence of transfer pricing arrangements. After that, section 3.4 presents data on the transfer pricing audit and litigation trend. The next section is 3.5, briefly explaining why researching transfer pricing behaviour in Indonesia is important. Finally, section 3.6 wraps up this chapter.

3.2. Indonesian tax system – a glance

3.2.1. From official to self-assessment

Tax plays an important role in generating revenue for the Indonesian government in providing public services. The idea of tax in Indonesia can be traced back to the 13th century. Most of the Kingdom's revenue was derived from taxes levied on traded goods and crops paid to the king, as presented in the era of Majapahit, Mataram, and Singosari Kingdoms (Lutfillah et al. 2015).¹⁶ At that time, taxes served as a tribute (in Indonesian it is called “upeti”) handed over to the king to create stability in the economy, society, and politics (Wahid 2014). Hence, the idea of taxes has a long-standing history in the Indonesian context. Further, moving forward to the colonial era, the term tax was introduced and imposed as a source of revenue. In the Dutch colonialisation period, a business unit, the world's first MNE, named Vereenigde Oost-Indische Compagnie (VOC) was founded around 1602 to represent the Dutch government for spice trading (Maddison 1989). During this era,

¹⁶During the kingdoms period, there were hundreds of kingdoms spread across Indonesia (previously known as Nusantara) which mainly divided into two categories: Hindu/Buddhist and Muslim kingdoms.

taxes were levied for the ownership of buildings, land, or farming (Saputro 2011; Wahid 2014).

Moreover, in the 1820's the Dutch government imposed coerced labour, mainly in Java, the main island, West Sumatra, and the Moluccas in replacement of the VOC's failure in the Dutch East Indies (Indonesia during the Dutch colonisation). During this era, the coerced labour system served to collect revenue and to avoid monetised strategies using the "cultivation system" (Manse 2022). Under this regime, no land taxes were imposed because a fraction of the village land was given to the Dutch colonial government as a crop trading and export source. It is argued that the cultivation system brought substantial profits and surplus revenue for the colonial government (Maddison 1989; Manse 2022).

However, the importance of using people's power in coerced labour had shifted to monetary taxes by the end of 1870. The Dutch policymakers stated that they were "no longer required labour, but money" (Manse 2022, p.419). The coerced labour and cultivation system was gradually dismantled in many regions and converted into a more centralised tax levying system. In 1920, a single income tax regime was designed for all individuals, including civil servants, in colonial Indonesia who earned annual incomes at certain thresholds (Manse 2021).¹⁷ According to Manse and Vording (2023), the enforcement of the income tax system in 1920 was executed by the local tax officers in collaboration with the Dutch government, with salary compensation. The tax bills were released to taxpayers after a series of assessments by the officers. Moreover, corporations were no exception during this time because they were taxed using the same regulations as individuals (Manse 2021, p.117). Under this early income tax system, tax officials have significant intervention to determine, examine, and calculate the tax due of every taxpayer. For this reason, the system is also known as the official, formal, or administrative tax system (Kasipillai and Mohd Hanefah 2000; Okello 2014).

Furthermore, in 1925, a dedicated income tax law for corporations was released under "Ordonansi Pajak Perseroan 1925" (State Gazette Number 319 of 1925). This law was enacted in response to corporatism and private foreign investment in the Dutch East Indies (Manse 2021). In early 1925, around 3,497

¹⁷This is also known as Ordonantie op de Herziene Inkomstenbelasting or income tax.

foreign firms spanned from agriculture, manufacturing, mining, finance, trading, services, and other forms of foreign activities (van de Water 2018). Most of these firms were Dutch-owned, and other non-Dutch investments came from British, American, Japanese, Chinese, and Belgian corporations (Lindblad 2018). Under this corporation tax law, companies need to pay 25% up to 52.5% progressively according to their profits. The head of a finance inspection office determined the tax due according to the official tax system based on the companies' bookkeeping and financial reports.

Following 1920 and 1925 ordinances, there were several regulations in the Dutch East Indies to accommodate the development of colonial government, such as the income tax ordinance in 1932 (known as *Ordonnantie op de Inkomstenbelasting* or individual income tax), wage income tax ordinance (*loonbelasting* or withholding tax for salary and wage), and income tax ordinance in 1944 which revoked the 1932 regulation (Satya and Dewi 2010). Subsequently, after Indonesian independence on 17 August 1945, the Dutch-made tax laws were amended. The importance of taxes was first introduced in the 1945 Constitution, which states that (domestic) laws should regulate taxes. Also, the Indonesian Ministry of Finance was formed during this timeframe.

After a series of amendments to tax regulations, the first significant leap in the Indonesian tax regime was a self-assessment system (SAS) in 1983. Under this system, the taxpayers must prepare, calculate, pay, and report their tax payments without direct intervention from the tax office (Okello 2014). The implementation of SAS in Indonesia was initiated under three packages of the tax laws, and this era was marked as the first major tax reform in Indonesia (Gillis 1985). The tax codes authorised were as follows:

1. Law Number 6 of 1983 concerning General Provisions and Tax Procedures.
2. Law Number 7 of 1983 concerning Income Tax.
3. Law Number 8 of 1983 concerning Value-Added Tax.¹⁸

¹⁸The enactment of these laws in 1983 was supported by the assistance from Harvard University under the Harvard Institute for International Development (HIID), which provided a team consisting of economists, lawyers, accountants, and IT specialists. HIID helped the Indonesian government draft tax legislation and formulate changes in the tax system (Heij 2001). It is then no surprise that Indonesian tax legislation is more American-centric after the

Subsequently, two years after the 1983 tax legislation, the government of Indonesia enacted other authoritative laws as part of the tax reform: Law Number 12 of 1985 concerning Land and Building Tax and Law Number 13 of 1985 concerning Stamp Duty. As such, the five tax legislations ruled in 1983 and 1985 were considered the backbone of the Indonesian tax laws and provided legal certainty in the overall postures of the tax system (Cahyadi et al. 2023).

3.2.2. The importance of the tax reform

As mentioned earlier, 1983 was the first step in re-designing the tax system in Indonesia. It changed Indonesia's tax landscape from oil-revenue-based to taxation. In the 1970s, most state revenues came from oil companies due to the "oil boom" condition, which benefited oil-exporting countries such as Indonesia (Usui 1997). At that time, with the excitement of oil bonanza revenue, reforming the tax system was not urgent (Heij 2001). However, the oil dependency had to end in the early 1980s due to the weakening and steep decline of oil prices (Thee 2012; Wihardja 2016). Consequently, the Indonesian government acknowledged the importance of the tax reform to reverse the negative effects of an oil aftermath.

The first tax reform brought a positive impact on Indonesia's revenue structure. The non-oil revenue derived from income (individuals and corporations) and value-added taxes increased significantly by around 20% in 1984 and 59% in the 1990s due to the 1983 tax reform (Heij 1993). After this era, the tax reform was continued. There were several reforms to accommodate the tax incentives, broaden tax bases, and strengthen tax capacity. While the 1983 tax reform greatly benefited the Indonesian government from tax revenue, the room for change must be explored as part of the evaluation process. The first tax reform had not yet addressed the tax administration aspect because the reform was more focused on the laws. Also, corruption from the tax officials was an issue during this era, which raised questions about the quantity and quality of the tax staff in DGT (Bawazier 2018).

Dutch colonialisation ended. This Harvard University – Indonesian government cooperation then continued to not only address tax reform but also assess the overall economic development of Indonesia post-colonial regime. The whole project lasted for almost 30 years – the longest technical project between the university and the government (Stern 2000). The HIID also earned millions of dollars as compensation (Winters 1998).

As such, the Indonesian government initiated a series of reforms to hopefully build a more efficient tax policy and administration. In general, the tax reforms were divided into four phases, as illustrated in Figure 3.1. The initiatives addressed not only tax-related areas but also the institutional and information technology transformation in DGT. The objectives of these phases were to increase tax revenue, broaden tax bases, and simplify the overly complicated tax system (Alm 2019).

3.2.3. Modern tax regime

The term “modern” implies transitioning from a colonial-based tax concept to an Indonesian interest and priorities from an official to a self-assessment tax system. Additionally, according to Jensen (2022), the modern tax system is related to the enforcement capacity of the tax institution. Following the 1983 tax bills, several amendments were enacted in the first stage of the tax reform to support a more comprehensive tax structure in Indonesia, as shown in Table 3.1. The table shows the work of the Indonesian government in continuously reforming its tax legislation to address the challenges, mainly after the 1998 economic crisis.

During this period, Indonesia experienced a steep decline in foreign investment (Hill and Shiraishi 2007). Thus, amending the tax laws was critical to accommodate tax incentives and attract capital inflow to the country. The tax law changes in early 2000 supported the government's ability to collect more tax revenue and increase the tax ratio (Brondolo et al. 2008). The modern tax reform also served as the basis for other reforms initiated in subsequent years.

3.2.4. Tax reform I, II and III

Following the Asian economic crisis and tax law reforms, the Indonesian government initiated national bureaucratic reform through Law No. 28 of 1999 concerning State Administrators Clean and Free of Corruption, Collusion, and Nepotism. This law marks a foundation of tax administrative reform at the Indonesian Ministry of Finance and the Directorate General of Taxes. In Tax Reform I, DGT aimed to increase services to taxpayers and to implement a stricter code of conduct for tax officials. In 2002, DGT initiated the Large Taxpayers Tax Office (LTO) types to register and monitor large corporate and wealth individual taxpayers in specific tax offices. The presence of LTO, or Large Taxpayers Unit (LTU), is recommended by the IMF and has been established in many jurisdictions (Benon et al. 2002). It is

believed that LTU supports the government's ability to increase tax revenue by encouraging the taxpayers' compliance (Bahl and Bird 2008) and promoting tax simplicity (Vehorn 2011). The establishment of LTO has been one of the landmarks of Indonesian tax reform history (Arnold 2012).

Subsequently, after establishing LTO in 2003 and 2004, the Indonesian government initiated other specific tax offices, such as the foreign investment tax office (PMA), the oil and gas industry tax office, the medium taxpayers tax office (MTO), and the small tax office (STO). All of which were established in Jakarta, the capital city of Indonesia. In 2007 and 2008, due to the successful implementation of modernised tax offices, the Indonesian government fully implemented STO across Indonesia, MTO in some regions, and LTO and PMA in Jakarta (Prasetyo 2017).¹⁹

Furthermore, in Tax Reform II, DGT focuses on amendments to tax laws, income tax rate reduction for SMEs and corporate taxpayers, and structural transformation of human resources management. During this stage, DGT enacted a policy named "tax amnesty" in 2016, according to Law No. 11 of 2016.²⁰ The law stated that Indonesian taxpayers who have not declared or reported their offshore assets on the tax return may be subject to low penalty rates if the assets are repatriated back to Indonesia. Also, according to the law, the objectives of this policy were to support tax reform, to accelerate economic development by using repatriated assets in the domestic economy, and to raise additional tax revenue. In addition, DGT collected additional tax revenue of around IDR 130 trillion from the tax amnesty program. However, some people argued that this policy weakened the spirit of encouraging compliance with the tax system because it gave privileges to non-compliant taxpayers (Said 2017).

Lastly, the Tax Reform III supported DGT in having better information technology, regulation, and business processes by initiating the core tax system

¹⁹LTO deals with large taxpayers nationwide, MTO monitors medium taxpayers on regional basis, and STO manages small taxpayers in certain locations. The determination of large, medium, and small taxpayers is counted by many factors such as number of sales or income, tax payment, size of activities, kind of industries, and locations.

²⁰According to Le Borgne and Baer (2008), definition of a tax amnesty is:

"a limited time offer by the government to a specified group of taxpayers to pay a defined amount, in exchange for forgiveness of a tax liability (including interest and penalties), relating to a previous tax period (s), as well as freedom from legal prosecution".

reform. The project started in 2018 and, according to the schedule, will be released in 2024.²¹ The rationale behind this reform was that DGT has used an outdated and segregated information technology system for many years, which made the system more prone to future problems. Another milestone was the establishment of additional medium tax offices (MTOs) in some regions to monitor corporate taxpayers. MTO, LTO, and PMA are essential because DGT aims to scrutinise large corporations' transactions related to transfer prices.

All stages of the tax reform have positively impacted Indonesia's tax revenue. According to the data, DGT's effort to collect tax revenue has benefited immensely from the tax reform, particularly with the establishment of modern tax offices in 2002. Figure 3. 2 shows a positive trend of tax collected by DGT across the years since the first tax law reform in 1983 until 2022. Hence, it can be stipulated that tax reform increases the DGT's institutional capacity to collect tax revenue. While many factors contribute to tax revenue collection, DGT's tax reform initiatives may serve as a critical factor. This is consistent with an argument that policymakers who are open to continuously reforming the tax system would manage to get higher performance on tax collection (Gnangnon and Brun 2019).

3.2.5. DGT's organisational structure

According to the Minister of Finance regulation number 229/PMK.01/2019 concerning the organisation and work procedures, DGT has a responsibility to formulate and implement tax policy and administration of different taxes, such as income tax, value-added tax, sales tax on luxury goods, land and building tax other than urban and rural sectors, and stamp duty. Moreover, the tax revenue administered by DGT is the primary source of the national income. DGT needs to optimise its capacity to collect tax revenue while keeping the investment environment safe and increasing economic activity.

However, there is an administrative capacity challenge to collect tax revenue in Indonesia due to organisational, staffing, business process, and regulatory issues. With over 17,000 islands, it comprises over 1,892,555 square kilometres, and the total population exceeds 270 million. DGT requires significant work and resources to

²¹The new core tax system was finally released and started to implement since January 2025.

monitor the tax potential and collect more revenue. Also, according to DGT's strategic planning roadmap, DGT lacks sufficient tax officials to administer complex tax-related tasks (DGT 2020). For example, the ratio of tax staff to total population in Indonesia is around 1:6,019, which roughly means that one tax official needs to monitor more than 6,000 people. This number is higher than that of other nations and the OECD average, as shown in Figure 3.3. In general, the extension of this ratio is one tax staff out of 1,000 population as a norm (Gallagher 2005; Dunleavy and Carrera 2013).

In addition to administering tax policy and administration, DGT has organisational structures which consist of the head office and operational offices, as depicted in Figure 3.4. The DGT Headquarters performs tax analysis, policy formulation, and governance, which is divided into 14 directorates responsible for managing different aspects of tax issues. One is the Directorate of International Taxation, which deals with the international tax regime, including transfer pricing issues, and the Directorate of Tax Audit and Collection, which manages tax audit aspects, including transfer pricing audit. As for operational works, the units are spread across Indonesia, except for large taxpayers and special tax offices located only in Jakarta. In terms of tax units, DGT regulates taxpayers based on their characteristics. Under LTOs, taxpayers are mainly multinational enterprises and state-owned enterprises. Further, special tax offices supervise foreign investment companies, oil and gas, and taxpayers in the Indonesian stock exchange. Moreover, MTOs administer large taxpayers in regional areas, and lastly, STOs administer other types of taxpayers, such as individuals and micro, small, and medium companies.

3.2. The tax structure in Indonesia

3.2.1. Indonesia's fiscal situation

A series of tax reforms designed by the Indonesian government aims to stabilise the government's ability to provide public goods and services. Tax reforms are part of the broader economic reforms that restore economic growth, restrict inflation, and maintain fiscal sustainability. In addition, tax administration improvements are critical to raise the national revenue, which can also be used to secure the fiscal deficit as required by regulations. The Indonesian government's

reform initiative agenda requires political commitment to continuously increase DGT's capacity. The tax revenue is a main source of Indonesia's national revenue. In the last five years, more than 60% of state revenue has derived from tax collection, which the government uses to fund state expenditure, as illustrated in Table 3.2. The table highlights the vital role of tax collection in Indonesia to minimise the country's fiscal deficit.

Furthermore, in addition to state tax revenue, there are non-tax revenue sources, such as income from natural resources, investment, separated state assets, public service agencies, and customs revenue. However, total state revenue is less than the funds needed to provide public goods and services. Hence, the government may exercise domestic and foreign loans, grants, and budgeting efficiency to fill this gap. Maximising tax receipts is essential in the long run to limit the fiscal deficit and support the government's expenditure.

Additionally, despite the global shocks, Indonesia maintains positive trends in collecting tax revenue. As an institution, DGT has successfully achieved its tax target in the last three years. As such, the Indonesia economy grows positively and creates a stable financial condition (IMF 2023). Compared to other countries, Indonesia's economic growth exceeded them. This can be seen by the gross domestic product (GDP) growth. According to the OECD, GDP captures the total production of goods and services in a country during a certain period (OECD 2024c). It also calculates the level of income earned or money spent related to that production. Figure 3.5 illustrates that over the last five years, Indonesia's GDP has grown compared to other groups of economies.²²

As one of the largest emerging nations, along with China, India, Brazil, Russia, and Mexico, the Indonesian economy contributes significantly to global output (Huidrom et al. 2020). However, given the size of the economic growth, its effect on the tax ratio remains low. While the government has intensively reformed its tax system, the Indonesian tax ratio is below average relative to other tax jurisdictions (Lewis 2019). The growth of domestic trade has not yet increased the tax ratio due to the significant presence of the informal economy that is not taxed, tax

²²Except for year 2020 due to the COVID-19 disruptions.

base erosion due to transfer mispricing, and abundant fiscal incentives and exemptions (Alm 2019).

Figure 3.6 depicts the comparison of average tax ratio and GDP growth within a 5-year time frame from 2018 to 2022. The graph shows that Indonesia has the lowest tax ratio despite its strong GDP growth compared to other countries. The data might stipulate inefficiency in the tax system in Indonesia, which creates gaps between economic activities and revenue mobilisation over the last five years. In general, economic activities should have generated more revenue, but this is not the case in a lower economy like Indonesia (Morrissey et al. 2016; von Haldenwang and Ivanyina 2017). One possible explanation for this phenomenon is whether Indonesia has a different tax structure from other countries.

3.2.2. Tax mix in Indonesia: a comparison

In general, taxes are the main source of national revenue in most countries. As described in Table 3.2, more than 60% of the Indonesian government's revenue derives from taxes. This trend is also aligned with industrialised economies under the OECD, in which they mostly rely on taxes to secure national income (OECD 2023b). In addition, taxes come from many different sources, such as income, consumption, social security contributions, payroll, and property. The fraction of these sources to total tax revenues is called the tax mix (or tax structure) (OECD 2023a). From the lens of the OECD members, their tax shares are generally mixed between income (individuals and corporations), consumption (taxes on goods and services), and social security contributions (OECD 2023a). As for Indonesia, most tax revenue comes from value-added tax (VAT) on goods and services and income taxes. These shares are similar to those of neighbouring and emerging countries, such as Thailand and Malaysia.

Furthermore, the role of VAT as one of the largest revenue sources is relatively harmless for economic growth compared to income tax (Akgun et al. 2017; Lewis 2019). Other than VAT, Indonesia depends heavily on corporate income tax, while the OECD countries rely on individual income tax and social security contributions. The high share of income tax from corporations means the country cannot tax a large share of individuals, mainly due to informal economy transactions (Lewis 2019). However, one possible issue with a high dependency on corporations

is the reduction of tax bases arising from intercompany transactions, particularly conducted by large corporations. As such, in a tax jurisdiction where corporate income tax shares a significant fraction of tax revenue, understanding corporate behaviour is critical to collect the right amount of taxes. Also, income taxes on corporations are more prone to economic growth than on individuals due to the opportunity to shift their tax bases (Arnold 2012). To illustrate the tax structure in Indonesia, Figure 3.7 shows the tax structures in percentage of total tax revenues compared to other countries, as per 2021, due to the availability of data for most countries.

Overall, the major distinction between Indonesia (and other emerging markets such as Malaysia, Thailand, and China) and high-income countries is the domination of consumption (in the form of value-added tax – VAT) and corporate income taxes (CIT) in their tax structure. While consumption taxes are also essential for the OECD countries, their reliance on corporate income tax is lower than on personal income taxes (PIT). For Indonesia, it might be a challenge to increase personal income tax as an alternative major revenue source due to the complex and less advanced tax administration (Alm 2019; Arnold 2019). Another important data from the corporate income tax viewpoint is the level of tax receipts in Indonesia according to business classifications. Corporate businesses are divided into several categories under the Director General of Taxes Decree number KEP-321/PJ/2012.

In the DGT annual report for the year 2022, manufacturing companies contribute the largest share of tax revenue, along with retailers, wholesalers, and financial services. The power of the manufacturing industry to collect more tax revenue is acceptable, as this category contributes more than 20% to Indonesia's GDP (Nehru 2013). Also, the Indonesian government aims to receive more FDI from manufacturing companies (Borgert et al. 2020). It is known as one of the developing countries with the highest growth of the manufacturing industry along with China, Malaysia, and Thailand (Haraguchi et al. 2017).

3.3. The issue of transfer pricing: from foreign investment to tax audit

3.3.1. Foreign investment in Indonesia

Like many other businesses, multinationals are profit-oriented and aim to operate globally to get more returns (Akalpler and Adil 2017). One of the countries

that is an investment destination for multinationals is Indonesia due to its rapid economic growth. Despite diverse cultures and ethnicities, Indonesia has the largest share of population and GDP among the ten ASEAN members. It is also the only nation in ASEAN that is included as one of the members of the G20 countries. In addition, with its abundant natural resources, sizeable workforce, and growing economic market, Indonesia has historically served as a major destination country for MNEs to invest in ASEAN, along with Singapore and Vietnam (Lindblad 2015). Also, Indonesia is one of the world's largest players in oil, gas, and mining trading, contributing to the development of foreign investors in these sectors (Vinayak et al. 2014). Besides that, with its strong domestic consumption and growing middle-class groups, Indonesia has attracted many foreign manufacturing companies to invest their money in the country, increasing employment and productivity in Indonesia. Figure 3.8 illustrates FDI inflows in Indonesia compared to other Southeast Asian countries.

Further, although Indonesia is possibly unpopular and invisible for most people in the “Western world” (Pisani 2016), many multinational firms are already noticing the country's potential. FDI inflows are increasing, and Indonesia's presence in the global market is rising (Hirn 2024). Moreover, foreign investment is critical in shaping Indonesia's economy. Over the years, the largest contribution of investment has been generated by the manufacturing sector. The increasing trend of manufacturing investments is also followed by financial and non-financial services to a considerable manner, which might accelerate economic growth (Younsi et al. 2021). According to the Indonesia Ministry of Investment / Indonesia Investment Coordinating Board (BKPM), there are four main categories of foreign investments in Indonesia: primary sectors (natural resources-related investments), manufacturing, services, energy & construction. All these sectors are essential to boost Indonesia's sectoral investment policy. In the last ten years, the manufacturing sector contributed more than 40% of total inward investment, and the trend keeps increasing, as illustrated in Figure 3.9.

From the home country's perspective, Singapore, Japan, and China are among the top three countries that have invested their money in Indonesia. Singapore has a well-established financial centre in the Asia region, and many multinationals use it as a hub to invest in Indonesia. Also, Indonesia lacks a

prominent financial centre, so using Singapore as an extension of investment in Indonesia is a better option for multinationals. On another spectrum, Indonesia's large firms are also using Singapore to put their money due to the highest level of confidentiality of its financial services and lower corporate tax rates compared to Indonesia. As for Japan and China, most of the multinationals invested their money in public infrastructure projects, automotive, electronics, and natural resources-related industries. Indonesia has a large young population and a growing middle class. It attracts major corporations from other countries to invest in the country.

Furthermore, to attract more investments, the Indonesian government has lowered the corporate tax rates from 25% to 22% since 2020. The tax rates are considered lower than average rates in OECD countries (23.73%), China (25%), India (30%), Japan (29.74%), and Malaysia (24%). On the contrary, the rates are still higher compared to Thailand (20%), Vietnam (20%), Singapore (17%), and many other tax havens. Capital inflows are expected to induce and positively affect tax revenue, mainly in less-developed countries like Indonesia. However, this is not always the case because there is scarce evidence to support this argument (Kimm Gnanon 2017). In addition, some factors might dampen the effectiveness of FDI to boost tax revenue, such as the presence of tax incentives (in the form of tax exemptions, tax allowances, and tax holidays), and the transfer prices practice among multinationals' members (Faeth 2010; Kimm Gnanon 2017).

To be specific on transfer pricing, this practice is generally neutral in achieving efficiency and increasing benefits among groups of multinationals (OECD 2022a). The concern for the tax authority is the incidence of transfer mispricing or manipulation of transfer prices, which has been explored in the previous chapter. The increasing foreign investments in Indonesia do not align with the tax ratio. Further, transfer mispricing arrangements by multinationals arguably play an important role in eroding Indonesia's tax base, shifting profit, limiting tax revenue, and thus resulting in a lower tax ratio. As a tax institution, DGT aims to scrutinise transfer pricing practices by large firms in Indonesia, both domestic and foreign companies, to minimise tax revenue losses. One strategy is enhancing transfer pricing audit, particularly in large, medium, and special tax offices. DGT seeks to collect more tax revenue and increase the tax ratio by taking this action.

3.3.2. The battle around transfer pricing: the trend in tax litigation

DGT is concerned about transfer pricing since its first tax reform in 1983. According to the 1983 income tax law article 18 (2), the Director General of Taxes is authorised to assess income or deduction for tax calculation purposes in the event of a transaction between associated enterprises. Moreover, Article 18 (3) explains the associated enterprises' criteria for corporations and individual taxpayers. After this initial legislation, a series of laws (both primary and secondary) were released to address, tackle, and mitigate the effects of tax-motivated transfer pricing transactions. Primary laws are tax legislations that serve as the foundation for every tax policy, such as income tax law, general provisions and tax procedures law, value-added tax law, and tax regulations harmonisation law. In addition, secondary laws are governed by tax regulations, such as government regulations, the Ministry of Finance regulations, and tax administration, including the director general of taxes regulations, decrees, and circular letters.²³

In addition, the domestic legislative framework around transfer pricing not only addresses transfer pricing according to BEPS initiatives 8, 9, and 10 but also transfer pricing documents under BEPS 13 and dispute resolutions (mutual agreement procedure and advance pricing agreement) under BEPS 14. Recently, to streamline tax regulations related to transfer pricing, the Indonesian government released Minister of Finance regulation number PMK 172 of 2023 concerning the application of the arm's length principle in associated enterprise transactions. This newly enacted regulation revoked some regulations, such as PMK 213 of 2016 concerning the transfer pricing document, PMK 49 of 2019 related to the implementation of the mutual agreement procedure, and PMK 22 of 2020 regarding the advance pricing agreement. While the spirit of PMK 172/2023 aligns with OECD transfer pricing guidelines, no single reference is found to be linked to the OECD transfer pricing guidelines in this regulation.

In terms of the tax audit process related to transactions among associated enterprises, DGT released administrative regulation number PER 22 of 2013 related to the audit guidelines for associated enterprises and DGT circular letter number SE 50 of 2013 regarding technical instructions on audit for associated enterprises.

²³The differentiation of these tax laws is based on Sitaraman (2015) and Vanistendael (1996)

These two administrative rules have not been amended, which raises a question about the effectiveness of such rules in combating transfer pricing arrangements by multinationals. On the other hand, the OECD released the latest transfer pricing guidelines in 2022. Hence, DGT's outdated regulations on transfer pricing audit procedure, as stipulated in PER 22 and SE 50, are worth revising to align with international developments on transfer pricing.

Moreover, the above laws should be enacted by tax auditors in DGT to assess whether taxpayers' transactions with their associated enterprises are within the arm's length principle under relevant tax laws. As such, the tax auditors' understanding of the legislative framework is a critical factor in maintaining transfer pricing audit quality. Transfer pricing becomes increasingly complex (Picciotto 2018a). Thus, tax officials should update their knowledge and understanding of this issue, with its intersection with other international tax regimes. Related to tax audits with transfer pricing adjustments, the trend shows a declining pattern, as shown in Figure 3.10, which shows a trend in the number of tax audit instruction letters with transfer pricing adjustments. The highest number of tax audit instruction letters with transfer pricing adjustments was in 2020, possibly due to the enactment of PMK 22 around that year. Unfortunately, the number keeps decreasing in 2021 and 2022, which shows that the quantity and quality of tax auditors in DGT to address transfer pricing issues are limited.

During transfer pricing audits, there is room for different interpretations of transfer pricing legislation and regulation between taxpayers and tax auditors. In the event of an audit adjustment, taxpayers are likely to appeal the finding to the tax dispute process in the Indonesian tax court. This is a place where the argument from both parties, taxpayers and DGT, will be evaluated and assessed according to evidence, justification, and regulation. Thus, the effectiveness and quality of transfer pricing audits can also be seen in the winning rate of DGT in tax disputes brought by taxpayers to the court. Overall, major decisions on tax disputes would be fully granted, partially granted, and rejected. Fully granted means all arguments by taxpayers are accepted by tax court judges, which means that taxpayers win the case. Partially granted arises when only a partial argument by taxpayers is accepted by the court (half a win for taxpayers and DGT). Lastly, when the taxpayers lose their argument, the decision will be favourable to DGT, and the taxpayers' appeal will be

rejected. The trend in tax court decisions around transfer pricing cases is presented in Figure 3.11, and the trend in DGT's winning rate is shown in Figure 3.12.

The above figures show that DGT is still struggling to combat transfer pricing arrangements, as shown by the lower winning rate. While the causes of this trend may vary, the underlying issue shall be addressed, strengthening tax auditors' capacity around transfer pricing. The data stipulates that transfer pricing is a challenge for tax officials in developing countries (Silberztein 2009; Cooper et al. 2017; Sebele-Mpofu et al. 2021a).²⁴ In the context of activities, the majority of transfer pricing disputes between the taxpayers and DGT are related to tangible assets transactions, intragroup loans, and intragroup services, with Singapore, South Korea, Japan, and China serving as the home countries of affiliated parties. In addition, because transfer pricing is mainly the domain of multinational enterprises, most of the tax offices dealing with tax disputes are under foreign investment tax offices, LTO, and MTO, where most MNEs are registered.

3.4. Research around transfer pricing behaviour: why does it matter for Indonesia?

With the majority of transfer pricing issues centralised in specific units, DGT might focus its resources on handling transfer pricing cases. However, this is not an easy task because DGT lacks transfer pricing experts for tax audit purposes. Understanding international tax concepts is another challenge, as most of the tax offices spread across Indonesia are for small taxpayers. They might not be dealing with transfer pricing cases. As such, it would be essential to explore the behaviour of tax auditors and taxpayers around transfer pricing due to its significant role in boosting tax revenue. As noted by the OECD, transfer pricing is not an exact science (OECD 2022a), and there should be an alignment between the interests of the taxpayers and tax officials. The latter wants to raise more revenue, boost tax compliance, and increase tax ratio, while the former aims to achieve efficiency using internal resources, minimise costs, and maximise profits. Different intentions and goals from these two actors promote different behaviour. Indonesia is among the countries with excellent economic growth and capital inflow. However, its tax-to-GDP

²⁴Some possible reasons are the burden of proof and insufficient documentation in a way that DGT fails to prove that taxpayer's transaction with its affiliated parties is not within arm's length range. Also, the use of prominent tax adviser experienced in dealing with international tax issues makes it harder for DGT's tax auditor to argue the cases.

and FDI-to-GDP ratio is slightly lower than that of other countries. The incidence of shifting profits by multinational enterprises through transfer pricing may contribute to the lower development of the tax ratio.

Indonesia is considered one of the countries with the highest tax incentives in Asia (OECD 2020b). The incentives are targeted at both domestic and foreign multinationals who want to invest their money in the country. These tax incentives may be related to super tax deductions, investment allowances, accelerated depreciation, tax holidays, extension of loss carry-forward, and the use of special economic zones. It is expected that more tax incentives will attract more capital inflows. Nevertheless, this is not always the case because tax incentives are not the only factor that matters (Appiah-Kubi et al. 2021). Particularly foreign companies, they also look at other factors to invest, such as political stability and a good business environment (OECD 2022c). As such, tax incentives might not be the reason for MNEs to invest in Indonesia. Another reason could be the ease with which they can shift their income or profit away from Indonesia to other lower or zero tax rate jurisdictions.

In addition, DGT stated that transfer pricing is one of the hard issues to understand by its staff (DGT 2020; DGT 2023). Understanding this issue is critical in making sure taxing rights between countries are fair in cross-border transactions. If not, Indonesia will always lose its right to tax due to asymmetric knowledge on transfer pricing between MNEs and DGT. On the other hand, dealing with transfer pricing is also tough for multinationals, particularly when the DGT is auditing them. Multinationals face increasing pressure to comply with complex transfer pricing regulations (Rossing et al. 2017). Hence, there is a growing trend in the use of tax advisers during transfer pricing audits. With global activities of the company and contemporaneous transfer pricing documentation that needs to be prepared, it is understandable that MNEs seek help from professional transfer pricing experts (Ashley 2012a). Therefore, exploring the transfer pricing issue should also include the presence of professional tax advisers hired by the company. In Indonesia, the establishment of tax consultants focusing on transfer pricing is increasing. Therefore, their behaviour is also critical in the context of the transfer pricing study.

This study aims to capture the behaviour of the tax auditors who are conducting a transfer pricing audit as the main participants. However, other actors around

transfer pricing are also incorporated during data collection in the current study, namely the taxpayers, the tax advisers, the tax policymakers, and the tax court judge. The incorporation of these participants provides additional knowledge to the literature, and exploring transfer pricing from different perspectives is an innovation in this study, not only in the context of Indonesia but also in other developing countries.

3.5. Conclusion

To sum up, this chapter provides a brief explanation of the overall picture of Indonesia's current tax regime and its importance in the study of transfer pricing. Indonesia is a giant country in terms of population, which attracts multinationals to invest. In contrast, the attractiveness of capital inflows does not boost the proper tax ratio due to the incidence of transfer pricing transactions. As a tax authority, DGT continuously scrutinises transfer pricing through an audit mechanism. However, it seems the battle is in favour of taxpayers. As such, it is critical to explore the behaviour of relevant actors to address the transfer pricing issue in Indonesia. This study offers a balanced perspective in exploring this phenomenon.

Indonesia enacted transfer pricing regulations, both at the policy and administration levels, to combat mispricing behaviour. Since the first tax reform in 1983, transfer pricing has been put as an essential issue for DGT's officials. This attention is explicitly implemented with the creation of large taxpayer units to scrutinise multinationals' tax arrangements better. Nonetheless, the effectiveness of transfer pricing audits in such offices is questioned because of the growing tax dispute surrounding transfer pricing. Therefore, this study presents current exploration on this issue, mainly after the initiation of BEPS initiatives by the OECD and G20 countries in 2015. Finally, this study provides multi-actor perspectives to address transfer pricing behaviour and aims to fill the knowledge gap in the literature.

Chapter 4 Research Methodology and Data Collection

4.1. Introduction

This chapter briefly explains the research methodology, which consists of research paradigm, research method, ethical considerations, sampling determination, pilot project, data collection, analytical methods, mixed methods legitimization, and conclusion. Research on transfer pricing behaviour is limited in Indonesia and other developing countries' contexts. As such, it is critical to determine the philosophical stance of this study and the rationale behind the research methods.

This chapter is divided into 11 main sections. After this section, an exploration of research philosophy will be addressed to capture the importance of this study from the research foundation perspectives. Section 4.3 then discusses the convergent mixed methods and research design employed in the present study. Next, section 4.4 explores data collection design, and section 4.5 briefly describes ethics approval and sampling determination. Further, this study employs a pre-testing stage to determine the reliability of research instruments, which is explained in section 4.6.

Analytical methods for both quantitative and qualitative phases are written in sections 4.7 and 4.8, respectively. Then, section 4.9 explains the integration of mixed methods and joint display analysis to integrate the two datasets. These three sections are critical as the basis for analysing all datasets in the current study. Following section 4.9, an explanation of mixed methods legitimization typology is presented in section 4.10. The typology is critical to point out that the current study is legitimate in using a mixed methods approach. Finally, section 4.11 concludes this chapter.

4.2. Pragmatism as research paradigm

In general, philosophical stance is divided into two main ideas, ontology and epistemology. A broader philosophical idea shall be identified to determine the worldview (Creswell and Creswell 2022) or paradigms (Lincoln et al. 2011; Harrison et al. 2020) of the research and researcher. The concept explores the nature of researchers' beliefs about the outside world, aligning with past experiences, which, in the end, determines the research methods employed in the study. In addition,

ontology deals with “what being exists” (the study of being), whether reality and the object of research have a single reality (realist ontology) or multiple realities (relativist ontology) (Moon and Blackman 2014). On the other hand, epistemology is concerned with the production of knowledge and how it can be acquired and validated (Greco 2017).

Objectivist epistemology presumes that reality and the human mind are independent. On the other hand, subjectivist epistemology considers reality as pluralistic. It depends on one’s perception and understanding. In addition, constructionist epistemology assumes that truth emerges from the engagement between reality and human activity (Moon and Blackman 2014). Other than the two philosophical stances, axiology is acknowledged as a third concept. Axiology is the study of value (Patterson and Williams 1998). It stipulates knowledge creation and incorporates research ethics to address what is good for humans and society (Biedenbach and Jacobsson 2016).

Following the three orientations of ontology, epistemology, and axiology, philosophical perspectives or paradigms emerged as a means of capturing reality, forming beliefs, and guiding action. (Moon and Blackman 2014). They are critical in shaping the researcher’s assumptions that might affect research design, methodology, method, analysis, and interpretation. There are several forms of research paradigms. In general, the continuum of research paradigms is divided into four widely used terms: positivism/post-positivism, constructivism/interpretivism, transformative, and pragmatism (Creswell and Creswell 2022), as illustrated in Figure 4.1.

According to Figure 4.1, the first paradigm is the post-positivism, which represents a traditional form of paradigm and emerges after the positivism stance. Unlike positivists, who believe that the world is observable and waiting to be analysed using a scientific approach, post-positivists recognise that no absolute truth and knowledge is shaped by data or evidence (Phillips and Burbules 2000). Under the post-positivist lens, to understand the world, researchers need to test, verify, and refine the theoretical views that govern the world. Next, constructivism or social constructivism, often juxtaposed with interpretivism, relies on the subjective meanings of individuals to understand the world. Individuals’ views are important for the research setting and, sometimes, constructivists recognise their subjective

interpretation in the research (Guba and Lincoln 1994). In contrast with post-positivism, which focuses more on theory testing, constructivism generates a theory development to understand the pattern of meanings (Crotty 1998) and usually uses a qualitative approach to understand the research context (Tashakkori et al. 1998; Creswell and Creswell 2022)

The third worldview is the transformative paradigm, which challenges the postpositivist view to understand the world, mainly because the structural theories did not touch the culturally diverse society (Mertens 2010). The transformative researchers also believe that the constructivists failed to advocate an agenda and to help marginalised groups (Mertens et al. 2014). As such, the transformative research consists of an action that may empower the lives of marginalised groups or individuals and the institutions where those people live or work (Creswell and Creswell 2022). The last worldview is pragmatism, which focuses on the incorporation of all available methods or approaches to understand the problem (Patton 2015; Creswell and Creswell 2022). According to the pragmatist, researchers are free to use the methodological approach that fits their objective of investigation (Tashakkori and Teddlie 2021). Hence, this paradigm embraces the differences in research methods (Kaushik and Walsh 2019), is not committed to one system of philosophy or reality (Creswell and Creswell 2022), and is usually associated with mixed methods research (Creswell and Plano Clark 2018).

From the above description, this study adopts the pragmatism paradigm due to the opportunity to incorporate both quantitative and qualitative methods. Pragmatism concludes that multiple complex realities in the outside world cannot be explained only using positivist or interpretivist approaches (Creswell and Plano Clark 2018; Tashakkori and Teddlie 2021). As such, in a pragmatist stance, researchers might incorporate both qualitative and quantitative methods to answer research questions and to meet their research objectives (Tashakkori and Teddlie 2021; Shan 2022). In addition, pragmatism demonstrates flexibility by offering a mix of methodology and method. Consequently, the use of mixed methods in pragmatism is expected (Lawani 2021; Creswell 2022).

Further, this study employs research on taxation, specifically related to the transfer pricing issue. Taxes are multidisciplinary because researchers might capture them from various lenses: accounting, economics, history, law, public administration,

psychology, political science, and philosophy (McKerchar 2008; Frecknall-Hughes 2014). From another perspective, a pragmatist approach provides alternatives to tax research, which is predominantly an area of positivist due to the use of tax statistics data (McKerchar 2008; Oats 2012).

The incorporation of mixed methods in the current study confirms the pragmatist approach. Ontologically, the knowledge around transfer pricing behaviour can be addressed using practical application and experience of relevant actors in the tax system. It has multiple realities depending on the context and approach (relativist ontology). Epistemologically, this knowledge can be achieved by mixing different methods, both quantitative and qualitative, to complement each other due to the pluralistic and complex nature of the knowledge (subjectivist epistemology) (Lawani 2021). Transfer pricing is a complex issue. Hence, exploration from various views using quantitative and qualitative methods is critical in the present study.

In addition to the above description, the pragmatist philosophical paradigm is also connected to the idea of intransitive and transitive dimensions explored in the current study. The intransitive dimensions of scientific inquiry are the objects of knowledge conceived as existing and acting independently of their identification in human knowledge, and the transitive, socially constructed dimensions in which knowledge of them is seen to be produced in the social activity of science (Bhaskar 1975). These two dimensions help clarify how this study conceptualises reality and knowledge according to the ontological and epistemological commitments that have been defined (Johnson and Duberley 2000). The intransitive objects are the structures, phenomena, and events that are not contingent on humans' awareness. In this study, intransitive objects include legislation governing transfer pricing, the actual intercompany transactions among MNEs' members, the capacity constraints on transfer pricing audits in developing countries, and the broader context of policies scrutinising transfer pricing arrangements. These objects exist independently of the auditors.

As for the transitive objects, these are subject to contextual change because different people may comprehend them differently (Johnson and Duberley 2000). In this study, transitive objects include the theories and concepts incorporated, such as TPB, motivational posturing, perceived transfer pricing knowledge, the operational

definition of transfer pricing audit behaviours, and the subjective perception and expectation of a transfer pricing audit.

From the above description, recognising intransitive and transitive objects is important to ensure that the study analyses both the realities of transfer pricing audits and the behavioural factors that may influence the audit process. This dual recognition shapes the choice of the pragmatism paradigm in this study. A pragmatist approach recognises the value of intransitive and transitive dimensions, which justifies the use of a mixed method approach in this study. The transitive objects do not favour a particular method but allow for a greater combination of the two methods (Johnson and Duberley 2000). Hence, this rationale ensures that the use of a mixed method approach in this study is justifiable.

4.3. Convergent mixed methods: a rationale

As mentioned earlier, this study incorporates mixed methods to capture transfer pricing behaviour that aligns with the relevant pragmatist approach. The use of mixed methods in this study is also derived from the intention to integrate analysis from quantitative and qualitative findings related to transfer pricing behaviour in Indonesia. Over the years, mixing quantitative and qualitative methods has grown in research practice (Bryman 2006). According to Creswell (2022, p.1), a definition of mixed methods is as follows:

“A methodology and method to research in the social, behavioural, and health sciences in which the investigator gathers both quantitative (closed-ended) and qualitative (open-ended) data, integrates or combines the two, and then draws inferences (called “metainferences”) from the integration that provides insight beyond what can be learned from the quantitative or qualitative data”.

Based on the above definition, mixed methods provide an equal treatment of both quantitative and qualitative approaches to capture events addressed in the research problem, compared to one method alone. In addition, the characteristics of mixed methods research are illustrated Figure 4.2, which shows the components of mixed methods research, which are broken down into several components. The mixed methods components guide the researcher in navigating a mixed methods study, starting from building a research design, collecting data, analysing the two datasets, drawing conclusions, and framing the research findings.

Moreover, two data collection and analysis strategies were employed in this study: a quantitative stream in the form of surveys and a qualitative approach using interviews. From a design perspective, this study incorporates a one-stage design, or convergent, to accommodate several concerns (Creswell and Plano Clark 2018; Creswell and Creswell 2022). Convergent mixed methods design, previously known as concurrent or parallel design, means both quantitative and qualitative data are collected in a single phase with separate analysis. Then, the two results are compared, integrated, or mixed during an integration analysis. At this stage, the intention may be expanded to determine whether the findings from qualitative and quantitative datasets match, diverge, mutually support, or validate a construct (Creswell and Creswell 2022). An illustration of this design is shown in Figure 4.3.

Further, the rationale for incorporating the convergent mixed design is derived from several considerations. Firstly, the study weighs equal treatment with both quantitative and qualitative data collection. As noted earlier, transfer pricing is a complex and challenging issue (OECD 2022a; Tørsløv et al. 2022), particularly for most tax officials and taxpayers in Indonesia. Hence, exploring their behaviour around transfer pricing from different approaches is equally essential. Secondly, this study aims to compare, merge, and integrate findings from quantitative and qualitative stages. Consequently, a convergent design fits this integration intention. Next, the sampling mechanism is critical to corroborate the convergent design. This study intends to use tax auditors as a sample for both the survey and the interview. Ideally, in convergent design, participants in the quantitative phase should also be the sample for the qualitative stage to compare the findings better and to capture familiarity in the field (Creswell and Plano Clark 2018). Therefore, the use of a convergent design in this study aligns with the sampling mechanism.

Lastly, there is a time constraint for data collection because most interviews and approval for circulating surveys will be conducted onsite in Indonesia. As such, collecting data at the same stage as in the convergent mixed methods design fulfils efficiency concerns during data collection. Furthermore, to depict convergent design, Figure 4.4 illustrates the diagram for the convergent mixed methods design employed in this study. The diagram briefly explains procedures applying to each of the methods, along with the anticipated output. As such, there will be step-by-step

guidelines for conducting a convergent mixed methods design during data collection and analysis in the current study.

4.4. Data collection strategies

Generally, any studies require generic steps in collecting data: sampling procedure, maintaining ethical considerations, recruiting respondents, identifying data sources, recording, storing, and administering the data collected (Creswell and Plano Clark 2018). Specifically, in a mixed-methods study, two data collection strategies, quantitative and qualitative phases, are equally important. All these strategies need rigorous steps to reflect the chosen mixed-methods design. In the current study, a survey will be circulated to relevant tax offices where tax auditors are likely responsible for addressing the transfer pricing issue during tax audits. Subsequently, an interview process will also be conducted with the tax auditors who are willing to participate.

Likewise, to enrich the analysis and answer one of the sub-research questions, other interviews were scheduled with participants dealing with transfer pricing in the Indonesian tax system, such as tax professionals, tax advisers, policymakers, and the tax court judge. Incorporating such actors in this study is critical to navigating a growing issue of transfer pricing from multiple actors' perspectives, specifically during the interview stage. Therefore, choosing an appropriate sampling method is critical to generalising findings and comparing the two databases.

4.4.1 Survey development

This study incorporates a web survey to collect data during the quantitative stage using the Cardiff University-approved survey tool, Qualtrics. The data will then be stored safely and securely in the Cardiff University storage system. In addition, the use of online surveys is increasing due to higher penetration rates of the Internet, technological advancements, confidentiality concerns, cost and time savings, and data security (Newcomer et al. 2015). However, an online survey is more likely to have a low response rate than an in-person survey. (Vaus 2013). This study targets tax auditors working at the Indonesian tax authority who have full access to the Internet. Given this fact, combined with the cost and time considerations during data collection, this study utilises a web survey to collect quantitative data.

The survey was divided into several sections. The first section was a participant information sheet to ensure participants are well-informed on the overall objective and nature of this study. On the cover page of the survey, there was information on the importance of participants' involvement and that their participation was completely anonymous and voluntary. After reviewing this page, an online consent form was presented in the same manner as in a paper-based survey to give them a choice whether they want to proceed with the research. The next section was the demographic information of the participants. Next, the third section contained questions related to the Theory of Planned Behaviour constructs. In the next part, questions concerning perceived knowledge of transfer pricing regulations were addressed. Lastly, constructs on social distance were arranged to capture deference and defiance postures.²⁵

Following the research model, the survey was developed, consisting of 32 items capturing 8 constructs. All items for the constructs were measured using a 7-point Likert scale, as used in the initial research of the Theory of Planned Behaviour (Ajzen 1985; Ajzen 1991). Further, not only was the 7-point scale format to accommodate the theoretical framework, but also to conform to the path analysis technique (Dawes 2008). This study intends to analyse survey results using a structural equation model, and a 7-point scale is comparable and appropriate to this analytical mechanism (Noar 2003; Tarka 2017). Additionally, most of the questions were measured on a negative-positive scale, spanning from strongly disagree to strongly agree, with neither agree nor disagree as a midpoint.

Furthermore, this study measured 8 constructs consisting of Behaviour (4 questions), Intention (3 questions), Perceived Behavioural Control (4 questions), Social Norm (4 questions), Attitude (5 questions), Motivational Postures (8 questions – 4 items for deference postures and 4 items for defiance postures), and Perceived Tax Knowledge (4 questions). The theoretical and conceptual underpinnings of these constructs were defined in Chapter 2 of this study. The questions were written in two languages, English and Bahasa Indonesia (the official language of Indonesia), to

²⁵Please refer to APPENDIX C

accommodate the personal preferences of the tax auditors.²⁶ In Qualtrics survey design, the tax auditors may select which language they want to have during the survey process by clicking the language option tab. Moreover, other than behavioural questions, there were also demographic items in the survey, which included the age, gender, job role, educational background, working experience, training on transfer pricing, and familiarity with BEPS initiatives. According to the Theory of Planned Behaviour, demographic characteristics are not the predictors of intention and behaviour (Fishbein and Ajzen 2009). Hence, demographic information will only be used as part of the descriptive statistics and profile of participants in the present study.

4.4.2. Social desirability bias

While the odd-numbered scale used in the present study follows accepted theory, justification for the validity of the scale is also essential. Mid-point omission in an even scale impairs validity because participants do not have any basis when they neither agree nor disagree with survey questions (Johns 2005). In addition, even though the use of the midpoint in an odd scale is often associated with ambiguity (Kulas and Stachowski 2013) and falsification (Nadler et al. 2015), but its presence is important to add more nuance and validity to the research (Simms et al. 2019). Another concern is that the midpoint can be used as a “safe haven” to avoid choosing unpopular answers in a survey, which is known as a social desirability bias (Bergen and Labonté 2020). Social desirability influences participants’ answers more favourably and is usually related to controversial issues (Johnson et al. 2002) or sensitive behaviours (Ried et al. 2022), and thus reducing construct validity.

Several ways to reduce social desirability bias in this study were maintaining anonymity and confidentiality, indirect questioning, and applying multiple methods. The undesirable effect can be minimised by ensuring fully anonymised and confidential data is provided to survey participants to increase their participation and to reduce perceived risks, as shown in previous studies (Handley and Benton Jr. 2012; Podsakoff et al. 2012; Brandon-Jones and Kauppi 2018). The present study aims to explore participants’ behaviour around transfer pricing during tax audit. It is

²⁶At the end of survey period, 25 auditors filled the questionnaire in English and 113 auditors answered it in Bahasa Indonesia

considered a sensitive and complex issue, so maintaining anonymity and confidentiality is critical. At the start of the survey, information on anonymity and confidentiality was presented to assure participants' answers would be protected. No individual names, office names, or addresses were asked. As a result, nothing can be attributable to individuals filling the survey, and they can answer the survey truthfully.

Another approach to reduce social desirability was to ask participants to answer questions about how other people would behave. The indirect questioning refers to a technique to assess others' perspectives instead of participants' views (Carter 2000). The presence of indirect questions in this study can be explored using items in social norms and perceived tax knowledge constructs. The combination of direct and indirect questions may have minimised the social desirability effect in this study, which should be carefully constructed (Ma et al. 2021). Lastly, the use of multi-methods may increase the validity of a study and therefore reduce bias (Ketokivi 2019). A mixed methods approach corroborated in this study supports triangulation between survey results and interview findings, which may lead to more rigorous interpretations. Thus, applying this method may reduce social desirability (Kaufmann et al. 2018). Hopefully, the three approaches applied in research design can increase robustness in the study and thus prevent social desirability bias in the survey stage. A combination of several techniques is advisable to deal with the issue of social desirability (Ried et al. 2022).

4.4.3. Semi-structured interviews

Another method to collect data in this study was a semi-structured interview. The interview was conducted to clarify, confirm, or compare findings from the survey and to find another theme that may arise. A semi-structured interview is used when the researcher aims to capture participants' distinctive views, perspectives, or subjective responses on a certain phenomenon (Adeoye-Olatunde and Olenik 2021). Hence, interviews are not a means to generalise understanding to a larger population (McGrath et al. 2019). In connection with a mixed methods design, semi-structured interview is commonly used in the qualitative stage of the research (Bryman 2006; Bell et al. 2022).

In preparing the semi-structured interview process, the researchers' extensive knowledge about the topic is essential to construct interview questions (McIntosh and Morse 2015). With this respect, the current study explores the complex issue of transfer pricing in which previous observation or experience on this phenomenon is expected.²⁷ Then, interview questions were constructed in the same manner as survey instruments using the same concept of planned behaviour and social distancing. Moreover, questions were guided by prompts to let participants expand their answer or redirect them to the main topic (Baumbusch 2010). The final construction of interview items consisted of seven items on the participants' background, ten on the planned behaviour, and ten on social distancing. The interview instruments can be found in APPENDIX C.

Additionally, there were interviews with other actors directly related to the transfer pricing issue in Indonesia, namely the tax professionals, tax advisers, regulators, and a tax court judge. The exploration with these actors adds insightful dimensions to transfer pricing behaviour, particularly concerning tax audits. The strategies to curb the transfer pricing can be seen from a tax policymaking and regulatory lens. Also, a perspective from multinationals who can hire professional tax advisers to manage their transfer pricing strategies is equally important (Wealth et al. 2023). As for the tax court judge, the rationale was that most of the transfer pricing audit findings were brought before the court as part of the litigation process. Therefore, the opinion from the tax court judge dealing with transfer pricing cases would add additional insight to the current study. Interview questions for these individuals were based on the same conceptual framework as used for the tax auditors, assessing their perception and intention on transfer pricing. The interview findings with these participants were used to expand the interview results with the tax auditors. The interview instruments for these participants can be found in APPENDIX C of this study. The final data collection design is presented in Table 4.1

²⁷The author of this study used to work as a tax auditor in DGT and has dealt with tax audits around transfer pricing. Hence, the researcher understands the concept and practical issues of the topic explored in this study.

4.5. Ethics approval and sample selection

4.5.1. Ethics approval

One important consideration in researching people is ethical clearance to maintain the participants' rights related to privacy, anonymity, confidentiality, and data protection. Everything should be within the laws and regulations. In addition, because the study will also be conducted in respect of a certain organisation, the Indonesian tax authority, ethical decisions to respect the organisation's work are also critical (Wiles et al. 2006). Ethics approval in this research aims to promote truth and avoid errors. It is also to prevent falsification, fabrication, and misrepresentation of the data and procedure in the research (Resnik 2020).

Despite the survey using an online channel, data for this research will be collected in person in Indonesia, both for the survey and the interview. A key requirement is obtaining approval from the DGT Headquarters to conduct research in the tax offices. The data quality is arguably unaffected between online and in-person data collection (Shapka et al. 2016). However, the richness of information and ease in field notes are associated with an in-person interview (Johnson et al. 2019). Thus, visiting Indonesia to collect data for this study is justifiable. Furthermore, under the Cardiff University research ethics regulations, academic research across all disciplines involving human participation shall acquire approval from the Research Ethics Committee. This ensures that research is conducted according to the highest ethical standards. Data collection can be done following ethical approval by the Cardiff Business School Research Ethics Committee on 6 July 2023, with an approval number (ID) 1750. During the research stage, participants were informed that the study had received ethical clearance to protect their privacy and participation. An output of research ethics approval, along with the draft of the participant information sheet, the consent form, and the invitation letter, is presented in APPENDIX D.

With DGT's approval, the researcher needs permission to acquire data, conduct surveys, and conduct interviews. Required documents, consisting of the request for authorisation to collect data signed by the researcher's lead supervisor, research proposal, proposed survey instruments and interview questions, proposed research units under DGT offices, and a statement letter signed by the researcher,

should be submitted online through the e-research system. The sample of a request letter can be found in APPENDIX D.

Further, DGT Headquarters proceeds with the research requests to the relevant offices where the study will be conducted. The present study intends to collect data from some of the regional and vertical tax units in which transfer pricing arrangements by multinationals are likely to be scrutinised during tax audits. Additionally, research request documents were submitted on 8 July 2023 (two days after the ethics approval from CARBS). Most approvals from relevant tax offices were obtained within two weeks to one month from the requests, except that some offices rejected the requests. The final research units are presented in APPENDIX D.

4.5.2. Sample selection

4.5.2.1. Quantitative samples

The present study focuses on transfer pricing behaviour related to the tax audit in the Indonesian tax system. The study's participants are the tax auditors working in tax offices dealing with MNEs' transfer pricing arrangements. As noted in Chapter 3, transactions among MNEs' members and affiliates dominate the large taxpayers' units, special tax offices related to foreign investments, and some medium-sized tax offices. While small tax offices dominate DGT's organisational structure, the occurrence of transfer pricing in small offices is unlikely to be found. Therefore, the representative samples in this study are reflected in medium, large, and special tax units.

Further, the non-probability sampling method, or purposive sampling method, was used in the present study because the samples are not random and are affected by the researcher's judgement (Fricker 2017). This is because not all tax offices deal with multinationals and transfer pricing issues. As such, determining representative samples requires prior knowledge and judgment on which types of tax offices fit the research objectives. Other than the high presence of transfer pricing transactions, another proxy used to select samples is the number of transfer pricing cases in the litigation process. Legal actions around transfer pricing cases are mainly brought to the tax court because taxpayers do not agree with the tax audit findings and adjustments on such cases. As such, the number of disputes stipulates the high

presence of transfer pricing arrangements in the tax offices, and exploring tax auditors' behaviour around transfer pricing is relevant.²⁸

Based on the above criteria, the researcher decided to put the names of relevant tax offices into the research request submission to DGT Headquarters through the system. Then, the responsible tax officials in these offices decided whether to approve or reject the request based on their judgment around research topics, availability of respondents, tax auditors' workloads, and the number of transfer pricing cases. The head of the tax offices has the ultimate right to approve or reject the research request. The role of DGT Headquarters is only to administer the process and to ensure that relevant supporting documents accompany every request. For non-confirmed units, the main reason for rejecting the request was the workload of the auditors, and consequently, none of them were willing to participate in the research.

After all the processes, DGT Headquarters released an approval letter to conduct research in confirmed offices, and a rejection letter was issued for non-confirmed units.²⁹ Then, for confirmed tax offices, coordination was made between the researcher and the person-in-charge (PIC) in each of these units to circulate the survey to the respective tax auditors.³⁰ The researcher did not have access to the tax auditors' email, so the appointed PIC helped the researcher disseminate the survey instruments. After receiving the survey link, tax auditors may complete the survey privately and anonymously. The process is shown in Figure 4.5. Following this figure, the final samples for this study are presented in APPENDIX D.³¹ The samples comprise DGT's directorate, regional tax offices, and tax offices in Jakarta and other big cities such as Bandung, Surabaya, Denpasar, and Batam. Many multinationals are registered in these locations; hence, their representativeness as research samples is considered acceptable.

²⁸According to the previous description in Chapter 3, transfer pricing tax disputes were spread among every level of tax offices in foreign investment units, large tax units, and medium tax offices. As such, it can be stipulated that the presence of tax litigation around transfer pricing was not biased towards the types of tax offices.

²⁹All approved and rejected letters were saved in the online system managed by DGT and were written in Bahasa Indonesia.

³⁰PIC is a tax administrator within the General Affairs Division in each of the tax offices and is not a tax auditor.

³¹The nomenclature of tax offices follows the current Minister of Finance Regulation number 883/KMK.01/2019.

After receiving approval, the survey questions were sent to the final research units around the end of July through PIC in each office. Around one month after the initial invitation to fill out the survey, a gentle reminder message was sent through PIC. A total of 951 tax auditors were working in the 27 sampled offices.³² Hence, this number serves as a sample population for survey research. The survey link was circulated and open until the end of December 2023 to give sufficient time for the tax auditors who wish to participate. At the end of the data collection period, 138 tax auditors completed the survey, and seven auditors clicked the survey link but did not give their consent. Hence, the overall response rate of the survey was 14.5% (138 out of 951), which may seem low but is considered trustworthy. In a current trend of web surveys, the response rate of 10%, or even lower, is common (Van Mol 2017), and response rates for all methods of surveys have declined over the past decade (Zhang et al. 2017; Sammut et al. 2021).

In the present study, a low response rate may be linked to the complicated issue of transfer pricing explored in the survey and the length of items associated with research constructs. Another reason could be that tax auditors are underexplored in the tax research due to an intricate permission from the tax authority (Hite and Sawyer 2000). Little research is known on tax auditors' behaviour in Indonesia or other countries, especially in the era of transfer pricing and BEPS. Thus, they may be underrepresented in transfer pricing research.

From a sampling perspective, scholars do not yet have any agreement on acceptable response rates for survey research, and thus, the size of samples does not have to be large for research findings to be credible (Fowler 2014). As noted by Fowler:

The size of the population from which a sample of a particular size is drawn has virtually no impact on how well that sample is likely to describe the population. A sample of 150 people will describe a population of 15,000 or 15 million with virtually the same degree of accuracy, assuming that all other aspects of the sample design and sampling procedures are the same (p.38).

This suggests that the final sample of 138 tax auditors who completed the survey is sufficient to provide reasonable accuracy of research findings and describe

³²This information was collected during data collection according to the PIC in each of the tax offices.

the behaviour of the 951 population samples, or better yet, around the total of 6,000 tax auditors in DGT.

4.5.2.2. Qualitative sample – tax auditors

For the tax auditors, permission gained from DGT applied to both the survey and the semi-structured interview. The same individuals may participate in both methods voluntarily. The tax auditors for the interview stage were purposefully selected from the same quantitative samples due to the nature of the mixed methods study employed in the present research (Patton 2015). The samples were collected by filling out an email address at the end of the survey, only if the participants agreed to do the interviews.

As such, participants may enter their email addresses in the provided box if they feel the interview was a great opportunity to share their concerns about transfer pricing. Subsequently, the researcher contacted tax auditors who agreed to participate in an interview process to explain further the objective, process, setting, and consent form. Then, an invitation letter, participant information sheet, and consent form were sent to interview participants through the email provided. Before conducting any interviews, they signed the consent form to maintain good governance of the current study.

Initially, a total of 40 participants spread across different tax offices agreed to an interview based on their responses in the survey. However, only 30 auditors were finally questioned due to data saturation, time constraints, homogeneity of the samples, and the scope of the present research. In qualitative research, data can be collected until saturation occurs. It means collecting the data until no new information needs to be attained (Guest et al. 2006) and no new themes emerge (Hagaman and Wutich 2016). As a result, data is considered adequate (Morse 1995), comprehensive (Morse 2015), and coherent (Saunders et al. 2018). Saturation is a signal that data collection may cease (Faulkner and Trotter 2017) and is important in mixed methods studies for data triangulation (Fusch and Ness 2015). According to Creswell and Poth (2016) and Bryman (2016), an acceptable range for a qualitative interview is between 20 and 30. Also, qualitative interviews over 30 can be too unwieldy to administer and analyse (Boddy 2016).

4.5.2.3. Qualitative sample – other participants

This study aims to employ semi-structured interviews with other individuals, such as tax professionals, tax advisers, tax policymakers, and tax court judges, to better capture transfer pricing audit behaviours in Indonesia. Sampling strategies for each of these participants are briefly discussed as follows:

1. For the tax professionals working at MNEs, the researcher first sent an email to professional bodies such as the Indonesia Chamber of Commerce and Industry and the Indonesian Employers Association, where most MNEs are likely to be registered as members. The email requested that they circulate the interview invitations to MNEs registered in their databases. However, they did not respond to the request. After the unsuccessful attempt, another way of recruiting participants was to contact colleagues working at MNEs. Some of the researchers' colleagues who used to work at DGT are currently working in the industry. Through this mechanism, some participants agreed to participate in the study. Then, from this point, a snowball sampling method was applied to recruit additional participants (Bryman 2016). At the end of the snowballing method, 10 tax professionals working at MNEs participated in the present study, mainly positioned as tax managers and finance directors. They are responsible for tax-related matters, including the arrangements of transfer prices for intra-group transactions. They also span different industries, such as services, oil and gas, marketplace, manufacturing, pharmacy, and automotive. The interview process was held in a mix of in-person and via an official Cardiff University Zoom account, according to their request.
2. For the tax advisers, the same strategy applies in which the researcher's colleagues who are now working as one of the partners in the tax consultancy firms, or having their own consulting firms, were approached. Additionally, another way was to invite possible participants working in the tax consulting firms through their official LinkedIn accounts. The current study shows that LinkedIn can be used as a new data source for research (Baruffaldi et al. 2017). Using these approaches, the same snowball sampling method was incorporated to invite more tax advisers. Nine participants were tax consultants working in the Big Four and local Indonesian firms. According to the tax advisers' request, the interview process was held both in person and via Zoom.

3. For the tax policymakers, an interview invitation along with a letter from the lead supervisor was sent to the high-level tax policymakers following the approval of the research request by DGT. Such bureaucrats were chosen purposefully due to their roles in addressing wider tax policy, including the issue of transfer pricing.³³ Also, their familiarity with transfer pricing was critical to further explore during the semi-structured interview. This method was chosen because it enables researchers to clarify information and provides flexibility (Signal et al. 2018). The interview was held in person at a private meeting room in the office, except for one interview that was conducted via Zoom due to location constraints. There were six senior policymakers involved in the research.
4. Lastly, for the tax court judge, the process is somewhat similar to that of the tax bureaucrats. A letter signed by the lead supervisor was sent to the Indonesian tax court through the researcher's colleague. After the letter was sent, a tax court chief judge agreed to participate and be interviewed for this study. The meeting was then arranged via Zoom due to location and time constrain.

In total, there were 26 interviews conducted with participants other than the tax auditors, which are considered comparable to the 30 interviews of the auditors. Before conducting any interviews, a participant information sheet was sent, and a consent form was signed by all participants. It is expected that the interview stages with the tax professionals, tax advisers, senior bureaucrats, and a tax court judge would navigate rigorous findings and complement interview outcomes with the tax auditors.

4.5.2.4. Self-transcribe and naturalised verbatim

The interview process for all participants was recorded either using a voice recorder or a record function on Zoom for transcription purposes. Recording ensures the researcher does not have to deal with self-recall power or scattered notes (McMullin 2023). To analyse themes that emerged from the interview, transcription is needed to change the spoken word into an acceptable written document. The researcher himself conducted this process, and no transcription service provider was

³³These senior officials were selected from the Directorate General of Taxes (DGT) and are tasked with making tax policies related to international tax, audit, compliance, and law enforcement. Some of these policymakers were previously employed by the DGT and have now been appointed as the government officials in the Ministry of Finance.

involved. The rationale behind this decision is due to the nature of the study explored in the present research. Transfer pricing is a complex issue, and the transcriber needs to have prior knowledge and familiarity with this concept. As such, self-transcription by the researcher who has had extensive experience in transfer pricing audit provides coherence and accuracy in the written transcript (McMullin 2023).

In general, the transcription process can be done in two styles, naturalised and denaturalised (Bucholtz 2000). Naturalised, or intelligent, verbatim occurs when verbal fillers such as 'um' and 'er' and word repetition are excluded in transcription, while denaturalised preserves all features of oral language (Davidson 2009). Research around business and social science rarely applies extreme denaturalised practice (McMullin 2023). Hence, this study intends to corroborate the naturalised approach to transcription, and thus, the document will be easily analysed without losing intended meaning. Nonverbal signals will be included in written work if they bring additional meaning to answer interview questions. Otherwise, they will be excluded from transcriptions.

4.6. Pre-testing survey and interview questions

To minimise bias and increase the validity of research instruments, the survey and interview questions were pre-tested using three steps of validation: internal evaluation, expert review, and field piloting (Naz et al. 2022). First, the instruments were evaluated by the supervisory team to remove ambiguity and to increase the clarity of survey and interview questions. The wording, construction, and eradication of unnecessary questions were also within the scope of evaluation by the internal research team. As a result, insightful preliminary validation of research instruments guides the next step to do the pre-testing.

After an initial assessment, the draft was then passed to two tax scholars who were not part of the supervisory team. Expert review was an important step to provide an independent assessment and ensure the rigour of research instruments. They gave feedback on the survey items, and their suggestions were adopted in the final version of the questions. Expert assessment provides invaluable feedback for the development of question items in the present study. For example, following

expert evaluation, the lengthy wording for some of the survey questions was adjusted to be more streamlined and straightforward.

Lastly, field testing was conducted to test the question items in this study. For the tax auditors, surveys and interview items were tested by tax officials who were not included in the final samples. Participants for pilot testing were acquired from professional channels and colleagues working in the tax offices, mostly in small tax offices. DGT Headquarters confirmed that no request was needed to do a pilot survey due to the small sample size. Interview questions were pre-tested with three tax officers to get their perceptions and understanding of each of the constructs. During this process, it was concluded that the intended actual interview lasting for a maximum of one hour is manageable. As for the survey instruments, the total samples for pre-testing the items were 24 tax auditors. This number is acceptable for achieving a power of more than 90% to detect problems in the survey questions (Perneger et al. 2014).³⁴

One of the main objectives of pre-testing the survey is to assess the reliability of scales and whether they are fit for purpose. It can be assessed using Cronbach's coefficient alpha (Cronbach 1951), which has been widely used to measure the internal consistency of a multi-item construct (Taber 2018). Even though the relationship between alpha and reliability is complicated and not clearly understood (Tavakol and Dennick 2011), its use is still suitable for scale measurement (Raykov and Marcoulides 2017). Therefore, the present study incorporates Cronbach's alpha in the pre-testing stage to calculate internal consistency.

The IBM SPSS statistics software version 27 is used to determine the alpha in a pilot study of 24 tax auditors. The result reveals that the eight constructs in the survey have a Cronbach's alpha of 0.873, as can be seen in Table 4.2. It shows that the indicators in eight constructs have satisfactory discriminating power (Mansour 2015) and reliable internal consistency (Lin et al. 2015). The alpha value between 0.84 and 0.90 is considered reliable (Taber 2018).³⁵ From this result, the items in the survey are acceptable and reliable for use in actual data collection. However,

³⁴Based on the modelling in this article, 22 participants, at minimum, are required during the pre-test to detect a problem in questionnaire.

³⁵The alpha value typically spans from 0.00 to 1.00 with the value between 0.65 to 0.80 is viewed as adequate in human research (Vaske et al. 2017)

because the analysis of quantitative variables incorporates partial least square structural equation modelling (PLS-SEM), other measurements, namely composite reliability and discriminant validity, will be tested during data analysis (Peterson and Kim 2013).

4.7. Analytical method – quantitative study

4.7.1. Introduction to structural equation modelling

The hypotheses developed during the quantitative phase are tested using a statistical model named Structural Equation Modelling (SEM), particularly the Partial Least Square (PLS) model. SEM is the second generation of multivariate data analysis methods that offer substantial advantages over the first-generation techniques such as multiple regression, logistic regression, cluster analysis, exploratory factor analysis, confirmatory factor analysis, and analysis of variance (Chin 1998; Lee et al. 2011; Hair et al. 2021b). All these first-generation approaches share similar limitations in the form of the assumption of a simple model structure, all variables can be considered observable, and measurement of all variables is error-free (Haenlein and Kaplan 2004). SEM, on the other hand, provides estimation on multi-item independent and dependent variables and estimates the complex relationships among those variables (Venturini and Mehmetoglu 2019; Hair et al. 2021b).

In social science research, variables sometimes cannot be observed and measured directly. These unobserved variables are typically measured indirectly with multiple items or indicators, which are known as observed variables (Hair et al. 2021b). In this case, SEM can measure the entire set of relationships between those variables, represent unobserved concepts, and account for measurement error in the estimation process. In SEM, unobserved variables are known as constructs, latent variables, or latent constructs, and measured variables are referred to as manifest variables, items, or indicators (Hair et al. 2019a). With these characteristics, SEM provides a more robust estimation and measurement of the theoretical concept compared to traditional regression techniques (Cole and Preacher 2014). Hence, for this reason, SEM is widely used in the social and behavioural sciences (Bollen et al. 2013), mainly if they involve complex survey data (Tarka 2018), or assessing

behavioural intentions (Bollen and Lennox 1991), as the present study aims to explore.

Furthermore, SEM analysis relates to the evaluation of two models, a structural model and the measurement model (Lee et al. 2011). These two models will be combined to build a diagram named a path model. The path models visualise the relationship among all variables in SEM to develop hypotheses (Hair et al. 2023). As such, assessing the path models in SEM is the first critical step to initiate. A structural model, or the inner model, depicts the sequence and relationships among constructs or latent variables based on a certain theory, while the measurement model, or outer model, explains the relationships between latent variables and their associated indicators (Hair et al. 2022). In the structural model, the sequence is drawn from independent to dependent constructs. In SEM, independent constructs are generally known as exogenous constructs, and dependent variables are often referred to as endogenous constructs. The constructs in the middle of the structural model are considered endogenous (Hair et al. 2022, p.38).

Two general types of models must be considered in the measurement model: reflective and formative measurements. SEM analysis stipulates that items used to depict latent variables or constructs should be reflective (Chin 1998; Smart 2013). In reflective measurement, the direction of relationship is from the latent construct to the indicators, while in formative measurement, the direction comes from the measures to the construct (Diamantopoulos et al. 2008). One of the differences between reflective and formative measures is that indicators in reflective measures are interchangeable because items are derived from the same construct. Therefore, high correlation among items is expected. Conversely, in formative measure, each item represents a specific feature of the latent variable's domain; thus, they are not interchangeable (Hair et al. 2022, p.47) and any changes in indicators may change the construct (Petter et al. 2007; Coltman et al. 2008). Figure 4.6 illustrates the concept of structural and measurement models, which form the path model.

4.7.2. Partial least square SEM: a rationale

In recent years, the use of SEM has increased significantly in different research streams and articles (Hair et al. 2022). There are two types of SEM commonly used for analysing complex interrelationships, covariance-based SEM

(CB-SEM), firstly developed by Jöreskog (1969) and variance-based SEM (VAR-SEM) introduced by Wold (1975). Each of these methods can be applied in any study, depending on the research context (Kline 2016). Also, understanding different objectives and characteristics of the two approaches is an important consideration when applying them in the research (Hair et al. 2022). VAR-SEM is also known as partial least squares SEM (PLS-SEM) (Venturini and Mehmetoglu 2019). This term will be used accordingly in the present study.

CB-SEM, also referred to as maximum likelihood SEM (Kline 2016), is used when researchers aim to confirm or reject theories and their underlying hypotheses (Hair et al. 2021). This can be done by estimating the gap between the theoretical framework and the covariance of the sample dataset and assessing how closely the sample datasets explain the research model (Barroso et al. 2010; Sarstedt et al. 2016). PLS-SEM, in contrast, is not intended for theory testing. Rather, it is used when the primary objective of analysis is prediction, explanation, or approximation of a theoretical framework (Rigdon 2012). From this perspective, the present study aims to predict the tax auditors' behaviour on transfer pricing. This prediction objective is developed using latent constructs and indicators to explain as many independent variables as possible that might affect dependent variables. As such, the use of PLS-SEM fits with the intended outcome because explanation and prediction are the main objectives of the study (Shmueli et al. 2019). Moreover, in the present study, other considerations to use PLS-SEM over CB-SEM, rooted in PLS characteristics, are described with reference to Hair et al (2022) as follows:

a) Sample size

Common sample size requirements in SEM depend on many factors, such as theoretical framework, population size, model complexity, number of constructs and indicators, missing data, and path coefficients (Wolf et al. 2013; Hayes et al. 2017). In terms of number, recommended sample sizes in CB-SEM range from 200 to 800 cases (Chin and Newsted 1999). CB-SEM is seen as a large sample technique that requires a minimum of 200 cases (Dash and Paul 2021). Conversely, in PLS-SEM, the minimum recommendations are between 30 to 100 samples (Chin and Newsted 1999). Further, PLS-SEM is considered efficient in supporting small sample sizes with many constructs and indicators (Hair et al. 2019b).

However, the justification of small sample sizes in PLS-SEM is sometimes misused by researchers because they incorporated very small samples between 30 to 50 (Petter 2018), or even fewer than 30 samples, which are considered problematic in generating statistical power (Guenther et al. 2023). Small samples limit the generalisability of research findings and, according to the literature, PLS-SEM does not provide robust results with smaller sample sizes, less than 50 (Goodhue et al. 2012). Finally, other studies reveal that 100 observations are sufficient to produce good estimates in PLS-SEM (Reinartz et al. 2009; Kline 2016).

The determination of sample size can also be calculated using power analysis, which many recent studies have suggested (Kline 2016; Sarstedt et al. 2016; Ringle et al. 2020; Hair et al. 2022). In power analysis, sample size is determined by calculating statistical power, effect size, and significance level (Hair et al. 2019a). Statistical power reflects the probability of rejecting the null hypothesis and thus accepting the alternative hypothesis (Uttley 2019; Moshagen and Bader 2024). In social science research, a statistical power of 0.8 or more is considered acceptable (Cohen 1988; Hair et al. 2022). Next, effect size refers to the level of influence the independent variables have on the dependent variable (Sullivan and Feinn 2012). According to Cohen (1988) and Hair et al. (2022), the value of effect size of 0.02, 0.15, and 0.35 indicates small, medium, and large predictive relevance, respectively. Lastly, significance level reflects the probability of rejecting the null hypothesis (Memon et al. 2020) and the degree of risk of accepting a wrong decision in the research (Kim and Choi 2021). In general, the value of 0.05 in the significance level is acceptable (Hair et al. 2019a). Hence, power analysis is an acceptable approach to examine sample size and to ensure the precision of parameter estimates in the PLS-SEM model (Marcoulides and Chin 2013).

One of the tools to estimate sample size using power analysis is the G*Power, which is often used in business research (Faul et al. 2007; Faul et al. 2009; Hair et al. 2022, p.40). The present study applies the latest G*Power software version 3.1.9.7 to calculate sample size using the recommended settings for business research – medium effect size (0.15), 80% statistical power, and 5% significance level (Hair et al. 2022). As for the number of predictors, according to the research model, the present study incorporates four predictors, which can be assessed using the maximum arrows pointing to any dependent variables in the model (Memon et al.

2020).³⁶ According to the assessment of G*Power, the minimum sample size required to test the model is 85 with 0.8 statistical power, as captured in Figure 4.7. If the statistical power is increased to 0.95 (95%), the required sample size is around 129, as can be seen in Figure 4.8. The final sample size in the current study is 138 observations. Therefore, from the perspective of power analysis, the sample sizes in the present study are acceptable beyond the requirement.

b) Distributional assumptions

Unlike CB-SEM, which requires stringent assumptions of large samples and multivariate normality (Hair and Alamer 2022), PLS-SEM uses no distributional assumptions and is non-parametric (Hair et al. 2022). Hence, PLS-SEM works well in non-normally distributed data and can accommodate skewness or missing values.

c) Theory development

The present study aims to better understand transfer pricing behaviours from the perspective of the Theory of Planned Behaviour, motivational postures, and perceived knowledge on transfer pricing. As such, the nature of this study does not rely on one concept and is considered exploratory research for theory development, in which the PLS-SEM fits this objective. In contrast, the goal of CB-SEM is theory testing and theory confirmation (Hair et al. 2022), which is not covered in the present study.

4.7.3. Statistical software: SmartPLS

The above description demonstrates justification for using PLS-SEM in this study. PLS-SEM provides prediction capability that is compatible with sample sizes of less than 200 observations and without the classical assumption of normality in the datasets. From the perspective of the statistical tools, CB-SEM is typically associated with LISREL (Jöreskog KG and Sörbom D 2015), AMOS (Arbuckle JL 2014), and Mplus (Muthén LK and Muthén BO 2017). As for PLS-SEM, it is usually linked to software such as SmartPLS (Ringle et al. 2024), WarpPLS (Kock 2015),

³⁶Three exogenous variables namely Attitude, Subjective Norm, and Perceived Behaviour are pointing out to endogenous variable of Intention. In addition, four variables such as Intention, Perceived Tax Knowledge, Deference Posture, and Defiance Posture are modelled to affect dependent variable of Behaviour.

ADANCO (Henseler and Dijkstra 2015), PLS-Graph (Chin 2001), *plsem* (Mehmetoglu and Venturini 2021), and XLSTAT (Addinsoft 2007).

The present study intends to use SmartPLS for quantitative analysis. The consideration to use SmartPLS is because the comprehensiveness of the software to handle the PLS concept and is known as scientifically sound software for PLS-SEM. (Memon et al. 2021). It is also considered state-of-the-art in the PLS-SEM statistical tool (Sarstedt and Cheah 2019) and is known as the most comprehensive statistical tool to analyse SEM-PLS (Henseler 2017). Many studies, including those in the business and management discipline, mostly use SmartPLS to run the SEM-PLS data (Cepeda-Carrion et al. 2019a). The developer of SmartPLS is also runs regular update, which increases its functionalities (Sarstedt and Cheah 2019). Therefore, based on these considerations, the use of SmartPLS to analyse the statistical data in the current study is justifiable.

4.7.4. Model evaluation

4.7.4.1. Describing the path model

4.7.4.1.1. Latent variable and its associated indicators

The first stage in PLS-SEM is identifying a path model consisting of diagram relationships between variables to address the research hypotheses. There are two elements in the path model, the outer model and the inner model, which have been discussed in the previous subsection. This study uses an extended Theory of Planned Behaviour as the theoretical framework to develop latent variables. The initial theory stated that an individual's past behaviour is determined by their intention to conduct such behaviour (Ajzen 1991). The intention, in turn, is associated with individuals' attitudes, social norms, and perceived control (Ajzen and Fishbein 2000).

However, the model component of the theory is criticised for not considering other factors, such as humans' motivation and knowledge that might affect actual behaviour (Rossmann 2020). Therefore, this study aims to extend this theory in the context of transfer pricing audit by articulating additional variables in the model, namely Motivational Postures (Braithwaite et al. 1994; Braithwaite 1995) and perceived knowledge (Langham et al. 2012a). A transfer pricing audit is a complex task that requires many actions. As such, this study intends to capture many predictive variables explaining the tax auditors' behaviour in conducting transfer

pricing audits in the Indonesian setting. Further, according to Ajzen (2020), variables under the Theory of Planned Behaviour are assessed reflectively. Hence, the present study follows reflective measurement in assessing latent variables and their indicators. Furthermore, weighted composites are used to get the value of each latent variable in PLS-SEM and to determine multi-item indicators.³⁷ Each variable is described below.

1) Attitude

It is believed that one of the key factors to support individuals' intention to perform actual behaviour is their attitude (Fishbein and Ajzen 1975; Ajzen and Fishbein 1980; Ajzen 1991). Attitude refers to a person's beliefs that performing an action would have consequences, and so the person will evaluate such consequences (Ajzen and Fishbein 2000). In relation to the present study, attitude towards transfer pricing captures the Indonesian tax auditors' beliefs in conducting transfer pricing audits and their assessment of the consequences of performing such audits. Five questions regarding the auditors' attitudes and possible consequences on transfer pricing audits were developed using a semantic differential (strongly disagree –strongly agree), which was consistent with Ajzen and Fishbein (2000). According to PLS-SEM, the five questions were known as indicators or items explaining a latent variable or construct of attitude. Table 4.3 illustrates the proposed five indicators.

2) Subjective norms

Another factor that may directly influence an individual's intention to approve (or disapprove) of certain behaviour is the social environment (Ajzen 1991). In a simple concept, subjective norms deal with an individual's closest group members who give their approval (or disapproval) of their engagement in certain behaviour. An individual's behaviour is a product of the constant influence of referent groups in a way that if the group members perform such behaviour, the individual is likely to follow (Madden et al. 1992). In the context of transfer pricing behaviours, the tax auditor perceives the transfer pricing audit as an agreement among them. If one auditor performs such an audit, others will likely have the same perception when

³⁷For this reason, PLS-SEM is also known as composite-based SEM (Hair Jr et al. 2020).

conducting a transfer pricing audit. This study proposes four indicators associated with subjective norm, as shown in Table 4.4.

3) Perceived behavioural control (PBC)

Under the Theory of Planned Behaviour, PBC refers to the level of control every individual must exercise to perform certain behaviours. It also relates to the challenges, opportunities, or resources required to engage in specific behaviours (Ajzen 1991). In the present study, PBC was assessed using perceived internal and external control to conduct a transfer pricing audit. Four indicators were assumed to explain PBC, as shown in Table 4.5.

4) Behavioural intention

According to the Theory of Planned Behaviour, intention is a direct antecedent of an individual's behaviour (Ajzen 1991). The theory postulates that behavioural intention is the only factor affecting an individual's behaviour. In addition, the other three variables of attitude, subjective norm, and PBC are the antecedents of behavioural intention. The present study employs three indicators to depict the behavioural intention of the tax auditors in performing a transfer pricing audit. Table 4.6 explores these three items.

5) Perceived knowledge on transfer pricing regulation

As mentioned earlier, this study extends the use of the Theory of Planned Behaviour by adding other variables that may contribute to the tax auditor's behaviour in conducting a transfer pricing audit. One of these variables was the tax auditors' perception of tax professionals' knowledge around transfer pricing regulation. Transfer pricing arrangement is widely known as intricate and perplexingly regulated. Understanding transfer pricing requires both technical and administrative matters, one of which is the tax regulation. Specifically for tax professionals working at MNEs, their awareness and knowledge of general tax regulations may increase the level of tax compliance (Langham et al. 2012a). However, this may not be applied to the transfer pricing issue, where the more knowledgeable tax professionals are more likely they arrange their transfer prices to minimise overall tax payment (Mashiri et al. 2021).

Even if tax professionals are lacking knowledge around transfer pricing regulation, they may seek assistance from tax advisers to understand transfer pricing

and, if being audited, represent them during the process (McKerchar 2005; Jones et al. 2018). This behaviour may trigger tax auditors to scrutinise MNEs' transfer prices during tax audits. As such, it is justifiable to add perceived tax professionals' knowledge on transfer pricing as one of the factors to support the enactment of a transfer pricing audit. The use of the taxpayer-related factor combined with the tax auditor-related factor in this study shows the importance of these two actors in assessing the effective tax audit process (Chalu and Mzee 2018). Aligning with this concept, the present study suggests four items as the representation of the latent variable of perceived tax knowledge, as shown in Table 4.7.

6) Motivational Postures

Other variables incorporated in the structural model are the presence of deference posture and defiance posture, as stipulated in the concept of Motivational Postures, which possibly affect individuals' behaviour. The initial concept of Motivational Postures was derived from a relationship between the taxpayers and the tax institution (Braithwaite 1995; Braithwaite 2003c). However, the present study captures Motivational Postures from the lens of the relationship between the tax officials and their institution. The reason is that the theory can also be applied in an intra-organisational context (Braithwaite et al. 1994; Braithwaite and Ivec 2022). According to Sniehotta et al. (2014), motivational measures are consistently affecting humans' behaviour. Thus, incorporating motivational postures in the form of deference and defiance postures in the present study is justifiable. Also, the use of other factors in explaining behaviour as an extension of the Theory of Planned Behaviour is encouraged (Conner 2015).

A deference posture is associated with the commitment of the tax auditor to conduct a transfer pricing audit. This posture captures a closer social distance between the tax auditor and DGT in a way that the tax auditor is willing to perform a transfer pricing audit because there is continuous support from DGT. Conversely, in a defiance posture, the tax auditor places social distance as far as possible from DGT and is not willing to deal with the transfer pricing audit. These two postures may influence tax auditors' behaviour in two contrasting ways, with one being supportive and the other being discouraging, to explore the transfer pricing issue during tax audit. In this study, each posture serves as a different latent variable and is captured using the proposed four indicators, as described in Table 4.8 and Table 4.9.

7) Behaviour

Behaviour, or past actual action, is the dependent construct in this study. It captures reasonable assessment, reasoning, and planning of individuals' actions as stipulated in the term "planned behaviour" in the theory (Ajzen 1991; Tornikoski and Maalaoui 2019). Actual behaviour can be assessed using an actual transfer pricing audit aligned with procedural and administrative requirements. Four indicators were associated with the behaviour construct in this study, as explained in Table 4.10.

To sum up the construction of latent variables and their associated indicators, this study proposes 8 constructs and 32 indicators to explore tax auditors' behaviour related to transfer pricing audit. The items and scales are newly developed measurements specific to the current study, which have been tested during a pilot study, as there are no comparable prior survey instruments. The feedback during piloting was essential to refining the items to be used in the final instruments. This is quite understandable for any studies using the Theory of Planned Behaviour because, as noted by Ajzen, there is no standard for the TPB survey due to different behaviour, population, or period (Ajzen 2020). One important notion to consider for newly developed scales is that they need to follow strict discriminant validity, which can be assessed for the reflective measurement, as applied in this study.

Moreover, from the size of the constructs and indicators employed in this study, the numbers are consistent with other studies in the literature. Shela et al. (2023) found that in business research, the average number of latent variables was 6.94, with 30.50 indicators. Another study disclosed a similar result. Sarstedt et al. (2022) revealed that the mean for latent variables and indicators in marketing research was around 7.39 and 29.39, respectively. Thus, the number of 8 latent variables and 32 indicators proposed in the current study was aligned with the trend in current PLS-SEM research.

4.7.4.1.2. Path model

The path model consists of a measurement model (latent variables and indicators) and a structural model (relationships among latent variables). The proposed path model in the current study is presented in Figure 4.9.

4.7.4.2. Evaluation of PLS-SEM modelling

In PLS-SEM analysis, before assessing relationships between constructs to answer research hypotheses, the first step to take is the examination of the measurement model (Mehmetoglu and Venturini 2021). This stage is critical as a foundation in assessing the quality of a construct with its associated indicators. Subsequently, when all criteria in the measurement model meet the standard, the researcher needs to evaluate the structural model and do the robustness check (Hair et al. 2022). All assessments need to follow the so-called “rule of thumb” in PLS-SEM. However, the criteria should not be applied strictly because the research context is also important (Hair et al. 2019b).

4.7.4.2.1. Measurement model evaluation – reflective structure

In general, evaluating the reflective measurement model involves assessing its unidimensionality, convergent validity, internal consistency, and discriminant validity.

4.7.4.2.1.1. Unidimensionality

The concept of unidimensionality in PLS-SEM is the same as in principal component analysis, in which a set of items explains and reflects one construct (Mehmetoglu and Venturini 2021). In PLS modelling, the relationship between constructs and their associated items should be unidimensional (Rigdon 2012) in a way that responses of the items should be moved in the same direction (Rouse and Corbitt 2008). In short, the objective of unidimensionality analysis is to ensure that a set of indicators does not explain different constructs.

Unidimensionality is assessed using eigenvalues of each construct as in principal component analysis. It is expected that only one component with eigenvalues more than 1 in a set of indicators reflecting one latent variable (Venturini and Mehmetoglu 2019). If more than one component has eigenvalues above 1, the single construct is considered multidimensional, and, in this case, another parameter needs to be evaluated. Other than eigenvalues, unidimensionality is also assessed using acceptable factor loading of each indicator (Dash and Paul 2021), which is also known as indicator reliability (Hair Jr et al. 2024).

In SmartPLS, the unidimensionality test using eigenvalues cannot be calculated directly in the system. It only accommodates the test using the factor

loading of each indicator. As such, to get the eigenvalues of each construct, another software like SPSS or STATA is needed. The current study incorporates SPSS for the unidimensionality test because it can generate eigenvalues in a single analysis using the dimension reduction function for each of the constructs (Mooi et al. 2018).

4.7.4.2.1.2. Convergent validity

Convergent validity assesses the correlation between items under the same construct. In the reflective model, the items should converge to share more variance on a common construct (Mehmetoglu and Venturini 2021; Hair Jr et al. 2024). There are two ways to evaluate convergent validity: the outer loading and the average variance extracted (Hair et al. 2022). In terms of the outer loadings in multi-item scales, they need to have communality to explain one construct and should be statistically significant. The size of the loadings, which is known as item or indicator reliability, should be around 0.708 or higher (Chin 1998; Mehmetoglu and Venturini 2021; Hair et al. 2022), and the squared loadings should be equal to 0.50 or higher (Hair et al. 2019).³⁸ It means the latent variable explains more than 50% of the item's variance and maintains item reliability (Hair et al. 2023).

Nonetheless, according to Hulland (1999), the presence of lower loadings (< 0.70) is commonly found in social science studies, particularly when new scales or indicators are employed. In addition, for an exploratory study, loadings between 0.60 and 0.70 are acceptable (Hair et al. 2011) with other loadings in the model should be greater than 0.70 (Birkinshaw et al. 1995). On the contrary, individual loading less than 0.4 should always be dropped from the model because they provide insignificant explanatory power (Bagozzi et al. 1991; Hair et al. 2022). Generally, loadings between 0.40 and 0.70 may be eliminated from the model if deletion increases the value of one of these parameters: composite reliability, average variance extracted, or unidimensionality (Hair et al. 2022).

Another factor to assess under convergent validity is the value of average variance extracted (AVE), which shows the communality aspect of the latent variable. AVE baseline is quite similar to the squared individual loading, with the minimum value of 0.50 (Hair et al. 2022; Hair Jr et al. 2024). A value of 0.50

³⁸The squared value of 0.708² is around 0.501

indicates, at least, half of the variance in the items is explained by each construct. For this reason, AVE is calculated for each construct, not the item.

4.7.4.2.1.3. Internal consistency

The next evaluation of the measurement model is internal consistency, which is measured by the traditional value of Cronbach's alpha (Taber 2018; Sarstedt et al. 2022b). Internal consistency measures homogeneity of latent variables, as changes of indicators move in the same direction and all indicators are equally essential in explaining each construct (Mehmetoglu and Venturini 2021). As an estimation, the value of acceptable alpha is typically between 0.70 and 0.90, with values around 0.60 to 0.70 being acceptable in exploratory research (Hair et al. 2022). However, the use of Cronbach's alpha in composite-based modelling like PLS-SEM is criticised because its use is equivalent to common factor CB-SEM (Rönkkö et al. 2023). Moreover, Cronbach's alpha is sensitive to the number of indicators associated with a certain construct, and thus, it may underestimate internal consistency reliability in PLS-SEM (Hair et al. 2022; Sarstedt et al. 2022b).

Due to Cronbach's alpha limitation, an alternative measurement of internal consistency reliability can be performed, which is called composite reliability (CR). The interpretation of CR is generally comparable to Cronbach's alpha, but with better measurement. Instead of using correlation between indicators as in alpha, CR calculates standardised loadings and the variance of measurement error, which provides better consistency (Mehmetoglu and Venturini 2021; Hair et al. 2022). The calculation of CR is accommodated using Dillon-Goldstein's rho (DG rho or ρ_c), with an acceptable value of DG rho spanning between 0.70 and 0.90, similar to alpha. The same concept of value between 0.60 and 0.70 in exploratory research is also applied (Hair et al. 2019b). A higher CR (more than 0.70) means the construct's indicators are strongly related and measure the same construct, which indicates acceptable internal consistency.

4.7.4.2.1.4. Discriminant validity

The fourth assessment of reflective measurement quality is discriminant validity, which captures the distinctiveness of latent variables and the extent to which a variable is different from other variables (Hair et al. 2021b). In the current study, discriminant validity is assessed using the concept of the Heterotrait–Monotrait ratio

(HTMT) approach (Henseler et al. 2015). The HTMT ratio is “an estimate of what the true correlation between two constructs would be, if they were perfectly measured.” (Hair et al. 2022, p.133). A value of HTMT less than 0.90 (or 0.85 in a more conservative baseline) shows acceptable discriminant validity.³⁹

4.7.4.2.2. Structural model evaluation

After the measurement model is completely assessed, reliable, and valid, the subsequent evaluation is to assess the quality of the structural model in terms of explanatory and predictive power, the importance of the path coefficient, and the relationship between variables in answering the proposed hypothesis (Hair Jr et al. 2020; Mehmetoglu and Venturini 2021; Hair et al. 2022). Evaluation of the structural model involves the assessment of collinearity, model fit, path coefficients, explanatory power, and predictive power (Sarstedt et al. 2022b).

4.7.4.2.2.1. Collinearity

The collinearity issue in the structural model deals with correlations among a set of items in the latent variable using the variance inflation factor (VIF) (Hair et al. 2011). Correlation can also be assessed between exogenous and endogenous variables in the model. The effect of strong correlation among predictor constructs biases the coefficient of structural relationships. In addition, as a guideline, collinearity issues occur when the value of VIF is equal to or greater than 5, with possible collinearity issues between 3 and 5, and no issues when VIF is equal to or less than 3 (Sarstedt et al. 2022a). In addition, according to Hair et al. (2022, p.210), the VIF value of 5 is considered the critical level of collinearity. This means that an item or predictor with a value of 5 or above can be eliminated or merged with other predictors to create a new construct.

³⁹A traditional metric to assess discriminant validity is the Fornell – Larcker criterion (Fornell and Larcker 1981). Based on this approach, discriminant validity establishes when each average variance extracted of the construct should be higher than squared correlation of the two or more constructs (Mehmetoglu and Venturini 2021). Another evaluation of discriminant validity is using the cross-loadings (Hair et al. 2011). Under this concept, the loadings of all indicators in one construct should be exceeding the loadings on other constructs. If this criterion is met, discriminant validity is established in the model. However, recent studies suggest both cross-loadings and Fornell – Larcker metric fail to detect discriminant validity issues, mainly when two variables are perfectly correlated, or when the loadings differ only slightly (Franke and Sarstedt 2019b; Radomir and Moisescu 2020; Hair et al. 2022).

4.7.4.2.2.2. Path coefficients

If significant collinearity is not present, the next stage is assessing the structural hypothesised relationships between constructs, which is known as the path coefficients (Hair et al. 2011). There are three evaluations in this stage: the sign (positive or negative) of coefficients, the size, and the significance of relationships (Mehmetoglu and Venturini 2021). Firstly, the sign of path coefficients shows a directional relationship between independent and dependent variables in the model. A positive sign means the dependent variable is predicted to increase as the independent variable increases. On the contrary, a negative sign indicates the opposite, that the dependent variable decreases as the independent variable increases. The sign showcases whether relationships among variables, as stipulated in research hypotheses, are supported (Venturini and Mehmetoglu 2019).

Next, the size of path coefficients, which is reported as standardised values ranging from -1 to +1, indicates the changes in standard deviation unit of the exogenous construct reflected in the changes in standard deviation unit of the endogenous construct (Hair et al. 2021b). The closer to ± 1 , the stronger the relationship between exogenous (independent) and endogenous (dependent) variables, and the closer to 0, the weaker the relationship (Mehmetoglu and Venturini 2021). Lastly, the statistical significance needs to be evaluated as part of the path coefficients measurement (Mehmetoglu and Venturini 2021). In any studies with a hypothesised model, stating the level of statistical significance in the form of α (alpha) is critical before testing the hypothesis (Mondal and Mondal 2017).

This study intends to incorporate the cut-off value of a 5% significance level. The consideration is that the 0.05 cut-off is attributed to the critical point when judging significant deviation from a normal distribution (Di Leo and Sardanelli 2020). Statistically, in the normal distribution, approximately only 5% of the distribution is within the significantly different values (more than two standard deviations distant from the mean) (Andrade 2019). By setting α equal to 0.05, the maximum probability of rejecting the null hypothesis when it is true in the population is 5% (Browner et al. 2013, p.48; Mondal and Mondal 2017).⁴⁰ This level of acceptance is common in business research (Kim 2019). The interpretation of the hypothesised model will be

⁴⁰This concept is known as Type I error (Browner et al. 2013)

determined using the p-value. In this study, if the p-value from the statistical test is less than the level of α (0.05), the association between variables can be interpreted as statistically significant (Browner et al. 2013).⁴¹

4.7.4.2.2.3. Coefficient of determination (R^2)

The next evaluation tool in the PLS-SEM model is the model's predictive power using the R^2 value. The R^2 is commonly used in linear regression models, and in the context of PLS-SEM, it aims to calculate the variance in the endogenous dependent variable explained by all exogenous variables linked to it (Mehmetoglu and Venturini 2021; Hair et al. 2022). Moreover, R^2 can be interpreted as a measurement of the model's explanatory power (Shmueli and Koppius 2011) and in-sample predictive power (Rigdon 2012). It, however, cannot be translated for out-of-sample predictive power (Shmueli and Koppius 2011).⁴² For this reason, R^2 is not intended to evaluate the overall PLS-SEM predictive power (Chin et al. 2020).

The value of R^2 spans between 0 and 1. The closer the model is to 1, the higher the level of in-sample predictive power (Hair et al. 2022). However, no global agreement on the acceptable R^2 value because it depends on substantial considerations such as the complexity of the model, the research field, and the sample size (Ozili 2023a). As an illustration, in consumer research, an R^2 value equal to 0.20 is considered high (Hair et al. 2011), while in marketing research, R^2 values of 0.25, 0.50, and 0.75 are interpreted as weak, moderate, and high (Henseler et al. 2009; Hair et al. 2011). In the context of PLS-SEM, "rough" criteria for R^2 may follow suggestions by Chin (1998), who stated that the values of 0.19, 0.33, and 0.67 can be described as weak, moderate, and substantial.

⁴¹The incorporation of p-value and statistical significance raises contrasting views and debate in literature. The opposite opinion states that the use of p-value as a single basis to determine association or differentiation between variables should be stopped (Wasserstein and Lazar 2016; Amrhein et al. 2019). Conversely, other scholars exhorted and acknowledged the importance of p-value to make inference (Leek and Peng 2015; Nuzzo 2015; Ioannidis 2019; Di Leo and Sardanelli 2020). Despite this debate, the current study aims to use p-value along with other measures such as the confidence interval, the t-value, effect size, and R^2 to assess significance value as suggested for any PLS-SEM research (Hair et al. 2022).

⁴²For this study, in-sample prediction means the use of the total sample of 138 tax auditors to be fitted in the measurement and structural model to predict what factors affecting their behaviour. If the model is intended to mimic the prediction for the tax auditors outside the samples, it is known as an out-of-sample prediction (Inoue and Kilian 2005).

To add another perspective on R^2 in human behaviour study, an acceptable R^2 typically spans between 0.10 and 0.50 (Falk and Miller 1992a; Ozili 2023a). Hence, in the present study, it is expected that the R^2 value would typically lie between 0.10 and 0.67 as suggested by Chin (1998) and Ozili (2023). Further, while many researchers want to have a high R^2 in their study, the presence of a high R^2 does not necessarily imply a real causal effect (Moksony 1999). However, evaluating a model solely based on R^2 is not an appropriate approach (Hair et al. 2022). Another measure is needed to evaluate the model, particularly for the out-of-sample predictive power, for which R^2 cannot be used. In SmartPLS, the R^2 value can be obtained easily as an output of path modelling.

4.7.4.2.2.4. Effect size (f^2)

As noted earlier, evaluation of the structural model requires the measurement of R^2 and the effect of path coefficients. In addition to these two parameters, another measure can be used to assess how removing one exogenous variable affects the changes in R^2 on the endogenous variable. This measure is known as the f^2 effect size (Hair et al. 2022; Sarstedt et al. 2022a). The result of the f^2 effect size is the rank order of independent latent variables explaining the dependent variable. As such, the f^2 effect size is slightly similar to the effect of path coefficients in the model. It can be seen as a redundant statistical measure (Sarstedt et al. 2022a), or as an alternative measure of the rank order (Hair et al. 2021b).

Furthermore, presenting the f^2 effect size used to be a routine in PLS-SEM research (Chin 1998). However, recent calls see it as an optional (Hair et al. 2022). As a form of comprehensive analysis, this study aims to report both path coefficients and the f^2 effect size. The result of the f^2 effect size will be compared to the thresholds of 0.02, 0.15, and 0.35, which indicate small, medium, and large effect sizes (Cohen 1988). Hence, no effect size for variables is presented if the value is less than 0.02.

4.7.4.2.2.5. Predictive relevance: PLSpredict

Another measure to evaluate the PLS-SEM model is concerning a parameter of out-of-sample predictive accuracy using what is known as Stone-Geisser's Q^2 value (Geisser 1974; Stone 1974). The Q^2 is calculated using the datasets that are intentionally omitted and then re-estimated the model. This process is done

iteratively until each data point has been removed to re-estimate the model (Hair Jr et al. 2014; Hair et al. 2022). The Q^2 value needs to be more than zero to indicate a good prediction of the endogenous construct and ensure the model's predictive relevance (Chin 1998). However, the use of Q^2 has attracted criticism from other scholars. Sarstedt et al. (2022b) argued that Q^2 does not indicate pure out-of-sample prediction. Instead, it is a combination of in-sample explanatory power and out-of-sample prediction (Hair et al. 2019b). Even if the Q^2 value serves as an indication of out-of-sample prediction, it, however, does not reflect the quality of prediction (Rigdon 2014; Sarstedt et al. 2014). Also, in calculating the Q^2 value, there are no clear cutoffs for model comparison, which makes it hard to provide highly interpretable results (Chin et al. 2020). Lastly, the process to omit exogenous constructs is only for some data points. It does not calculate the entire observation. For this reason, the Q^2 value captures out-of-sample prediction partially due to the improper sample structure in the calculation (Shmueli et al. 2016).

Addressing the above issues, Shmueli et al. (2016) developed PLS_{predict} to evaluate the predictive quality of the path model using true out-of-sample indices (Chin et al. 2020). Under PLS_{predict} the prediction model will first be estimated using the training sample, which subsequently uses its predictive performance on a holdout sample (Shmueli et al. 2019). The two results from PLS_{predict} would be the root mean square error (RMSE) and the mean absolute error (MAE). Among these two indices, RMSE is most commonly used to examine the model's predictive power (Hair et al. 2021b), unless there is a significant asymmetric distribution error in the model (Danks and Ray 2018). In the latter case, MAE will be used as the prediction statistic (Shmueli et al. 2019).⁴³

Furthermore, the next step in assessing predictive power is comparing the RMSE or MAE value with a naïve threshold of the linear regression model (LM)

⁴³In general, both RMSE and MAE are two standard measures to evaluate the predictive power of a model (Willmott and Matsuura 2005) and express the average model-prediction error in the variable of interest (Hodson 2022). Technically, both metrics depict differences between the predicted values (values predicted by the model) and the actual values of a variable (Acharya 2021).

(Chin et al. 2020; Hair et al. 2021b).⁴⁴ The interpretation of this comparison should be evaluated using the following guidelines (Shmueli et al. 2019):

- All indicators of PLS-SEM value (RMSE or MAE) below the LM benchmark, the model has high predictive power.
- Most indicators of PLS-SEM value (RMSE or MAE) below the LM benchmark, the model has medium predictive power.
- A minority of indicators of PLS-SEM value (RMSE or MAE) below the LM benchmark, the model has low predictive power.
- None of the PLS-SEM values (RMSE or MAE) below the LM benchmark, the model has no predictive power. It is advisable to check for measurement model issues.

In the PLSpredict output using SmartPLS, Stone-Geisser's Q^2 value is replaced by the Q^2 predict value with the same threshold to interpret the data; a positive Q^2 predict indicates a good model's predictive relevance (Shmueli et al. 2019; Wang et al. 2023).

4.7.4.2.2.6. Predictive relevance: CVPAT

Another current development of the model's predictive relevance in PLS-SEM research is the use of the cross-validated predictive ability test (CVPAT) (Liengaard et al. 2021). Under CVPAT, there will be a comparison between the two models: the proposed model as stipulated in the current study and the predictive model as derived from the CVPAT analysis. The difference between the predicted value and the actual value is called the out-of-sample prediction error (Liengaard et al. 2021, p.367).

In addition, the estimation of the out-of-sample prediction error is conducted using the iteration process of the randomly split dataset into 10 folds (Wang et al. 2023). Each fold produces the out-of-sample prediction error, and the loss associated with the model's predictive power will be compared between the proposed model and the predictive model. A lower average loss indicates higher predictive accuracy (Sharma et al. 2023). Another evaluation of the predictive

⁴⁴The linear regression model (LM) benchmark means a prediction using a simple linear regression of the endogenous constructs on the exogenous latent variables (Danks and Ray 2018, p.43)

relevance in CVPAT is the comparison between the proposed PLS-SEM model and the linear regression model (LM). If the PLS-SEM model exhibits lower loss compared to the LM prediction model, the model has a strong predictive validity (Sharma et al. 2023, p.1669).

4.7.4.2.2.7. Model fit indices

Generally, the concept of model fit, or the goodness-of-fit, is linked to the CB-SEM due to the nature of this approach in explaining the covariance matrix between empirical results and the theoretical model (Hair et al. 2022). Hence, from this perspective, the concept of a model fit cannot be fully transferred to the PLS-SEM, in which the objective is more to accurately predict the data, as suggested by many scholars (Lohmöller 1989; Shmueli 2010; Shmueli et al. 2019; Hair et al. 2022; Guenther et al. 2023). However, several studies have proposed and developed the model fit criteria for PLS-SEM, such as the goodness-of-fit index (Tenenhaus et al. 2004), the standardized root mean square residual (SRMR) (Henseler et al. 2014), the normed fit index (NFI) (Bentler and Bonett 1980; Lohmöller 1989), and the bootstrap-based model fit (Dijkstra and Henseler 2015; Schuberth et al. 2023b). The use of proposed criteria in a form of the goodness-of-fit index and normed fit index were no longer recommended by current literature because they cannot differentiate between valid and invalid models and sensitive to sample sizes (Kenny 2020; Hair et al. 2022; Wang et al. 2023). Thus, this study does not use these two tests to evaluate model indices.

The model fit concept in a PLS-SEM study assesses how well the model predicts the dependent latent variables in the form of the path coefficients, the coefficient of determination, the effect size, and the predictive relevance (Hair et al. 2022). Further research has then extended its capabilities to identify model misspecifications to follow confirmatory objectives and theory testing within a PLS-SEM study (Hair and Alamer 2022). Accordingly, researchers using PLS-SEM should also be more focused on the performance of predictive capability and specification of the hypothesised model (Alamer and Alrabai 2023). As a result, because the causal-predictive model fit assessment is still underdeveloped within PLS-SEM studies, the explanatory model fit for theory testing and statistical inferences should not be omitted (Schuberth et al. 2023b).

While the best model fit index to assess PLS-SEM has not been comprehensively explored (Schuberth et al. 2023a), some literature provided a threshold to assess model misspecifications. For SRMR, the value below 0.08 indicates a good fit of a model (Hu and Bentler 1999; Benitez et al. 2020), based on the benchmark in the CB-SEM. Conversely, this value can be too low for the PLS-SEM context. As such, the threshold of less than 0.10 is also considered a good fit (Jony and Serradell-López 2021). As for the bootstrap test, this approach incorporates distance to measure the discrepancy between the empirical covariance and the covariance matrix in the model (Jony and Serradell-López 2021), in the form of d_{ULS} and d_G as defined by Dijkstra and Henseler (2015). The interpretation is that the upper bound value of the confidence interval (95% or 99%) should include the original values of d_{ULS} and d_G to indicate a good fit.

4.8. Analytical method – qualitative study

4.8.1. Reflexive thematic analysis

In analysing the qualitative interview data, this study aims to incorporate thematic analysis as a basis to explore and interpret the dataset. Thematic analysis, as the name implies, can be seen as a qualitative method for developing patterns within data to generate themes (Braun and Clarke 2022). In addition, a theme represents a significant pattern or meaning in the dataset generated from an interview or focus group discussion. It captures important patterns, responses, or meanings in the data to answer the research question (Braun and Clarke 2006), and sometimes, offers new insights and understanding of certain phenomena (Elliott 2018; Naeem et al. 2023).

According to Braun et al. (2019b), there are three broad types of thematic analysis: coding reliability, reflexive, and codebook. Coding reliability, which can be linked to the work of Boyatzis (1998) and Guest et al. (2012), puts attention to the accuracy or reliability of coding. This process is designed with the use of a codebook, which contains a series of codes or themes, and a consensus coding. A consensus coding means the coding process incorporates other independent coders, so there will be shared and reliable codes and themes (Braun et al. 2019). As such, in coding reliability thematic analysis, the researcher's influence is not

expected and is likely articulated in the positivist stance (Braun et al. 2019b; Byrne 2022).

Next, reflexive thematic analysis, which can be traced through the seminal Braun and Clarke's (2006) article on thematic analysis, stresses the important role of the researcher in knowledge production (Braun et al. 2019b). The researcher is expected to actively engage throughout the analytical process (Byrne 2022). Reflexivity and subjectivity of the researcher should be treated as a resource rather than a problem (Gough and Madill 2012). In addition, reflexive thematic analysis is seen as a reflection of the researcher's interpretation of the data, theoretical underpinning, and scholarly knowledge (Braun et al. 2019b; Byrne 2022). Under this method, it is expected that researcher bias is not an issue; analysis may not be objective, but it can be compelling and insightful, and it does not provide a single answer (Clarke and Braun 2013; Braun and Clarke 2022). Further, coding is an iterative process to build blocks for themes (Braun et al. 2019). This method can be used to explore the voices of a group that is rarely heard in a specific context (Braun et al. 2019b).

Last, codebook thematic analysis lies in a continuum of structured coding reliability and reflexive thematic analysis (Braun et al. 2019b). Under this approach, themes are pre-defined before the analytic process using a codebook, with some possible adjustments along the way (Braun and Clarke 2022). This method is likely to be used when there is little support of conceptual, theoretical, or paradigmatic ground in the research.

The present study aims to analyse and interpret the interview dataset using reflexive thematic analysis due to the nature of the study. The voices of the tax auditors in Indonesia regarding transfer pricing audit have rarely been explored in any studies, particularly in the era of the BEPS regime. Also, the researcher's practical knowledge around this area makes subjectivity and reflexivity matter during analysis. Transfer pricing is one of the growing and complex issues in the tax system (Holtzman and Nagel 2014), as such, analysing it requires not only scholarly knowledge but also practical understanding, professional experience, and personal reflexivity. Here, reflexivity is critical as a means of knowledge production (Luttrell 2019) of a complicated transfer pricing issue during a tax audit. The researcher's

previous position as a tax auditor serves as an advantage to explore a deeper understanding in the context of this phenomenon.

Other criteria as consideration for choosing reflective thematic analysis are the kind of research questions and the coding process. Reflexive thematic analysis is suitable for the present study because it aims to capture an individual's behaviour or practices around a specific phenomenon. Reflexive thematic analysis suits the kind of research questions about how people do, perceive, and behave in certain practices (Braun et al. 2019). Additionally, research questions in the present study focus on what people say and the content of language, which can be used in the coding process to develop themes. Related to the coding process, reflective thematic analysis is unlikely to use a single approach to the coding process. Generally, coding can be produced using two approaches: inductive and deductive analysis (Byrne 2022). In reflective thematic analysis, the process is regarded as a continuum, rather than a dichotomy (Braun and Clarke 2021).

Deductive analysis adopts a theory-driven (Byrne 2022) or top-down approach (Braun and Clarke 2012). It means existing literature, concept, theory, ideas, or topic provides an initial lens to analyse and interpret data. Identification of a pre-defined codebook before analysis is acceptable in this approach. Analysis would rely on the theoretical interpretation of the data. However, the actual themes mapped by the researcher during analysis may not follow these pre-specified ideas (Braun and Clarke 2012). On the other hand, inductive analysis, or data-driven analysis, relies on the exploration of data content and is free from pre-existing theory or concept (Byrne 2022). In this approach, analysis is driven and grounded in the data. So, the themes mapped during analysis would reflect what is happening in the data itself (Braun and Clarke 2012; Braun and Clarke 2021).

Reflexive thematic analysis is unlikely to be one approach for coding and theme generation. It is more likely to use a combination or a hybrid approach (Byrne 2022). According to Braun and Clarke (2012), purely inductive or deductive, is not possible because there will be something the researcher brings into the data. Analysis is not a theoretical vacuum, and data explored during analysis cannot be ignored completely (Braun and Clarke 2021). As such, the use of reflexive thematic analysis should be "theoretically coherent and consistent" (Braun et al. 2019). In addition, the present study integrates existing concepts and theories to articulate a

research framework, design, and question. The constructs developed in the quantitative phase may also serve as themes in the qualitative stage. However, additional themes explored in reflective thematic analysis may capture new emerging patterns to answer research questions. The themes explored in the hybrid approach will then be presented side-by-side with the inductive data pattern and deductive theoretical context (DeJonckheere et al. 2021). Subsequently, in the context of a mixed methods study, findings from reflective thematic analysis will be used to explain, compare, or integrate the outcomes of quantitative analysis (DeJonckheere et al. 2024).

4.8.2. Reflexivity: orientation, risk, and mitigation

As this study implies reflexivity during the qualitative stage, determining the scope, risk, and measure associated with it is essential. In reflexive thematic analysis, the researcher's subjectivity shapes the investigation being made across every step in the research. Reflexivity, in its simple term, can be defined as rigorous contemplation of self-reflection to assess the nature of the research (Wilkinson 1988, p.493). Self-reflection and acknowledgement of personal involvement is the intrinsic domain of behavioural research (Marecek et al. 2001). Being reflexive in the research means the researcher needs to communicate the nuance of a real-world phenomenon that reflects participants' experiences using the researcher's self-reflection and evaluation (Finlay 2002a) and the researcher's attitudes and expectations (Holland 1999). In other words, reflexivity embraces a researcher's subjectivity without compromising the objectivity of the research.

The present study aims to incorporate the orientation of personal and interpersonal reflexivity as stipulated in the literature (Walsh 2003; Olmos-Vega et al. 2023). Personal reflexivity supports a researcher's participation in the design, analysis, and interpretation of the study. It requires researchers to reflect upon his or her "expectations, assumptions, conscious and unconscious reactions to contexts, participants, and data" (Olmos-Vega et al. 2023, p.244). Conducting reflexive research should address not only the researcher's background, but also prior knowledge, experience, and motivation that may affect the decisions being made during the investigation (Finlay 2002a). In the current study, personal reflexivity is reflected in the researcher's prior knowledge and professional experience in conducting an intricate transfer pricing audit.

The researcher had previously worked as an auditor at one of the large tax units in Indonesia. In that sense, reflexivity serves as a vehicle to interrogate, examine, and interpret participants' attitudes and experiences toward transfer pricing audit from the lens of the researcher's background (Finlay 2016, p.120). The researcher's background may unfold stories from participants because they may be more willing to share their perceptions of transfer pricing audits with a researcher whom they perceive as knowledgeable (Tona 2006). Given the complex nature of transfer pricing (OECD 2022a), it may be slightly challenging to explore it without prior knowledge, personal familiarity, or experience around this topic.

The current study is shaped based on the knowledge that the transfer pricing issue has not been fully circulated and understood by the tax auditors, particularly during the audit process. Hence, understanding their behaviour around transfer pricing audit is an important driver in designing the overall landscape of this study. All participants during the interview stage were aware of this aspect and the overall context of the study. As noted by Olmos-Vega et al. (2023), being an insider investigator triggered the research idea based on personal experiences and observations. In this case, personal experiences shaped and enabled the researcher to appreciate the importance of exploring transfer pricing issue focusing on the tax auditors' context.

The next orientation is the interpersonal reflexivity, which focuses on and emphasises the relational dimension of research and the relationship between the researcher and participants (Walsh 2003; Schwandt 2012). This process involves recognising and acknowledging participants' knowledge and contribution to the research (Olmos-Vega et al. 2023). In addition, another aspect of interpersonal reflexivity is the team-based relationship among the team members of the study (Russell and Kelly 2002). It involves the collaborative action of all research team that may unfold the impact of the study (Olmos-Vega et al. 2023). In the current study, interpersonal reflexivity is depicted in the active engagement of the supervisory team. It creates the interplay between team members' expectations for ongoing research while maintaining the progress of the research.

The role of a researcher as an insider raises some awareness to consider, such as the blurred boundaries between the researcher and participants, forcing the researcher's perception into participants, and the projection of the researcher's

biases (Drake 2010; Berger 2015). Reflexivity may lead to the researcher's self-involvement due to prior knowledge and experience (Cloke et al. 2000). Therefore, there is a risk that the participants' voices will not be heard. Additionally, as pointed out by Finlay (2002b), the researcher cannot assume that participants share the same knowledge, and thus, no important points will be missed during the study. It is important to acknowledge the researcher's familiarity and understanding of what is being explored in the research, which, at the same time, embraces participants' voices and shared experiences (Pillow 2003).

To prevent the researcher's subjectivity from hindering participants' voices around transfer pricing in the current study, several measures were taken. Firstly, the possible risk was coined and managed through constant discussion with the researcher's supervisors. It creates a mindful preparation of potential issues during data collection and minimises the researcher's bias and subjectivity that may be over-identified with the participants (Hofmann and Barker 2017). A regular dialogue ensured that the qualitative stage in this study was designed according to an accepted theoretical framework and not by the researcher's prior assumption. The next measure was designing a semi-structured interview to accommodate flexibility during the interview process. This kind of interview allows the researcher to easily listen, reflect, and move to another question without tempting to intervene (Hofmann and Barker 2017).

Subsequently, because the present study uses a mixed methods approach, another measure in the form of triangulation is considered to minimise the researcher's subjective bias. The results from the quantitative and qualitative stages will be compared to ensure a trustworthy and accurate analysis. By doing triangulation, Berger (2015, p.229) argued that the analysis is based on the representation in the narratives and not on the reflection of the researcher's biases. Lastly, participants were informed that their opinions, perceptions, and voices disclosed in the research will be treated confidentially. They may use the present study to resonate their voices around transfer pricing audit without being afraid of the consequences from the tax authority. This mechanism prevents the researcher from going deeper into subjective notions and being more focused on the participants' perspective. Hence, this study demonstrates an "academic voice" of the participants and captures the voice of the interviewees (Berger 2015, p.228; Finlay 2016, p.123).

4.8.3. The six-phase data exploration of reflexive thematic analysis

The approach to thematic analysis for coding and themes development in this study follows the six-stage analytic process (Braun and Clarke 2006; Braun and Clarke 2012; Clarke and Braun 2013; Braun and Clarke 2019; Braun and Clarke 2022). The six phases can be considered as guidelines that must be done recursively and iteratively through the process (Byrne 2022). Thus, the six stages should be seen as adaptable guidelines to fit the research context and research questions (Braun and Clarke 2021). The stages are briefly discussed as follows:

4.8.3.1. Familiarise the data

Familiarisation began listening to the audio or video recordings of the interview, which was subsequently translated and transcribed. These processes helped the researcher to become immersed in the data. The interviews were conducted in the Indonesian language, which raised a need to translate them into English. Through translation and transcription work, the researcher may recall the data and trace the patterns in a more structured way. There were 56 interviews in total to transcribe and imported into NVivo software for coding purposes.

The transcription process can be reflected as a thoughtful and provoking exercise, particularly for some discussions regarding the tax auditors' perception of transfer pricing audit. It prompted the researcher to engage in critical self-reflection. There was a moment when the researcher reflected on his work of what was being said by the auditors. This exploration and reflection evoked the positionality of the researcher that may intersect with the study and make sense of the participants' opinions related to research questions. In the end, some broad meanings and patterns were noted from the familiarisation process throughout the transcriptions, such as the support needs from DGT regarding transfer pricing audit, the shared meaning of intention around transfer pricing, and the critical role of the supervisor in the realm of transfer pricing audit. The example of transcription is shown in Figure 4.10.

4.8.3.2. Develop codes

After self-familiarisation with the dataset and generating initial patterns, the researcher proceeded to the next reflexive phase: actively generating codes (Braun and Clarke 2021). In this study, these codes were generated based on the hybrid

approach, both from the theoretical underpinning and research objective, and data that emerged from the participants. This coding process is critical to give meaning to the data explored during the interview, in which the transcriptions should be equally treated to generate codes (Terry et al. 2017). The interpretation for the coding process in this study was to ensure that codes capture something interesting about the data, be specific to give meaning and context, and contribute to the development of themes (Byrne 2022; Braun and Clarke 2023).

In this study, codes were clustered together regardless of the types of participants (the tax auditors, tax professionals, tax advisers, and a tax court judge) to highlight all elements of the data from the whole set of participants. At this stage, some codes were developed and collated according to their association in answering research questions. An example of the collated codes is presented in Figure 4.11. It can be seen that deductive coding was applied using pre-existing codes derived from literature and research objectives. For example, codes such as “TP audit is complicated”, “difficulty in TP audit”, and “limited knowledge” are used to examine the challenges and behaviours commonly reported in a transfer pricing audit based on previous studies (Muhammadi et al. 2016; Shongwe 2019; Wier 2020; Mashiri et al. 2021; Sebele-Mpofu et al. 2021b).

In addition, from a theoretical perspective, codes such as “intention by regulation”, “intention by transaction”, and “intention by self-recognition” recognise the TPB-informed codes to explain the relationship between intention and transfer pricing audit behaviours. As for the motivational posturing, codes such as “technical support by DGT” and “reward mechanism” highlight deferential posture, and a code of “being a TP specialist is not my call” showcases a defiant posture.

Moreover, the inductive phase allows new and context-specific codes to emerge from the data. Codes such as “MNEs are resourceful entities”, “the needs for TP risk analysis”, “perceived TP risks across industries”, “the importance of localisation”, “lose the battle”, and “uncooperative taxpayer” are some of the examples of the codes explaining the richness of the data. These emergent codes clarify the use of a hybrid approach during the qualitative stage and enrich the analysis by capturing behavioural nuance not fully anticipated by the theoretical frameworks.

4.8.3.3. Generate initial themes

After generating all relevant codes, the next stage was grouping and clustering codes that shared a similar idea or pattern to build clusters or candidate themes (Braun and Clarke 2022). This is an iterative process where constant revisiting and regrouping of codes were part of the researcher's reflexive journey. The results of this stage were the development of the provisional themes where the codes were easily found to be grouped and share some connections, such as "difficulty in TP audit", "limited knowledge", "lose the battle", and "TP audit is time-consuming". Another example is the grouping of codes consisting of "the tax advisers' interest", "technical support from the advisers", "the importance of audit settlement", and "knowledge gap". All these provisional themes were not final and needed to be rechecked for suitability to answer research questions.

4.8.3.4. Review candidate themes

In stage four, the initial themes are reviewed by revisiting transcripts and codes developed in stages two and three (Braun and Clarke 2006; Braun and Clarke 2022). The coded extracts should be consistent with the central theoretical framework and constructs, with the possibility of having codes that expand the phenomena explored in this study. During this stage, there was a reflection on the codes as to whether they need to be emerged, omitted, or expanded. The codes that backed up themes should be clear enough and relevant to the research objectives and encapsulate the overall story of the research. At the end of this stage, the researcher decided to preserve the themes structured in stage three, and any refinement or changes will be reflected in the next step.

4.8.3.5. Define and name themes

Once the shared patterns and initial themes are developed, the next stage is defining and naming the final themes (Braun and Clarke 2006). This process ensures that the final themes reflect research questions and objectives and that the research story is told. It can be done by redefining the provisional themes and outlining a brief description to capture the essence of each theme (Braun and Clarke 2022). As such, during stage five, themes should be more cohesive, and possibly some subthemes may emerge (Sullivan and Forrester 2019). Subthemes demonstrate "the hierarchy of meaning within the data" (Braun and Clarke 2006,

p.92). However, in a recent publication, Braun and Clarke (2024) stated that subthemes should be used judiciously because the themes are the central stream of the analytical process and should be multifaceted to explain patterns and meaning of the data.

After refining the themes, the next phase is naming the final themes. According to Braun and Clarke (2006, p.93), the names of the themes should be “concise, punchy, and immediately give the reader a sense of what the theme is about”. Based on the researcher’s reflexivity on codes and initial themes, the final themes were constructed to provide a comprehensive understanding, deliberate meaningful features of the data, and seize the story of the research (Maguire and Delahunt 2017). An illustration of the final themes and subthemes in NVivo is presented in Figure 4.12. Once the themes are finalised, the next step is writing the report and is addressed in the next section.

4.8.3.6. Write the report

The last reflection deals with the presentation of the research, particularly in response to research questions. However, the themes that are not directly related to the research questions may also be reported to expand the research background and theoretical assumptions (King 2004; Nowell et al. 2017). The reporting stage is also a part of the analytical phase because during this stage, the researcher can tell the story of the research and bring the analysis to life for the reader (Braun and Clarke 2006; Sullivan and Forrester 2019). According to Braun and Clarke (2021b), there are possibilities that themes can be revisited during the final phase of reporting the analysis. As such, in this study, the names and background of the themes are open to rework and redefine. The explanation of the final stage of the Braun and Clarke (2006) six-stage framework is discussed in the next section.

Based on the above explanation, reflexive thematic analysis fits the nature and objective of the present study. It is incorporated in the study because it is an important notion of research questions that aim to answer. The reflexivity of thematic analysis best captures the phenomenon in this study, encapsulating the researcher’s knowledge, experience, and understanding of the topic. As such, choosing a method that covers the content and substance of the study is critical to answer research

questions (Holloway and Todres 2003). Certainly, the method itself should be based on both research questions and theoretical assumptions (Braun and Clarke 2006).

4.8.4. Handling interview data: NVivo software

After exploring the rationale and steps in conducting reflexive thematic analysis, the next concern is how to manage, store, and analyse the dataset. Trustworthy and useful findings in the qualitative study can be produced if handled properly (Miles 2005). To provide well-managed findings, this study uses NVivo, one of the widely used sources of computer-assisted qualitative data analysis software (CAQDAS), to develop codes and themes as well as to sort, organise, analyse, and visualise the dataset (Saldaña 2021). Arguably, the use of electronic software can increase the quality of interview analysis in the current study (Røddesnes et al. 2019).

Further, NVivo version 14 (Lumivero 2024) is provided by Cardiff University as a tool to analyse qualitative data.⁴⁵ The use of NVivo is common to assist researchers in handling interview transcripts (Willey and Mischo 2016) and exploring thematic analysis (Castleberry and Nolen 2018). It, however, cannot replace the important part of human analysis because the role of NVivo is mainly to organise data structure (Kerry 2022). Moreover, computer-assisted software like NVivo promotes transparency, meaning that all data is securely stored in the system and analytical work can be kept organised (Gibbs 2014). Hence, it provides a comprehensive solution to sort, manage, and store interview data in the present study and helps researchers to draw inferences from data analysis (Phillips and Lu 2018).

4.9. A mixed methods integration and joint display analysis

Following quantitative PLS-SEM and qualitative reflexive thematic analysis, the next step is integrating, combining, or mixing the two approaches, which is known as integration analysis (Creswell and Creswell 2022). Mixed methods research is not simply incorporating quantitative and qualitative data (Bryman 2006). It needs an integration process that serves as a critical role to emerge the findings from both quantitative and qualitative data to better capture the results and provide

⁴⁵This is the latest version of NVivo as per writing this dissertation.

additional insights (Creswell and Plano Clark 2018). In a convergent mixed methods study, integration comes to compare or confirm the findings or to assess differences between them (Fetters et al. 2013; Creswell 2022), which, at the end of this process, intends to answer research questions. Mostly, in a concurrent or convergent mixed methods study, data comparison and data integration are the last two important phases to have a coherent mixed analysis (Johnson 2020). As such, the integration process in mixed methods is critical to maintain methodological rigor of the study (Heyvaert et al. 2013).

One of the popular approaches to integrate findings in convergent mixed methods is a joint display (Creswell and Plano Clark 2018; Creswell and Creswell 2022). According to Fetters (2020), a joint display is “a table or matrix depicting how both qualitative and quantitative data collection procedures have been matched to ensure collected data will address related study constructs...”. Joint display usually uses a visual format, such as a graph, or table to connect and illustrate the findings of the two datasets based on cases (participants), research questions, constructs, outcomes, locations, or any other parameter of interest (Johnson 2020). Using a joint display, the two findings are presented in one single illustration to enable simpler interpretation. A joint display is also essential to bring new insights compared to separate quantitative and qualitative analyses (Fetters et al. 2013a). To date, joint display is seen as an innovative way to advance integration in mixed methods studies (Guetterman et al. 2015).

Literature suggests different methods to visualise the integration of quantitative and qualitative findings. In a convergent mixed methods study, Wu et al. (2018) and Moseholm et al. (2017) used a side-by-side table to integrate findings and draw mixed methods meta-inferences. In a study on clinical trial procedure, Fetters and Guetterman (2021) demonstrated a visual joint display using boxplots to juxtapose quantitative survey scales and qualitative interview results to draw an interpretation. Further, boxplots are also used to visualise joint display analysis in another convergent mixed study analysing a medical disorder (Enggaard et al. 2020). However, other than boxplots, Enggaard et al. (2020) study incorporated other forms of visualisation, such as dendrograms and graphs, to outline meta-inferences.

In psychological and behavioural research, Howell Smith et al. (2019) developed a joint display flow diagram allowing comparison of the two findings from quantitative and qualitative data and directly compared them in one graph. Another use of joint display graph and bar graph is also presented in a cross-country study around health technology assessment (Nicod et al. 2020), teachers' behaviour on the use of technology (Haynes-Brown and Feters 2021), and in the tax research behaviour (Angeles 2021). Furthermore, other than tables and graphs, interpretation of mixed analysis can also be corroborated using unique visualisations, such as illustrations of images (Haugdahl et al. 2017), Venn diagrams (Ling and Pang 2021), and a circular joint display (Bustamante 2019; Peters et al. 2022).

The current study aims to incorporate a side-by-side joint display table along with a circular joint display to represent and analyse integration. A side-by-side table is needed to present quantitative and qualitative findings comprehensively and to match the two results directly (Creswell 2022). In addition, to draw conclusions or meta-inferences, a unique circular joint display, as illustrated by Bustamante (2019), will be combined. Representation of a circular joint display involves concentric rings that span around quantitative constructs as a starting point (Bustamante 2019, p.170). In the current study, the starting point in the middle rings is a quantitative construct developed based on literature (Ajzen 1991; Braithwaite et al. 1994; Langham et al. 2012). The next rings would be corresponding themes and quotes explored from qualitative findings. Subsequently, the last circle would be mixed methods integration and meta-inferences development. The use of circular joint display affirms a convergent mixed methods employed in the current study because it "visually conveys merging of data" (Bustamante 2019, p.170).

4.10. Mixed research legitimization typology

In any mixed methods study, one critical notion is to ensure the validity of the research, both for quantitative and qualitative validity (Johnson and Christensen 2017). The term validity in mixed methods is also referred to as legitimization. According to Onwuegbuzie and Johnson (2006), legitimization is briefly described as examining findings and making credible inferences. Legitimation is an iterative process to obtain all aspects of quality in mixed methods research (Onwuegbuzie et al. 2011). While the presence of legitimization is important and should be

conceptualised (Fàbregues and Molina-Azorín 2017), there are no generally agreed-upon procedures to assess quality in mixed methods studies (Perez et al. 2022).

The current study investigates the quality of mixed methods concept and design based on a framework of legitimation typology (Teddlie and Tashakkori 2003; Onwuegbuzie and Johnson 2006; Onwuegbuzie et al. 2011), which is then refined by Johnson and Christensen (2017). An explanation of the legitimation typology proposed in the current study is presented in Table 4.11.

4.11. Conclusion

To conclude, this section explains research methodology comprehensively, the methods employed in the current study, and data collection strategies. To begin, it starts with a brief description of the research paradigm and critical reasons for conducting the mixed study. Subsequently, the research purpose statement and questions are addressed to direct the flow of the overall analysis. While this study intends to provide a balanced view on quantitative and qualitative approaches in the form of a convergent mixed study, the quantitative analysis framework is first described because it serves as the basis for the integration process.

Before collecting data, the current study received ethics approval from the University's ethics committee to maintain governance, confidentiality, and quality of the research. All participants were informed of the objectives of this research through a participant information sheet and signed a consent form, both for the online survey and interview. In this section, it is also mentioned that pretesting is conducted before actual data is collected.

Due to the nature of the mixed study in the present research, a framework has been developed for both the quantitative and qualitative phases. This is to ensure the quality, validity, and reliability of research design and analysis. For quantitative data, PLS-SEM is used to analyse the dataset using SmartPLS software (Ringle et al. 2024), while NVivo is used to manage interview data (Lumivero 2024). Then, to integrate the two findings, a proposed circular joint display is presented to draw conclusions or meta-inferences.

Conclusively, this section is supported by the legitimation typology as the rationale for conducting the mixed study. The typology guarantees the quality of the mixed methods design in the present study. Around ten parameters confirm the

legitimacy of the present study and the validity of mixed methods. Therefore, the design, analysis, and interpretation of mixed methods analysis in this study are likely to be trustworthy.

Chapter 5 Quantitative Analysis: Preliminary Findings, Path Model Evaluation, and Hypothesis Testing

5.1. Introduction

This chapter briefly explains relevant preliminary findings and analyses of the current study. After this section, section 5.2 depicts the socio-demographics of the survey's participants, descriptive statistics, normality test, non-response bias analysis, and the covariance matrix. Next, section 5.3 presents the PLS-SEM model evaluation, consisting of the measurement model evaluation and the structural model evaluation. Subsequently, section 5.4 tests the hypothesised model in this study. This is followed by section 5.5, which validates the model using the robustness check. Finally, section 5.6 summarises this chapter.

5.2. Preliminary findings

5.2.1. Survey sample characteristics

As noted in an earlier section, 138 tax auditors completed the online survey. The demographic characteristics of the tax auditors by age, gender, role, experience, training, and educational background are presented in Table 5.1.

5.2.1.1. Age

Across the tax auditors' samples, the modal age groups were 36 to 45 years and 46 to 55 years, respectively. Together, they accounted for around 72% of the total respondents. The other two groups, 25 to 35 years and above 55 years age brackets, shared the remaining 28%. Overall, the respondents' ages covered all categories in this study.

5.2.1.2. Gender

Gender was not equally represented in the sample, with male tax auditors outnumbering female tax auditors as respondents. The total male participants were 118, which is equal to 85% of the total respondents, while the remaining 20 were female participants, who accounted for 15%. The samples were broadly consistent with the total of DGT's employees, in which, according to the DGT annual report,

most tax officials are identified as male, comprising 64%, and female, 36% (DGT 2023).

5.2.1.3. Job roles

In DGT, tax auditors are structured according to the level of responsibilities. They are working in a pyramid structure where one audit team consists of a supervisor, a team leader, and one or more junior tax auditor(s).⁴⁶ A supervisor may supervise more than one audit team. As such, the total number of junior tax auditors in DGT is the highest among these three audit roles. This trend is also depicted in the current study. The junior auditor shares the highest number of respondents, equal to 68 participants (49%), followed by the lead auditor, 41 participants (30%), and the supervisor, 29 participants (21%). Hence, this study benefits from participating in all job roles in an audit structure.

5.2.1.4. Working experience

According to their work experience, the modal group of participants was the tax auditors who had been working for more than 10 years, which was equal to 94 respondents (68%). In addition, those who worked between 5 and 10 years were also well represented as respondents, equivalent to 40 tax auditors (30%). A few participants have worked less than 5 years (3 people, equal to 2%). The findings stipulate the emergence of experienced tax auditors in the Indonesian tax offices dealing with multinationals.

5.2.1.5. Training on transfer pricing

Most respondents (88% of the samples) had received training in transfer pricing and international tax issues, while 12% of them had not received any training.⁴⁷ This is a sign that DGT needs to train its tax auditors to deal with transfer pricing continuously. In terms of the types of training, most tax auditors in the

⁴⁶In practice, DGT refers the job roles in audit team as tax auditor – supervisor, tax auditor – team leader, and tax auditor – member. To simplify and differentiate the three roles, this study uses the term supervisor, lead auditor, and junior auditor.

⁴⁷This is a condition as of per data collection (July to December 2023). The current trend in the tax auditors receiving transfer pricing training may be slightly different.

samples have received basic training on transfer pricing (61%). The rest of the auditors received intermediate (22%), advanced (6%), and other training (11%).⁴⁸

5.2.1.6. Educational background

Based on survey data, 77 participants (56%) have completed a bachelor's program, making it the largest share of education level characteristics. The second and third largest groups graduated with a master's (33%) and a diploma (10%). Only two tax auditors have completed a doctoral-level degree (1%). Most respondents have higher education qualifications, mainly in accounting-related areas, which suggests they have sufficient knowledge to complete the survey instruments and understand the importance of the current study.

5.2.1.7. Familiarity with the BEPS initiatives

The last demographic characteristic is the tax auditors' familiarity with the BEPS action plan 8, 9, and 10 regarding transfer pricing. The data revealed that more than 60% of the tax auditors were identified as slightly familiar and somewhat familiar with the BEPS initiatives. Those unfamiliar with the BEPS shared a small fraction (9%), similar to those very familiar (7%). Only 2 auditors (1%) from the samples felt extremely familiar with the BEPS 8, 9, and 10. The results reveal room for improvement in the circulation of information and understanding of the BEPS initiatives regarding transfer pricing to the Indonesian tax auditors.

In general, the sample of tax auditors in this study covers different levels of age, experience, knowledge, responsibility, education, and familiarity, notwithstanding the unbalanced gender presence due to the composition of an organisational structure. Nonetheless, the quantitative method's result is expected to be robust because participants have the required experience and knowledge to deal with the issue explored.

5.2.2. Normality test

The current study uses the Kolmogorov–Smirnov test provided in SPSS to test normality distribution. Kolmogorov–Smirnov is a non-parametric test and is likely to be unaffected by the sample size compared to other normality test methods (Demir 2022). To interpret the Kolmogorov–Smirnov value, hypotheses must be

⁴⁸Other trainings can be around the tax treaty and other issues in international taxation.

developed (Razali and Wah 2011) to test for distribution normality. The null and alternative hypotheses for the normality test are:

H_0 = data does follow a normal distribution.

H_1 = data does not follow a normal distribution.

The result of the normality test using Kolmogorov–Smirnov for each of the items used in the survey instruments is presented in Table 5.2. The result of the normality test using Kolmogorov–Smirnov supports rejecting the null hypothesis at the 5% significance level ($p < 0.001$). As such, the alternative hypothesis is accepted, and the data are not normally distributed for all items in the survey instruments. This result confirms the rationale of using PLS-SEM in the current study due to the non-normal data distribution in the dataset.

5.2.3. Descriptive statistics

This section briefly explains the dataset's characteristics, constructs, and indicators. First, it addresses the presence of missing values, and then the next part is assessing outliers. Subsequently, there will be computations on minimum and maximum values, mean, 5% trimmed mean, standard deviation, skewness, and kurtosis. All this data can be used to briefly interpret the survey data's descriptive nature.

5.2.3.1. Missing data

Identification of missing data is essential in any statistical analysis, including PLS-SEM. The presence of missing data may reduce the statistical power and increase bias, which leads to invalid conclusions (Kang 2013). Also, reporting the missing data in the research ensures transparency (Pham et al. 2024). Missing data in survey research means participants' responses are not available for detailed analysis (Mirzaei et al. 2022). Further, in the present study, according to Table 5.2, it can be concluded that all participants answered the survey questions without any missing values ($N = 138$). Hence, this study does not have to deal with missing data for further analysis.

5.2.3.2. Outlier

Outlier assessment is used to detect anomalous observations in the data due to researcher or instrument errors and deviations in observations (Hodge and Austin 2004). Similar to the detection of missing data, outliers can also bias statistical

results (Zijlstra et al. 2011), and thus its presence needs to be escalated. In the present study, the determination of an extreme value and its effect is conducted using the 5% Trimmed Mean, which is available in SPSS (Pallant 2020).

This method assesses whether any presence of extreme values distorts the statistical results, by comparing the value of the original mean and the trimmed mean (Smart 2013).⁴⁹ The trimmed mean describes the mean estimated after removing 5% of the top and bottom cases (assumed as outliers) (Barton and Peat 2014; Pallant 2020). If the difference between the trimmed and original mean is significant, extreme cases may strongly influence the result and need to be investigated further. However, with this method, there is no agreed-upon threshold to measure the level of significant difference (Smart 2013). (Lee and Sul 2022) argued that the closer the difference to zero, the better. The result of outlier determination is presented in Table 5.3. The result indicated that all survey items did not significantly differ between the two means. The values tend to be closer to zero, which suggests no serious issues with outliers.

5.2.3.3. Descriptive statistics of items and constructs

This section computed descriptive statistics for all the items and constructs for the minimum, maximum, mean, standard deviation, skewness, and kurtosis. While the item scores were derived from the survey feedback, the constructs were calculated using composite scores of associated items under each construct. The results of descriptive statistics are presented in Table 5.4.

Overall, all survey items have scores from 1 to 7 following the 7-point Likert scale used in this study. Also, all items and constructs have mean scores of more than 5.00, indicating the agreement around variable measurement in the model.⁵⁰ An exception is for the defiance construct, in which most respondents somewhat disagree with the items. It assesses a weak social distance between the tax auditor and the tax authority according to the theoretical concept. The current study has two endogenous constructs, behavioural intention and behaviour, with mean scores

⁴⁹Note that outliers can also affect regression line without significantly affecting the mean if of opposite signs.

⁵⁰This study incorporates 7-likert scale, which means the score of 4.00 poses a neutral agreement in survey questions. Thus, the values beyond this point indicate the degree of agreement to the items.

above 5.00 (5.54 for intention and 5.86 for behaviour). In behavioural intention, an item associated with the highest mean and lowest standard deviation (mean = 5.77, SD = 0.898) is the intent1, which captured the tax auditors' intention to use the transfer pricing method to investigate intra-firm transactions. As for the behaviour construct, behave1 has the highest mean and lowest standard deviation (mean = 5.94, SD = 0.957). The item assessed the behaviour of the tax auditors to read relevant transfer pricing legislations in making audit adjustments.

In addition, another assessment stipulated from descriptive statistics is the skewness and kurtosis values for each item. Skewness shows a tendency away from a symmetrical distribution in the data, and kurtosis measures the peakiness of a distribution (Gandhi and Sarkar 2016). While the Kolmogorov–Smirnov test is an indication of rejection or acceptance of the null hypothesis of normality (Sarstedt and Mooi 2019), this test does not show to what extent the data is too far from normal distribution. Two measures, skewness and kurtosis, may answer this concern (Hair et al. 2022). Skewness and kurtosis can be considered as intuitive tools to understand normality in distributions (Cain et al. 2017).

According to Table 5.4, the skewness and kurtosis of most items and constructs are falling outside ± 1 , which exhibit non-normal distributions (Hair et al. 2022). In stricter terms, Blanca et al. (2013) argued that skewness and kurtosis falling outside 0.25 violate normal distributions. From this perspective, all items and constructs in this study had non-normal distributions. This finding confirms the Kolmogorov–Smirnov statistical test of non-normality. As a result, the use of PLS-SEM in the current study is justifiable.

5.2.4. Nonresponse bias

Statistical generalisability in the survey research can be maintained through the nonresponse bias analysis. It aims to analyse the differences in the research outcomes if non-respondents had responded to the surveys (Lindner et al. 2001; Smart 2013). It is hoped that non-respondents will not affect the research outcome to maintain research quality. One assessment to test the nonresponse bias is comparing the difference in outcome between early versus late respondents in filling

out the surveys (Olson 2013; Borg and Tuten 2016). The late participants can be used as a proxy for non-respondents (Smart 2013).⁵¹

This study analyses the nonresponse bias using early and late responses, which compares the first 25%, representing early respondents, and the last 25%, representing later respondents.⁵² This method is consistent with earlier research on how to assess nonresponse bias (Armstrong and Overton 1977; Smart 2013; Mentzer and Lambert 2015). To examine whether these two groups have statistically significant differences, the Mann-Whitney U test was incorporated in the present study. The Mann–Whitney U test is a non-parametric method to compare the differences between the two samples or groups (MacFarland and Yates 2016). The null hypothesis is that the two groups, early and late respondents, have no difference in the distribution of survey responses (Hinton 2014). The results will be assessed using a 0.05 significance level. As such, the responses between the two groups are similar if the p-value is greater than 0.05. The result for the Mann–Whitney U test is shown in Table 5.5.

The result indicates that only four items (control1, intent1, defiance2, defiance3) out of 32 have a p-value below the 0.05 threshold, meaning that most responses from early and late respondents are not significantly different. As such, the null hypothesis cannot be rejected for the large majority of responses in early and late respondents. This finding assures the current study that nonresponse bias is likely not present. Respondents and non-respondents do not differ in survey responses for the indicators used in this study.

⁵¹Another method to assess nonresponse bias is contacting non-respondents directly and assess the differences in research outcomes (Collier and Bienstock 2007). However, this approach may not be practical due to the nature of this study. It would be impossible to detect the non-respondents because no individual names, office names, email addresses, or any other personal identification were being asked in the survey to maintain confidentiality.

⁵²In the present study, there were 138 respondents filling the survey. Consequently, 25 percent would be 34.5. To make it easier for the analysis, for the Mann – Whitney U test, the first 25 percent was the early 35 responses, and the late 25 percent was 35 responses. At the end, both numbers stipulated around 50.7 percent of the total sample equal to 70 observations.

5.2.5. Covariance matrix

According to Ringle et al. (2023), other than key characteristics of descriptive statistics, a researcher needs to provide the covariance matrix of variables before conducting a PLS-SEM analysis. It is vital because the PLS-SEM uses the covariance matrix as an input to analyse the data in the relationship between constructs and their associated predictors (Cho et al. 2022). Covariance can be understood as the changes, which can be positive or negative, in one variable that are associated with the changes in another variable (Ledoit and Wolf 2022). A positive association means two variables are likely to increase or decrease in the same direction, while a negative association indicates the direction goes in the opposite direction. Therefore, the covariance matrix stipulates the different covariances of the two variables in a square matrix. An analysis using SPSS was conducted to generate a covariance matrix between variables in this study, and it is shown in Table 5.6.

The covariance matrix reveals that all variables, except defiance, have a positive association with other variables. While this analysis does not show anything about the strength of the direction, it, however, measures the degree of linearity among variables. For example, intention and behaviour present a positive covariance, which implies that tax auditors who have positive behavioural intention to conduct a transfer pricing audit also tend to have positive actual behaviour in conducting the audit. Likewise, the negative value of the covariance between defiance and behaviour indicates that tax auditors who place a great distance from the tax authority tend to have no actual behaviour when conducting a transfer pricing audit. Similar interpretations apply to other covariances among variables in Table 5.6. However, it is worth noting that the results from the covariance matrix serve as a general idea of the direction between variables. In the next section, the PLS-SEM analysis will be used to more robustly determine the direction, strength, and sign of the covariance.

5.3. PLS-SEM model evaluation

5.3.1. Measurement model evaluation

In the evaluation of PLS-SEM modelling, the measurement model evaluation needs to be assessed before evaluating any relationships between variables in the

present study. In this section, the generally accepted guidelines will be applied to assess unidimensionality (Mehmetoglu and Venturini 2021), convergent validity (Hair Jr et al. 2024), internal consistency (Hair et al. 2022; Sarstedt et al. 2022b) and discriminant validity (Hair et al. 2021b).

5.3.1.1. Unidimensionality

A unidimensionality test intends to evaluate the presence of a set of indicators under one construct. The result reveals that, according to the principal component analysis, out of eight constructs explored in the present study, two constructs have eigenvalues above one in the two components (attitude and perceived behavioural control). As such, these two constructs are considered multidimensional and thus violate the unidimensional aspect of PLS-SEM (Mehmetoglu and Venturini 2021). A complete result for the unidimensionality test according to the principal components analysis using varimax rotation is presented in Table 5.7.⁵³ At this stage, no information on which items under these two constructs caused the violation can be identified. The next section will address another test, convergent validity, using acceptable indicator loadings.

5.3.1.2. Convergent validity

5.3.1.2.1. The indicator loadings

The first assessment in convergent validity is the loadings of each item under one construct and their significance. The current study employs newly developed scales or indicators. Consequently, indicator loadings less than 0.70, typically between 0.60 and 0.70, are common (Chin 1998; Hulland 1999; Hair et al. 2011). To generate indicator, or outer, loadings, PLS-SEM relies on a bootstrapping method with 5,000 subsamples provided in SmartPLS to test the coefficients with their respective p-value (Hair et al. 2022).⁵⁴ The initial measurement of the outer loadings

⁵³The varimax rotation provides consistent estimator and is easier to interpret (Rohe and Zeng 2023; Chen and Rohe 2024).

⁵⁴According to Streukens and Leroi-Werelds (2016, p.619), a bootstrap procedure is “non-parametric resampling procedure that assesses the variability of a statistic by examining the variability of the sample data rather than using parametric assumptions to assess the precision of the estimates”. Under bootstrapping method, the subsamples are created to estimate the path model from a randomly drawn observations from the original dataset (Becker et al. 2023; Ringle et al. 2024). This process is replicated until a large number of subsamples are created. It is expected that after a series of repetitions, the model will be

in the current study is shown in Table 5.8.⁵⁵ According to this table, it can be concluded that most indicators have outer loadings more than 0.60, except for items att4 (0.477, $p < 0.05$), control1 (0.587, $p < 0.05$), and control4 (-0.041, $p > 0.05$). Items with lower loadings may have a significant p -value, as shown in att4 and control1.

Based on the results, the item control4 has an outer loading less than 0.40 and should be eliminated from the model due to insignificant explanatory power (Bagozzi et al. 1991; Hair et al. 2022). As for an item control1, the elimination of this scale causes the construct of PBC to have only two indicators left (control2 and control3). For the newly developed measurement, it is highly expected to have a minimum of three (Hair et al. 2019a). For this reason, the item control1 will be retained in the model. Further, the item att4 may be eliminated if deletion enhances unidimensionality and average variance extracted (AVE). The results of the AVE analysis are presented in the following subsection.

5.3.1.2.2. Average variance extracted (AVE)

Under the convergent validity test, it is critical to have items or indicators that share more variance with their associated constructs compared to other constructs in the model, and is known as the average variance extracted - AVE (Fornell and Larcker 1981; Smart 2013). The minimum expected value of AVE is 0.50 for each construct (Hair Jr et al. 2024). Similar to the outer loadings, AVE will be generated using a bootstrap method in SmartPLS. The results for AVE calculation are presented in Table 5.9. The results indicate that two constructs, Attitude and PBC, have AVE coefficients less than the generally accepted value of 0.50, meaning that the latent variables of Attitude and PBC explain less than 50% of indicator variance (Cheung et al. 2024). The AVE should be at least 0.50 to demonstrate an acceptable level of convergent validity (Fornell and Larcker 1981, p.46). One of the possible causes for the lower AVE in the present study is the low outer loading in both

stable and reflects an acceptable path value. In this study, there were 5,000 replications on the subsamples, as accommodated in the SmartPLS software.

⁵⁵Outer loadings are the estimated relationships in reflective measurement models (arrows from the latent variable to its indicators). They determine an item's absolute contribution to its assigned construct (Hair et al. 2022)

constructs (att4 for Attitude and control4 for PBC). At this stage, the elimination of these two items can be assessed in two ways

- An item att4 should be eliminated due to insignificant loading (-0.041)
- An item control4 may be eliminated if deletion increases the AVE and unidimensional level (Hair et al. 2022).

5.3.1.2.3. The effect of item deletion

The elimination of outer loadings below 0.70 should be carefully examined and can be considered only when deleting them increases AVE and unidimensionality of the constructs (Hair et al. 2022). This section presents the effect of eliminating indicators att4 and control4 on the overall loadings of other items, the threshold of AVE, and the eigenvalue of latent variables. The elimination process was conducted using SmartPLS by not inserting items att4 and control4 in the PLS-SEM model. The outcomes of outer loadings, VAE, and unidimensionality are shown in Table 5.10.

The outcomes of the analysis after trimming reveal that all loadings and AVE scales have met the required threshold for convergent validity and fulfil the unidimensional aspect of a construct. For the attitude construct, deletion of item att4 increases AVE from 0.431 to 0.502, and, at the same time, fixes the unidimensional aspect of the construct. It also happens to the removal of item control4, which increases the AVE level of PBC construct from 0.412 to 0.583 and shapes the construct into one dimension.

The above results clearly display a rationale to eliminate items with lower outer loadings, as noted by Hair et al. (2022). The two identified items, att4 and control4, were removed from the model, given that the convergent validity for all constructs has been met. Therefore, it can be summed up that convergent validity has been established for the tax auditors' behaviour model. The two survey instruments that have been removed from the model were: att4 "I believe the OECD transfer pricing guidelines are essential to determine intra-firm transfer price during transfer pricing audit" and control4 "I believe I have a moral obligation to conduct a transfer pricing audit to protect the tax base and increase tax revenue". For subsequent analysis, these two items will not be counted in the calculations. The

following steps are assessing internal consistency and discriminant validity of the measurement model.

5.3.1.3. Internal consistency

Two criteria measure the internal consistency assessment, the Cronbach's alpha and composite reliability (CR) (Hair et al. 2022; Sarstedt et al. 2022b). Both alpha and CR are expected to have values between 0.70 to 0.90 (Hair et al. 2022). However, in the exploratory study with newly developed indicators, the values that spanned from 0.60 to 0.70 are also accepted (Hair et al. 2019a). The results for these two values are presented in Table 5.11, which shows the values of Cronbach's alpha and composite reliability.

The outcomes of internal consistency evaluation indicate that all latent variables in the current study are consistent with the accepted minimum threshold of 0.60. With these results, the internal consistency has been established for the tax auditors' behaviour model regarding transfer pricing. The following step is to evaluate the discriminant validity of the measurement model.

5.3.1.4. Discriminant validity

Following the accepted criteria of unidimensionality, convergent validity, and internal consistency, the last evaluation in the measurement model is the discriminant validity. It assesses the distinctiveness of a construct in the model (Hair et al. 2021b). In other terms, discriminant validity assures that every latent variable in a PLS-SEM model is empirically distinct, unique, and captures a concept of interest not delineated by different variables (Franke and Sarstedt 2019a). An emerging technique to evaluate discriminant validity is the HTMT ratio (Henseler et al. 2015), with a cut-off baseline of 0.85 indicating the best assessment (Voorhees et al. 2016). The results for HTMT analysis using SmartPLS in this study are displayed in Table 5.12.

The HTMT ratio reveals that none of the correlations between constructs exceeds the 0.85 cut-off point. The results indicate that HTMT values are significantly below the threshold (Hair et al. 2019b), meaning there is no strong correlation among variables, and show that every variable measures distinct

constructs.⁵⁶ In other words, the survey instruments do not contain the overlapping items from the tax auditors' perception of the variables of interest. Hence, the discriminant validity of constructs has been established.

The measurement model evaluation results suggest that all items and constructs in the current study have met the threshold of required tests (unidimensionality, convergent validity, internal consistency, and discriminant validity). The reliability and validity of constructs must be established in the exploratory nature of this study (Bacharach 1989). Subsequent structural model assessment would be appropriate with the presence of a properly established measurement model (Fornell and Larcker 1981; Voorhees et al. 2016). For this reason, the next stage is to evaluate the structural path model in the current study.

5.3.2. Structural model evaluation

Following the measurement model validation, the next step is to assess the structural model of transfer pricing behaviour to provide robust evidence on the theoretical framework used in the current study. The structural model depicts the relationships between latent variables according to the extended relevant theories or concepts. The structural model evaluation was conducted using a 5,000-bootstrap subsample with a 95% confidence interval, as recommended in the literature (Hair et al. 2022).

Further, because this study assumes a confidence interval, there should be a determination of the tail in the distribution of the dataset (Risher and Hair Jr 2017). Instead of using the two-tailed test, this study incorporates a one-tailed *p*-value to test the significance of hypotheses and path coefficients. According to Kock (2015), where the direction and sign of hypotheses can be connected based on prior knowledge or a particular theory, then a one-tailed test is recommended. The present study assumes the direction of the association between variables in the development of hypotheses, as indicated in Chapter 1. Thus, a one-tailed approach should be performed (Risher and Hair Jr 2017; Cepeda-Carrion et al. 2019b).

Before initiating the structural model evaluation, a concise SmartPLS graphic output is presented in Figure 5.1. It shows the overall path model with all constructs

⁵⁶The highest value of HTMT is 0.814 which belongs to a correlation between Norm and Attitude. However, this value is not exceeding the 0.850 threshold.

and their associated indicators, relationships between constructs, outer loadings, path coefficients, and R^2 value. The complete explanations of the structural model are described in the following sub-sections.

5.3.2.1. Collinearity

The first step in evaluating the structural relationships is the presence of collinearity. It occurs when predictor constructs are strongly correlated (Hair et al. 2021, p.93). Further, collinearity is assessed using the variance inflation factor (VIF), and as a rule of thumb, a VIF less than 3 indicates no collinearity problem (Hair et al. 2019b; Hair et al. 2021, p.123). If there is an issue with collinearity, removing the corresponding predictor constructs is acceptable (Hair et al. 2022, p.159). The exploration of VIF outcomes is shown in Table 5.13.

The outcomes stipulate that no collinearity issue was found in the model, as the value of VIF is below 3 in all items. The results confirm that items explored in this study belong to their associated constructs without any strong correlation with other constructs. Therefore, the next step, which deals with the path coefficients, is ready to analyse.

5.3.2.2. Path coefficients: significance, size, and sign

Once collinearity is not an issue, the next stage is assessing the path coefficients and their significance and relevance. Path coefficients represent hypothesised relationships among latent variables in the study (Hair et al. 2022), which were derived from the bootstrapping method. Subsequently, bootstrapping generates a basis for calculating a t-value and confidence interval of the relationships between constructs (Streukens and Leroi-Werelds 2016). As the current study employs a 5% significance value, a path coefficient is significant if zero is not within the 95% confidence interval value (Aguirre-Urreta and Rönkkö 2017). Moreover, from the t-value perspective, the significant coefficient can be concluded if the empirical t-value from the analysis exceeds the critical value of 1.65 at a 5% significance level and one-tailed test (Hair et al. 2022).

Additionally, at the 5% significance level, if the p-value is below 0.05, it indicates that the relationship is significant. All three measures of the t-value, p-

value, and confidence interval should be reported in the path model results (Hair et al. 2022, p.197).⁵⁷ After assessing the significance of the path model, the next step is to examine the relevance of significant relationships in terms of the size and sign of the path coefficients. The path coefficients usually span between -1 and +1, with the values closer to ± 1 indicating strong positive or negative relationships among variables (Latan 2018; Hair et al. 2021, p.189). Further, SmartPLS automatically provides standardised path coefficients.⁵⁸ The results of the significance and relevance of path coefficients in this study, using bootstrapping analysis with 5,000 iterations, are presented in Table 5.14.

a) The effect on behavioural intention

For the tax auditors' behaviour model, Table 5.14 confirms the statistical significance at the 0.05 level for all independent latent variables (attitude, subjective norm, and perceived behavioural control) associated with the dependent variable of behavioural intention to conduct a transfer pricing audit. The path coefficient estimates in the model related to the tax auditors' intention range from 0.160 to 0.423. Moreover, the PBC construct has the highest coefficient ($\beta=0.423$, $t=4.660$, $p<0.01$).⁵⁹ Also, the three constructs displayed the expected positive sign of path coefficients.

b) The effect on actual behaviour

In terms of the variable of interest in this study, Table 5.14 indicates that all constructs, except defiance posture, have statistically significant path coefficients. Deference posture ($\beta=0.430$, $t=4.394$, $p<0.01$) has the highest coefficient among other constructs associated with the tax auditors' actual behaviour on transfer pricing. While the defiance variable showed a negative and inconclusive outcome ($\beta=-0.066$, $t=0.908$, $p>0.05$), the other three variables of deference posture,

⁵⁷The interpretation of the confidence interval is if zero is not within the value of 95% confidence interval then the relationship is considered significant (Hair et al. 2022).

⁵⁸According to Hair et al. (2021a, p.118), standardised coefficient means "the changes in an endogenous construct's values that are associated with standard deviation unit changes in a certain predictor construct, holding all other predictor constructs constant".

⁵⁹The result indicates that when the predictor construct of perceived behavioural control increases by one standard deviation unit, the behavioural intention will increase by 0.423 standard deviation unit, when everything else remains constant (Hair et al. 2019a; Hair et al. 2022, p.197).

perceived knowledge, and behavioural intention indicated positive relationships, as hypothesised in this study. The meaningful interpretation of path coefficients depends on the research context and requires other measurements to examine the structural model results (Hair et al. 2021a). The following section discusses the explanatory power of R^2 and the f^2 effect size to offer alternative perspectives of the structural model relationships.

5.3.2.3. Coefficient of determination (R^2 value)

Another measure to evaluate the structural model is the coefficient of determination (R^2), which assesses how much variance of the dependent (endogenous) variable is explained by the independent (exogenous) variables (Hair et al. 2021a). It also indicates the in-sample predictive power (Rigdon 2012) and spans between 0 and 1.⁶⁰ The value of R^2 in the current study is presented in Table 5.15.

The outcome of the analysis stipulates that there are two different kinds of coefficients of determination, the R^2 and adjusted R^2 . While R^2 shows the level of variance based on the constructs used in this study, the adjusted R^2 accounts for the number of explanatory variables in the model (Wang et al. 2023) and is generally used in explanatory research (Henseler 2018). Note that the difference between the original R^2 and adjusted R^2 may not be very pronounced. The adjusted R^2 takes the model complexity and sample sizes into account for calculation (Hair et al. 2022). In addition, the adjusted R^2 penalises the PLS-SEM model complexity by adjusting the original value of R^2 when additional variables are added to the model and removes the insignificant variable in the model (Hair Jr et al. 2014). For this reason, the value of the adjusted R^2 is slightly lower than the R^2 , and the interpretation of the coefficient of determinant should be based on the adjusted R^2 (Hair Jr et al. 2014, p.113; Hair and Alamer 2022, p.8).

For example, the results of the R^2 analysis in this study revealed that the R^2 for the dependent variable intention was 0.399, and the adjusted R^2 was 0.398. Further, the R^2 for dependent variable behaviour was 0.473, and the adjusted R^2 was

⁶⁰The difference between the R^2 and the path coefficients is that R^2 depicts in-sample model fit or model explanatory power for the overall constructs in the model, while the path coefficients capture the strength of the contribution for each of the independent variables explaining dependent variable (Benitez et al. 2020; Hair et al. 2021a).

0.458. Based on these two results, the original R^2 is somewhat higher than the adjusted R^2 . One possible reason is that one construct, defiance posture, has an insignificant path coefficient. Hence, the value of the original R^2 is reduced and is preferable as an indicator of how much variance of the dependent variable is explained by the independent variables.

Furthermore, the interpretation of the R^2 values depends on the relatively similar research background with the same dependent construct and the research discipline, as there are no agreed-upon rules of thumb (Sharma et al. 2019; Hair et al. 2022). For a less understood research area, as the present study employs, a relatively lower R^2 is acceptable (Benitez et al. 2020). In the current study, the intention endogenous construct has an R^2 of 0.399, and the behaviour construct produced an R^2 value of 0.473.⁶¹ These two values of R^2 can be compared to the R^2 values in other studies around the tax research using the same theoretical framework, such as 0.594 (Langham et al. 2012b), 0.259 to 0.474 (Smart 2013), and 0.397 (Bani-Khalid et al. 2022a). As such, the R^2 values in this study can be concluded to be satisfactory for evaluating the in-sample predictive power of the transfer pricing behaviour.

In addition, following the “rough” criteria from Chin (1998) on similar research around the Theory of Planned Behaviour, the R^2 values between 0.33 and 0.67 are considered moderate. It indicates adequate coverage of behavioural intention and actual behaviour of a transfer pricing audit explained by the associated constructs in this study. In the context of social science research, the R^2 values around 0.40 to 0.50 are acceptable if most path coefficients are significant (Ozili 2023b). In this study, most independent constructs (intention, deference, and knowledge), except defiance, were statistically significant in explaining the behaviour construct. Thus, it can be concluded that the R^2 in the current study was moderately satisfactory in evaluating the structural model of the transfer pricing audit behaviours.

⁶¹It means the variance of independent variables of attitude, subjective norm, and perceived behavioural control counted for 39.9% to explain tax auditors' behavioural intention to conduct transfer pricing audit. Further, the variables of behavioural intention, deference posture, defiance posture, and perceived knowledge contributed 47.3% of variance in the dependent variable of behaviour.

In another study, Cohen (1988) argued that the R^2 value of 0.26 of the endogenous constructs can be considered substantial. From this perspective, the R^2 values established in the current study have significant explanatory power of the tax auditors' behaviour derived from the exogenous variables of intention, perceived knowledge, defiance posture, and deference posture. While there are slightly different interpretations of the R^2 values, the overall position can be summarised. Lastly, the R^2 values should be greater than 0.10 to be deemed as sufficient in explaining variance in the dependent construct. (Falk and Miller 1992b). The results of the R^2 analysis in the current study supported this argument.

5.3.2.4. Effect size (f^2)

Cohen's f^2 is another measure to evaluate the contribution of an exogenous construct in explaining an endogenous variable (Hair Jr et al. 2014). As noted by Hair et al. (2021a), the order of the f^2 effect size of independent constructs associated with the dependent construct is likely comparable to the size of path coefficients. As such, the two measures (f^2 and path coefficients) can be displayed side-by-side to evaluate their relevance to evaluate the structural model in this study. The f^2 and path coefficients values in a rank order for the present study are displayed in Table 5.16.

The results stipulate that the rank order of f^2 is similar to the path coefficients. It indicates that the relevance of the two values is the same in explaining the variance in the dependent variable. Further, the categories of the effect size follow the guidelines by Cohen (1998), who argued that the f^2 values of 0.02, 0.15, and 0.35 indicate small, medium, and large effects. The value less than 0.02 stipulates no effect. For example, deference posture, which has the highest path coefficient ($\beta = 0.430$), explains the tax auditors' behaviour and has a substantial effect ($f^2 = 0.366$). It is defined as omitting this variable from the model, leading to a high f^2 value (Hair Jr et al. 2014). That is, deference posture strongly contributes to explaining a dependent construct of behaviour. The same interpretation also applies to the defiance construct, which shows no effect and has the lowest path coefficient in the model. For the endogenous construct of intention, there were only two categories of the f^2 effect size: small and medium effects. The perceived behavioural control has the highest path coefficient ($\beta = 0.423$) with a medium effect ($f^2 = 0.234$), while attitude and subjective norms have small effects with slightly lower coefficients.

5.3.2.5. Predictive relevance: PLSpredict

Previous analysis revealed that, in general, the transfer pricing audit behaviours' model developed in this study has good explanatory power in terms of the statistical parameters (significance, size, and direction), the value of R^2 , and the f^2 effect size. The explanatory power is briefly defined as “the strength of association indicated by a statistical model” (Shmueli and Koppius 2011, p.561). However, these outcomes indicate only the in-sample (Chin et al. 2020), or the same sample data (Hair and Sarstedt 2021), and not for the out-of-sample observations.⁶²

To assess the out-of-sample predictive power for future observations (Hair et al. 2021b), this study analysed the PLSpredict as suggested by recent literature (Shmueli et al. 2016; Shmueli et al. 2019; Guenther et al. 2023; Wang et al. 2023).⁶³ Table 5.17 and Table 5.18 expose the results for PLSpredict for indicators, or manifest variables (MV), following a framework developed by Shmueli et al. (2019).

Firstly, Table 5.17 indicates that the $Q^2_{predict}$ (prediction error) values are all positive, which means that the model has higher predictive power compared to the naïve prediction benchmark of the linear model (LM) (Wang et al. 2023). Once the value of $Q^2_{predict}$ is confirmed above zero, the next step is to assess the relevant prediction statistic (Shmueli et al. 2019). In this stage, the value of prediction errors of PLS-SEM will be compared to the naïve LM. However, the critical part is determining whether the analysis will be using RMSE or MAE as the basis. To answer this concern, Shmueli et al. (2019, p.2329) proposed guidelines using the distribution of prediction errors. If the prediction errors are asymmetrically distributed, then RMSE should be used. Otherwise, MAE will be corroborated. The visual inspections of the prediction errors of manifest variables, behave1 and intent1, are shown in Figure 5.2 and Figure 5.3.

The plots of prediction error confirm the slightly non-normal distribution, which the results of the Kolmogorov–Smirnov also suggest, as described in the nNormality test section (behave1: $t = 0.343$, $p < 0.001$; intent1: $t = 0.327$, $p < 0.001$). If scrutinised further, the prediction error distributions of PLS-SEM and LM corresponded closely.

⁶²Out-of-sample means the new cases for forecasting accuracy (Tashman 2000; de Rooij et al. 2023)

⁶³Please refer to Predictive relevance: PLSpredict, for the explanation of this term

Therefore, the findings revealed that the appropriate basis should be RMSE to evaluate the out-of-sample predictive power (Danks and Ray 2018; Shmueli et al. 2019). Furthermore, the following step is to compare the prediction error values of the PLS-SEM RMSE and naïve LM RMSE for all manifest variables (MV), as shown in Table 5.18 – PLSpredict evaluation.

Based on Table 5.18, it can be summarised that the prediction errors in PLS-SEM RMSE were lower compared to naïve LM RMSE benchmark for all the manifest variables. For example, indicators behave1 and behave2 have PLS-SEM RMSE values of 0.524 and 0.592, in comparison to LM RMSE values of 0.576 and 0.641. The variances are slightly noticeable in variables intent1 and intent2, which have PLS-SEM RMSE outcomes of 0.635 and 0.840, in contrast to 0.723 and 0.918 for LM RMSE. Further, lower differences were presented for behave4 and intent3, equal to -0.008 and -0.0033. As a result, according to these findings, the transfer pricing audit behaviour model in the current study has high predictive power for the out-of-sample future observations (Shmueli et al. 2019).

5.3.2.6. Predictive relevance: CVPAT

Other than PLSpredict, one way to evaluate the out-of-sample predictive power in PLS-SEM is using the cross-validated predictive ability test (CVPAT) (Liengard et al. 2021), which was discussed in Chapter 4. While the PLSpredict uses indicators, items, or manifest variables associated with the endogenous construct, CVPAT focuses on the prediction assessment of the constructs or latent variables (Ringle et al. 2023). The model's predictive power was then further advanced by Sharma et al. (2023). The extended version of CVPAT capabilities allows the comparison of a single model, as the current study implies, with the naïve benchmark to assess the proposed model's predictive accuracy (Sharma et al. 2023, p.1663). The results for the CVPAT analyses are presented in Table 5.19 and Table 5.20.

The assessment of the predictive accuracy for all endogenous latent variables (the overall model) in the current study, as shown in Table 5.19, indicated that the overall model and all endogenous constructs have lower average loss (PLS loss) compared to the naïve benchmark of indicator average (IA loss), as displayed in the negative loss difference. Also, the model has a p -value of 0.001 ($p < 0.05$) for all

parameters. It means that the predictive validity for the transfer pricing behaviour model in this study is supported, and the PLS path model has predictive capabilities (Sharma et al. 2023). Next, the PLS model is compared to the linear model benchmark (LM) to assess the predictive accuracy (Shmueli et al. 2019). The outcomes of the comparison between PLS and LM losses are presented in Table 5.20.

The observation of PLS-SEM and LM losses in Table 5.20 exhibited similar outcomes as in the PLS-SEM and IA in Table 5.19. All parameters in PLS-SEM displayed lower average loss than the LM model, as shown in the negative loss difference, with a statistically significant effect ($p < 0.05$ for all parameters). The two findings using IA and LM as benchmarks confirm the strong predictive validity (Shmueli et al. 2019; Sharma et al. 2023). Because the PLS-SEM loss in the two analyses beats the naïve benchmark, it can be concluded that the transfer pricing audit behaviour model in the current study meets the strong standard of predictive capabilities to explain the tax auditors' behaviour.

Further, the integration of the two approaches of PLSpredict and CVPAT is recommended in the literature to be reported in the PLS-SEM study (Cheah et al. 2023). PLS-SEM was generally developed as a prediction assessment of the model, similar to multiple regression analysis (Hair and Alamer 2022). Hence, investigating the predictive capability and predictability of the hypothesised model is critical in a PLS-SEM study (Alamer and Alrabai 2023).

5.3.2.7. Model fit indices

The last assessment of the PLS-SEM model evaluation is the model fit indices, which evaluate the quality of the PLS-SEM model's prediction of the dependent construct, as described in Chapter 4. The results for the model fit assessment in the current study are displayed in Table 5.21.

The results show that the model in the current study has a good fit, supported by two measures: the SRMR value of 0.068 and d_G value of 1.237, which are included in the 95% and 99% confidence intervals. While the d_ULS indicated a non-fit model, the other two values are sufficient to conclude that a good model fit is presented in this study (Ziggers and Henseler 2016). It can be concluded that the transfer pricing behaviour model in this study fulfils the requirement of measuring

and evaluating the path model, indicates good predictive power, and represents a good model fit.

5.4. Hypothesis testing

This section articulates the hypotheses testing derived from the established path coefficients, as described in subsection 5.3.2.2. Once the measurement and structural path model has provided adequacy for the overall fit, the evaluation of the hypothesised model can be determined (Smart 2013). The outcomes of hypothesis testing in this study are shown in Table 5.22, which is a summary of hypothesis testing. The table presents the statistical outcomes for the hypothesised transfer pricing behaviour model in the current study. From the results, it can be summarised that out of five, only one hypothesis was rejected at the 0.05 level. Three relationships showed a strong significance level with the p -value < 0.01 . The complete outcomes for the path coefficients were presented in the section 5.3.2.2

Hypothesis 1 (H1): Tax auditors' attitude, subjective norms, and perceived behavioural control are positively associated with their behavioural intention to conduct a transfer pricing audit.

This hypothesis was fully supported for all three associated relationships and displayed a positive effect: attitude ($\beta = 0.201$, $t = 2.127$, $p = 0.017$), subjective norms ($\beta = 0.160$, $t = 1.811$, $p = 0.035$), and perceived behavioural control ($\beta = 0.423$, $t = 4.660$, $p = 0.000$). This finding supports the theoretical framework of the TPB that the tax auditors' behavioural intention to conduct a transfer pricing audit is positively associated with their personal beliefs on the importance of such audits (attitude), a positive influence from other people within the tax audit group (subjective norms), and the level of an individual's control to perform the audit (perceived behavioural control), as stipulated by the literature (Fishbein and Ajzen 1975; Ajzen and Fishbein 1980; Ajzen 1991).

Hypothesis 2 (H2): Tax auditors' behavioural intention is positively associated with their behaviour to conduct a transfer pricing audit.

Similar to hypothesis 1, the result in hypothesis 2 was also supported and indicated a statistically positive association between the tax auditors' behavioural intention to conduct transfer pricing audit with their actual behaviour ($\beta = 0.186$, $t =$

2.153, $p = 0.016$). This finding is consistent with the TPB, which postulates that an individual's intention is the immediate antecedent of behaviour (Ajzen 1991).

Hypothesis 3 (H3): Tax auditors' perception of tax professionals' knowledge of transfer pricing is positively associated with their behaviour to conduct a transfer pricing audit.

This hypothesis captures the relationship between the tax auditors and the taxpayers, specifically regarding the transfer pricing issue. The outcome indicated a significant effect of association between the tax auditors' perception and their behaviour to conduct transfer pricing audit ($\beta = 0.223$, $t = 3.190$, $p = 0.001$). The finding suggests that the more knowledgeable the tax auditors perceive the tax professionals working at MNEs, the greater their chance of being scrutinised for transfer pricing arrangements during the tax audit. This hypothesis is the extension of the TPB model, which shows the importance of these two parties (the tax auditors and the taxpayers) in the tax system that may affect tax behaviour (Langham et al. 2012b).

Hypothesis 4 (H4): Tax auditors' deference posture is positively associated with their behaviour to conduct a transfer pricing audit.

This hypothesis addresses the relationship between the tax auditors' positive motivational posture and their behaviour in conducting transfer pricing audits. The finding supported the relationship ($\beta = 0.430$, $t = 4.394$, $p = 0.000$). The result indicated a strong positive association between the two parameters, defiance posture and behaviour. This finding suggests that the tax auditors' close social distance with the tax authority (DGT) positively affected their behaviour to conduct a transfer pricing audit (Braithwaite et al. 1994; Braithwaite 1995). Hence, DGT's support and assistance are critical to managing a close social distance with the auditors. The emergence of a deference posture in the transfer pricing model to explain the tax auditors' behaviour supports the exploratory nature of the current research.

Hypothesis 5 (H5): Tax auditors' defiance posture is negatively associated with their behaviour to conduct a transfer pricing audit

In contrast with the deference posture, hypothesis 5 depicts a greater social distance placed between the tax auditors and DGT. The finding for defiance posture

revealed a non-significant association between defiance posture and behaviour ($\beta = -0.066$, $t = 0.908$, $p = 0.182$). This result posited a conclusion that the tax auditors' resistance and disengagement to conduct transfer pricing audit, while displaying a negative sign of relationship as expected, were not significantly affecting their behaviour. Concerning the different results of deference and defiance postures in explaining the tax auditors' behaviour, it can be concluded that social distance is only relevant for the tax auditors who are fully committed and capitulated to conduct a transfer pricing audit.

In summary, the empirical data fully supported the majority of hypotheses in this study, as described in the following explanation, to answer the quantitative research questions.

Research question:

Do perceptions of attitudes, subjective norms, and perceived behavioural control as posited in the Theory of Planned Behaviour influence the tax auditors' intention to conduct a transfer pricing audit, which subsequently affects their behaviour?

Answer:

Yes, the tax auditors' attitude, subjective norm, and perceived behavioural control affect their intention to conduct a transfer pricing audit. Subsequently, their intention is also associated with their actual behaviour in conducting such audits (refer to the statistical significance outcomes of hypothesis 1 and hypothesis 2).

Research question:

Do the tax auditors' perceptions of the tax professionals' knowledge of transfer pricing regulations influence their behaviour in conducting transfer pricing audits?

Answer:

Yes, the tax auditors' perception of tax professionals' knowledge affects their behaviour when conducting transfer pricing audits (refer to the statistical significance outcome of hypothesis 3).

Research question:

Does social distance, as noted in Motivational Postures theory, placed between the tax auditor and the tax authority influence transfer pricing audit behaviour?

Answer:

Partially, yes. Only the deference posture affects the tax auditors' behaviour when conducting transfer pricing audits (refer to the statistical significance outcomes of hypotheses 4 and 5).

5.5. Robustness check

After conducting all the tests to ensure the validity of the PLS-SEM model and answering the research hypotheses developed in the current study, the last step in the evaluation of the PLS-SEM model is conducting one or more robustness tests to clarify the stability of the measurement and structural models (Hair et al. 2019b). The kinds of robustness tests are subject to research context, such as research objective, sample size, and data availability. These tests are critical to ensure the robustness of estimates. Hence, as Latan (2018) stated, "these issues must be urgently addressed, and reported in the results of PLS-SEM".

In general, there are three robustness checks suggested in PLS-SEM research: nonlinear effect, endogeneity, and unobserved heterogeneity (Sarstedt et al. 2019). However, the present study evaluates only two robustness checks due to their relevance to the research context. The relevant two tests are linearity and heterogeneity assumptions. As for the endogeneity issue, this test is not applicable for the present study because the nature of this study is more predictive than explanatory (Hult et al. 2018). Endogeneity is not an issue in causal-predictive research (Hair et al. 2019b). Also, endogeneity testing in PLS-SEM requires sample sizes of more than 200 observations as a threshold to detect the endogeneity problem (Becker et al. 2022), which may not be the case in the present study.

5.5.1. Nonlinearity test

Similar to the assumption in regression analysis, relationships among constructs in PLS-SEM are expected to be linear. When the relationships are linear, the magnitude and effect size between exogenous and endogenous constructs depend only on the change in the exogenous construct (Hair Jr et al. 2024). Therefore, nonlinearity underestimates the relationships between constructs in the

model (Basco et al. 2022). To assess nonlinearity, a prominent technique called the regression equation specification error test (RESET) can be employed (Ramsey 1969). The Ramsey's RESET test is applicable to assess nonlinearity in the PLS-SEM (Latan 2018; Svensson et al. 2018) and has been corroborated in many PLS-SEM studies (Sarstedt et al. 2019).

In brief, the RESET test formulates that no non-linear functions of the independent variables should be significant when added to the model (Baum 2015). Further, the test evaluates the misspecification of the linear relationship between the independent and dependent variables in the model (Wooldridge 2003). The general idea of the RESET test is that if the relationship between variables in the model violates nonlinearity, the model is considered misspecified. Therefore, it is better to approximate the relationship in any other form of polynomials, such as quadratic or cubic (Wooldridge 2020). The outputs of the RESET test using SPSS version 17 (IBM Corp 2020) are displayed in Table 5.23 and Table 5.24. In SPSS, the RESET test captures the difference in the R^2 value between the original model (assumed to be linear) and the adjusted model (assumed to be nonlinear). If the change in the R^2 has a p -value less than the 5% threshold, the result is statistically significant. As such, it can be interpreted that the relationship between independent and dependent variables is not linear (Sarstedt and Mooi 2019).

From the model summary in Table 5.23 and Table 5.24, the relevant interpretation for the linearity RESET test is to evaluate whether the R^2 value is significantly changed from model 1 (the original model) and model 2 (the additional model containing the quadratic and cubic prediction power). The outputs suggest that the change in R^2 is not significant, both for the relationship between attitude, norm, and PBC with intention (R^2 change = 0.008, p = 0.860) and the relationship between intention, knowledge, deference, and defiance with behaviour (R^2 change = 0.012, p = 0.090). Thus, it can be interpreted that the PLS-SEM model in this study is subject to linearity (Sarstedt et al. 2019).

5.5.2. Unobserved heterogeneity

Unobserved heterogeneity deals with the presence of subgroups that have different estimates from the main group in the PLS-SEM model (Sarstedt et al. 2019). In another view, dealing with unobserved heterogeneity means differences

between groups cannot be estimated a priori in the model, mainly when assessing humans' attitudes and behaviours (Mehmetoglu and Venturini 2021). If unobserved heterogeneity occurs, estimating PLS-SEM results based on the whole sample is misleading (Becker et al. 2013). Additionally, observing the heterogeneity has been a concern in the PLS-SEM study (Sarstedt 2008). Hence, performing a robustness analysis to ensure there are no different estimates in any subgroup of data is essential in any PLS-SEM studies.

One of the notable tools to assess unobserved heterogeneity is finite mixture PLS – FIMIX PLS (Hahn et al. 2002), which determines the number of segments or groups in the model using information and classification criteria (Sarstedt et al. 2011; Vaithilingam et al. 2024). However, FIMIX PLS poses limitations because it assumes strict assumptions of normality in latent variables (parametric approach), which the PLS-SEM model may not encounter (Mehmetoglu and Venturini 2021). Further, FIMIX PLS is less capable of detecting the number of segments when heterogeneity is present (Vaithilingam et al. 2024). Another approach is introduced to estimate and detect unobserved heterogeneity. One of the methods is the response-based unit segmentation in the PLS-SEM approach (REBUS-PLS) (Esposito Vinzi et al. 2008) in which the present study aims to employ.

The idea of REBUS-PLS is the same as cluster analysis, capturing the global model using the whole sample.⁶⁴ Then, the residual of the global model is computed and assigned to the corresponding groups identified in cluster analysis (Mehmetoglu and Venturini 2021). It is expected that group stability will be achieved during the REBUS-PLS analysis. It can be assessed using the Global Quality Index (GQI) to evaluate the endogenous constructs' partition quality (Trinchera 2007). The GQI is then compared to GoF in the PLS-SEM model to assess the heterogeneity. If GQI is greater than GoF, heterogeneity is assumed to be present in the model (Venturini and Mehmetoglu 2019). In addition to GQI, the quality of groups' partition in REBUS-PLS is also validated using a permutation test (Mehmetoglu and Venturini 2021). If the p-value of this test is less than 0.05, heterogeneity is assumed in the model. As

⁶⁴Cluster analysis can be defined as a method to segment and identify homogenous characteristics of a group of objects, cases, or observations (Sarstedt and Mooi 2019). These groups are called clusters and the characteristics of the objects in one cluster should be as similar as possible. In the context of REBUS analysis, the clusters consist of observations or samples of the study.

such, the significance of the GQI and permutation should be aligned. The results of REBUS analysis and the permutation test with 1000 replications to detect unobserved heterogeneity are presented in Table 5.25.

The REBUS test outcomes display that two classes were identified, Class_1 consisting of 66 samples (47.8% of total observations) and Class_2 with the remaining samples of 72 (52.17% of total samples). The automatic identification of the two classes was almost identical in numbers. The quality of the two partitions can be evaluated using the GQI value combined with the subsequent permutation test. It can be concluded that the GQI value (0.5845) was greater than the goodness of the global model (0.513), indicating evidence of the unobserved heterogeneity (Esposito Vinzi et al. 2008; Mehmetoglu and Venturini 2021). In addition, the permutation result for the GQI has a significant value (p was reported as 0.000), confirming the goodness of the partition (Mehmetoglu and Venturini 2021). Figure 5.4 shows the empirical distribution of the GQI (1000 replications), which visualises the comparison between GQI and the goodness of the global model.

5.6. Conclusion

In summary, this section explored the assessment of the preliminary analysis for survey results, evaluation of the measurement and structural models, hypotheses testing, and robustness checks. The initial analysis mostly dealt with the description of sample characteristics, the normality test, and the descriptive statistics. Further, the analysis also involved the assessment of nonresponse bias and the covariance matrix among constructs. Next, as for the measurement and structural evaluation, the evaluation was conducted using a bootstrap technique with 5,000 iterations provided by the SmartPLS software to ensure the validity and consistency of the outcomes.

In the measurement model evaluation, a series of procedures were corroborated to test the reliability and validity of the instruments in the current study, such as unidimensionality, convergent validity, internal consistency, and discriminant validity. Once the results from these analyses were established under a certain threshold, the structural model quality was evaluated. The objective of this step was to ensure no significant collinearity issue among variables, to assess the significance of the path coefficients, the effect size of the relationship among constructs, the

predictive power of the model, and the quality of the model fit developed in this study.

The findings from these evaluations suggest that the measurement and evaluation criteria were aligned with accepted thresholds and adequate for further analyses. For example, unidimensionality using the principal component analysis and convergent validity in the form of the factor loadings and AVE were achieved after elimination of two indicators (att4 and control4). Subsequently, the internal consistency of the constructs was established using the Cronbach's alpha of more than 0.60 and the composite reliability above 0.70 for all constructs. Next, the discriminant validity has been established by the HTMT value of less than 0.85.

Moreover, the VIF value of all indicators was below 3, which indicated no significant collinearity issue. Following this result, the assessment of the path coefficients suggested that six out of seven relationships between constructs were statistically significant (p -value < 0.05). The measures of corresponding values of R^2 and f^2 effect size stipulated good acceptance. Lastly, the predictive relevance using PLSpredict and CVPAT indicated high predictive power.

The above findings were then connected to the hypothesised model developed in the current study. In general, hypotheses 1, 2, 3, and 4 were supported by the empirical data, showing the relevant predictors of behaviour in the model, except for hypothesis 5, which had a contrasting result. These results mean that variables of behavioural intention, perceived knowledge, and deference posture were associated with the actual behaviour of the tax auditors in DGT to conduct a transfer pricing audit. To conclude this section and to maintain the quality of the findings and the structural model in this study, robustness checks for linearity and unobserved heterogeneity were conducted. The results showed that the model in this study fulfilled the requirements of both tests.

Chapter 6 Thematic Analysis: Reflexivity, Themes, and Subthemes Description

6.1. Introduction

This chapter outlines the analytical results in the form of qualitative themes using the reflexive thematic analysis developed by Braun and Clarke (Braun and

Clarke 2006; Braun and Clarke 2012; Braun and Clarke 2019; Braun and Clarke 2022). This approach emphasises the active role of the researcher in shaping research design and analysing qualitative datasets in which the themes are constructed (Braun and Clarke 2019). After this section, section 6.2 explains the themes and subthemes exploration to answer relevant research questions. Lastly, section 6.3 concludes this chapter.

6.2. Research questions, research themes, and subthemes

6.2.1. Research question 1: How do the tax auditors perceive transfer pricing audit?

To answer research question 1, two themes, with some explorations of subthemes, emerged from the interview data, which are discussed in the following subsections.

6.2.1.1. The spectrum of intention

This theme represents different elements of intention to conduct a transfer pricing audit captured from the tax auditors' voices and stories. Intention is the underlying motivation or commitment each individual has to perform a certain behaviour (Conner and Norman 2022), which, in the sense of this study, means performing a transfer pricing audit. According to the Director General of Taxes regulation number PER-22/PJ/2013 concerning audit guidelines for the taxpayers having special relationships, there are three main stages to instigate a transfer pricing audit: preparation, implementation, and reporting. All of these stipulate different procedures that should be followed by tax auditors when analysing intercompany transactions during a transfer pricing audit.

The findings revealed that the tax auditors' behaviour in scrutinising transfer pricing manifested different types of intention. As such, intention is the salient point noted from the interview to explain the tax auditors' behaviour. Within the transcripts, intention can be identified in the tax auditors' internal driver to conduct a transfer pricing audit. It means intention is independent of other conditions. On a related note, the presentation of intention can also be achieved depending on other factors. Concerning these facts, there are three subthemes emerged to answer research question 1.

6.2.1.1.1. Conditional intention

This subtheme depicts the tendency to perform a certain action if a specific condition is presented. It focuses on the perceived social pressure that the tax auditors have to perform the behaviour. It may be in the same manner as the subjective norm in the Theory of Planned Behaviour (Ajzen 1991) when the motivation to perform certain behaviour is the outcome of the social expectation of different stakeholders (Li et al. 2023).

The influence of social pressure comes from different perspectives. The tension between the role of the supervisor and/or the head of a tax office in enforcing transfer pricing audit and the tax auditors' personal choice can be seen in some extracts stated in the following:

I think the critical role for the tax audit team to handle TP is the supervisor. The supervisor will determine the scope of the audit, which is known as an audit focus. If our supervisor has stated in an audit plan that we need to scrutinise TP, then whether we like it or not is irrelevant because we have to do it.

(TA29, junior tax auditor with 10 years of audit experience).

In foreign investment tax units, we are forced to handle TP audits, and the supervisor is likely to include them in the audit plan.

(TA30, supervisor with 20 years of audit experience).

The supervisor needs to scrutinise MNEs' affiliated transactions as part of the audit focus. So, if the supervisor finds transactions between MNE members, TP is likely to be scrutinised during the audit.

(TA9, team leader with 20 years of audit experience).

In the end, as much as we do not want to handle the TP audit, if our superior (the head of the tax office) forces us to do it, we will do it. It is a command, even though the audit results may not be very appealing.

(TA16, junior tax auditor with 13 years of audit experience).

Reflecting on the above transcriptions, behaviour that is perceived as complex, like conducting a transfer pricing audit, can be viewed as a result of peer

pressure or intervention in the tax audit environment. This result implies social pressure, or subjective norm, as a factor influencing intention to perform one's behaviour (Ajzen 1991; Li et al. 2023). The terms social pressure and subjective norm may have an overlap in meaning, and both are perceived as predictor of behavioural intention (Kristensen et al. 2023). In the present study, this is considered as conditional intention because the performance of such behaviour is likely to happen if a certain condition obtains, or it might not happen because a specific condition cannot be obtained. In this case, the conditions that are dependent for the tax auditors' intention can be seen as the presence of transfer pricing audit focus, formal written of transfer pricing audit plan, and the enforcement from supervisor and the head of tax office, as shown in the excerpts from TA29, TA30, TA9, and TA16.

In addition, the tax auditors, particularly the team leader and the junior tax auditor, were intended to perform a transfer pricing audit at the order of their supervisor or superior. It was not something they perceived as critical to perform. As also noted by TA11, a junior tax auditor with 10 years of experience, *“for me, the reason I do the TP audit is because it is not an option. We are forced to do this type of audit.”* The unattractiveness of transfer pricing audit may be related to the barriers and challenges the auditors face in this type of audit. The nuances of challenges are further described in the next themes.

The discussions also circulated the effect of conditional intention on perceived transfer pricing audit quality. The reason was that the auditors did not have a sense of willingness to handle the transfer pricing issue due to its complexity, yet they are being pushed to do it. As transfer pricing deals with intricate MNEs' transactions and business models, there are many procedures and technical processes that need to be mastered by the tax auditors. In contrast, they felt that if the findings from the transfer pricing audit were brought to the tax court, DGT would mostly lose the cases. As TA28 mentioned:

One of the factors that hinders tax auditors from handling TP audits is the intricate step-by-step audit procedure. In contrast, DGT mostly loses during the appeal process in the tax court. The work is complicated, and yet the favour is not on our side in the trial. Some auditors feel that it is better for them to focus on non-TP audits.

(Supervisor, 25 years of audit experience).

Furthermore, the tax auditors' limitation in their ability to audit MNEs' transfer pricing arrangements was perceived by the tax professionals (written as TPRO) and tax consultants (referred to as TCON). The discussions with these actors extended the perception of illiterate tax auditors around the transfer pricing topic in DGT. Therefore, confirming the pressure around the transfer pricing audit intention. Some of the extracts derived from the interviews were that *"not all tax auditors have sufficient knowledge around transfer pricing and international taxation in the broadest term"* (TPRO1, senior tax manager), *"the highest percentage of the tax auditors in DGT do not fully understand the concept of transfer pricing due to different interpretation based on their subjective lens"* (TPRO7, tax compliance manager), *"the inconsistency and different level of understanding around the issue of TP between tax officers in DGT"* (TPRO6, finance director), and *"there are still a lot of knowledge about TP that actually need to be improved by the tax auditors"* (TCON3, transfer pricing specialist).

The above excerpts can be interpreted as the incidence of subjective norm around behavioural intention to conduct a transfer pricing audit. The auditors perform such an audit in response to other stakeholders' commands despite the lack of understanding from some of the auditors on transfer pricing. This raises a concern on challenges faced by the auditors as possible drivers to get themselves out of the transfer pricing audit. It can be said that the tax auditors would not have any intention to scrutinise transfer pricing if a specific condition, a good understanding of transfer pricing, is not met. And even if they are being pushed to do this audit, as TA16 stated, *"the results may not be very appealing"*. It can be interpreted that transfer pricing audit findings are likely to be challenged by MNEs in the tax litigation process. The decision in the trial is not "appealing" because, according to the data from the Directorate of Objection of Appeal, the success rate for transfer pricing cases is mostly in favour of the taxpayers (MNEs).⁶⁵ A junior tax auditor, TA17, confirmed this data by mentioning that:

The next factor is that we lose so many times during the appeal process in the tax court regarding transfer pricing disputes. Transfer pricing audits are very

⁶⁵It can be referred to Figure 3.12 DGT's winning rate on transfer pricing tax disputes.

challenging, yet we often lose in court. TP is not a simple concept, and it is not my personal preference to handle during a tax audit. Maybe it explains why the winning rate is in favour of the taxpayer.

From the above exploration, it can be concluded that conditional intention to conduct a transfer pricing audit is perceived to be related to many challenges faced by the auditors. The presence of relevant cues triggers this type of audit; as such, scrutinising MNEs' intrafirm transactions in the form of an audit can be translated as the fulfilment of certain conditions (focus audit, audit plan, knowledge, and enforcement). Therefore, the transcription reveals that the existence of intention to conduct a transfer pricing audit is not salient because it depends on other conditions.

6.2.1.1.2. Unconditional intention

Other than the conditional pattern, another spectrum of intention had emerged during the interview process, which is named unconditional intention. Unconditional intention forms an opposite tendency to conditional intention because the former produces intended action or a tendency to perform certain behaviour without prior condition (Audi 2003). The interview results identified the presence of unconditional intention, which drives the tax auditors to voluntarily conduct a transfer pricing audit. This mechanism can be linked to the attitude and perceived behavioural control under the Theory of Planned Behaviour (Ajzen 1991).

By having unconditional intention, the tax auditors perceived transfer pricing audit as something important to address and practically manageable to handle (Li and Wu 2019). Under conditional intention, the tax auditors intend to scrutinise transfer pricing if their supervisor asks them to do it through an audit plan document. In contrast, under unconditional intention, the presence of additional instruments such as a transfer pricing audit plan or an audit focus is irrelevant. This is because the tax auditors will perform a transfer pricing audit even without any cues due to their familiarity and understanding of the issue. For example, a participant commented:

The first thing to look at when conducting a transfer pricing audit is human capacity, which means the tax auditor's intention needs to be strong enough to better scrutinise it.

(TA1 – supervisor with 25 years of audit experience).

Based on the above information, it can be stipulated that a transfer pricing audit requires a strong self-intention to learn and handle this type of audit thoroughly, which sometimes can be challenging and time-consuming. Those who have a strong intention are likely to engage in behaviour and are self-instructing and committed to act (Sheeran and Webb 2016). The auditors who have a strong, unconditional intention to scrutinise transfer pricing are the ones with a good understanding, experience, and knowledge. The important notion of knowledge around transfer pricing for the tax auditors to support their voluntary action to conduct the audit was confirmed by a participant:

As time goes by, I get used to this type of audit...you know, the transfer pricing audit. All I need to do is do it, increase literacy around transfer pricing, and learning the transfer pricing cases. I think the tax auditors need to learn about transfer pricing and have self-efficacy and intention to handle the transfer pricing issue during the tax audit.

(TA6 – team leader with 19 years of audit experience).

Both TA1 and TA6 focused on the role of experience in increasing the tax auditors' unconditional intention to scrutinise the transfer pricing issue. This is consistent with the argument that experience leads to the power of intention to predict an individual's behaviour (Sheeran and Webb 2016, p.5). A more distinct perception appeared from one participant:

Personally, I prefer to have a TP audit instead of a non-TP audit, particularly for all the team members under my supervision, due to its critical role in protecting our tax base. In my opinion, experience is the key. The more we handle TP audits, the more we understand the pattern that every MNE has. Once we acquire the knowledge, our intention to do a TP audit will be strong.

(TA30 – supervisor with 20 years of audit experience).

From the above extracts, the expectation of the tax auditors to investigate transfer pricing arrangements by multinationals is derived from their attitude and commitment, which subsequently affects their unconditional intention to handle transfer pricing audits. The three participants shared a similar perception that transfer pricing audit requires complex analysis; as such, a strong self-intention is needed to drive their behaviour regarding transfer pricing. When discussing the tax

auditors' intention, different drivers emerged, such as to obtain a comprehensive analysis of MNEs' transactions (TA1), to streamline a level playing field around transfer pricing among the tax auditors, tax professionals, and tax advisers (TA6), and to protect the national interest (TA30). These findings demonstrate the relationship between an individual's intention and behaviour has many dimensions and spectrums (Conner and Norman 2022).

Another opinion emerged regarding the tax auditors' behaviour in conducting a transfer pricing audit. The data revealed that the tax auditors' self-driven intention to act and being intentional in scrutinising MNEs' intrafirm transactions was also driven by their perception that transfer pricing audits always lead to audit adjustments and stimulate critical thinking. As noted by TA11, a junior auditor, *"I personally prefer TP audit because most of the time the audit correction will be much higher than a non-TP audit, and I feel satisfied completing the TP audit."* Also, TA2, a tax supervisor who has been working for 13 years as an auditor, commented that based on his experience, *"transfer pricing audit mostly leads to audit correction or adjustment, and it happens in all types of industries, which makes transfer pricing interesting to investigate."*

In addition, another auditor, TA26, stated:

I prefer to conduct a transfer pricing audit because it is challenging. I learn many concepts and new knowledge, and I learn how to communicate and negotiate, particularly with the tax consultant. The more I do it, the easier it gets.

(TA26 – junior auditor with 10 years of experience).

Upon reflection based on the above evidence from interviewees, it can be summarised that transfer pricing is a complex issue that needs to be understood by tax auditors despite many challenges, such as time constraints, limited knowledge, and a lack of communication and negotiation skills. Their intention to carefully inspect transfer pricing arrangements in MNEs requires a series of experiences in handling the complicated business model of MNEs. The tax auditors' intention to further examine MNEs' transfer pricing practices may shift from conditional and enforced intention to unconditional intention through continuous learning and practicing the audit. As noted by TA26, *"the more, the easier"*. Concerning this

pattern, it is justifiable to say that the tax auditors' commitment to disseminate a thorough understanding of transfer pricing is a critical factor not to overlook. By doing so, it is expected that their unconditional intention to handle transfer pricing audits can be enhanced.

Furthermore, TA8, a supervisor who is also a transfer pricing trainer, contemplated that the expectation of the tax auditors to focus on transfer pricing issues is supported by the fact that the tax auditors have been given an understanding by the DGT of the importance of transfer pricing for the nation's tax system. DGT points out the importance of transfer pricing and, hopefully, enhances the tax auditors' self-intention to conduct transfer pricing audits. Further, according to TA8, job rotation needs to consider transfer pricing skills, which DGT can support for its job promotion and rotation policies. As such, increasing transfer pricing knowledge and boosting unconditional intention to handle transfer pricing is a mandatory action for the auditors.

6.2.1.1.3. Different roles, different drivers

The tax audit team in DGT does not work in isolation and is structured in a way that among the team members to cooperate and interact together. In general, the team structure in the audit function plays a critical role in maintaining the audit quality (Cameran et al. 2018). Other than conditional and unconditional intentions explored in previous subthemes, the evidence from the interview sessions showcased different drivers among audit team members that influence their perception of the transfer pricing audit. Across interviewees, many supervisors perceived that the main motivation to scrutinise transfer pricing was the analysis result of MNEs' intercompany transactions. The sources of analysis could be MNEs' tax returns, financial statements, transfer pricing documents, and compliance risk management outputs.

As for the team leaders, their perception to carefully examine MNEs' transfer pricing was mostly derived from mixed drivers between the analysis result, the need to collect more tax revenue, and the availability of a sufficient timeframe to finish the audit due to the work overload. Transfer pricing audit requires substantial work and precise time management; consequently, the team leaders' perception of MNEs' conditions and time constraints is relevant. Also, transfer pricing audit is perceived as an effective measure to collect more revenue from MNEs due to higher audit

adjustments. Lastly, from a junior tax auditor's perspective, the majority of participants commented on the availability of a sufficient timeframe to complete the audit. This pattern showed an interesting idea that the junior auditors were more concerned with their audit output rather than the analysis of MNEs' transactions. The following explanation illustrates the example of the quotes from each of the audit team members.

6.2.1.1.3.1. Tax audit supervisor

The analysis factor was firstly evident when TA4 discussed how he felt on the use of compliance risk management as a tool to scrutinise taxpayers' risk assessment.

A current trend in the tax audit business process in DGT is the incorporation of risk analysis using a compliance risk management system. The taxpayer's risk (including MNEs) is categorised as high, medium, and low. From this data, I will then arrange an audit plan for the high and medium-risk taxpayers.

(Supervisor, 15 years of audit experience).

TA4 implied that one of the supporting factors to investigate the taxpayer's transfer pricing practices is the output of compliance risk management (CRM). According to DGT circular letter number SE-39/PJ/2021 on the implementation of compliance risk management and business intelligence, the taxpayers need to be monitored according to their compliance risk category. Therefore, TA4 translated this technical procedure into an audit plan to scrutinise MNEs' transfer pricing during tax audits. However, the use of CRM as the sole basis to analyse the taxpayers' situation around transfer pricing is not sufficient, as challenged by TA28. He argued that CRM is still in an early stage to be used as a tool in the tax audit process, specifically for transfer pricing audit. He mentioned:

For me, CRM is not the only source of information for a transfer pricing audit. Its algorithm cannot capture the detailed underlying transactions of MNEs with their foreign affiliated parties. In my case, I will combine CRM with other analyses from MNEs' documents.

(Supervisor, 25 years of audit experience).

Other than CRM, the importance of MNEs' data around transfer pricing might derive from many sources, such as sales or purchase agreements, tax returns, local

and global documents for transfer pricing, and financial statements. On this idea, TA8 said:

I want to handle a transfer pricing audit based on the TP risk analysis. For example, if intercompany sales and purchases are quite significant in terms of value, then I will likely put them in an audit plan to be explored during the tax audit.

(Supervisor, 30 years of audit experience).

Further, TA12 shared a similar opinion with TA8 on the analysis of MNEs' affiliated transactions as the driver to conduct a transfer pricing audit. TA12 then linked this analysis to the arm's length consideration on the imposition of MNEs' transfer prices. He added:

As a tax auditor, I need to be more aware of the interfirm scheme among MNEs' members and scrutinise their arm's length transactions during TP audits.

(Supervisor, 20 years of audit experience).

It is interesting to reflect on the arm's length principle (ALP) consideration to determine the intention to investigate MNEs' transfer pricing. The key objective of a tax audit is to assess taxpayers' compliance with the tax laws and to test the fulfilment of their tax obligations. In a case of transfer pricing, the aim is to determine whether taxpayers' intercompany transactions have been arranged under the ALP rule. Hence, the tax auditors' discretion to incorporate ALP in their analysis of transfer pricing audit intention seems to be critical. Align with this idea, TA15 and TA2 added insightful comments that "...before initiating transfer pricing audit I usually look into the taxpayers' data to pre-analyse the significance of affiliated transactions whether they have applied the ALP procedures." (TA15, supervisor, 20 years of audit experience) and "...in the presence of interfirm affiliated transactions, we should examine such transactions according to the arm's length principle." (TA2, supervisor, 15 years of audit experience).

As explored in the above quotes, the importance of analysis-driven factors was perceived by the majority of supervisors who were responsible for conducting the initial analysis of the audit plan. The findings revealed that the role of supervisors is pivotal in planning, managing, and supervising the entire process of a transfer pricing audit. From this point, it can be said that a supervisor needs to have thorough

analytical skills and understanding of the principles of transfer pricing, transfer pricing policy, documentation, and MNEs' business processes. One important notion is that the supervisor's attitude to plan transfer pricing audit requires skilled auditors to handle it. A well-designed and analysed audit plan can only be implemented with the existence of knowledgeable tax auditors, mainly when dealing with a complicated issue of transfer pricing. This behaviour was captured by TA1, in which he mentioned that, other than the taxpayer's transactions, one of the considerations to scrutinise transfer pricing is a human resource factor. He said:

The first factor I will consider is the human resource. If there is a knowledgeable tax auditor on transfer pricing who can deal with TP audits, then I will plan this audit. Of course, the next factor is the presence of taxpayers' intercompany transactions.

(Supervisor, 25 years of audit experience).

TA1 highlighted the importance of the tax auditors with great transfer pricing knowledge to translate the supervisor's attention to this issue. It appears that resources and analytical processes are seen to be important to critically explore the tax auditors' behaviour around transfer pricing. While the dominant subtheme for the tax supervisors to scrutinise transfer pricing was an analysis-driven factor, the availability of competent human resources was equally important and not to be missed. Additionally, the quotes from the interviewees showed that the role of supervisor was more on the strategic side of the audit. They need to plan and mitigate the transfer pricing audit procedure to be implemented and conducted by the team leader and junior auditor.

6.2.1.1.3.2. Team leader

In general, the team leader perceived the reasons to investigate transfer pricing cases were around two strands: analysis and time considerations. For analysis-driven quotes, TA3 mentioned:

It all started when I was in the foreign tax office (PMA), where I found that many foreign companies had losses in their P/L statements when, in fact, they were toll manufacturing companies—logically, toll manufacturers should not report losses. That was one of the reasons why I wanted to explore and conduct a transfer pricing audit.

(Team leader, 15 years of audit experience).

Similar to TA3, TA9 said:

...it is based on the risk analysis. For example, intercompany sales and purchases will be analysed using a significance test in terms of the intercompany transaction values. For specialised transactions like royalty, interest, rent, or dividend payments, I mostly put them in the audit plan to be scrutinised further.

(Team leader, transfer pricing trainer, 20 years of audit experience).

The above narratives on the team leader's behaviour demonstrate the skills needed to examine MNEs' transfer pricing practices. These skills, which require analytical capability, will ensure that significant MNEs' transactions with their affiliated counterparts are the object of scrutiny. Further, the sense of analytical factor as a driver to scrutinise transfer pricing was also found in other discussions with the team leaders, such as TA18 who mentioned "*TP audit starts with a good analysis of MNEs' transactions with associated enterprises beyond the data in the tax returns*" and TA23 who diagnosed that "*...without TP risk assessment I don't think I can investigate MNEs' transfer pricing comprehensively*".

However, another concern related to the time constraint appeared in the discussion with the team leaders. As noted by TA13:

One consideration when scrutinising TP is the availability of time to complete the audit. A TP audit requires many tests to be assessed, and consequently, if we do not have enough time to finish the audit on time, then it is hard for us to analyse TP systematically.

(Team leader, 20 years of audit experience).

Similar to TA13, other participants recalled the importance of sufficient time to finish the TP audit and described it as, "...sometimes I just don't have enough time to handle the *TP audit due to the work overload*" (TA22, team leader with 15 years of audit experience) and "*TP audit is very stimulating if I have more time to complete it*" (TA26, 10 years of audit experience).

The consideration of time to scrutinise the transfer pricing audit is understandable because tax auditors require more time to analyse transfer pricing documents with many transactions. Particularly in large corporations, the documents should lay out the breakdown of function, asset, and risk borne by each of the group

members in different authorities. As a result, the availability of sufficient time to comprehensively analyse MNEs' transfer prices seems justifiable.

Timewise, the team leaders' concern to scrutinise transfer pricing comes from a tight schedule under the Minister of Finance regulation number 17/PMK.03/2013 concerning audit procedures. Under this regulation, specifically in article 15, a field audit should be concluded within a total of 8 months since the examination was opened. Moreover, the assessment period can be extended for a maximum of 2 months for a non-TP audit, and 18 months in the case of transfer pricing. Hence, concerning the extension period, the transfer pricing audit should be closed within 26 months.

However, a caveat arises from the higher legislative power of the tax law number 28 of 2007 concerning general tax provisions and procedures (UU KUP). Under Article 17B of the law, if the taxpayers request a refund on their tax returns, an audit should be conducted before the payment is made to the taxpayers. In this case, DGT needs to release a notice of assessment from this audit within 12 months. Most transfer pricing cases for MNEs likely fall under this audit, and the decision should be made by the auditors in a maximum of 12 months without any extension. Therefore, the auditors could not rely on the 26 months as stipulated in the Minister of Finance regulation.

Given the regulatory constraints described above, the time consideration is a rational choice for the auditors to handle the transfer pricing audit, as described by TA26:

Given the maximum of 12 months to finish the TP audit under UU KUP, I think exploring MNEs' transfer pricing adds another challenge for the auditors. Personally, I am happy to scrutinise it within the timeframe, but perhaps this is not always the case for my colleagues with excessive workloads.

(Team leader, 15 years of audit experience).

The last driver that emerged for the team leader was the perception that a transfer pricing audit might result in substantial additional tax revenue due to the audit adjustments. It can be seen from TA23, who stated:

Based on my experience, the main factor in scrutinising MNEs' transfer pricing is the possibility of closing the task with a higher correction compared to a non-TP

audit. Even though you know, the notice of assessment is likely to be challenged by MNEs in tax litigation in the court, at least the DGT collected additional tax revenue from the audit.

(Team leader, 15 years of audit experience).

The above concern seems legitimate because the tax auditors are given a certain tax target to be collected from audit activities. In large companies, intercompany transactions might contribute significant proportions, and thus, if those transactions are being adjusted during TP audit, the effect of the adjustment and penalty can be substantial. Another participant, TA27, concluded that:

I think it is understandable that our motivation comes from the chance to earn sizable additional tax revenue due to the TP audit. This is because, as part of the audit function in DGT, we bear the tax revenue target.

(Team leader, 16 years of audit experience).

Considering the above three factors, analysis-driven, revenue-driven, and time-driven, as perceived by the team leaders, their roles might be significantly important in bridging the interests of the tax supervisors and junior auditors. The team leaders are like the middle manager who controls the day-to-day audit process and is responsible for reviewing the audit procedure. Thus, their behaviours around transfer pricing audit might not always be from a strategic perspective, but also on a more practical level.

6.2.1.1.3.3. Junior tax auditor

As the junior team member, most participants from junior tax auditors perceived time consideration as the ultimate driver to conduct a transfer pricing audit. Their behaviours are more pragmatic and realistic in a way that the available time to finish the transfer pricing audit might not be enough. Some junior auditors recognised TP audit as a complicated task that requires attention to detail and is relatively time-consuming compared to a non-transfer pricing audit. Related to this concern, TA14 mentioned:

For me, the concern is the limited time to finish the TP audit, while on the other hand, we need to handle many audit tasks. In a TP audit, we need to assess many transactions and request substantial records from the taxpayer. Under

current regulations, we have a tight deadline to handle all procedures, which can be hard to apply.

(Junior auditor, 10 years of audit experience).

Another time factor was briefly stated by TA16 as follows:

The main consideration in conducting a TP audit is the limited time to finish it. Dealing with transfer pricing is a time-consuming task. However, I can imagine that, according to the tax audit policy, by default, every tax audit (including transfer pricing audit) should be done within the 8-month time limit and a maximum of 12 months due to the tax refund regulation. But still, I think we can't have a good transfer pricing audit within this time span. It seems we are working in a rush, handling so many complicated transactions by MNEs.

(Junior auditor, 13 years of audit experience).

Considering the above views, the key element of technicality in transfer pricing audit is not only dealing with the question of “how the audit should be done”, but also “when the audit should be closed”. Consequently, with all technical and time complexities that need to be managed by the tax auditors, it is rationale that, personally, they prefer non-transfer pricing transactions to be scrutinised. As also added by TA25, “...personally, I prefer conducting non-transfer pricing audit due to the time constraint. TP audit is very much consumed most of my work time.” (junior auditor, 9 years of audit experience), TA17 who said, “...if I have more time to spend to scrutinise TP audit, I will be very excited as I can learn something insightful from TP audit.” (junior auditor, 5 years of audit experience), and TA29 who expressed the view that, “...it's like, to be practical, I prefer to handle non-TP audits.” (junior auditor, 10 years of audit experience).

The key element to highlight from the above transcripts is that the limited time to handle TP audit, as experienced by most junior auditors, might be related to the audit workloads assigned to them. The 12 months' time to close TP audit in a case of MNEs who claim a refund in their tax returns can be seen as “stretching the timelines” for such complicated audit tasks. Even when the TP audits are not in connection with the refunds, the maximum period of 26 months for complex cases might not be sufficient. For complex TP issues, even when the taxpayers supply all the evidence, the auditors need to analyse them comprehensively and, sometimes,

request an exchange of information with other tax authorities. In this case, the maximum timeframe of 26 months may still be insufficient to finish the audit. Further, in comparison to transfer pricing enquiry settlements in more developed tax authorities such as the HMRC and the IRS, DGT has a shorter resolution period. For example, under the HMRC international manual number INTM481050, simple transfer pricing cases should be settled no later than 18 months or 36 months for complex cases. In addition, under the IRS publication 5300 (Rev 9-2020), the transfer pricing examination process should be resolved in 24 months for low-risk enquiries and 36 months for high-risk enquiries.

To conclude the exploration of the three actors of supervisor, team leader, and junior auditor, time has a two-sided implication for the tax auditors' behaviour. It can either support or prevent them from scrutinising transfer pricing cases in combination with the ongoing workloads. Therefore, appropriate case allocation and time management are critical in supporting the tax auditors' behaviour around the transfer pricing audit. There should be an alignment between distinct roles amongst audit team members because they might have contrasting interests. For example, the junior auditors might feel they do not have enough time to investigate MNEs' transfer pricing. At the same time, in a formal assignment, the supervisors have put down the TP analysis in the audit plan. As a consequence, the TP audit is somewhat being 'enforced' despite insufficient time to complete it, and this would be related to the conditional subtheme, as explored in the previous subsection. This reality leads to unfavourable conditions where junior auditors feel they are "working in a rush handling so many MNEs 'complicated transactions'", as perceived by TA16, and results in many losses in the tax litigation for TP cases. Therefore, in designing an audit plan and developing an audit focus for TP cases, supervisors need to communicate, coordinate, and supervise the process with the team leader and junior auditors to explore resource and time availability. In that case, the audit team would have the same perception on how to handle and when to close the audit.

6.2.1.2. An audit with many challenges

This theme displays different challenges faced by the tax auditors in investigating MNEs' transfer pricing during tax audits. Transfer pricing audit is perceived as complex and demanding by the auditors in DGT. Therefore, the presence of this theme during the interview stage confirms its complexities. As

discussed in the previous theme, one of the considerations to deepen companies' interfirm transactions is the availability of time to complete such assessments. Time can be a challenge for the auditors, as previously explored. In the present theme, the existence of barriers is described from other perspectives that emerged from the interview sessions. In addition, the presence of this theme acknowledges the intricate nature of transfer pricing audit and encapsulates different perceptions that the auditors encounter. Transfer pricing is perceived as a complex issue (Padhi 2019), and TA12 expressed this view as "...the reason I do not want to scrutinise TP audit is due to its complexity, *which deals with many steps and procedures being involved in the process*" (supervisor, 20 years of audit experience).

In light of TA12 views, complexity was perceived from technical and regulation perspectives. Technical barrier deals with finding corresponding companies that are comparable with MNEs in Indonesia in terms of business models, transactions, functions, assets, and risks, as emphasised by TA12. Therefore, technical complexity is connected to the comparability analysis that needs to be done during a transfer pricing audit. Moreover, from a regulatory perspective, another barrier inhibiting DGT's auditors from handling transfer pricing is the presence of unclear regulations. This view implies the need for detailed and comprehensive transfer pricing regulations associated with the necessary tax audit process. TA13 shared his experience and stated:

I think DGT needs to explicitly state transfer pricing regulations and make them detailed. Unclear regulation raises multiple interpretations among audit team members. For example, the imposition of a secondary adjustment in the form of deemed dividends is still unclear, particularly on how MNEs should arrange the repatriation of non-ALP funds back to Indonesia. It confuses us, really.

(Team leader, 20 years of audit experience).

Other than the above concern, some auditors commented on the unregulated concept in transfer pricing, which makes it hard to analyse MNEs' intragroup transactions. TA10, a junior auditor in a large tax unit, expressed a view that no single domestic transfer pricing regulation stipulates the assessment of excessive marketing remuneration. Additionally, TA9, a team leader at DGT Headquarters, added an information that there is no authoritative legal basis for how to perform

analysis to determine MNEs' business processes and supply chains. As such, the auditors need to incorporate their subjective understanding or judgment to do the analysis, which reinforces different interpretations among audit team members. Lastly, concerning the use of transfer pricing methods, even though it has been stated in domestic regulation, the detail explanations with examples on the use of such methods are set in a vacuum, as described by TA23:

As we know, different transfer pricing methods can be used by MNEs in determining the arm's length principle of their intrafirm transaction. While these methods have been explained in domestic regulations, such as the Minister of Finance regulation regarding transfer pricing, their application in practice, with some possible examples, is not presented in the regulation. Without any practical examples on the use of different TP methods, there will be an additional burden for the auditors to find the relevant source of information, which makes us think that it is better not to handle TP audits.
(Team leader, 15 years of audit experience).

The aforementioned excerpts of technical and regulation complexity presented a valid point faced by the tax auditors in Indonesia on the challenges during the transfer pricing audit. As such, it is noted that while domestic transfer pricing regulations aim to provide a clear path to deal with MNEs' transactions, their application in reality is still seen as a labyrinth in providing clarity for auditors (Sukardi and Daholi 2024). Further, another impediment was raised during the interview in relation to the use of the OECD Transfer Pricing Guidelines during TP audit. Although Indonesia is not one of the OECD member countries, it is actively involved as a member of the OECD Inclusive Framework on BEPS. As such, during a transfer pricing audit, the Indonesian tax auditors are likely to use the OECD Guidelines as one of the sources to support their argument. These guidelines are known as soft law, that has non-binding instruments and are being used by many tax jurisdictions and the courts as a reference (Vega 2012a).

In the case of Indonesia, despite the common use of the OECD Guidelines during TP audit, no single reference is found or written in the Indonesian tax regulation concerning the use of such guidelines. TA27 shared his experience on the lack of authoritative power of the OECD Guidelines and mentioned

...during the trial in one of the tax disputes, the tax court judge asked me the ground for using the OECD Guidelines during TP audit. I could not answer that question because I was aware of no single reference in legislation around the use of such guidelines. I thought it was common knowledge, but the judge wanted a firm reference. From this case, I think the auditors need to be mindful on the use of the OECD Guidelines during TP audit.

(Team leader, 16 years of audit experience).

While the OECD Guidelines may serve as customary norms in domestic legal systems, their use should always be referred to in domestic legislation, which has been done in many jurisdictions, such as the United Kingdom, Ireland, Spain, Mexico, South Africa, the Philippines, and Australia (Vega 2012a). In that sense, the use of internationally accepted principles without any basis in domestic laws provides inconsistency and confusion during practical application, as experienced by TA27. Another concern surrounding the use of the OECD Guidelines is related to the language barrier, as the guidelines are written in English. The OECD provides the formal translation of its guidelines only in French and German. For this issue, TA6 and TA25 highlighted:

During transfer pricing audits, I sometimes incorporate the OECD Transfer Pricing Guidelines. However, I have an issue with the language used. It requires interpretation and a good understanding of English. Yes, I can translate it, but my understanding may differ from the real meaning of the guidelines. It would be better if DGT had a translated version of such guidelines.

(TA6, team leader with 19 years of experience).

Maybe DGT should have a formal translation of the OECD Transfer Pricing Guidelines so that we can better understand the concept and issues surrounding transfer pricing. I think the Indonesian version of the guidelines will help many auditors who are not familiar with advanced English.

(TA25, junior with 9 years of experience).

In addition, even the use of technological tools such as translation software does not seem to be helpful in translating the complex narratives of the OECD TP Guidelines, as mentioned by TA5:

...and I cannot use Google Translate in translating what's being written in the TP guidelines. The reason is that it might have a different interpretation, and during the trial in the tax court, the judge will question the basis of using the translation tool during the tax audit. It makes everything even more complicated.

(team leader, 12 years of audit experience).

It seems worth suggesting that to eliminate the language barrier during the transfer pricing audit, the translation version of the OECD Guidelines in the Indonesian language is critical. It could raise awareness around the transfer pricing issue and be easily accessible for the auditors in distinct types of tax units in Indonesia. Countries such as Austria, the Czech Republic, Italy, and the Slovak Republic have made the translation and publication of the OECD Guidelines available in their national languages (Vega 2012a). The hurdle experienced by the Indonesian tax auditors around transfer pricing is also related to their performance evaluation. The auditors are evaluated based on Key Performance Indicators (KPIs) that reflect their effort and results on audit work. Based on the interview, however, the finding revealed that despite its complexity and the time needed to complete an audit, transfer pricing was not calculated as part of the auditors' KPIs. It implies the rationale not to choose transfer pricing audit and the barrier faced by the auditors. Concerning this fact, TA13 felt that:

Another concern is the key performance indicator. TP audit needs more time to do the analysis, but it does not reflect in our KPI. So, for me, it is better to handle more non-TP audits rather than one or two TP audits due to the time constraint. The number of productions of audit is evaluating us. It might be more about quantity rather than quality. I think DGT should consider this fact and evaluate the tax auditors' KPI to accommodate the intricate aspect of transfer pricing audit.

(Team leader, 20 years of audit experience).

To support the above argument, TA3 commented:

To be honest, looking at the practical reasons, I chose a non-transfer pricing audit of small firms so that the audit process can be done quickly. This is because, as a tax auditor, I will be evaluated by the progression of the tax

audit. The more production, the better. So, a transfer pricing audit may not be very enticing to handle.

(Team leader, 15 years of audit experience).

Reflected on the above transcripts, as a public institution, DGT requires promoting the idea that the tax auditors should be evaluated based on their skills, performance, and the quality of the audit work. While quantity-based evaluation might be important to reduce the number of audit workload, isolating the effort to conduct transfer pricing audit from the auditors' KPI needs to be re-evaluated. The sense is that a better evaluation framework might build a positive culture and behaviour of the tax auditors to scrutinise MNEs' transfer pricing practices during tax audits.

The last source of barrier is related to MNEs' behaviour during the transfer pricing audit. Due to the nature of global entities and rapid changes in MNEs' activities, the tax authorities, including DGT, tended to ask for extensive documentation to justify transfer prices among MNEs affiliates (Abdallah 2016). The substantial evidence is likely to be asked for during a tax audit that MNEs need to prepare within a certain timeline. However, the auditors perceived that MNEs tend not to disclose complete documentation regarding their transfer prices. This behaviour prevents the auditors from doing a comprehensive transfer pricing analysis, and consequently, leads to more debate in tax litigation. Regarding this issue, TA22 said:

...the last reason is from the taxpayer's point of view. Ideally, in my opinion, transfer pricing audit should be regulated in the same manner as the advance pricing agreement process, where MNEs release all documents and evidence voluntarily. However, this is not the case in TP audit. We need so much effort to ask for documentation, mainly on price price-setting policy. However, in some cases, until the audit process is finished, MNEs do not provide such documents. Indeed, it is incredibly challenging. This process might lead to the next battle in the tax court. One thing that strikes me is that during the trial, all documentation will be provided by MNEs in the court.

(Team leader with 15 years of audit experience).

The narrative reflects the association of the behaviour of the tax auditors and MNEs around transfer pricing. It implies that the transfer pricing issue is beyond the

sole problem of the tax authority, and thus, the environment that supports each party is needed. To complement the argument from TA22, another reflection was provided by TPRO9, a finance director at MNEs, who stated:

The company has been audited couple of times where a focus of the audit was on transfer pricing. I am aware that DGT tries to extensively audit MNEs' transfer pricing policy and transactions to assess our compliance. My concern during the TP audit is that we are required to provide substantial transfer pricing records along with other documents related to our financial transactions. However, we only have a limited time to fulfil all requests. The tax auditors assess the audit finding based on their subjective judgment when we fail to submit all or part of the documents. In this case, we mostly challenge any TP audit adjustments through the litigation process.

Both TA22 and TP9 highlighted different approaches for the same issue regarding the importance of transfer pricing documentation. While the tax auditors have the right to request any records connected to MNEs' transactions with independent and dependent parties, sufficient time for MNEs to execute such a request is also critical. This is a matter of administrative burden, which, if communicated effectively, can be addressed internally during the tax audit. During the interview, JUD, a tax court judge, commented:

In this issue, the parties, I say the parties to point DGT and the taxpayer, why do they prefer to solve the case in the court? If I go back to the principle of public law, the law governs the relationship between the government apparatus and the people, which is the core of public law. There is a term called the ultimum remedium, which means litigation should always be the last remedy, even if the court has the competence to judge. The administrative effort should prevail and be completed first. What I regret is, the administrative effort from both parties is not optimal. There are those [MNEs] who intentionally do not release all documents during the audit process, but then the data appears in court. When the data is provided, the verdict might not be maintained. So, from the side of the burden of proof mechanism, from my perspective, the process has not been very optimal for either party.
(a chief judge at the Indonesian tax court).

Although only one judge participated in this study and commented on the issue around transfer pricing audit, his opinion matters in a way that his role as the chief judge in the Indonesian tax court poses a great contribution to resolving transfer pricing litigation. It can be reflected that the behaviours associated with transfer pricing audit are linked to what to expect and what to do from the tax auditors' and MNEs' sides. The audit process is not simple, and the lack of coordination between both parties, as mentioned by the judge, makes it even more complicated. Considering different approaches taken by the tax authority and the taxpayer, the transfer pricing audit provision should accommodate sufficient time to provide records and to conduct analysis. As such, the audit mechanism will work and does not necessarily count on the law of arbitration, or the third party (the tax court), to solve the audit dispute. Further, despite all the challenges in transfer pricing audits and the tax auditors' personal preference not to handle this audit, they still need to scrutinise it.

Above all, from what has been learned, dealing with transfer pricing during tax audit requires a deep understanding of MNEs' business processes, business models, global value chains, and many other factors that might affect the charging of internal prices. This process can be complex and time-consuming for some auditors in DGT, which affects their unconditional intention to examine MNEs' transfer pricing. Surely, the auditors might have MNEs' data from the tax returns, financial statements, or TP documents. However, the actual arrangements need to be analysed beyond these records. It might not always be clear to see and justify MNEs' transfer prices policy and design, and as Mooij et al. (2021) argued, "too many unknowns in MNEs' transfer pricing". To conclude, an intriguing opinion came from TA16 who stated *"analysing detailed transfer pricing is like farting, we can smell it, but we cannot prove it. The smell is there, but the evidence is not."*

6.2.2. Research question 2: How do the tax auditors perceive the tax professionals' and tax advisers' behaviour related to the transfer pricing audit?

To answer research question 2, two themes emerged from participants across categories: tax auditors, tax professionals, and tax advisers. Detailed information is provided in the following subsections.

6.2.2.1. Multinationals should be audit-ready

6.2.2.1.3. The importance of localisation

It is believed that there is an increased scrutiny for the intrafirm transactions by multinationals in many tax jurisdictions (Marques and Pinho 2016b; Rogers and Oats 2022). The behaviours of MNEs and tax auditors in conceptualising transfer pricing during the tax audit are shaped by their roles as taxpayers and regulators (Wealth et al. 2023). Therefore, the growing investigation by the tax authority in the form of a tax audit around MNEs' transfer pricing setup can be seen as a rational reaction to test MNEs' compliance with transfer pricing regulations. When discussing the tax auditors' behaviour around transfer pricing audit in DGT, the theme related to the escalation of intensive transfer pricing scrutiny appeared. During the discussion, TA30 and TA4 expressed the critical effect of the location of MNEs as a factor in the increased scrutiny of MNEs' transfer pricing arrangements. They mentioned:

The most important consideration is determining the most significant affiliated transaction, either by the value of the transaction or by the country where the associated enterprises are located. If the competing associated enterprises are within the European and US. regions, they tend to have well-structured data and documentation. In contrast, if they are located in the Asia regions like Singapore, Malaysia, or Hong Kong, we still have a chance to scrutinise their transfer pricing arrangements. To be more specific, for Singapore and Hong Kong, which are known as trading hubs, MNEs in those two countries mostly serve as traders with a simple function and limited risk. Consequently, if the Indonesian companies have an affiliated transaction with their counterpart in Singapore or Hong Kong, it is most likely that we will investigate further during the transfer pricing audit.

(TA30, supervisor with 20 years of audit experience).

In the Batam area, where most of the multinationals are owned by Singapore corporations or individuals, they tend not to report affiliated transactions in detail.⁶⁶ Some of these corporations do not provide the report unless they are

⁶⁶Batam is one of Exclusive Economic Zone areas in Indonesia where many MNEs are registered.

being audited. In contrast, the US MNEs are very compliant and are willing to provide detailed transactions voluntarily, maybe because the US tax authority has an active exchange of information process. So, it would be very costly if the US MNEs do not comply with our transfer pricing regulations.

(TA4, supervisor with 15 years of audit experience).

Within the above extracts, the consideration to examine MNEs' transfer pricing seemed to support the theme that MNEs should increase their transfer pricing audit readiness. The arguments were coming from the two experienced supervisors in handling transfer pricing cases in large and medium-sized tax units. In this context, the readiness from a global perspective is critical for multinationals from certain regions where the auditors perceive them to have higher potential transfer pricing risks. While based on the researcher's reflection that the transfer pricing issue is also presented in the European and the US multinationals that conducted transactions with their affiliated parties in Indonesia, the labelling aspect of MNEs' location as a tool for scrutiny makes sense. This is backed by the fact that Singapore is a country with the highest accumulated foreign investment in Indonesia, based on the data from the Indonesia Investment Coordinating Board.

In recent years, increased audit activity for transfer pricing has been noticed in some European countries where they have tighter coordination among them and active exchange of information with other tax authorities outside the EU members (Crivelli et al. 2021; Bärsch et al. 2024). Additionally, in the US, the IRS also aims to increase its compliance efforts to ensure that the US MNEs and their affiliates comply with the Code related to transfer pricing (Dicker 2024). As such, the strategy allows greater detection of transfer pricing manipulation for MNEs across regions, not only in the EU and the US, but also in other parts of the world. This could be one of the reasons many European and US MNEs in Indonesia are perceived to have well-structured transfer pricing records and data, as mentioned by TA30, and are more compliant with domestic regulations, as mentioned by TA4.⁶⁷ Good preparation

⁶⁷A well-structured transfer pricing records may be defined as the arrangements of such records aligned with the defined format regulated by DGT. Also, there are comprehensive descriptions of MNEs' intercompany transactions and transfer pricing policy. While the presence of these documents does not automatically determine the arm's length price of the transactions, their availability is perceived as the compliance of the formal requirement of transfer pricing documents.

and review of all aspects of intercompany transactions among MNEs' members suggests the entity is audit-ready. As a consequence, the proper arrangement of transfer pricing documentation increases the perceived formal compliance with transfer pricing legislations.

As for MNEs from Singapore and Hong Kong, the tax auditors' perception might be traced by the concern of these two regions as financial and trading hubs for many multinationals. Notwithstanding the rapidly maturing transfer pricing legislations in Singapore and Hong Kong (International Tax Review 2014), their lower corporate tax rates could be another reason for the tax auditors in DGT to increase TP scrutiny. In general, Singapore applies a 17% and Hong Kong has a 16.5% standard rate for corporate income tax, a much lower trend compared to 22% in Indonesia. Hence, the increased scrutiny could also be perceived by the tax-motivated transfer pricing for Singapore and Hong Kong companies and their associated enterprises located in Indonesia.

An intriguing opinion was also added by TA30, who mentioned the tax-motivated transfer pricing conducted by the Indonesian multinationals, especially for manufacturing MNEs. He mentioned:

...particularly the Indonesian manufacturing MNEs. We need to be more aware of these companies on the arrangements of their transfer pricing policy. They may build a manufacturing site in Indonesia, but with the intellectual properties being registered in Singapore due to its low tax rates and various tax incentives for the IPs. They intentionally put the rights to exploit IPs in a low-tax-rate country adjacent to the manufacturing location in Indonesia. If Singapore is no longer attractive, then they may shift it to Hong Kong, another tax haven in the region.

The result of perceived localisation of MNEs provides an interesting idea on the possible role of tighter transfer pricing scrutiny in EU countries (Bärsch et al. 2024) and new initiatives on transfer pricing enforcement in the US (IRS 2023) on the compliance level of MNEs from these two regions operating in other jurisdictions. It is also worth mentioning that the result supports the concept of transfer pricing-related tax savings due to the difference in countries' tax rates, bringing the rising tide of TP scrutiny by the tax authority (Klassen et al. 2017b).

6.2.2.1.4. Perceived TP risks across industries

Other than the geographical importance of MNEs, which might affect their position in the eyes of the tax auditors, another idea that came up from the discussion was the presence of perceived transfer pricing risks across industries. Transfer pricing risk can be defined as the possible transfer pricing audit adjustment because the prices set for intercompany transactions violate the arm's length principle (Plesner Rossing 2013). In contrast with the localisation where certain MNEs from particular regions were perceived as more compliant in terms of the formal transfer pricing documentation and reporting, industry-specific compliance with ALP was not presented. For example, TA2 commented that:

In general, transfer pricing audit adjustments are present in all types of industries. Therefore, in conducting a transfer pricing audit, we need to have a greater understanding of the industries in which the taxpayers are operating.
(Supervisor, 13 years of transfer pricing audit experience).

In addition to the above quote, TA21 added that:

I have dealt with many transfer pricing cases. The scale of adjustment or correction during a transfer pricing audit is not always associated with a specific industry, such as manufacturing or financial services. It happens in many industries.
(Supervisor, 20 years of audit experience).

The above quotes emphasised the audit adjustment that applied due to the application of non-ALP for MNEs' intercompany transactions. From this view, transfer pricing audit risks were perceived by the auditors as MNEs' behaviour to not comply in connection with material or technical compliance. This differs from formal or documentation compliance, in which some MNEs were perceived as compliant actors, and has been explored in a previous subtheme regarding localisation.

While another perception had emerged from TA30 who mentioned that the auditors need to be more conscious of the transfer pricing aspect of two most growing industries in Indonesia, the crude palm oil (CPO) and pulp and paper industries, the general MNEs' behaviour to search for the 'grey' area in transfer pricing regulation is common regardless the types of industries. TA28 and TA29 provided their argument concerning this trend as follows:

...most MNEs are exposed to high transfer pricing risks and are not related to certain sectors. For MNEs, tax avoidance in the form of intercompany transactions across the globe is a grey area that can be used to minimise the tax burden. Providing that Indonesia is exploited only for its low labour cost without the presence of an intangible property centre, it is still vulnerable to transfer pricing arrangements conducted by MNEs in different industries.
(TA28, supervisor, 25 years of audit experience).

TA29 supported the above opinion. He said:

Every industry has motives. You name it: palm oil, tobacco, cement, automotive, services. They all have motives to transfer their profit away from Indonesia. As long as they are large firms, they will find a way to exploit the loopholes in the tax system, particularly regarding transfer pricing.
(Junior auditor, 10 years of audit experience).

Empirically, the tax auditors' perception around MNEs' transfer pricing risks, as stipulated in the above transcriptions, supports the growing trend of transfer pricing risk management control in different industry classifications (Jost et al. 2014) and the existence of expanding intrafirm transactions in industry-level variations (Rathke et al. 2021). Thus, the awareness of transfer pricing audit should be a concern of MNEs regardless of their operations and industries because no specific industry is more prone than the others. From the perspective of transfer pricing, every industry has its unique characteristics (Wells et al. 2019; Song 2024). For example, the manufacturing sector has a complex global supply chain in many jurisdictions with diverse transfer pricing legislations. Further, the oil and gas sector deals with a high volume of tangible products, the use of recent technology with corresponding intangible property, and intercompany loans. All of which pose different transfer pricing implications. Therefore, it is understandable that most tax auditors in DGT perceived transfer pricing risks as a critical point to be scrutinised in many industries and sectors.

6.2.2.1.5. Multinationals are resourceful entities

The scrutiny of MNEs' transfer price setting is also driven by the perception that MNEs are knowledgeable actors in the tax system. They may perceive to utilise their resources in transferring income from Indonesia to other territories through

intrafirm transactions. When discussing the connection between this kind of MNEs' behaviour and the possible transfer pricing investigation, TA23 and TA2 stated:

Generally, multinational companies are confident in their internal resources' capability and knowledge on the transfer pricing issue. The use of company resources may provide flexibility in arranging internal prices for any transactions between their group members. However, it may trigger further scrutiny from the auditors regarding their transfer price arrangements.

(Team leader, 15 years of audit experience).

I can see that there is a growing trend of multinational companies that feel confident exploring transfer pricing policy and administration using internal staff who are trained around TP-related issues. Thus, they do not need any external services despite the growing investigation by DGT.

(TA2, supervisor with 13 years of audit experience).

The above experience highlights how the tax auditors react to the transfer pricing practices of MNEs (Wealth et al. 2023) and how the perceived tax knowledge of MNEs triggers the audit mechanism by the auditors (Langham et al. 2012b). From this idea, there seems to be an implication that a transfer pricing audit in DGT may be conducted in the presence of a perception of MNEs' capacity regarding the transfer pricing issue. Even if MNEs do not have the internal capability to handle transfer pricing arrangements, they have another resource, money, to enable hiring professional tax advisers to assist with the advisory work around transfer pricing. As a supervisor, TA1, mentioned:

Overall, the tax professionals working in Indonesian MNEs share similar knowledge with the tax auditors in the realm of transfer pricing. However, they have certain benefits because the companies have money to pay tax advisers. On average, if our audit findings are around transfer pricing transactions, 80% of the taxpayers seek help from tax advisers.

(Supervisor with 25 years of audit experience).

Other participants with the following quotes supported the above perception:

Some taxpayers are not fully aware of the transfer pricing issue unless they are hiring a tax adviser. They may be hiring a tax adviser because they do not want transfer pricing to take up most of their time, so they leave it to the tax adviser. I rarely find taxpayers doing their own transfer pricing document.

(TA3, team leader with 15 years of audit experience).

For transfer pricing matters, I think most multinational companies are assisted by tax consultants. When MNEs invest their money in Indonesia, they must calculate all aspects, including risk assessment and compliance from the TP perspective. Indonesia is a huge market, so they need a professional tax adviser to justify affiliated transactions for market exploitation.

(TA4, supervisor with 15 years of audit experience).

I think some multinationals are starting to learn to handle transfer pricing arrangements using internal resources. However, during TP audit, the majority of, if not all, multinationals hire tax advisers because they feel TP audit is daunting and scary. On the other hand, I need to admit that some auditors are still overconfident during the audit.⁶⁸ This is the reason MNEs do not want to face a TP audit by themselves.

(TA8, supervisor with 30 years of audit experience).

The above perception confirmed the exploration of MNEs' resources in two forms: to get the full benefit of in-house staffing and the capability to use professional tax advisers. The use of internal staff shows the increased understanding of transfer pricing technical knowledge by MNEs, and the dependency on external tax consultants offers a critical task of the negotiation skills needed to face the tax authority (Cools and Rossing 2021b). Further, the demand for assistance from the tax advisers is increasing to harness transfer pricing complexity borne by MNEs in Indonesia, as noted from TA1, TA3, TA4, and TA8. Most MNEs hire tax advisers not only to handle the preparation of transfer pricing documents, but also to represent

⁶⁸Based on the researcher's personal reflection, the tax auditors' overconfidence is the type of auditors with lack of communication skills and, sometimes, undermine the MNEs' capacity around transfer pricing. This behaviour may lead to inaccuracy of professional judgment and jeopardise the audit quality (Hardies et al. 2011).

them during the tax audit or the litigation process in the court. One of the participants from the tax professional, TPRO5, confirmed that:

Based on my experience, the reason for hiring the tax adviser is due to the complexity of transfer pricing practices in the company I am working at and the complexity of transfer pricing regulations in Indonesia. I have a general knowledge of TP, but not with how to access the database to find comparable companies for a comparability analysis and to arrange for the TP documentation aligned with the domestic regulations. The company does not have enough competent resources to handle TP. Additionally, when DGT is auditing us, I need assistance during the audit. So, the presence of the tax advisers makes it easier for me to sort of argue with the tax auditors.

(Accounting, Finance, and Tax Manager).

Another participant from the tax adviser added another confirmation with the following:

From my experience, most MNEs seek advice from professional tax advisers because they intend to comply with tax regulations, so it is more on the compliance side.

(TCON7, Partner of transfer pricing).

The above transcriptions provide clarification on the important aspect of the tax advisers in shaping the transfer pricing knowledge and behaviour of MNEs in Indonesia and how this knowledge increases the tax auditors' scrutiny around transfer pricing. The quote "despite the growing trend of investigation by DGT" clarifies increased transfer pricing scrutiny faced by MNEs. While MNEs may have internal resources to handle day-to-day practices around intrafirm transactions, they may be lacking an in-house team to address other aspects related to their transfer price arrangements, such as massive documentation, governance, and compliance (Ashley 2012b). Consequently, to achieve the goal of simultaneously addressing transfer pricing while keeping the tax compliance level, the role of the tax advisers is in great demand (Abdallah 2016). Most importantly, with or without the use of tax advisers, the data reveals that MNEs in Indonesia are still facing increased scrutiny for their transfer pricing policy and design.

6.2.2.2. Dualism of the tax advisers

This theme represents perceived dualism roles of tax advisers in which they might serve as the agent of MNEs and the government. They might provide the service to the benefit of the taxpayers or to help taxpayers be more compliant and pay the right amount of taxes. Hence, the role of tax advisers is important in the tax system as intermediaries between the government and the taxpayers (Borrego et al. 2013; Dzienkowski and Peroni 2016; Mangoting et al. 2019). Professional tax advisers are perceived as knowledge brokers in the relationships between the tax authority and the taxpayers (Hasseldine et al. 2011).⁶⁹ As for TP audit, tax advisers, or tax agents, tax consultants, tax practitioners, could be hired to assist and help MNEs in many ways, such as preparing transfer pricing document, justifying intercompany price charged, assisting MNEs during TP audit, representing in tax litigation, and designing MNEs' transfer pricing policy. All of these aim to ensure that MNEs comply with domestic TP legislation and align with international guidelines.

Further, the data revealed that the tax advisers' role during TP audit was perceived as dualistic. They might take sides for their interests, serve as a bridge to negotiate the interests of MNEs and the tax authority, or solely work on the side of their clients. The following subthemes present a brief explanation of this dual role.

6.2.2.2.3. The mediator versus the defender

A key role of the tax practitioners as the mediator, or helpful intermediaries, during TP audit is perceived by one of the interviewees, who said:

...it depends on the consultants, both as an entity and as individuals. In general, tax consultants are helpful and kindly bridge the auditors' and MNEs' expectations. In this case, the consultants would not persistently defend their arguments during the audit process until we achieve some settlements.

(TA8, supervisor, 30 years of audit experience).

Expanding the argument from TA8, another participant perceived the role of tax advisers as critical to bridging the negotiation process between MNEs and the audit team. TA11 mentioned:

⁶⁹In the context of the UK, from an HMRC perspective, "tax accountants are analogous to a bee; they provide a useful knowledge transfer function (pollination) but simultaneously facilitate higher levels of tax planning (the sting!)" (Hasseldine et al. 2011, p.49).

Some professional tax practitioners, mainly from prominent consulting firms, aim to foster better communication and coordination between auditors and their clients. I can sense their intention to help the negotiation process settle the findings.

(Junior audits, 10 years of audit experience).

The narration of negotiation highlights a figurative concept of transfer pricing as something negotiable and not an exact science. Negotiation can be interpreted under the umbrella of what is being regulated in domestic legislations and what is being implied in international guidelines. As there might be more room for subjective interpretations in transfer pricing, the importance of excellent negotiation skills should be imposed by the auditors, as emphasised by TA12:

TP is not an exact science. It is more of an art. We need to have a long discussion with the taxpayers to reach an agreement and prevent disputes during the tax audit. In the process, we usually need to have a series of discussions with the taxpayers and their advisers. There should be a negotiation involved.

(Supervisor, 20 years of audit experience).

The above quotes summarise the tax advisers' contribution in TP audit in bridging the interests of the tax authority and taxpayers. They could be perceived as pure intermediaries to achieve a win-win solution or agreement between the two parties. Furthermore, the essential role of tax consultants is not only dealing with the audit process, but also increasing the overall MNEs' awareness around transfer pricing, as can be seen from the following quotes:

I think the role of tax advisers makes communication between MNEs and tax auditors easier, specifically for MNEs who are relatively new to the growing issues around TP. During the TP audit, most likely, the tax advisers will be presented to assist MNEs. From a broader picture, I think the tax advisers' role is important to increase MNEs' TP awareness and knowledge, and to comply with TP regulations.

(TA23, team leader, 15 years of audit experience).

Other than participating in helping the government increase MNEs' compliance, the tax advisers were also perceived as helpful agents during the transfer pricing audits, particularly when audit adjustments were involved. TA16 described this behaviour as:

For me, the tax consultants' role is quite significant during TP audits, mainly at the end of an audit cycle. At this stage, an audit adjustment or correction will be calculated. The consultants will communicate and explain the findings to the client, and if the adjustment is substantial, they will likely suggest that the taxpayer proceed to the parent company.

(Junior auditor, 13 years of audit experience).

The examples above resonate with the vital role of a tax consultant during a TP audit. It can be reflected that the role revolves beyond the issue of consultation services because the magnitude of transfer pricing is not just a tax compliance issue. It aims to maximise overall tax benefit for MNEs' group affiliates and, at the same time, to comply with the intricate regulatory landscapes in the tax jurisdictions they operate. Given the magnitude of intercompany transactions, the penalty of being noncompliant in transfer pricing can be significantly costly for MNEs. Hence, technical knowledge to understand unique transfer pricing challenges in every industry and interpersonal skills to communicate with the tax auditors are critical capacities to master for a transfer pricing tax consultant. Communication and negotiation can be interpreted as a way of justifying the tax auditors' and taxpayers' opinions regarding audit findings.

For example, the determination of interquartile range in the ALP calculations, the choice of the most appropriate transfer pricing methods, the use of comparability analysis, and the selection of comparable companies are the types of conditions subject to self-interpretation. Hence, it requires negotiating parameters being used in the analysis, and is the area that the tax consultants should be experts in. As TA23 reflected that *"...knowledgeable and experienced tax consultants are more flexible in observing the audit arena. They can bridge our interests and are more helpful in a general sense."* (team leader, 15 years of audit experience).

In addition, the interview data also unveiled a contrasting behaviour of the tax advisers during the transfer pricing audit, which some auditors perceived. This

pattern magnifies a unique dilemma of the tax advisers' dualism in the audit sphere, which the present study has successfully revealed. The conflicting behaviour mainly derived from the assessment of audit adjustments that raised some penalties to be paid by MNEs. Transfer pricing adjustments are likely to be significant for MNEs, particularly when mispricing arrangements are perceived to violate the arm's length principle. In this case, the data revealed that MNEs and their advisers were likely to disagree with the findings and defend their argument in the tax litigation process. Further, this behaviour is more likely to happen when the same advisers designed transfer pricing documentation, justified MNEs' transfer prices, and assisted during TP audit, as TA18 said:

If the tax consultants are helping MNEs design the transfer pricing document and representing them during the TP audit, I can say that there is a high chance the consultants will not agree with any audit adjustments calculated by the auditors. Although we have a strong legal basis and proof of misalignment of the ALP, the consultants will defend the TP document they have made. It is like their credibility is at stake.

(Team leader, 16 years of audit experience).

TA18 has highlighted the tendency to disagree with audit adjustments that came from the tax advisers' perception that MNEs' intercompany prices have been charged in line with the ALP stream, and thus, no adjustments were needed. Although there was room for explaining the facts and circumstances during the closing conference, these types of advisers were more determined to proceed with the dispute in the tax litigation, as perceived by TA20:

The tax consultants tend to find any loopholes in the audit procedures for the sole benefit of their clients (taxpayers). Specifically, when the taxpayers have paid them since the design of the transfer pricing policy and documentation, they have a strategy not to settle the dispute with the auditors. Based on my experience, they hold any documents requested by the auditors and proceed with the process on objection and appeal.

(Supervisor, 30 years of audit experience).

Other than the tax advisers' side, the reason to persistently defend MNEs' position might come from the MNEs themselves. The tax advisers provide

professional advice on the transfer pricing-related area, and when it comes to TP audit adjustments, they might follow MNEs' disagreement on audit findings. This could be happening when domestic MNEs cannot make any decisions related to any TP audit results and should be communicated with their parent company. Hence, the defensive strategy from the tax advisers is not solely their initial proposed action. This leads to the next opinion from TA19, who stated:

...and sometimes the tax advisers defend their arguments and are not willing to take any agreements with the auditors' position because they are being pushed by the parent company of the Indonesian MNEs not to agree with whatever TP findings are. They (MNEs and the parent company) prefer to proceed with the 'battle' in the tax court.

(Supervisor, 32 years of audit experience).

The phrase "the battle" did not come in isolation because when MNEs and their advisers took that side, the auditors also did not compromise their findings. As TA19 continued, *"...then, if they take sides in the litigation process, let's play the game. We would not compromise the audit adjustments and corresponding penalties. Let the court decide the final result."* As such, this excerpt exaggerates the increasing trend of TP disputes in the Indonesian tax system.

Further, a last resort on the sense of the defender subtheme came from the practical reason. The tax auditors perceived that by continuing the process in litigation, the tax advisers would have more workloads and more hours to charge the MNEs. Hence, it is all about money, as mentioned by TA24:

...maybe this is my assumption, but I think the reason is quite legitimate. Surely the consultants want to hold the process and not resolve any agreements with us. By proceeding with the process to the next stage, they will have more service fees to be paid by their clients. The fees for litigation would be different from audit work. It is a rational choice. They would not want to agree with the auditors in the first place.

(Junior auditor, 10 years of audit experience).

From the above explorations, each actor has a specific motivation, whether to settle the process in the audit or proceed to the next resolution. All of which are protected by regulations. The settlement during the TP audit process provides clarity

and efficiency for all actors involved: the auditors, MNEs, and advisers. The tax advisers may serve as a 'bridge' to connect their clients with the auditors and resolve any disagreements for the interests of the two parties.

However, MNEs with their consultants do not have to agree with the tax authority in terms of the audit findings. They may challenge the findings, defend their arguments, and ask for a fair, impartial, and independent intermediary through the litigation mechanism (Tran-Nam and Walpole 2016). As perceived by one of the participants, it is understandable that the advisers want to proceed with the litigation process and be paid more for their commercial and professional efforts (Ciconte III et al. 2024). Henceforth, under the disagreement on audit results, parties are agreeing to disagree and stay in their position regarding the findings.

6.2.2.2.4. Professionalism versus institutional attachment

Apart from the above subtheme, interesting data was exposed specifically related to the tax advisers who were former DGT officers. Some tax officers were found to have shifted their careers to industries, one of which was working in consulting firms. Their roles were seen as beneficial because they had previous knowledge and a deeper understanding of DGT's business process around tax audit. Moreover, although only two auditors raised this concern, it provided another perspective on the roles of former tax officials during TP audit, which this study has contributed to the literature.⁷⁰ For this topic, TA28 contended:

In general, the advisers who helped us during the TP audit are ex-DGT officers who shifted their careers to consulting services. Maybe due to their previous roles, they are more aware of our condition and understand the challenges we face during the TP audit. These people are still professionals in representing their clients, and at the same time, they aim to help DGT collect more revenue.

(Supervisor, 25 years of audit experience).

The quote poses an interesting pattern of the former tax agents aligning their professional traits as the clients' advisers and former DGT officers. It appears that, according to TA28, these advisers are still having an attachment to DGT, where they

⁷⁰Both auditors were supervisors with substantial audit experience, and possibly, have been meeting diverse tax practitioners. As such, their opinion adds new insight around this issue.

had worked for many years.⁷¹ Further, the explicit attachment was mentioned by another supervisor during the interview, who stated that:

Personally, I think some of the consultants who are also former DGT auditors or senior staff members have one common attribute: a personal attachment to DGT as an institution. I can feel that they want DGT to be a better and more efficient tax collector. This is something that, perhaps, other professional tax advisers do not really put into their work.

(TA30, supervisor with 20 years of audit experience).

From the two quotes, it can be seen that the connection between the advisers and their clients is not always a two-way relationship if the advisers were former tax officials. There is another spectrum that captures the perceived connection that the advisers made with their former institution. Conceptually, the relationship between the taxpayers and their tax consultants is multifaceted depending on several factors, such as the level of technical proficiency the taxpayers are expecting from the advisers, the demand of advice according to the taxpayers' expected standard, and the characteristics of the individuals in the advisory team (Frecknall-Hughes and Moizer 2015).

However, this relationship is in a general sense related to the common tax concern, such as the tax compliance work and the tax planning (Frecknall-Hughes et al. 2017). In terms of transfer pricing, which deals with the subjective interpretation of the arm's length transactions, specifically when MNEs are being audited, the advisers' work is more than just a compliance issue. There should be an accommodation of different perspectives from different parties involved, including the domestic MNEs, the parent or headquarters company, the advisers, and the auditors. There could be a variance in the level of understanding from these actors. As such, the presence of former tax officers who served as the MNEs' advisers can ease the complicated nature of the relationship during the transfer pricing audit, as perceived by TA28 and TA30. Using their attributes and prior knowledge, these types of tax advisers could align their professional work in an advisory team with a

⁷¹Based on the researcher's experience and reflection, most of the tax officials who shifted their careers in industry had been working in DGT for around 15 to 20 years by the time they were resigning.

close attachment to the tax auditors in DGT, the same institution they have worked for a substantial period. Therefore, a process of perceived negotiation and settlement could be achieved in the interests of MNEs and DGT. In another interview, TCON1, a partner in a well-established tax consulting firm who was also the former tax auditor in DGT, commented on this issue and stated:

I also discussed with many DGT colleagues who are now working in consulting services. One thing that separates and differentiates us from other consultants who are purely coming from the industry is the level of care and self-attachment we have with DGT. During the TP audit, we aim to help MNEs settle the dispute at the audit level. At some points, we'll ask the auditors to accept some of the arguments from our clients and vice versa. I know the final decision is on our clients whether to accept the settlement or to proceed to the next litigation process. But at least we want to help DGT have a win-win solution during the audit.

The three excerpts appeared to be implying that one of the mediation actors in bridging the interests of DGT and MNEs is the use of former tax officials as part of MNEs' advisory team. While other practitioners might also help the bridging process, the possibility is likely higher in the presence of ex-DGT officers. Interestingly, they feel the need to maintain their professional contribution to their clients while at the same time indirectly helping an institution they had engaged in for many years through their new roles. In this context, these advisers demonstrated the characteristics of professionalism and are perceived as competent to supervise and represent their clients during the TP audit. Nevertheless, they also pose a sense of belonging to the tax authority, which articulates the touch of dual roles of the advisers.

6.2.3. Research question 3: What are the future directions of transfer pricing in Indonesia?

Lastly, to answer research question 3, three themes were developed based on interview data, which reflected the perception and expectation of research participants on transfer pricing development in the near future in Indonesia. The question aims to capture diverse participants' voices and views regarding the possible directions to address transfer pricing from a perspective of multiple actors,

such as auditors, tax practitioners, tax professionals, policymakers, and a tax judge. The following subsections briefly describe each of the themes that emerged from the data.

6.2.3.1. More settlement, less litigation

In general, there is a growing trend in TP cases, as shown in the tax court decision related to TP disputes. The cases were brought to the court because there was no agreement between the taxpayers and the auditors during a closing conference in the audit process. While disagreement on audit findings may, or may not, be affected by the presence of professional tax practitioners, their opinions were sought to have a settlement during an audit. Generally, an audit settlement involves a resolution of an examination favourable to the position of the tax authority and taxpayers (Finley 2019). In the transfer pricing audit context, the resolutions point in different directions.

The first possibility is that the taxpayers accept all the tax auditors' arguments that the transfer prices violate the arm's length principle, which may lead to full audit adjustments. While this is a rare case based on the researcher's experience, there is a small chance that the taxpayers would follow this approach. Under this argument, MNEs are proven to be aggressively mispricing their intercompany transactions and stipulate the tax authority's vigilance.

Next, MNEs partially accept the auditors' position, and reciprocally, the auditors agree on part of the MNEs' argument. If deficiencies are found during the investigation, this resolution shows the acceptance of facts and conditions around intercompany transactions and accommodates the interests of both parties. This is the kind of settlement behaviour that is favourable for some participants. In this case, there will be a partial audit adjustment equal to the agreed deficiencies. Another treatment would be the MNEs' rejection of the tax auditors' findings and audit adjustments, and the high chance is that they will proceed with the cases to the tax court. This could be the reason for the increased TP litigation cases in the tax court. The last resort is from the perspective of the tax auditors who rejected all the taxpayers' arguments, even though, according to the taxpayers, the price charged follows an ALP. It leads to a full audit adjustment and, possibly, a dispute in court.

From the above brief explanation, some participants pointed out that the direction in TP audit should accommodate the alignment between the taxpayers and the auditors because there is no such thing as an exact science in transfer pricing. Further, it is expected that the auditors do not have to push transfer pricing adjustments and do not use their power arbitrarily if intercompany transactions are within the arm's length. There needs to be a greater settlement in the TP audit rather than enforcing the dispute. One of the participants from the tax professional said:

I think sometimes DGT uses its authority arbitrarily regarding transfer pricing audits. Based on my experience, when DGT adjusted the company's transfer pricing, we won, and the tax court judge reversed DGT's decision. Tax litigation is kind of time-consuming, both for DGT and taxpayers. We would rather use the energy and resources for other important issues in the business. I hope DGT can reflect their losses in TP cases and aim to proceed with more settlements.

(TPRO2, Accounting and Tax Manager).

The sense from the above quotes reflects the competing argument related to the settlement in the transfer pricing audit. While from the previous subtheme under “dualism of the tax advisers,” an audit settlement was perceived as a factor related to the behaviour of the tax advisers, the tax professionals working in MNEs have a competing perception. They perceived that the presence of audit settlement would be related to the tax auditors' acceptance of MNEs' arguments. As mentioned by TP2, the auditors in DGT tend not to accept MNEs' explanations and proceed with an audit adjustment despite the arm's length nature of transactions. This behaviour tended to carry out the dispute in the appeal process. Another supporting opinion came from TPRO1, who argued:

...even when I submitted all documents, records, and evidence for intercompany transactions, which I think have aligned with domestic regulations and international guidelines, the tax auditors did not accept our position and proceeded with adjustments and penalties. This was the reason for appealing to the tax court, in which the judge upheld our position. Perhaps in the future, DGT's auditors need to reshape their strategy in TP audit to be more open to the settlement.

(Senior tax manager).

The tax audit settlement does not come in isolation. There should be a double-sided factor determining this process, both from the tax authority and the taxpayers, despite the presence of an intermediary actor of the tax consultant. Many factors may contribute to the tax auditors' behaviour whether to accept the audit settlement, such as the complexity of the audit, additional revenue target from audit activities, the number of audit cases, and the availability of strong evidence. To be specific for transfer pricing, the ultimate consideration to settle, or not to settle, the audit is the magnitude of possible audit adjustments that may lead to additional tax revenue. This perception was elaborated by one of the tax consultants, "...it is likely that the tax auditors in DGT only care about the additional tax revenue during transfer pricing audit" (TCON1, partner in tax consulting firm). As such, eliminating this perception to give more space for discussion, communication, and negotiation to achieve a settlement is critical in a transfer pricing audit.

Further, the tax auditors in DGT need to have a wider perspective when conducting a transfer pricing audit. An audit adjustment should not be the ultimate goal of the examination. If the taxpayers have already complied with relevant regulations, an adjustment should not be imposed, and the settlement can be achieved. This consideration arose from one of the interviewees who stated:

I think the auditors in DGT have kacamata kuda when conducting a transfer pricing audit.⁷² I feel like they do not want to hear our argument. If we always choose tax litigation to solve the dispute, then the compliance cost for the company would be high. We should have a win-win solution and settle the disagreement in the audit.

(TPRO3, Head of Finance).

Interestingly, this study reveals that the assessment of the behaviour related to transfer pricing deals not only with how the auditors perceive other actors' (MNEs and tax advisers) behaviour but also how these actors perceive the auditors' behaviour. It can be seen from the exploration of the need for more settlements

⁷²*Kacamata kuda* is a metaphor in the Indonesian language, meaning the horse's blinders or blinkers, which may limit the horse's vision. This phrase describes an individual's inability to examine a certain condition from a wider lens. He or she tends to have a narrow perspective and is not able to see the facts surrounding a single phenomenon, as metaphorically described by the words *kacamata kuda*.

during the transfer pricing audit expected by MNEs, as represented by the tax professionals. Other than MNEs, the tax advisers were also aware of this issue, which one of them commented:

...more settlements during transfer pricing audits are better than litigation. The tax auditors should have known about this, but they refused to apply it because they intended to have a higher audit adjustment. Settlement during tax audit is important for tax certainty, particularly when transfer pricing involves large multinationals. They want to invest money in a country with stability in the tax environment, which is related to the transfer pricing regime. (TCON5, partner in tax consulting firm).

Moreover, other than the above deliberation as a rationale for the need for more audit settlements, the theme “more settlement, less litigation” is also related to DGT’s growing concern about the Advanced Pricing Agreement (APA). According to the OECD (2022), the term APA is defined as “a procedural arrangement between a taxpayer or taxpayers and a tax administration intended to resolve potential transfer pricing disputes in advance”. As such, it is a way to resolve transfer pricing issues that may provide certainty and stability both for the tax authority and the taxpayer for a certain period during APA. A senior policymaker in the Indonesian Ministry of Finance (MOF) commented that:

Other than transfer pricing audit, DGT is now focusing its strategy through APA to resolve transfer pricing disputes. I can see that many TP audits end up in the litigation process at the tax court. APA may shift this trend by providing advanced settlement between DGT and MNEs related to the priced charged for intercompany transactions. In the future I hope many MNEs will use this strategy to reduce their compliance cost. (POL2, participant from MOF).

The above quote confirmed DGT’s effort and strategy to intensify the use of APA as a settlement point for MNEs. While the intention is good to reduce transfer pricing disputes and increase certainty, its application needs some improvements. Some interviewees said that they were considering APA, but not for the current state. Their considerations are that the APA process tends to be time-consuming,

complicated, and requires contemporaneous documentation. One of the participants mentioned that:

When DGT released a regulation related to the APA mechanism, we considered this option because we do not want to be audited every year. However, the process is not as easy as it seems. So, maybe we will reconsider it in the future if the process is less complicated.
(TPRO7, tax compliance manager).

Furthermore, a participant from a tax consultant added his argument and stated:

Conceptually, APA is quite interesting in attracting MNEs to settle transfer pricing disputes. It aims to find certainty in uncertainty conditions. Unfortunately, due to heavy requirements and long processes, it is no longer attractive for MNEs. Perhaps later in the coming years, when DGT revises its procedure related to APA, the outcome will be optimal.
(TCON7, transfer pricing specialist).

It can be concluded that for APA to be effective as the settlement mechanism for transfer pricing, DGT should make it accessible to every multinational. In general, based on the data from the OECD, Indonesia's position regarding APA is relatively comparable to other countries. For example, recent data reveals that in 2023, there were 20 APA cases submitted to DGT. This number is quite similar, or even superior, compared to cases in other countries, such as 21 (Singapore), 3 (Vietnam), 3 (Malaysia), and 19 (Australia). Conversely, the cases submitted for APA in well-developed tax jurisdictions are exceeding DGT, such as 82 (Germany), 153 (USA), 200 (Japan), 39 (Netherlands), and 45 (UK) (OECD 2023d). From this data, there is much room for improvement in DGT's regulations to streamline the APA process and to increase the settlement of transfer pricing disputes for future direction.

6.2.3.2. The need for simplification measures

The second future direction that emerged from the interview was the need for a safe harbour rule. In brief, a safe harbour, or simplification, rule is a provision under the transfer pricing regime that allows certain taxpayers to apply a simplified method to determine an arm's length price (OECD 2022d). The enactment of this provision may utilise two approaches of the simplification rules: simplified documentation for intercompany transactions and predetermined pricing, margin, or

markup under a range of acceptable transfer prices for certain types of transactions (Ulanenko 2020).

In addition, a safe harbour rule can be applied for low-risk transactions such as low-value adding services and intercompany loans (Mills 2019b). It can be used to minimise the intricacy of a full application of the arm's length principle (Steens et al. 2022), to reduce compliance burden and to provide tax certainty around transfer pricing (Ezenagu 2022). Many jurisdictions have applied this approach, such as the USA, Netherlands, Australia, Mexico, India, and Spain (Kołodziejczyk 2023). The OECD also acknowledges this approach in its current transfer pricing guidelines. The majority of participants expected the exploration of a simplified measure under the Indonesian transfer pricing regime. One respondent perceived the safe harbour rule to achieve certainty and avoid a grey area in transfer pricing.

I expect DGT to have a simplification rule, so every arrangement in our transfer pricing policy would be certain and would not fall into a grey area, which may lead to a dispute. With the threshold being regulated by DGT, we'll have a clearer picture of how much the margin should be. I think it would be easier for me to explain it to our parent company.

(TPRO5, Accounting, Finance, and Tax Manager).

Another tax professional in an MNE commented on the safe harbour rule and stated that “...for example, if DGT can adopt the safe harbour rule of 5 percent margin for low value adding services, as stipulated by the OECD, I think that would provide certainty for some issues and would be easier both for the tax officials and MNEs.” (TPRO9, Finance Director).

While simplification measures remain a cautionary issue, their application can be translated more practically. If the taxpayers' margin falls within a prescribed parameter, their returns are guaranteed and relieve them from a potential audit. It provides certainty, as perceived by the above quotes, in the sense that the complex determination of an arm's length margin can be avoided (Ezenagu 2022). A safe harbour rule is also perceived to be applied in a more coherent area where most of the intercompany transactions are arranged in the special economic zone (SEZ), one of which is the Batam region. Batam is one of the popular SEZ locations in Indonesia and is also known as a free trade zone (FTZ) location. The advantage of Batam as

an SEZ and FTZ is supported by its geographical location adjacent to an international trading hub, Singapore. For this reason, many foreign investors in Batam are multinationals with their headquarters or parent company in Singapore or owned by Singapore residents. A tax professional working for MNEs in Batam said that:

Due to the nature of these zones, Batam or any other FTZ locations should have an acceptable margin range for specific industries. So, if a company's margin in FTZ or SEZ is within the range, there will be no further monitoring and auditing. In the end, we can self-assess our position, and DGT may focus its resources on another issue, perhaps scrutinising loss-making MNEs.

(TPRO6, Finance Director).

The above transcription provides a clarification that the arrangement of simplified measures is also perceived as a way to solve the staffing issue in DGT to scrutinise transfer pricing. It can focus its officials on specific industries below or those that are not consistent with the prescribed range. With respect to the TP6 argument, a senior transfer pricing expert at DGT mentioned that the Batam tax unit has tried to apply the idea of the safe harbour provision in SEZ. However, this was a temporary policy applied in a regional stream. While this idea seems not really progressing, there should be an escalation of safe harbour provision at the national level, as argued by one of the policymakers in DGT:

It is possible to apply a safe harbour rule in DGT, at least for certain industries or transactions, such as contract manufacturing companies or low-value-adding services. This approach can bring certainty and comfort to foreign investors doing business. So, I think it is feasible for DGT to start thinking and applying this concept nationally in the future.

The above excerpt shows that, other than MNEs, an idea for the simplification measure also comes from senior bureaucrats in DGT. As a starting point, DGT may regulate the safe harbour rule for simple manufacturing functions and determine the acceptable manufacturing markups for the baseline (Giegerich 2017). Further, the perception of safe harbour as an easy approach to benchmark was also pointed by a tax consultant who said:

In my opinion, for future development, it is important for DGT to have a safe harbour rule, especially to reduce the compliance cost. Under the current mechanism, we should calculate how many benchmarks we perform to determine our clients' margin level. Actually, if there is a safe harbour, it makes the determination easier: Just follow the margin set by the government. Where the margin falls outside the range, we need to inform our clients of the possible consequences they may face.

(TCON3, transfer pricing specialist in the Big Four audit firms).

The quote from TCON3 magnifies the viable effects of the safe harbour rule. While it may reduce compliance burden and be easy to apply, the formulation of this approach needs to be scrutinised carefully. A simplified approach may diverge from its intended purposes if the range does not precisely capture the arm's length transaction in the market. Thus, the taxpayers can shift their margin within a predefined range. There should be a legitimate approximation of the range permitted under the safe harbour rules (Solilova 2013). As such, DGT should be aware of the potential tax planning arrangement due to the application of the simplified measure (Ezenagu 2022). A senior policymaker in DGT circulated his concern regarding the safe harbour rule and said:

Aligning with the OECD TP Guidelines, I think a simplified, or safe harbour, rule may bring benefits to reduce the compliance cost and deliver certainty for the taxpayers regarding transfer pricing. However, the application of this approach needs to have greater consideration due to the possible risks. It may provide an opportunity for the taxpayers to do tax planning in defining their margins. Another consideration is to carefully select the industry sector and the taxpayers' criteria to apply this approach. For these reasons, DGT has not yet regulated the safe harbour rule under its domestic legislation. We are anticipating the global trend, and so, for future development, it can be applied accordingly.

To conclude, the arguments developed under this subtheme exemplify the need to apply simplification measures in the Indonesia transfer pricing regime. While this concept should be carefully crafted, its implementation may reduce disputes between the taxpayers and DGT, provide certainty, and reduce compliance burden. According to TC6, a partner in a consulting firm, to streamline the imbalance in

knowledge between the taxpayers, tax auditors, and tax advisers, a simplified approach is necessary to apply.

6.2.3.3. Increased coordination and dissemination

Coordination means organising separate things into a single action. Two forms of perceived coordination unfolded from transcriptions: governmental coordination and institutional coordination. The governmental coordination shows coordinated actions within governments, while institutional coordination captures the same action within a tax institution. These two types of coordination are believed to be the channels influencing MNEs' transfer pricing policy in the event of a dispute (Blouin et al. 2018). From a policy perspective, one of the senior policymakers in the Ministry of Finance stated:

I need to point out that a certain step needs to be addressed by DGT in the near future to build coordination with another government institution. One of which is aligning DGT's agenda around transfer pricing with the Ministry of Investment / Indonesian Investment Coordinating Board. This is because the transfer pricing issue is connected to the big corporations investing their money in Indonesia. Thus, managing their interests and the tax consequences should be done with another government agency.

It is interesting to reflect on the above quote that government coordination is needed and is associated with inbound foreign investment. As can be seen from Figure 3.8, Indonesia shares the highest FDI net inflows in the Southeast Asia region following Singapore. This data highlights the important aspect of managing MNEs, which is aligning DGT's transfer pricing agenda with another government agency dealing with FDI. Otherwise, MNEs will perceive Indonesia as a country with a complex transfer pricing regime, and it will affect their intention to keep the money in the region. This concern arose during the interview when one of the participants said:

...DGT wants to make the already complicated nature of transfer pricing even more cumbersome for MNEs. Its auditors tend to push transfer pricing adjustments during tax audits. Due to this behaviour, the headquarters of my company has put Indonesia on the 'red list' for its transfer pricing regime, which, if it is not addressed properly, will affect the investment in Indonesia. I

think DGT should take immediate action, perhaps by coordinating this issue with the Indonesian Investment Coordinating Board.

(TPRO7, Tax Compliance Manager).

The consideration of transfer pricing, foreign investment, and the needs for increased government coordination were also found in another interview with the tax professionals as follows:

...to be honest, the increasing trend of transfer pricing adjustment without proper analysis from the tax auditors raises questions about Indonesia's condition in terms of foreign investment. Why do we have so many TP audit adjustments in which at the end of the day will be reversed by the tax court? I believe DGT should resolve this issue using the inter-governmental mechanism to provide comprehensive solutions.

(TPRO2, Accounting and Tax Manager).

In addition, future direction in transfer pricing policy should also address coordination among tax officials within the DGT. This is critical because the cause of transfer pricing risks may be derived from the tax authority instead of the industries. Reflecting on this issue, TPRO7 commented:

My company was once being audited, and the tax auditor adjusted the TP method that we used in our document. My company decided to agree with their opinion, and for the next year, we revised the method in accordance with the tax audit findings. Then, we had a shocking treatment because in the following year, a different team was in charged and decided to apply another different TP method that was the opposite of the previous audit finding for the same contract and transaction. This is insane and raises uncertainty in the audit process and in the tax system in general. I think there should be better coordination among auditors in DGT to minimise this issue.

(Tax compliance manager in oil and gas MNE).

The above quote highlights a confirmation of transfer pricing inconsistency that, unfortunately, is an issue in many tax authorities, particularly during tax audits (Diller et al. 2021). In the quote, inconsistency was seen not from the perspective of the regulations, but from the tax auditors' behaviour in handling the transfer pricing

audit. In this case, the auditors worked for their team's interests and overlooked the importance of coordination amongst the members of a tax institution. This concern is also aligned with another perception from TPRO4, a VP Finance in one of the MNEs, who said:

Each tax office has its interpretation of the same intercompany transaction, which can be very different. Sometimes, tax officials in the same tax unit have contrasting answers to my query about transfer pricing. Perhaps in the future, the level of coordination and knowledge of DGT's tax officers could be enhanced.

It is worth reflecting on the voice of TPRO4, who touches upon needs for better coordination and knowledge among tax officers. Interestingly, he mentioned 'officers' instead of 'auditors', which suggests that transfer pricing needs to be elaborated and mastered by all levels of tax staff in DGT. It should use the hierarchical structure to ensure that all teams are well-coordinated and knowledgeable about this worldwide issue. Noting this idea, a senior policymaker in the Ministry of Finance marked DGT's future direction in terms of the organisational structure. He mentioned that DGT needs to have a specific directorate to handle transfer pricing because, currently, this issue is coordinated at a lower level of sub-directorate. Arguably, exploring transfer pricing is not only the issue of staffing or resources, but also the consideration of DGT as an institution.

Other than coordination, one subtheme came up related to the importance of external communication to support the development of the transfer pricing regime in Indonesia. Through external communication, the exchange of information between DGT and the taxpayers (particularly MNEs in this regard) is perceived as a vital source to increase the level of engagement, information, and knowledge. Related to this concern, TPRO1 said:

Although transfer pricing is only a small part of the accounting and tax cycles, its importance is clear. I need more socialisation from DGT around recent transfer pricing updates. Most of the time, I get the information from the training centre where I registered as a member or from my tax adviser. I think the information should come from the regulator, which is DGT, so that it will be more comprehensive.

(Senior tax manager).

The expectation of circulating information by DGT was also found in another session with TPRO3, who perceived:

I feel like DGT lacks the intention to communicate and circulate information around international tax issues and transfer pricing. Sometimes, I need to ask my colleagues in other companies. The problem is that they also do not fully understand, just like me. It is like the blind leading the blind. That is the reason my company hires a professional tax adviser to deal with the transfer pricing issue.

(Head of Finance).

In general, information dissemination carried out by tax authorities is critical to raising tax awareness among taxpayers. Further, this is a generic way to ensure tax information is well-disseminated and can be reached out to taxpayers (OECD/FIIAPP 2015). In addition, the above two quotes magnify the concern from the taxpayers on the lack of communication from DGT around a specific issue of transfer pricing, something that DGT could elaborate on for future development. A similar view was shared by a tax adviser who commented:

...DGT has not yet explored the role of its tax instructors in disseminating transfer pricing to the taxpayers. From what I can see so far, their roles mainly deal with general tax information, such as circulating new regulations, filing tax returns, and other general tax-related issues. I hope DGT can maximise its resources, not only the auditors but also the instructors, to raise the transfer pricing issue with taxpayers.

(TCON2, senior transfer pricing specialist).

While the concern of transfer pricing dissemination is not directly related to the tax audit, its presence is perceived as critical for MNEs. Tax audit, which is more in a continuum of the enforcement of the tax laws, has long been seen as a traditional technique to increase compliance (Allingham and Sandmo 1972; Slemrod 2016). Thus, increasing information dissemination is becoming a strategic line for tax authorities to enhance taxpayers' awareness, knowledge, and compliance (OECD/FIIAPP 2015). In this case, DGT is expected to be more aware of this issue and provide comprehensive transformation in delivering current trends, information,

and development around transfer pricing. By doing so, the taxpayers, MNEs to be precise, are expected to demonstrate regulatory compliance and maintain the deference to the arm's length standard (Zimmerman 2020).

In addition, as mentioned by TPRO1 and TPRP3, the role of tax advisers is also critical in circulating the transfer pricing topic to MNEs. They may serve as an agent to disseminate information, which shows the flexibility of their roles. Tax advisers are perceived as a credible source of information for MNEs related to the transfer pricing regime. Hence, tax advisers are the people that MNEs can trust to keep them updated on current developments in the tax system and ensure compliance with tax laws (Sakurai and Braithwaite 2001).

Transfer pricing is complex, and its emergence requires detailed knowledge. Information about this area should come from educated individuals like tax advisers (Dzienkowski and Peroni 2016). As suggested by the OECD, the tax authority may collaborate with professional tax practitioners to provide information about specialised topics such as transfer pricing (OECD/FIIAPP 2015). Therefore, it may eliminate the information asymmetry between tax advisers and their clients (De Widt et al. 2016).

6.3. Conclusion

To sum up, this chapter investigates qualitative analysis of interview data using reflexive thematic analysis (Braun and Clarke 2006; Braun et al. 2019b; Braun and Clarke 2019; Braun and Clarke 2022) to embrace the reflexivity of the researcher's prior knowledge and experience around transfer pricing. There were three research questions that this stage aimed to answer. The inductive exploration of interview transcripts revealed interesting patterns that expand our understanding of audit behaviour around transfer pricing in Indonesia. Later, the results from the inductive approach will be compared deductively to existing literature, theory, or concept to generate meaning and integration. Using the two approaches, this study incorporates a hybrid inductive–deductive method, which has been explained in the methodological chapter. All the codes, themes, and subthemes were grouped and analysed using the help of NVivo software (Lumivero 2024).

Further, two themes and three subthemes appeared to answer research question 1. It can be concluded that the tax auditors perceived transfer pricing audit

as complex and stipulated different conceptions around the intention to conduct the audit. In another exploration, to answer research question 2, the data revealed that the tax auditors considered MNEs to be one of the actors in the tax system that have the resources to handle intricate transfer pricing policy, design, and administration. As such, an increasing trend of transfer pricing scrutiny of MNEs was perceived as a rational action from the tax authority to monitor MNEs' compliance. In addition, the presence of professional tax practitioners to represent MNEs during transfer pricing audits was perceived as both advantageous and challenging.

Lastly, three themes were used to answer research question 3 and explore the expected future direction of transfer pricing development in Indonesia. The majority of tax professionals and tax advisers wanted to resolve disputes around transfer pricing at the audit level. This is the opposite view of the current trend, in which they prefer to solve this problem through the litigation process. Also, the participants expected DGT to consider a simplification measure to minimise disputes and reduce the compliance burden related to transfer pricing. Besides that, a well-coordinated strategy was perceived as critical to address the future development of transfer pricing in Indonesia. The qualitative findings will then be integrated with the quantitative results to uncover the meaning, which will be addressed in the next chapter.

Chapter 7 Discussion

7.1. Introduction

This chapter is designed to expand the findings in the quantitative and qualitative stages of the study. It also aims to integrate or triangulate both approaches. The answers to the research questions will be interpreted and tied back to the literature. Following this section, section 7.2 will briefly explore the integration process of the survey and interview findings to answer a mixed methods research question. In this phase, there will be a joint display analysis to integrate the two findings and to generate meta-inferences. Next, section 7.3 discusses the mixed methods findings in reflecting the overall literature and theoretical framework. This leads to section 7.4, which will propose an extended framework of an existing theory. After this section, there will be a discussion around the possible contributions made by this study. The following section, section 7.6, proposes some policy actions that can be corroborated in the Indonesian tax regime. Lastly, section 7.4 concludes this chapter.

7.2. Integration of the mixed methods research findings

At this stage, it is worth revisiting the objective of this study. The current study aims to explore the tax auditors' intention, motivation, and perception regarding transfer pricing audit behaviours in Indonesia. A mixed methods approach is used to achieve the objective. After answering quantitative research questions, testing the hypotheses in Chapter 5, and explaining qualitative research questions in Chapter 6, the next step would be answering a mixed methods research question. It is critical, as part of the mixed methods strategy employed in the present study, to integrate the two sets of results, unfold meaning, and generate inferences (Tashakkori and Creswell 2007b; Tashakkori and Teddlie 2021). The mixed methods question to be addressed is:

To what extent do quantitative instrument data measurement results on transfer pricing audit behaviour resemble interview findings for the tax auditors working at the Indonesian tax authority?

To answer the above question, further discussion on integrating quantitative and qualitative findings is needed, which is described in the following subsection.

7.2.1. Mixed methods integration

Following the quantitative and qualitative findings analysis in previous chapters, the next step aims to answer the mixed methods research question by integrating the findings. This can be done using the mixed methods data analysis (Creswell and Plano Clark 2018), which at the end of the analysis, meta-inferences will be generated (Fetters 2020; Fetters and Guetterman 2021; Tashakkori and Teddlie 2021). The integration process involves the comparison between the results of quantitative and qualitative stages, assessment of their congruence, and determination of the integration dimension (Fetters and Molina-Azorin 2017; Bustamante 2019). To be more precise, the mixed methods integration in the current study involves different analyses, including SEM-PLS of the survey data (Hair et al. 2022), reflexive thematic analysis of the interview data (Braun and Clarke 2022), integration process through joint displays (Fetters et al. 2013b; Fetters 2020), and generation of meta-inferences (Bustamante 2019; Fetters and Guetterman 2021; Younas et al. 2023). The first two steps, SEM-PLS and reflexive thematic analysis, have been discussed in previous chapters. Thus, the next stage deals with joint display analysis and meta-inferential generation.

The current study incorporates integrating the two findings through joint displays as a visual representation to draw new insights beyond separate findings from quantitative and qualitative datasets (Fetters et al. 2013). The integration process is conducted in parallel, meaning that the two findings from quantitative and qualitative methods are discussed separately and will be merged afterwards. The integration approach to generating meta-inferences in the current study follows previous studies by combining the integration through a side-by-side table (Guetterman et al. 2015b; Moseholm et al. 2017; Sundus et al. 2020; Younas et al. 2023) and circular display (Bustamante 2019), all of which are discussed in the following subsections.

7.2.1.1. Side-by-side joint display and meta-inferences

To integrate findings from the quantitative and qualitative methods through visualisation, the predominant styles of joint displays were the side-by-side table

comparisons (Guetterman et al. 2015b). The table provided the comparisons between statistical results in quantitative data and themes derived from a qualitative study, with additional information on associated quotes from participants. Using the same concept of discussion in the narrative approach above, the side-by-side joint display in the current study is presented in Table 7.1. It started with the constructs developed in the survey, followed by the findings in the two studies. Then, relevant quotes were added to gain more insights, which led to a meta-inference explanation.

7.2.1.2. Circular joint display and meta-inferences

While side-by-side tables illustrate the integration process in a more traditional style, circular joint displays come up as an innovative way to present integration in a mixed methods study (Fetters 2020). This visualisation begins with the inner circle of quantitative constructs based on the theoretical framework and previous studies (Ajzen 1991; Braithwaite et al. 1994; Langham et al. 2012a). The displays then expanded into other layers of circles consisting of qualitative themes or subthemes, examples of the quotes, and inferences. The style of circular joint displays in the current study is inspired by the same display developed in another study (Bustamante 2019) and can be seen in Figure 7.1.

Both side-by-side and circular joint displays provide a clear visualisation of the integration results of the current study. Generally, it can be concluded that there was an agreement between quantitative and qualitative findings to answer a mixed methods research question. Behavioural intention and perceived MNEs' transfer pricing regulatory knowledge were consistent in explaining transfer pricing audit behaviours. In that case, the statistical association confirms the themes from the interview results. One variable, the tax auditors' deference posture, also confirmed and extended quantitative findings. Consequently, qualitative interviews provided an additional spectrum of behavioural intentions to conduct a transfer pricing audit. The integration pattern shows an extension of meta-inferences. Conversely, one variable, participants' defiance posture, presented discordant inference because the insignificant association analysed in PLS-SEM was inconsistent with the interview findings. All these types of inferences have been discussed in the narrative approach subsection.

It is important to highlight that integration in the mixed methods study focuses on the findings from both methods. The constructs or variables of interest are discussed using a theoretical framework and literature. In this study, constructs were developed based on the Theory of Planned Behaviour - TPB (Ajzen 1985; Ajzen 1991), Motivational Postures Theory (Braithwaite et al. 1994; Braithwaite 1995), and perceived tax knowledge (Langham et al. 2012a). The findings of these variables were then integrated and mixed to generate meta-inferences (Tashakkori et al. 1998; Creswell and Clark 2017; Creswell and Plano Clark 2018; Fетters 2020; Fетters and Guetterman 2021). However, the qualitative interviews in the current study also revealed the themes and subthemes that were not constructed during the quantitative stage. These findings were mainly related to participants' expectations other than the tax auditors, such as tax professionals, tax advisers, tax bureaucrats, and a tax court judge. These actors in the tax system are critical for developing the transfer pricing regime. The findings related to these actors may be considered a new contribution that emerged in the current study beyond the quantitative constructs.

7.2.2. Narrative explanation of mixed methods integration

7.2.2.1. Overarching tax auditors' intention around transfer pricing audit

The quantitative analysis reported a significant association between the tax auditors' intention to conduct transfer pricing audit with their actual audit behaviours ($\beta = 0.186$, $t = 2.153$, $p = 0.016$, $f^2 = 0.044$). The same manner was extended in the qualitative results because intention was positively discussed in two ways by the tax auditors, as shown in the themes and subthemes related to intention. The analysis revealed meta-inferences of expansion, which means that the results of quantitative and qualitative studies diverge and expand to generate inferences (Fетters 2020; Younas et al. 2023). In this study, these two findings have a similar pattern in terms of how the tax auditors perceive intention as a predictor of transfer pricing audit behaviours, and the outcome of the qualitative study broadens our understanding of intention. While intention is constructed as a single phenomenon in quantitative surveys aligned with the TPB framework, qualitative findings uncover complementary and distinct aspects of intention.

Intention is not a single concept; it can be formed in many ways (Mele 2009). In the current study, the interview result highlights two types of intentions, conditional and unconditional. These two differentiations of intentions are also consistent with the concept in the literature (Audi 2003). The findings from both methods support the argument that the auditors have considered behavioural when scrutinising transfer pricing (quantitative construct). It can also be affected by other factors, such as the availability of time to complete the audit, the order from the head of the tax office, and the presence of a transfer pricing audit plan (qualitative themes and subthemes). Quantitative and qualitative results affected the tax auditors' audit behaviours regarding transfer pricing under the Indonesian tax system.

The findings are not only consistent with the literature around the Theory of Planned Behaviour (Ajzen 1985; Ajzen 1991), but extend it to offer valuable insights around individuals' intentional behaviour. Hence, the results contribute to highlighting the importance of integrating quantitative and qualitative outcomes in generating meta-inferences (Schoonenboom 2022). Also, it can be concluded that the meta-inferences of expansion around the tax auditors' intention provide an insightful idea of the intention–behaviour gap that has often been cited as a limitation of the TPB model (Rossmann 2020). Individuals' intention to predict behaviour is not a silent concept. Thus, the current study answers this idea by providing empirical results on different types of intentions, primarily to conduct a transfer pricing audit. Although the tax auditors' intention has a small contribution and effect on transfer pricing audit behaviours based on quantitative findings ($\beta = 0.186$, $f^2 = 0.044$), the qualitative outcomes provided evidence for the spectrums of intention. In this case, the interview data illuminates the quantitative constructs and expands the scales by generating more evidence on the association between behavioural intention and actual audit behaviours in Indonesia.

The integration findings imply different types of intention on audit behaviours related to transfer pricing. While intentions may come in two contrasting spectrums, their roles are equally important in predicting behaviours in tax audit settings. The findings suggest that both conditional and unconditional intentions may reinforce the tax auditors to scrutinise transfer pricing and hence, have a role in shaping the audit behaviours. From the theoretical perspective, the findings set out the identification of intentions as a central point by which individuals perform certain behaviours (Hagger

2015) and confirm the contribution of Theory of Planned Behaviour in the context of tax study (Langham et al. 2012a; Smart 2013; Bani-Khalid et al. 2022a; Kaulu 2022a). For the tax authority, the integration findings imply that the need for increasing transfer pricing audits can be met by circulating more audit plans that analyse intercompany transactions. It may trigger the conditional intention of the tax auditors in a manner of handling transfer pricing cases, which is something that must be enforced. By doing so, the auditors are forced to have some constant experience with transfer pricing audits, which consequently affects their behaviour. Brewster et al. (2016) argued that conditional intention exerts a conditional effect on behaviour, meaning that individual behaviour is a product of encountering a specific situation.

In a broader sense, the findings of this study also contribute to the exploration of the Theory of Planned Behaviour in the public sector debate, which has not been adopted extensively (Zhang et al. 2024). Nevertheless, despite its contribution to explaining individuals' behaviour, the Theory of Planned Behaviour is criticised for not demonstrating sufficient variability in the predictors of behaviour, as it mainly relies on behavioural intention (Sniehotta et al. 2014). Another variable, such as regulatory strategy, may elaborate on this theory (Head and Noar 2014). Further, in the tax compliance studies, perceptions on tax knowledge may serve as one of the predictors of individuals' behaviour in complying with the tax system (Langham et al. 2012a), which has been used in the current study.

7.2.2.2. Embracing MNEs' transfer pricing knowledge

The survey analysis reported a significant association between the tax auditors' perception around MNEs' transfer pricing knowledge and their audit behaviours, as shown in the significance level of the corresponding scales ($\beta = 0.223$, $t = 3.190$, $p = 0.001$, $f^2 = 0.175$). The same pattern was evident in the qualitative study, reflected in all themes and subthemes. It reflects MNEs' ability to arrange their resources to handle transfer pricing design and policy. In addition, the interview stage stipulated the roles of tax advisers to assist and help MNEs manage intercompany transactions. All these findings cover the confirmation or convergence idea of meta-inferences in a way that qualitative results support the participants' positive association between multinationals' transfer pricing knowledge and audit behaviours.

The exploration of the tax advisers' roles was constructed in survey questions stating, "I believe tax professionals' knowledge on the complex tax laws regarding transfer pricing is backed by tax advisers", and thus, the integration findings confirm, converge, or support an idea of MNEs' capability to address transfer pricing issue. In addition, the tax auditors perceive MNEs' knowledge around transfer pricing as a variation of internal and external forces. Internal force involves using MNEs' staff and employees to handle transfer pricing issues, while external force involves incorporating a professional tax consultant.

Integrating the quantitative and qualitative findings illuminated the importance of MNEs' awareness and understanding of transfer pricing and the tax advisers' involvement in bridging MNEs' interests. These two factors affected the tax auditors' audit behaviours involving transfer pricing scrutiny in the era of increased investigation of MNEs' transfer pricing arrangements by the tax authority (Rogers and Oats 2022). The results also provided empirical evidence and supported the idea that behavioural intention is not the only predictor of engaging in a particular behaviour (Brewster et al. 2016). The tax auditors' assessment of MNEs' transfer pricing knowledge is also critical to determine a transfer pricing investigation. This finding confirmed the extension of the Theory of Planned Behaviour framework to include the awareness of the tax laws, as perceived by transfer pricing regulations in this study, as a variable associated with behaviour in the tax compliance setting (Langham et al. 2012a).

Furthermore, the findings imply that MNEs in Indonesia will likely be audited by DGT for their transfer pricing arrangements regardless of their strategy to hire professional tax consultants. The roles of the tax advisers are more than just problem-solving. They need to assist, help, and educate MNEs in a broader area of transfer pricing. Furthermore, DGT perceives MNEs as entities with abundant skills that may explore different sources to help them arrange internal prices for intercompany transactions. This is consistent with the growing scrutiny of transfer pricing across different jurisdictions (Vicard 2015b; Klassen et al. 2017a; Barrogard et al. 2018b).

It can be concluded that, notwithstanding the types of industries, the use of tax advisers, the location of headquarters and parent companies, and the level of transfer pricing knowledge, MNEs face a risk of being investigated by the tax

authority for their transfer pricing. As such, MNEs must prepare all evidence and documentation related to intercompany transactions, including pricing policy, to be ready for the audit. All these findings illustrate the positive intersection between MNEs' regulatory knowledge and transfer pricing audit behaviours, as shown by significant association, medium effect size, and qualitative themes and subthemes in the present study.

7.2.2.3. Reinforcing tax auditors' positive commitment

The quantitative analysis revealed a positive, significant association and large effect size between deference posture, which stipulates commitment and capitulation, and transfer pricing audit behaviours ($\beta = 0.430$, $t = 4.394$, $p = 0.000$, $f^2 = 0.366$). In addition, the qualitative data indicated positive discussions among tax auditors related to the drivers and commitment to scrutinise transfer pricing at the tax audit level. These two results developed confirmation (Fetters 2020), which means that the relationships exist between the two constructs of deference posture and audit behaviours.

The incorporation of deference posture, described as individuals' positive commitment and deference to authority (Braithwaite 2003a; Tan and Braithwaite 2018), is essential to extend the Theory of Planned Behaviour framework. According to Sniehotta et al. (2014) motivational measures such as personal commitment predict actual behaviour beyond the behavioural intention. Therefore, the integration findings support and provide evidence of the need to extend the predictors of behaviour in the TPB context. Adding more predictors of behaviour could be possible, as mentioned by Ajzen (2020), "...it is possible to include other predictor variables not already part of the theory". The presence of positive commitment from the tax auditors to conduct a transfer pricing audit is likely to be articulated in the actual audit behaviours. Aligning with this finding, it can be said that the tax auditors in DGT put closer social distance with the authority. It outlines the importance of transfer pricing audit to help the tax authority achieve its objectives to collect more revenue through audit and to increase the compliance level of MNEs (Taing and Chang 2021a; Kasper and Rablen 2023).

The level of commitment to scrutinise transfer pricing is present at every level of tax audit members, as indicated in the qualitative findings. Despite transfer pricing

risk assessments in DGT being perceived as not yet sophisticated, their role is critical to preserve the tax auditors' commitment and to affect their audit behaviours regarding transfer pricing. As suggested by OECD (2012), risk assessment is central to the success of transfer pricing scrutiny programmes in every tax administration, which may affect resource allocation to handle the audit. Thus, this finding implies the need for increased capability of transfer pricing risk assessments in DGT to allocate the auditor and to support commitment to delivering an effective transfer pricing audit.

Increasing commitment is critical due to its large effect in predicting the significant association between deference posture and audit behaviours, as presented in the quantitative analysis. The effect is larger than that of other predictors, such as behavioural intention and perceived MNEs' transfer pricing knowledge. For this reason, maintaining the tax auditors' commitment is a continuous process that DGT should address to maximise their roles in conducting in-depth investigations around transfer pricing.⁷³ It is a consequence of the growing intercompany transactions by MNEs' affiliations, in which tax authorities, mainly in developing countries, need to mitigate through an effective transfer pricing audit (Ratombo and Blumenthal 2017).

7.2.2.4. Overlooking tax auditors' disengagement

In the area of defiance posture that links to resistance and disengagement behaviour, there was a contrasting result compared to other predictors. The qualitative findings revealed perceived challenges to conducting a transfer pricing audit, which may affect the tax auditors' behaviours. Some participants were unfamiliar with this audit and expressed the presence of technical and regulatory barriers to performing a transfer pricing audit. A consistent pattern emerged in the qualitative analysis, highlighting the resistance level among some participants to conducting an audit for MNEs. It highlighted the large social distance put by the auditors with their authority, as stipulated in the motivational posture theory (Braithwaite 2011b; Braithwaite 2014). This finding is consistent with previous

⁷³This can be done through different strategies, which will be further discussed in the section 7.5.4. A broad framework of the .

studies on the complexities of transfer pricing audit faced by the tax authorities in developing countries (Shongwe 2019; Wier 2020; Mashiri et al. 2021; Sebele-Mpofu et al. 2021b; Garcia-Bernardo and Janský 2022).

However, the quantitative finding from the survey reported no significant association and no effect size between defiance posture constructs and audit behaviours ($\beta = -0.066$, $t = 0.908$, $p = 0.182$, $f^2 = 0.007$). The two contrasting results confirmed the dissonance, or divergence, inferences between quantitative and qualitative outcomes (Creswell and Plano Clark 2018; Feters 2020; Feters and Tajima 2022). Dissonance appears when different approaches generate contrasting perspectives or reveal outcomes that conflict with each other (Bazeley 2022). Scholars suggest that the presence of dissonance may be common in mixed methods studies for its capacity to add creative insights on certain phenomena (Rossman and Wilson 1985; Bazeley 2009) and catalyse “new and deep understandings not possible with one methodological standpoint alone” (Greene 2012).

A possible reason for the dissonant inference in defiance posture is that the participants are tax auditors working in a government institution spread across many tax units in different regions. The auditors may have diverse perceptions around the level of social distance they need to place with their institution. The scales on the defiance posture question assessed the auditors’ perception of the negative consequences and challenges they face during a transfer pricing audit. Therefore, participants could have translated the scales from a different perspective based on their experience dealing with MNEs and intercompany transactions during the audit process. The examination of survey items as a possible explanation for dissonance inference was also found in a study under a public institution setting (Bustamante 2019). As such, the interview stage further explored the tax auditors’ perception on this matter and provided insightful themes and subthemes. The survey scales may limit the auditors’ understanding and interpretation of the context, and thus, the results were clarified during a qualitative study. Finding the source of dissonance is critical, as mentioned by Bazeley (2018, p.272), in the event of inconsistent responses, the researchers need to identify the source of the differences because “participants in different circumstances or in different personal or professional positions will vary or will have different interpretations of a problem”.

The above result provides clarification that dissonance inference provides complementary understandings, welcomes differences, and supports meaningful dialogues that may enhance the insights of a study (Greene 2012). Bringing different aspects to generate inferences during the integration stage is mandatory to achieve fit from the two approaches of quantitative and qualitative datasets (Bazeley 2024, p.230). This is because integration is the “heart and soul” of mixed methods research (Guetterman et al. 2020). From this view, the dissonance results imply interesting data for DGT that, although it was not reflected in the survey results, challenges perceived by the tax auditors in conducting transfer pricing audits will not prevent them from scrutinising MNEs’ transfer pricing. They still have commitment posture and unconditional intention to investigate transfer pricing, which are the main drivers affecting their audit behaviours. The auditors commit to helping their institution collect tax revenue and enforce tax through transfer pricing audits. Even if they perceive transfer pricing audit as complicated and time-consuming, a conditional intention enforces them to (still) investigate MNEs’ TP arrangements. As such, an effective transfer pricing audit program using comprehensive compliance risk management is necessary to support the auditors managing the complex nature of the transfer pricing audit (Cooper et al. 2017; Mashiri et al. 2021).

7.2.2.5. Managing other participants’ expectations

The mixed methods findings emphasised the importance of different factors affecting transfer pricing audit behaviours in Indonesia, such as the tax auditors’ voluntary and enforced intentions, the tax auditors’ close connection with the tax authority, the presence of tax advisers, and MNEs’ knowledge of transfer pricing. Above all, the auditors may voluntarily commit to conducting a transfer pricing audit due to their critical roles in protecting the tax revenue and enforcing the tax laws. In another case, even if the auditors face many challenges during a transfer pricing audit, they still need to handle it because it is not a choice; they are forced to perform the audit. As such, transfer pricing audit is one of the arenas in the tax system that is perceived as important yet complicated, and the literature supports this opinion (Chan and Chow 1997; Muhammadi et al. 2016; Shongwe 2019; Mashiri et al. 2021; Sebele-Mpofu et al. 2021b).

The growing trend of transfer pricing audits in Indonesia has other consequences for the DGT and the firms. Transfer pricing auditing processes tend to

be resource-heavy for the tax authority due to their long process, back-and-forth negotiation, and high prevalence of disputes. As also happens for the MNEs, transfer pricing audits are costly because of the heavy reliance on tax consultants, the chance of tax penalties, and the expected tax litigation. As noted by Becker et al. (2017, p.267) “...just as auditing can be costly to the government, so too can it be for the firm”. Reflecting on these issues, more settlements outside transfer pricing audits are considered important for MNEs and tax advisers, as they can be done through the advance pricing agreement (APA) and a simplification measure. APA may answer the suboptimal capacity issue in DGT related to transfer pricing audit, because despite the increased trend in the audit, its success rate in litigation has decreased. Further, in the absence of an APA, the transfer pricing audit probability and uncertainty in MNEs’ intercompany price setting are increasing. APA is an instrument to reduce tax uncertainty, enhance efficiency, and increase commitment to align transfer prices with the arm’s length principle (Becker et al. 2017).

The recent OECD APA statistics show that the agreed *ex-ante* dispute settlement between DGT and MNEs is below that of high-income tax jurisdictions (OECD 2023d).⁷⁴ The *ex-ante* means an APA applies to the arm’s length principle for transactions in advance of the transactions’ taking place (Markham 2012; Kerschner and Stiastry 2013). Therefore, to reduce MNEs’ tax risks and DGT’s resource allocation, an APA should be endorsed in providing negotiated and confidential rulings for complex transfer pricing issues (Eden and Byrnes 2018). While APA is also seen as a form of preferential tax regime to retain foreign direct investment inflows (Eden and Byrnes 2018, p.33), its intended role is mainly to prevent disputes between a tax administration and a taxpayer (Valente 2020). A concept that many participants from the tax advisers and MNEs are expecting to see increasing in the future direction of the Indonesian transfer pricing regime.

Moreover, another noticeable idea to expect is a simplification measure to provide greater certainty for a particular type of intercompany transaction or industry. This measure helps DGT reduce the substantial burden of auditing works, mainly

⁷⁴According to this data, in 2023 DGT had resolved 20 APA cases in which all these cases were granted the win-win settlement results. It shows the level of sufficient capacity in DGT to handle APA. While the results seem promising, the trend of the APA submission by MNEs in DGT is still below the number of APA cases in other tax jurisdictions.

related to MNEs' low value-adding transactions, as it simplifies the transfer pricing method and analysis (Picciotto 2018b). Participants perceived that a simplification measure is needed because DGT lacks relevant resources to handle transfer pricing audits and lacks relevant information on applying the arm's length principle for MNEs' transactions. This method is considered worth implementing as it may approximate the true tax base (Beer et al. 2022). However, thoughtful consideration should be put into designing any simplification measures.

The types of measurements should align with and be consistent with the OECD guidelines because DGT mainly relies on these guidelines under its domestic transfer pricing regulations. Specific facts and circumstances related to the condition of each taxpayer, industry, or transaction should be carefully analysed before determining the margin level to be simplified. It is not just 'keeping it simple'. There are different scopes of simplifications, such as exemption from documentation requirements, simplified transfer pricing methods, simplified APA procedures, exemption from transfer pricing procedures, and, possibly, exemption from transfer pricing penalties and adjustments (Feinschreiber and Kent 2011), all of which need detailed analysis to apply.

7.3. The dialogue between theory and data

The above mixed methods integration and narrative explanation provide interesting discussion on the consistency between the quantitative and qualitative findings. The study reveals that participants (tax auditors) expressed similar perceptions on the complexity of a transfer pricing audit. This is aligned with previous research that auditing MNEs' transfer pricing involves a certain degree of complexity, which can be attributed to the MNEs' intricate transactions and structures (Wier 2020; Mashiri et al. 2021; Sebele-Mpofu et al. 2021b). The interview themes and subthemes demonstrate that the tax auditors' intention and motivation to scrutinise MNEs' transfer pricing should not be seen in isolation. They span across multiple dimensions, consistent with the theoretical assumption developed in the current study (Ajzen 1985; Ajzen 1991; Braithwaite 1995; Braithwaite 2003a; Braithwaite 2004).

Specifically for the tax auditors' intention, rather than being a single predictor as explored in the Theory of Planned Behaviour framework (Ajzen 1985; Ajzen

1991), the current study expands the concept into different types of intentions, conditional and unconditional. These variations of intentions are dependent on the presence of other factors affecting individuals' commitment to the course of action (Audi 2003). The findings unfold the pattern of conditional intention to handle a transfer pricing audit. This type of audit is considered complex to handle, yet the auditors need to scrutinise it due to the 'subjective force' from the head of the tax office and DGT's headquarters. An external condition is required to push these auditors to be willing to increase the level of transfer pricing scrutiny despite the many challenges they are facing (Beebeejaun 2019; Sebele-Mpofu et al. 2021b).

However, other than conditional intention, the current study reveals an interesting tax auditors' unconditional intention to scrutinise transfer pricing. They perceive transfer pricing audit as an effective procedure to be used as a "check and balance" mechanism of MNEs' transfer pricing arrangements. It also highlights their internal commitment, capitulation, and understanding of the transfer pricing issue, which is aligned with the deference posture concept developed by Braithwaite (1995). Further, previous studies concluded that transfer pricing audit is a critical mechanism to assess MNEs' correctness in applying the arm's length standard (Brychta et al. 2020) and to increase MNEs' compliance with transfer pricing legislations (Mashiri et al. 2021). Hence, perceived unconditional intention by the tax auditors in DGT confirms the increased scrutiny of transfer pricing through tax audits in developing countries, despite an argument that transfer pricing is hard to audit (Chan et al. 2015).

A transfer pricing audit is commonly seen as intricate and requires a great understanding of technical issues around MNEs' business processes and transactions (Shongwe 2019). Related to this issue, the current debate puts developing countries in a less advantageous position because they need an inflow of investment from MNEs, while at the same time, they are perceived as lacking adequate resources and technical skills to audit MNEs' transfer pricing (Cooper et al. 2017). For this reason, the presence of self-intention and commitment to increase transfer pricing scrutiny provides clarification on the ability of a tax authority in a developing country to perform a transfer pricing audit, which was previously considered limited in performing (McNair et al. 2010).

Furthermore, the qualitative analysis of the current study uncovers a consistent result with previous research regarding the numerous challenges around transfer pricing audit. Previous qualitative research has noted that tax auditors in developing countries experience difficulties in scrutinising transfer pricing audits, including inadequate knowledge and experience, unclear domestic transfer pricing regulations, shortage of human resources, lack of transparency in MNEs' records, limited coordination and communication with MNEs, and lack of understanding of MNEs' intercompany transactions and arrangements (Muhammadi et al. 2016; Shongwe 2019; Sebele-Mpofu et al. 2021). Further, all these challenges affect the effectiveness of transfer pricing audit, which may hinder the optimum result from such an audit (Chalu and Mzee 2018). In the context of the UK and US, a study found that the application of ALP in the transfer pricing regime raised common challenges for the tax authority, tax consultants, and taxpayers (Rogers and Oats 2022).

In the current study, the participants from the tax auditors also appeared to face numerous challenges in handling a transfer pricing audit. Some of the barriers were found to be consistent with previous studies related to unclear domestic regulations, complexity in analysing contemporaneous transfer pricing documentation, and less understanding of the intricate nature of MNEs' transfer pricing policy and design. However, another issue identified was associated with a language. The problem mainly derives from the use of the OECD Transfer Pricing Guidelines during a transfer pricing audit to comprehend and justify audit findings.

Regarding the issue with the guidelines, the previous literature mainly focuses on the adoption, partially or fully, of these guidelines in domestic regulations of many tax authorities (Sebele-Mpofu et al. 2021b). This concept is related to the interplay mechanism of the soft law versus hard law of transfer pricing guidelines that the UN and OECD develop. The application of the guidelines should be in the form of customary norms due to the non-binding nature of these guidelines (Li 2012; Vega 2012b). While this issue is important in transfer pricing regime development across tax institutions, the interview finding provides another point of view that the use of English in the guidelines raises a language barrier for the tax auditors in DGT. As an institution, DGT is perceived as lacking the sense of understanding to leave its auditors feeling confused with the interpretation of the OECD Transfer Pricing

Guidelines. There is no formal translation in the national language provided by DGT, and no single source of the OECD Transfer Pricing Guidelines found in domestic legislation.

The key to incorporating international guidelines is to customise domestic legislative measures to the strategic needs and resources of the tax authority (Silberztein 2009). As such, the reference, translation, and publication of such guidelines are critical to support the effective use of the OECD Transfer Pricing Guidelines in the Indonesian context. Although some participants perceive that Indonesian transfer pricing legislation has adopted the OECD guidelines, many concepts are missing from the legislation. For example, there is no detailed explanation on how to analyse potentially excessive marketing remuneration paid by MNEs in Indonesia to their affiliated parties, how to analyse intercompany transactions involving intangible properties, which is commonly known as a challenge in the transfer pricing regime (Muhammadi et al. 2016b; Brychta et al. 2020), and how to use each transfer pricing method across different types of industries.

Dealing with a transfer pricing audit is complex, and the isolation of certain concepts in domestic legislation raises more complexities for tax auditors in the DGT. Hence, a comprehensive exploration in line with internationally accepted guidelines is needed to help tax auditors in DGT better understand analysing transfer pricing issues during tax audits and, therefore, affect their audit behaviour regarding transfer pricing.

Furthermore, related to a reference of the OECD guidelines in domestic legislation, the literature suggests that the use of international soft law can be translated into the domestic legal system (Vega 2012b). Many tax jurisdictions have adopted this approach, explicitly referring to domestic transfer pricing legislations or guidelines largely based on the OECD Transfer Pricing Guidelines. However, this concept is not presented in the Indonesian tax system, where the adoption of the OECD Transfer Pricing Guidelines is not precisely stated in domestic legislation or

administrative circulars.⁷⁵ It raises confusion for the tax auditors because they tend to add the articles from the OECD guidelines as one of the supporting argument sources during a transfer pricing audit. As such, this condition can be perceived as 'lack of customary legal reference' because there is no basis to incorporate the international articles of commonly accepted guidelines.⁷⁶

The data in this study also explored the essence of transfer pricing, which deals with MNEs' ability to use their resources in designing internal prices for intercompany transactions. MNEs are known for their ability to forestall taxes in developing countries through transfer pricing strategies (McNair et al. 2010; Mashiri et al. 2021). Consistent with this idea, the interview findings of the current study reveal perceived use of internal and external resources to help MNEs with the transfer pricing-related area. While internal resources maximise the use of MNEs' in-house staffing, external resources come from the support and assistance of professional tax consultants. It is widely believed that the role of tax advisers is essential in the tax system in increasing MNEs' compliance and minimising TP disputes due to increased scrutiny by tax officials (Holtzman and Nagel 2014). In recent years, DGT has been enhancing its strategies to monitor MNEs' transfer pricing arrangements. As such, the use of professional tax advisers is in great demand to help MNEs not only to represent them during the audit, but also to help them handle enormous transfer pricing documents.

It is commonly acknowledged by the literature that generally there is a double-sided element in the tax consultants' role because they may serve both their clients

⁷⁵The difference between legislation and administrative circulars is their binding power. Legislation is binding on tax officials and taxpayers, who must follow the rules. In contrast, administrative circulars are only binding on tax administration officers but not on taxpayers or judicial agents. However, in practice, taxpayers will also follow the circular to minimise the chance of being audited by the tax administrators (Vega 2012b).

⁷⁶For this reason, DGT may look at other tax authorities in bridging the soft law of international guidelines and domestic transfer pricing legislation so that the two can merge and indicate clarity for tax officials and taxpayers. For example, in the UK, the *Taxation (International and Other Provisions) Act 2010, Section 164(4)* indicates that:

(4) In this section, "the transfer pricing guidelines" means

(a) the version of the Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations approved by the Organisation for Economic Co-operation and Development (OECD) on 22 July 2010 as revised by the report, *Aligning Transfer Pricing Outcomes with Value Creation, Actions 8-10 - 2015 Final Reports*, published by the OECD on 5 October 2015.

and the state (Fogarty and A. Jones 2014; Mashiri et al. 2021). In the context of a transfer pricing audit, the qualitative finding shows that the tax consulting firms either aim to help MNEs settle the audit, which may help the government raise more tax revenue from the audit, or assist MNEs in the litigation stage. This behaviour of the tax consultants depends on many factors, such as the negotiation process to determine the arm's length price during a transfer pricing audit, the magnitude of audit adjustment, the tax consultants' experience and knowledge around transfer pricing, and the tax consultants' attachment with the tax authority due to previous working experience. All of which are critical in shaping transfer pricing audit behaviour in the Indonesian context.

Given the results in both the qualitative and quantitative data, it is summarised that the audit behaviour regarding transfer pricing is not merely affected by the tax auditors' intention but is related to other factors such as the presence of the tax adviser, MNEs' internal capability, and the auditors' commitment to mitigate the tax revenue loss due to MNEs' transfer pricing arrangements. The practical importance of these factors is critical in the functioning of the tax system (Mashiri et al. 2021), especially where the tax authority intends to strike a balance between transfer pricing scrutiny to maintain tax compliance and, at the same time, aiming to secure more tax revenue. Therefore, it is understandable that the tax auditors' perception of MNEs' capacity to manage transfer pricing will be related to their audit behaviours, as shown in the findings generated in the current study.

7.4. The extended Theory of Planned Behaviour model

Based on the explanation of the mixed methods integration and concerning the significant constructs, themes, and subthemes, this study suggests an extension of the Theory of Planned Behaviour (TPB) model. The original TPB model proposed that individuals' intention is the only predictor of their behaviour (Ajzen 1985; Ajzen 1991). However, this proposition raised a question regarding the sufficiency of the model to explain human behaviour. Sniehotta et al. (2014) argued that intention alone is not sufficient as a predictor, and thus, the theory needs to be extended to accommodate the variability of predictors in the behaviour (Conner 2015).

Additionally, the statistical analysis revealed the same pattern. The behavioural intention contributed only 18.6% of the variance in actual behaviour, as

indicated in the path coefficient. This finding raises an interesting pattern: intention cannot explain all or most of the variance in transfer pricing audit behaviours. The lower variance with small effect size indicates that individuals' intention is unlikely to be translated into action or actual behaviour when the task is complex, like a transfer pricing audit. Therefore, there are other predictors contributing to the transfer pricing audit behaviours. Interestingly, the founder of the TPB, Icek Ajzen, mentioned that it is possible to incorporate other predictors of behaviour to explain individuals' behaviour in performing a particular action (Ajzen 2020).

Further, the current study provides empirical evidence that the tax auditors' behaviour regarding transfer pricing audit can be predicted not only by the behavioural intention but also by other variables such as commitment, as stipulated in the Motivational Posture Theory (Braithwaite et al. 1994; Braithwaite 1995) and perceived knowledge (Langham et al. 2012). Also, the study finds that individuals' intention is not a single concept. The result confirms that the individuals' attitude and perceived behavioural control affect unconditional intention, while a subjective norm predicts conditional intention. This concept contradicts the original TPB model, which stipulates a single point of intention.

A complete proposed extended TPB model is presented in Figure 7.2. All the factors identified in the new model are constructed based on the significant association in the quantitative findings and the importance of themes in the qualitative outcome. The insignificant predictor, the defiance posture variable, is not embedded in the model because it does not directly associate with the behaviour. As such, these results highlight consistency in both methods and that the newly constructed surveys employed in this study have proven to be reasonable in explaining transfer pricing audit behaviours in the Indonesian context.

7.5. Proposed policy recommendations

Following the above discussions, this study aims to suggest some policy recommendations that, perhaps, can be implemented in Indonesia to bridge the interests of the tax auditors and other actors around a transfer pricing audit. In general, this study has empirically analysed the quantitative and qualitative data through a comprehensive PLS – SEM and reflexive thematic analysis. Following the analysis, an extended theoretical framework was generated to explain the factors

contributing to transfer pricing audit behaviour in DGT. Moreover, an integration of both methods and the creation of a unique visualisation of the findings form part of this study's outcomes. The novelty of this study leads to a policy recommendation that may serve as an actionable contribution of this study. The breakdown of these proposed policies is explained in the following subsections.

7.5.1. Transfer pricing audit case selection

This study revealed that conducting a transfer pricing audit requires a greater understanding of MNEs' complex business arrangements and the knowledge to navigate the complexity of transfer pricing regulations. While conducting this audit shows inner intention and commitment to protect the tax base, its application is considered challenging for many auditors in the DGT. As such, integrated policies are needed to uncover the complexity and, at the same time, appreciate the work of the auditor. The policy should start with the case selection process during the transfer pricing audit cycle. The findings showed that the cases were mainly sourced from the annual tax returns, in which the taxpayers must fill out intercompany transactions. Then, the audit supervisors analysed the materiality of such transactions in the audit plan document.

During this stage, the auditor has not used compliance risk management (CRM) tools extensively. The reason was the limited capability of CRM to capture MNEs' transactions with their globally associated entities. Hence, DGT must integrate and develop a more robust CRM system capturing MNEs' intercompany transactions. CRM should cover transfer pricing arrangements by large firms to broaden the global supply chain analysis involving the Indonesian entity, MNEs' global ownerships and structures, subsidiaries, local and overseas entities, business models and strategies, and the intangible assets ownership and exploitation. These variables are not exhaustive and could be adjusted according to the development of the CRM system.

In addition, DGT is currently implementing the new core tax system, replacing the previous system that has been used for over twenty years. Policy-wise, an updated CRM related to transfer pricing and other international tax issues can be embedded in the new system to provide better analysis for the auditors before commencing any transfer pricing audit. By doing so, the tax auditors have the

necessary information on the facts and circumstances around the MNEs, which is very limited in the current stream. At the end, not only will the MNEs be prepared for the transfer pricing audit, but also the auditors.

Further, the CRM landscape in DGT follows the CRM model developed by the Organisation for Economic Co-operation and Development (OECD) (OECD 2004a) to assess, identify, prioritise, analyse, plan, and monitor the taxpayers' compliance with the tax laws (Brondolo et al. 2022). As such, the transfer pricing CRM may serve as part of the broader framework in DGT to mitigate the main transfer pricing risks in the tax system. One important concept for transfer pricing CRM is that the system should be interlinked with business intelligence, data analytics, and the big data developed in the core tax system. Thus, MNEs' profiling, population analysis, risk filtering, risk assessment, and case selection would allow auditors to be better equipped to initiate and carry out a transfer pricing audit (Brondolo et al. 2022).

The use of an integrated CRM should shift the way tax auditors investigate large businesses. They will no longer solely rely on annual tax returns or financial statements. The system captures the bigger picture of MNEs' data. In the end, using a more comprehensive CRM framework around transfer pricing is expected to help the tax auditors in DGT scrutinise MNEs' intercompany transactions better.

7.5.2. Audit team assignment

The following policy concerns staffing allocation for the transfer pricing audit in DGT. The tax auditors are structured in a team of three roles: supervisor, team leader, and junior auditor. These team members are responsible for planning, executing, monitoring, discussing, defending, and closing the audit process for TP and non-Transfer pricing audits. The qualitative findings revealed that some auditors prefer not to conduct a transfer pricing audit due to the level of workloads, case complexities, limited periods, and performance evaluations. Reflecting on this, DGT needs to consider a policy to assign dedicated tax auditors to handle transfer pricing audits or other international tax issues.

The utilisation of specialised transfer pricing team dealing with TP investigation or audit has been used in many tax administrations and comes in different names, such as transfer pricing specialist in HM Revenue and Customs (HMRC) UK, the team members under Transfer Pricing Practice (TPA) and Cross

Border Activities (CBA) in Internal Revenue Service (IRS) US, transfer pricing auditor in Canada Revenue Agency (CRA), transfer pricing review panel in Australian Taxation Office (ATO), transfer pricing officers in Central Board of Direct Taxes (CBDT) India, and special tax examiner for transfer pricing in National Tax Agency (NTA) Japan.⁷⁷

Further, incorporating a transfer pricing auditor in handling transfer pricing cases is rational. Despite the same concept being employed in many tax authorities, its application may benefit DGT to better allocate resources for specific issues like transfer pricing. It can break down auditors' workloads in the recent audit trend. Currently, there is no differentiation between the auditors conducting transfer pricing audits and those who handle general corporate tax audits. They may handle both audits at the same time within their audit team. As such, the auditors in DGT face significant challenges due to the absence of specialisation in the audit team. In addition, the need for specialised auditors to handle transfer pricing can be combined with the additional use of resources within DGT's audit division.

Many tax authorities assigned various specialists or experts other than the auditors to examine transfer pricing transactions. For example, in the IRS, transfer pricing case members consist not only of transfer pricing specialists but also senior revenue agents, economists, computer audit specialists, and tax law specialists. For the HMRC, in addition to transfer pricing specialists, all transfer pricing cases will also be analysed by business, assets, and international specialists, knowledge, analysis, and intelligence economists, trade sector advisors, and corporate finance specialists. Lastly, in the CRA, the economists and international tax specialists are helping the field auditors dealing with transfer pricing audits (Bakker and Levey 2011).

From the above information, even more advanced tax administrations do not rely solely on the tax auditors to scrutinise MNEs' transfer pricing. Handling complex transactions like transfer pricing requires coordination and collaboration among different members or divisions within the tax authority. Therefore, DGT may reorganise its auditors' assignments, focusing on transfer pricing audits to get more technical support from diverse experts and specialists within DGT's organisational

⁷⁷A complete data for several tax authorities can be found in Bakker and Levey (2011)

structure. The presence of transfer pricing auditors will also address the concern from the tax auditors related to the performance evaluation for transfer pricing audits. In the current regime, despite the intricate process of transfer pricing audit, no specific key performance indicator is found concerning this type of audit.

From the perspective of institutionalisation, the incorporation of a specialist transfer pricing auditor is connected to the idea of a specific transfer pricing division within the tax authority organisation chart. Many tax authorities, such as HMRC in the UK, the IRS in the US, ATO in Australia, NTA in Japan, CRA in Canada, and CBDT in India, have dedicated transfer pricing divisions to ensure MNEs' transfer pricing compliance. These divisions deal not only with administrative tasks but also with law enforcement regarding the transfer pricing issue. In contrast, there is no specific transfer pricing division in DGT, which may explain the absence of a specialist transfer pricing auditor. Under DGT's organisational structure, transfer pricing is managed in two different directorates, the Directorate of Audit and Collection for auditing-related policy and the Directorate of International Taxation for general transfer pricing policy. However, in both directorates, the responsibility to scrutinise transfer pricing is under echelon IV, which may limit the authority, responsibility, and autonomy to deal with the complicated issue of transfer pricing.⁷⁸

Therefore, DGT may redesign its structure to accommodate transfer pricing under echelon II (equivalent to directorate or division). Ideally, transfer pricing should no longer be regulated under echelon IV due to its importance and strategic role in developing the international tax regime. Managing transfer pricing requires a

⁷⁸In public organisations, echelon is equal to the level or rank in organisational structures and is considered as organisational elites consisting of high, middle, and low bureaucratic managers (Yang 2023). In the context of DGT, the headquarters is seen as echelon I, where its position is directly under the Indonesian Ministry of Finance. Further, the directorate, division, or regional office is considered as echelon II, sub-directorate and tax unit is echelon III, and section is echelon IV. Hence, the head of echelon IV, or the head of section, is considered the lowest position in DGT's organisational chart and is working under the authority of the head of echelon II and echelon III. Its autonomy and responsibility are limited due to the restrictions and formalisation at the hierarchical level (Jacobsen 2024). According to Bach (2018), authority means the power to make decisions and enforce regulations, responsibility deals with performing specific tasks within predetermined standards, and autonomy provides a certain degree of freedom to determine a public unit's preferences and translate them into authoritative actions. In this case, echelon IV does not have a legal standing in this kind of action due to the restriction on the task and procedure. It needs to follow the direction set out by the head of echelon III and echelon II, according to the hierarchical chart in the organisation.

comprehensive approach and high-level authority to deal with different stakeholders within DGT, which cannot be done effectively under echelon IV. Redesigning public institution structures requires considerable time to analyse, but if properly applied, it can play a significant role in helping the institution achieve its organisational goals (Gupta and Sushil 2024). Adding a new structure for the transfer pricing division or directorate requires commitment from the stakeholders outside the Ministry of Finance and DGT. This policy, if enacted, should get approval from other government agencies such as the Ministry of State Apparatus Utilisation and Bureaucratic Reform and the National Civil Service Agency. Therefore, political and bureaucratic engagement from multiple agencies is needed to enhance awareness of the strategic role of the transfer pricing audit in the Indonesian tax regime.

Many participants from the auditor perceived their hard work conducting a transfer pricing audit as insufficiently acknowledged by DGT. As such, by structuring specific auditors for transfer pricing audits, DGT addresses many concerns at the same time. This policy enables DGT to work with knowledgeable tax auditors to scrutinise transfer pricing due to their specialisation, facilitates a more focused resource allocation regarding transfer pricing audit, and supports a better performance evaluation for the auditors. Not only does this policy help DGT to alleviate the growing MNEs' intercompany transactions in the audit process, but it also aligns with other tax institutions that have adopted this approach.

Consequently, structuring transfer pricing under the direct supervision of the transfer pricing director is worth considering by DGT to scrutinise this increasing challenge better. Also, this adoption aligns with a standard structure in many tax institutions and puts the transfer pricing issue under a tax authority's high-level management. This structure may also increase the coordination and information dissemination needed to address transfer pricing across different directorates and stakeholders within DGT and with other government bodies. Hence, at the same time, it answers participants' concerns during the interview stage regarding the need for increased coordination and dissemination around transfer pricing.

7.5.3. Transfer pricing audit procedure

The following policy that could be implemented in DGT relate to the procedure for conducting a transfer pricing audit. DGT has recently implemented domestic

regulations regarding technical guidance for performing a transfer pricing audit. However, while these regulations help the auditors with detailed instructions, the procedure and implementation can be revised. These administrative regulations, which have never been updated, were released in 2013 and inspired by the 2010 OECD Transfer Pricing Guidelines. While the guidelines have been revised to the 2017 and 2022 versions, the enactment of domestic transfer pricing audit regulations in DGT has never been adjusted to accommodate the current transfer pricing regime. Hence, DGT needs to align its audit policy and procedure regarding transfer pricing with the current development of international transfer pricing guidelines.

DGT should prioritise amending regulations related to the transfer pricing audit procedure to capture more recent MNEs' transfer pricing arrangements and keep up with the latest transfer pricing guidelines.⁷⁹ Further, the revised transfer pricing legislation must also include a direct reference to the OECD Transfer Pricing Guidelines. This will provide clarity and prevent subjective interpretation of the guidelines, as no single reference is made in the current transfer pricing regulations, even though Indonesia broadly endorses the principles of the OECD Guidelines under its domestic legislation.

Another policy recommendation regarding audit procedure that can be applied is to circulate transfer pricing modules for every industry with a greater transfer pricing risk. The tax auditors perceive transfer pricing risk as a significant challenge across industries, and thus, DGT needs to make the modules available. Currently, no transfer pricing modules for different industries are available, raising an audit barrier for some auditors. They shall interpret, analyse, and understand MNEs' business processes, which can be subjective. The module may give them direction and a similar interpretation of the critical point around transfer pricing arrangements in every industry. Transfer pricing scrutiny for the manufacturing industry differs from that of financial services or distribution. Using a designated transfer pricing module can benefit the auditors as a standard in scrutinising transfer pricing during the audit.

⁷⁹For more general concept, the Ministry of Finance of Indonesia has released a recent regulation number 172 of 2023 related to the arm's length application for affiliated transactions. However, this regulation covers a broad sense of intercompany transactions and does not address specific issue of transfer pricing audit.

7.5.4. A broad framework of the policy sequence

The following policy recommendation calls for a policy sequence to collaboratively shape the strategies around MNEs' transfer pricing in Indonesia. The idea of policy sequence is inspired by the responsive regulation (Ayres and Braithwaite 1992; Alm et al. 2022b). It proposes a framework providing policy solutions that transcend the public interest and state regulation (Parker 2013). The aspects of responsive regulation may be drawn in a regulatory pyramid (Ayres and Braithwaite 1992; Braithwaite 2011a), which is adjusted to propose a policy sequence hierarchy in the current study. While the policy sequence framework in this study acknowledges the conceptual inspiration from the responsive regulation literature, it, however, has been adapted and used in a more specific policy-sequencing context.

Further, as shown in **Error! Reference source not found.**, the framework is drawn from the study findings involving participants across different roles and responsibilities. This hierarchy aligns with the concept that the tax audit mechanism is one of the tax authority's actions to ensure large corporations comply with transfer pricing regulations. To the researcher's knowledge, DGT lacks a comprehensive framework for transfer pricing monitoring and audit strategy. Thus, the idea of the policy sequence in this study exposes a possible policy to be implemented in DGT to address transfer pricing more thoroughly.

In the hierarchy of actions, the first layer (at the base) is where DGT attempts to secure MNEs' compliance around transfer pricing through education, persuasion, and information dissemination. Also, at this stage, DGT can increase its effort to support the tax auditors' commitment to scrutinise the transfer pricing audit. These steps should serve as the basis for most compliance strategies (Ayres and Braithwaite 1992, p.35; Braithwaite 2005, p.77; Braithwaite 2011a, p.482). As for the corresponding tax official from various functions in the pyramid of actors, DGT may fully use its resources, such as the tax educator, account representative, customer service agent, and transfer pricing analyst to circulate, disseminate, and inform large businesses and the tax auditors on current transfer pricing trends and regulations.

Balancing DGT's strategy with the large firms and the tax auditors is needed to align different perspectives around transfer pricing and minimise different

interpretations of transfer pricing regulations and international guidelines. This process is critical because DGT is perceived as lacking commitment to disseminate the transfer pricing issue to MNEs and lacks coordination around the transfer pricing audit strategy among different layers of the auditors. Further, DGT may cooperate with professional tax consultants and other public interest groups such as the Indonesian Tax Consultant Association, the Indonesian Institute of Accountants, and academics and research institutions to circulate information around transfer pricing and other international tax issues. This strategy puts these actors as essential partners for DGT and should be managed effectively because most large firms hire professional tax advisers when it comes to transfer pricing (Cools and Rossing 2021a) and are members of professional associations.

Moving to the next layer, DGT can request relevant documents and evidence regarding MNEs' transfer pricing design and strategy. This phase is part of the general monitoring and supervision function within DGT. The evidence to be confirmed to MNEs may be derived from information in the tax returns, financial statements, transfer pricing documents, or other sources that need to be scrutinised intensely. The process can be seen as the preliminary step before a transfer pricing audit. The relevant actors to conduct the task are the account representatives in DGT, who are responsible for monitoring and supervision. The following action to endorse MNEs' transfer pricing compliance is the involvement of DGT, as a tax institution, in the International Compliance Assurance Programme (ICAP) developed by the OECD. DGT can actively register and participate in a coordinated manner to improve its assessment of MNEs' transfer pricing risk.

According to the OECD (2024a), ICAP is "a voluntary programme for MNE groups and tax administrations to work together in a cooperative risk assessment and assurance process". It is a programme to facilitate greater tax certainty and endorse multilateral engagement between MNE groups and participating tax authorities in the interest of both parties. Unlike the advance pricing agreement (APA), which provides legal certainty for MNEs and tax administrations due to its binding power, ICAP, on the other hand, offers co-operative relationships between groups of MNEs and tax administrations regarding specific intrafirm transactions. The process may improve consistency among different tax administrations that have adopted ICAP for the interpretation and treatment of MNEs' intrafirm transactions

(OECD 2024, p.2). Further, several OECD and non-OECD countries, such as the UK, the US, Netherlands, Singapore, Japan, Australia, Austria, Canada, France, Spain, and many others, have participated in ICAP.

Concerning the above data, the present study recommends that DGT participate in the programme for several reasons. Firstly, the process is less intricate than that of the APA due to the scope of the risk areas covered. MNE groups may focus on certain risk areas in transfer pricing that need to be discussed with DGT and are identified as low-risk transactions, such as the issue of permanent establishments, tangible property, intragroup services, intangible property, or intercompany financing. Conversely, APA addresses complex and high-risk intercompany transactions. Next, according to the interview results, APA is seen as “unattractive” by MNEs in Indonesia due to heavy requirements. During the APA process, MNEs need to disclose all transfer pricing policy documents, including the price-setting design for intercompany transactions, audited financial statements, and intercompany agreements. In contrast, ICAP generally requires a single document package related to a specific transaction that needs to be submitted to participating tax administrations (OECD 2024a; Dutta 2025).

In addition, the APA process, not only in Indonesia but also in other jurisdictions, tends to be time-consuming. The whole process may take 2 to 3 years to resolve. In some cases, after a series of discussions between DGT and MNEs, the APA process does not result in an agreement. Under the ICAP framework, the average time taken from initial case selection until the risk assessment outcomes is targeted at 52 weeks (OECD 2024b). Lastly, Japan and Singapore are participating jurisdictions under the ICAP programme. This data is vital for ICAP negotiation to streamline the process because most multinational companies in Indonesia originate from these two countries, based on the data of accumulated foreign investment released by the Indonesia Investment Coordinating Board. For these reasons, Indonesia’s participation in the ICAP programme can be beneficial in supporting wider transfer pricing compliance and providing practical certainty to MNEs or MNE groups. The wider MNEs may use it to settle the common understanding around transfer pricing risks, which, from a practical perspective, may reduce the possibility of being audited. The ICAP programme requires dedicated resources to handle the

process. If this programme is applied, DGT may use its international tax specialists to deal with ICAP and turn them into dedicated ICAP analysts.

The next layer is related to the expected simplification design in the Indonesia transfer pricing regime. Given the complexity of the APA process, some tax professionals mentioned that they would go for APA if there were a simplified mechanism during the process. As such, DGT needs to reform its APA procedure to be more streamlined and straightforward. While simplification does not mean loosening the standards, its implementation may shift MNEs' perception of APA to be more attractive. A simplified APA may build trust between taxpayers and DGT to ensure APA benefits the two parties and provides greater tax certainty. Simplification may be implemented through shorter phases, time limits, and fewer documents.

In addition, DGT may focus on certain types of transactions, industries, or sectors that are significant for the economy in the early stage of the implementation of simplified APA to build experience and knowledge (United Nations 2024). In this case, a simplified APA can also mean a limited-scope APA. In the end, it is expected that simplified APA attracts more MNEs to prevent transfer pricing disputes upfront with DGT. A simplified APA may use existing APA analysts to handle the process in the pyramid of actors.

Furthermore, up to this point, the proposed actions are more administrative and related to the non-enforcement policies to give MNEs more time to understand and comply with transfer pricing regulations. Moving to the next level, DGT may start to enforce tax legislation through auditing tasks in either a focused audit or a full audit.⁸⁰ This process should start with MNEs' risk assessment, as captured in the transfer pricing CRM. Further, those categorised as low-risk companies can still be audited through a focused audit for one or some areas in MNEs' intercompany transactions. On the other hand, medium- and high-risk MNEs will be processed into a full audit covering all items in the tax returns and all arrangements for intercompany transactions. It can be argued that if DGT effectively addresses non-

⁸⁰According to newly enacted Minister of Finance regulation number 15 of 2025 dated 10 February 2025 regarding tax audit, there are three types of tax audit: full, focused, and specific. Full audit means the audit process covers all accounts or items in the tax return, focused audit limits the accounts in the returns that may cover one or some items, and specific audit examines specific and simple tax obligation. Concerning these categories, transfer pricing can be attributed to full and focused audits.

enforcement actions, most MNEs will fall into low transfer pricing risk, and thus, can only be subjected to focused audit (or no audit at all). Focused and full audits are conducted by a dedicated transfer pricing auditor.

Lastly, the top layer deals with a few MNEs for their suspicious or fraudulent transactions around transfer pricing. DGT may open a criminal investigation to convict large firms for their irregular transfer pricing practices, deliberate misrepresentation of information in the tax return, or transfer pricing manipulation. These behaviours relate to fraudulent activities and intentional misrepresentation of intercompany transactions to reduce tax payments. While based on the researcher's prior knowledge, DGT has not opened a transfer pricing criminal investigation, its possibility should be addressed in a broader transfer pricing framework. To deal with this action, DGT may use its tax investigator, as the pinnacle actor in the hierarchy, investigating transfer pricing criminal schemes by large corporations.

Ultimately, the hierarchy provides a comprehensive framework of transfer pricing scrutiny in DGT. The policy sequence incorporates both enforcement and non-enforcement actions as a response to regulatory and policy needs in DGT. Further, transfer pricing audit is only a part of the broader compliance framework and serves as a tool for tax law enforcement. However, despite the framework providing actionable policies to increase MNEs' compliance with transfer pricing regulations and to focus transfer pricing scrutiny during the tax audit, some potential downsides for DGT from these proposed policies are identified. There are at least two potential risks DGT faces in implementing the proposed policy sequence framework.

To begin, the policies require a greater understanding of transfer pricing regulations and guidelines across different tax officials and functions in DGT, such as education, service, monitoring, and administration. This is critical to accommodate the action and actor at the base of the hierarchy. Consequently, more funding is needed to educate and train these actors to better circulate the current trend to the MNEs and tax auditors. However, the new funding scheme is unlikely to be feasible due to the current budget cuts within public sector organisations in Indonesia. Hence, it raises a risk for DGT to find another source of funding, which can be challenging. Second, new initiatives concerning ICAP, simplified APA, and a dedicated transfer pricing auditor require reorganisation in DGT to accommodate the idea of a new transfer pricing division.

Reorganisation is critical as a milestone to integrate the responsive regulation framework and proposed actions regarding transfer pricing in DGT. Despite reorganisation in the public sector being viewed as a tool for achieving efficiency and downsizing bureaucracy (Bolgherini et al. 2019), the process may not be straightforward. Due to the hierarchical structure, collaborative actions within different networks in DGT are required. The existing high-level echelon may resist the new structure, as there are no adequate human resources to handle the new division or directorate. This is one of the key challenges for implementing the collaborative action, along with the reorganisation of the public sector organisations (Rakšnys et al. 2020). Therefore, the proposed policy sequence should be carefully designed to achieve its goal of better scrutinising the transfer pricing issue in DGT. A strong political and organisational commitment is required from every level of the tax officials in DGT, and as a consequence, the policies can be successfully implemented.

7.6. Conclusion

This chapter discusses the integration of mixed methods, which is the essence of this study. Employing mixed methods means a study needs to highlight the merging process of quantitative and qualitative findings. In the current study, the integration process was done by visualising a joint display using the table and figure. Then, the conclusions of the two methods were merged and compared to draw inferences and to answer a mixed methods research question. Integration analysis revealed that the tax auditors' behaviour regarding transfer pricing audit depends on different intentions, the commitment to their institution, and the level of taxpayers' knowledge around transfer pricing. In contrast, their disengagement posture was not directly associated with this behaviour. The significant findings from the two methods were confirmed and expanded to generate a more comprehensive interpretation. The results were interpreted and crystallised with the theoretical perspective that supported the current study.

Following the integration outcome and discussion, the extended version of the TPB model was drawn and proposed to capture transfer pricing audit behaviour. This leads to the contribution made by this study not only in the theoretical and methodological arena but also from a practical perspective. The main setting of this study is the Indonesian tax institution, and thus, practical recommendations are

proposed to support the institution in addressing the transfer pricing issue better. Such recommendations span from policy practices to a framework that may be incorporated in DGT's broad programme. The next chapter provides the study's conclusion, which consists of the summary, limitations, generalisability, and possible future research suggestions.

Chapter 8 Conclusion

8.1. Introduction

This chapter summarises the overall context of the study and outlines the entire research question connected to the research objective. In brief, the current study aims to identify factors related to transfer pricing audit behaviour in the Indonesian context. Further, while the study focuses on the tax auditors working in the Indonesian tax authority, other participants are also incorporated. This is because transfer pricing is relevant for tax administrations and taxpayers (mainly large firms), professional tax advisers, tax policymakers, and judicial institutions. To meet this objective, the current study reviewed relevant literature regarding individuals' behaviour and provided a rationale for the study's Indonesian research setting. Subsequently, a convergent mixed methods approach through surveys and interviews was applied to uncover the intended objective and answer the research questions. The datasets were then analysed using the Structural Equation Modelling – Partial Least Square for the quantitative results and Reflexive Thematic Analysis for the qualitative outcomes. At the end, the triangulation process was conducted to integrate the two methods.

Moreover, the current study employs the theoretical constructs of the Theory of Planned Behaviour (TPB) (Ajzen, 1985, 1991) expanded with other concepts of Motivational Postures (Braithwaite 1995; Braithwaite 2004) and perceived tax knowledge (Langham et al. 2012). TPB argues that individuals' intention is directly related to their behaviour to perform a particular action. However, it does not count other predictors that may also predict behaviour. Hence, the current study adds other constructs conceptualised by Braithwaite (1995) and Langham et al. (2012). In addition, from an inquiry of the research lens, the current study adopts pragmatism due to incorporating a mixed methods approach to answer research questions (Tashakkori and Teddlie 2021).

Following this section, there will be a summary of the entire research question and answers addressed in the study. This is crucial in revisiting the answers to every question analysed in the previous chapters. Then, section 8.3 provides some

limitations of the study, followed by section 8.4, which explains the direction for future research. Lastly, section 8.5 concludes the chapter.

8.2. Synthesis of the key findings

To achieve its objective, the current study addresses seven research questions containing the quantitative, qualitative, and mixed methods streams. Further, because research questions and the analysis to answer them are spread across multiple chapters, this section summarises the questions, answers, and corresponding chapters. It is presented in Table 8.1. Due to the nature of this study, which incorporates mixed methods, it is essential to synthesise the findings from the perspective of the two methods, the quantitative and the qualitative, and from the integration outcomes and their implications to the broader literature.

8.2.1. Quantitative phase

The quantitative survey results using SEM – PLS confirmed the theoretical underpinning of the TPB. However, while this theory argued that intention is the sole predictor of behaviour, the quantitative finding challenged this argument. The tax auditors' intention has only a small effect (18.6%) on the actual transfer pricing audit behaviour. This finding raises an interesting pattern: intention cannot explain all or most of the variance in transfer pricing audit behaviour. Therefore, the result in the current study supports the argument that intention alone is not sufficient to explain the tendency to perform certain behaviour in the Theory of Planned Behaviour framework (Armitage and Conner 2001). Other variables, namely the deference posture in the form of the tax auditors' commitment to their institution (Braithwaite 1995; Braithwaite 2004) and MNEs' perceived transfer pricing knowledge (Langham et al. 2012), have successfully filled this intention–behaviour gap.

Further, the deference posture and perceived transfer pricing knowledge contributed 43% and 22.3% to the transfer pricing audit behaviour variances, respectively. Regarding the motivational postures, the statistical analysis reveals empirical evidence of the deference posture in the tax system, as argued by Braithwaite (2003b). In contrast, the defiance posture of the tax auditors' disengagement and resistance suggests an opposite result. The outcome displayed a non-significant association between this posture and the audit behaviours. It can

be noted that resistance and disengagement actions are not presented in transfer pricing audit behaviours for the Indonesian context.

The quantitative outcomes highlight another idea that individuals' behaviour is affected by many factors. In the context of transfer pricing audit behaviour in Indonesia, the tax auditors' attachment to their institution and the taxpayers' awareness of tax regulations predict the audit behaviour considerably compared to the behavioural intention. The empirical result from the survey analysis suggests that large corporations are seen as knowledgeable actors in the tax system who constantly deal with complicated layers of intercompany transactions across many jurisdictions. This design triggers an audit from the Indonesian tax authority, as shown in the significant association, and confirms that large firms aim to reduce global tax burden through transfer pricing (Reurink and Garcia-Bernardo 2021). It then leads to increased transfer pricing scrutiny by many tax authorities, including the tax authority in Indonesia.

8.2.2. Qualitative phase

The qualitative phase in the study contained 56 interviews with different participants, such as the tax auditors, tax professionals in MNEs, tax consultants, senior bureaucrats, and a tax court judge. This phase aimed to explore transfer pricing audit behaviour from multiple lenses and generate a comprehensive understanding of the phenomenon. The key qualitative findings concluded that the transfer pricing audit was perceived as challenging and multifaceted. The auditors' behaviour on transfer pricing can be influenced by various factors, such as the spectrum of their intention (conditional or unconditional), their position in the audit team, the home country of the Indonesian multinationals, the types of MNE's industries, and the types of the tax consultants being hired by MNEs. These factors suggest that understanding Indonesian tax auditors' behaviour regarding transfer pricing requires a comprehensive approach of multiple dimensions, both from the internal consideration of the tax authority and external factors outside the authority.

Furthermore, themes and subthemes not explored in the quantitative stage also emerged during this phase. These are mainly related to the perceived future directions of transfer pricing regulations in Indonesia. This stage is intended to gather information from the participants' voices more deeply and provide insights into

transfer pricing audit behaviour beyond the theoretical constructs. The outcomes highlighted possible advancements in Indonesia's transfer pricing regime that may affect the compliance of taxpayers (mainly large firms) with transfer pricing regulations. It should be noted during this stage that there is a risk of bias in interpreting interview transcripts due to the use of reflexive thematic analysis (Braun and Clarke 2022) to address the qualitative research questions, as shown in Table 8.1 While the risk of bias is acknowledged, its presence does not threaten the credibility of the reflexivity (Braun and Clarke 2021). The reflection is backed up by the researcher's extensive prior knowledge and experience as a tax official involved in transfer pricing audits. This can serve as a resource for knowledge production in the current study.

8.2.3. Mixed methods integration

The integration of mixed methods findings highlighted a consistent behavioural pattern from the survey and interview among the tax auditors regarding a transfer pricing audit, particularly for the variables of deference posture and MNEs' perceived transfer pricing knowledge. In addition, as for the predictor of behavioural intention, the qualitative outcomes expanded the survey results so that behavioural intention was not a single concept. It may be categorised in different dimensions (Mele 2009) and this study revealed that the tax auditors' intention to scrutinise transfer pricing can be formed as conditional and unconditional intentions. The expansion inference of behavioural intention stipulated in the integration confirms the advantage of using mixed methods, which can strengthen the findings through triangulation (Creswell 2022a; Creswell and Creswell 2022a).

It is important to note that mixing the quantitative and qualitative datasets in the current study aims to highlight the transfer pricing audit issue and yield more evidence to elucidate transfer pricing complexity. This objective is seen from the integration outcomes, in which the issue of transfer pricing audit behaviour is captured from different perspectives. Using survey administration alone is unlikely to capture multiple participants' views, experiences, voices, and expectations regarding transfer pricing (Jogulu and Pansiri 2011). Therefore, the mixed methods employed in this study are a better fit to reduce the over-reliance on the statistical outcomes and to provide in-depth insights into participants' behaviours.

In another view, the choice of mixed methods is also influenced by the values and knowledge the researcher brings to the research, which subsequently determines what to study, how to study, and what kind of interpretations to generate from the data (Guba and Lincoln 1982). The research inquiry is also influenced by pragmatism, the paradigm selected in this study to guide the investigation. Following the integration, the current study provided policy recommendations to control tax auditors' behaviour and persuade them to act differently in transfer pricing audits. It is also beneficial for MNEs to comply more with domestic regulations and international guidelines regarding their transfer pricing policy. At the end, all these considerations are important to mix the methods in the current study and highlight the findings from the quantitative, qualitative, and their integration. Nevertheless, it is worth acknowledging that there may be factors unaccounted for in this study which affect the outcomes of transfer pricing audit behaviours.

8.3. Contributions of the study

Following the above discussion, the current study has made several key contributions to the field of tax research, namely empirical, theoretical, methodological, and practical contributions, all of which are briefly described in the following subsections.

8.3.1. Empirical contribution

Based on the surveys and interviews, the current study provides empirical evidence on the role of the tax auditors' intention, commitment, and perceived tax knowledge in transfer pricing audits. In addition, this study also provides evidence on the expectations of various participants, including not only the tax auditors but also the tax professionals, the tax consultants, policymakers, and a tax court judge, on the future development of the transfer pricing regime in Indonesia. Prior studies on transfer pricing focused on applying the arm's length price and were derived from the perspectives of high-income countries, where institutional and resource capacity, data availability, and transfer pricing legislation have been well established (de Mooij and Liu 2020; Clausing 2020). As such, the current study demonstrates empirical evidence on the use of behavioural analysis influencing transfer pricing audits in one of the developing countries, Indonesia.

In addition, studies on transfer pricing audit in developing countries mainly focus on the challenges, capacity constraints, and institutional issue (Mulyani 2010; Chan et al. 2015; Muhammadi et al. 2016; Issah et al. 2021; Sebele-Mpofu et al. 2021c; Wealth et al. 2023), with minimal attention to the behavioural aspect of a transfer pricing audit. Therefore, the current study empirically contributes to the limited literature in this regard. It is expected that the findings will not only enrich the behavioural exploration of tax enforcement through a transfer pricing audit but also inform policy design for the Indonesian tax authority.

8.3.2. Theoretical contribution

Theoretically, this study proposes a novel expanded model of the tax auditors' behaviour related to transfer pricing that combines the TPB predictors with the principles of motivational posture (Braithwaite et al. 1994; Braithwaite 1995) and perceived tax knowledge (Langham et al. 2012). The new framework bridges the intention–behaviour gap in the original TPB model (Ajzen 1985; Ajzen 1991). The extended framework offers a comprehensive approach for the Indonesian tax authority to manage its auditors' behaviour in scrutinising the global transfer pricing policy by Indonesian large firms. It also acknowledges the presence of different types of intentions that may affect individuals' behaviour when performing a specific action.

Furthermore, this study advances the theoretical understanding of transfer pricing audit behaviour by integrating different predictors that may contribute to such behaviour in the context of a developing economy. While TPB has been widely applied in tax research to explain taxpayer behaviour (Bobek and Hatfield 2003; Alleyne and Harris 2017), its application to the tax authority setting remains limited, particularly in the complex domain of a transfer pricing audit. By extending the TPB model to the transfer pricing enforcement behaviour, this study reconceptualises the TPB's constructs from the perspective of the tax auditors, reframing them as important actors in the broader tax research.

Hence, with all the above considerations, the extended model proposed in this study provides a rationale for revising the original Theory of Planned Behaviour model, an established and widely used theory in social science. Finally, as discussed in the previous section, the proposed extended TPB model has generated new knowledge and theoretical insights (Hendiani et al. 2022).

8.3.3. Methodological contribution

The current study contributes to the methodological area based on three significant criteria. Firstly, the current study employs the newly constructed scales for the quantitative survey. The new scales were developed to accommodate the objective in this study, and because no similar studies using a survey were found on transfer pricing audit behaviour. To the best of the researcher's knowledge, the present study is the first study exploring transfer pricing audit behaviour using the TPB framework. Further, although the measurement instruments regarding transfer pricing audit behaviour are not yet presented in the literature, this study uses the general concept of TPB in developing the survey questions. The result is that the scales are statistically reliable in capturing the tax auditors' behaviour in conducting transfer pricing audits based on the parameters aligned with the PLS-SEM, as described in the quantitative analysis chapter.

Next, this study contributes to the knowledge exploration on transfer pricing audit using a convergent mixed methods study of the PLS-SEM and reflexive thematic analysis. In the literature, only a small number of studies were found to use the PLS-SEM in combination with other methods (Lee et al. 2022; Kurtaligi et al. 2024). Concerning transfer pricing research, no prior studies were found using a PLS-SEM in combination with a reflexive thematic analysis. It is important to highlight that the use of PLS-SEM in tandem with qualitative analysis allows the two methods to mutually enrich each other's findings (Kurtaligi et al. 2024). Therefore, the present study has contributed to the development of the PLS-SEM in mixed methods research and, specifically, has filled the gap in transfer pricing studies using the combination of the PLS-SEM and reflexive thematic analysis. Additionally, the present study also contributes to the use of different participants to explore transfer pricing audit behaviour. While the main actor in the study is the tax auditors, other participants are incorporated to enrich the analysis in which spans from the multinational companies, professional consulting firms, government units, and judicial institutions. Hence, this study captures a single phenomenon from multiple lenses.

Lastly, the present study contributes to the use of an innovative circular joint display to integrate the mixed methods findings and generate meta-inferences. Predominantly, the visualisation of integration commonly used in mixed methods

studies is the matrix or side-by-side table (Guetterman et al. 2015b; Feters and Guetterman 2021). This study contributes to the expansion of our understanding of the presentation of mixed methods findings by incorporating a unique circular display to present the integration in a single figure. This visualisation is inspired by a study from Bustamante (2019) in which the mixed methods integration is represented by several concentric rings to comprehensively integrate theory across all study constructs (Peters and Fàbregues 2024). In the context of taxation research, the use of circular joint display is limited, if none, and thus the current study fills this methodological gap in the literature.

8.3.4. Practical contribution

The last contribution made by this study is related to the actionable solutions and policies to address real challenges faced by the tax auditors working in DGT to scrutinise transfer pricing. These practical ideas also benefit the multinationals in Indonesia by supporting compliance with transfer pricing regulations and preventing any disputes with the DGT. The practical contribution bridges the theory and practice and provides useful insights for the institution (Wilkins et al. 2019) where this research is conducted (the Indonesian tax authority). Therefore, it can be concluded that, in addition to contributing to the development of new theoretical and methodological insights, the current study also provides institutional advancement in the context of managing the transfer pricing issue.

8.4. Limitations of the study

While the present study contributes to the significant findings that extend our understanding of transfer pricing behaviour in Indonesia, as shown in the previous chapter regarding study contributions, some potential limitations are also acknowledged. Firstly, this study surveyed only the tax auditors working in specific tax units dealing with large firms in Indonesia. The response rate during this stage is around 14.5%, which may be considered as low but acceptable, and in line with the trend in similar studies (Hite and Sawyer 2000; Van Mol 2017; Alstadsæter et al. 2019). The limited tax units and sample sizes may not represent all facets of DGT's officers and may limit generalisation of the study findings.

Combining with an interview stage may resolve this problem, but greater sample sizes covering many tax units are needed. This may not be feasible due to

the time constraint during data collection and, more importantly, obtaining access from various tax units may also be challenging. Secondly, the study participants focused only on the tax auditors in DGT. While this concern is derived from the objective of this study to investigate transfer pricing audit behaviour, incorporating other actors, such as the objection and appeal officers, may be beneficial. The data shows that legal objections and appeal processes will challenge most transfer pricing audit results. As such, the views and opinions from the officers dealing with the objection and appeal in DGT are also critical to address transfer pricing audit behaviour.

Next, participants from multinational corporations in Indonesia are incorporated in the study only during the interview stage, not for the survey. However, it limits the cross-validation of the study findings due to the imbalanced proportions of the participants between the tax auditors and the tax professionals. Initially, this study also intended to circulate the survey amongst multinationals. Still, the researcher was unable to access a sufficient number of tax professionals to complete the survey. Although some measures were taken, such as asking for help from the Indonesian Chamber of Commerce and Industry and circulating a snowball sampling method, no satisfactory results emerged. As such, the survey of the tax professionals needed to be dropped, with the study more focused on tax auditors.

Subsequently, during the interview phase with the tax professionals, no specific industry type or categorisation was applied in the interview protocol. While the results may still provide in-depth analysis, they limit the variability and may not capture the diverse perspectives from the tax professionals. Next, from the context-specific research location, the present study is conducted in a single and specific country, Indonesia. There is a chance that the research-specific location limits the transferability of the research outcomes and may not be directly applicable to different tax institutions in other countries.

Another limitation would be related to the current development of the international tax regime, which has not been counted in the study. To address the globalised transactions of multinational enterprises, the OECD introduced the Global Anti-Base Erosion Rules (GloBE) to ensure every group of MNEs pays a minimum level of tax in the jurisdictions where they operate, which is known as the global minimum tax, a minimum tax rate of 15%, under the Pillar Two regulated by the

OECD (OECD 2025). When computing the GloBE model, MNEs should account for their transfer pricing policy across every line of business and subsidiary. Hence, MNEs' groups will likely have increased transfer pricing compliance and reporting requirements, which may lead to an increased transfer pricing audit. Current research argued that the global minimum tax leads to higher transfer pricing within multinational groups (Schjelderup and Stähler 2024).

These trends may also affect the tax auditors' behaviour towards transfer pricing audit to ensure MNEs pay the minimum global tax of 15%. In the current study, the issue of the GloBE and the global minimum tax has not been addressed in either the survey or interview stages. During the data collection period, Indonesia had not yet implemented and regulated the global minimum tax under its domestic legislation. The corresponding legislation was finally released on 31 December 2024 under the Minister of Finance regulation number 136 of 2024 concerning the imposition of the global minimum tax under international agreement. Therefore, the absence of GloBE questions during data collection may limit the comprehensiveness of the current study.

Finally, the current study acknowledges the timeframe limitation for collecting and analysing the two datasets, a quantitative survey and a qualitative interview, which may affect the depth and comprehensiveness of the study findings. However, despite these limitations, this study highlights meaningful contributions to the literature around transfer pricing and, more broadly, to tax research. Acknowledging these limitations emphasises the importance of interpreting the current study findings in the context of transfer pricing research.

8.5. Directions for future study

The current study has shed light on the factors contributing to transfer pricing audit behaviour from multiple actors in the tax system within the Indonesian context. However, it also opens an avenue for further investigation. Some promising directions are proposed to build on the findings and address the limitations of the present study. First, future research could take another approach to analysis for the survey to increase the generalisability of the study findings. Instead of using the PLS-SEM, as employed in the current study, future studies could use the covariance-based SEM (CB-SEM), which requires strict normality of the data and a

large sample size (Hair Jr et al. 2020; Schuberth et al. 2023a). CB-SEM provides rigorous validation of the theory testing and confirmation (Hair et al. 2017b; Rigdon et al. 2017; Dash and Paul 2021), which may benefit the study involving well-established theories such as the TPB.

However, because the CB–SEM demands a large sample size, future studies may incorporate many tax offices covering both middle and large tax units and small tax units. Under the DGT’s structure, most tax units deal with small taxpayers. Consequently, circulating surveys to these offices may escalate the sample level. Furthermore, incorporating small tax units in a transfer pricing study will be relevant because, although these offices do not deal with MNEs, their auditors will likely be promoted to the high-level tax units, such as medium, large, and special offices. Therefore, the auditors in small tax units should also understand the concept of transfer pricing and be potential participants in future research.

Second, with good sampling and data collection strategy, future studies could incorporate tax professionals working in MNEs from diverse industries as survey respondents. This arrangement would solve one of the limitations in the current study and provide a complete picture of transfer pricing behaviour from the taxpayers and the tax authority’s perspectives. Third, from a methodological lens, future research may consider an exploratory sequential mixed methods design to structure a better survey during the survey stage. Although the current study explicitly demonstrates a reliable, valid, and robust survey instrument through a convergent mixed methods design, one of the variables, defiance posture, showcases a non-consistent inference in the integration outcome.

One possible reason for this inconsistency is the different interpretations of survey questions by participants with various levels of knowledge on transfer pricing. Further, under an exploratory sequential design, qualitative data will be collected first to understand the phenomenon, to generate patterns for developing hypotheses, and to help design a quantitative measure (Creswell and Creswell 2022). Hence, employing this scheme enables the outcome of a qualitative interview to be used as a basis for designing a survey. It would be beneficial to prevent the participants from different interpretations of the survey scales due to their various levels of prior knowledge in the research area.

In addition, the survey and interview may be supplemented by another variable of the respondents' perception of the global minimum tax (GloBE) in connection with transfer pricing strategy and audit. This would enrich the predictors in the behavioural framework and provide an in-depth analysis of the factors affecting transfer pricing audit behaviour. Correspondingly, future research recognises one of the limitations in the current study regarding the absence of the GloBE variable and highlights a current development in the international transfer pricing regime. Lastly, in terms of the research context, future studies could examine the validity of the survey scales and interview questions in the current research by exploring transfer pricing audit behaviour in other tax jurisdictions. This is important to ensure research instruments in the current study are replicable in different settings and to test the generalisability of the research findings.

8.6. Concluding remarks

This study highlights the importance of the Theory of Planned Behaviour (TPB) framework in explaining transfer pricing audit behaviour. However, not only does the current research incorporate the theory, but it also expands it to accentuate new insights by combining the theory's predictors with other variables such as Motivational Postures (Braithwaite 1995; Braithwaite 2004) and perceived tax knowledge (Langham et al. 2012a). In general, the results confirm that most predictors in this study can predict and are associated with the actual behaviour. The study's findings are consistent with the idea under TPB, expand it, and generate a new model on the factors affecting individuals' behaviour in the transfer pricing audit setting.

Although the TPB model has been widely used and known as the dominant theoretical lens in the literature in explaining human behaviour, its presence has raised criticism due to the exclusion of other variables such as the roles of emotions and commitment in the model (Conner et al. 2013; Sheeran et al. 2013). In a more extreme argument, Sniehotta et al. (2014) argued that TPB should be "retired" due to its insufficiency in explaining the relationships between constructs under the TPB model. However, despite this criticism, TPB has left a legacy and a mechanism that underpin the study of human behaviour. In recent literature, TPB continues to serve as the basis of revisions and extensions of the initial model and demonstrates respectful recognition and contribution (Hagger 2015; Hagger and Hamilton 2025;

Naskar and Lindahl 2025). Therefore, the outcome of an extended TPB model in the current research magnifies the importance of this theory in the research avenue.

Further, the current study has demonstrated that behavioural intention, perceived transfer pricing knowledge, and the tax auditors' commitment significantly predict transfer pricing audit behaviours. The results challenge prevailing assumptions on the retirement of the TPB and open new avenues for the extension of the model. Therefore, the insights from the current study pave the way for future research using the TPB framework, a theory that should not be retired to predict behaviour in various domains (Steinmetz et al. 2016a; Bosnjak et al. 2020b).

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APPENDIX A

Table 2.1 Summary of the BEPS initiatives

Action Plan	Description	Categorisation
Action 1 – tax treatment of digital transactions	This action aims to capture the challenges of the application of current tax regime for digital economy and to construct possible solutions to overcome these issues.	Tax treatment
Action 2 – neutralise the effect of hybrid mismatch arrangements	This action concerns the revisions of the tax treaty model to minimise the effect of double non-taxation and helps tax authorities in designing domestic tax regulations to counter the hybrid mismatches.	Tax treatment
Action 3 – intensify the regulations on controlled foreign company	This action aims to develop guidelines for designing tax regulations to address the issue of controlled foreign companies.	Tax treatment
Action 4 – limitations on interest deductions	This action recommends a common practice to prevent excessive interest deductions because, in most tax jurisdictions, interest payments are deductible in calculating taxable income.	Tax treatment
Action 5 – counter harmful tax practices	This action aims to revamp initiatives to prevent harmful tax practices and to improve tax transparency among countries.	Tax treatment
Action 6 – prevention of tax treaty abuse	This action aims to develop effective tax treaty provisions to prevent multinationals from obtaining inappropriate treaty benefits.	Tax treatment
Action 7 – the status of permanent establishment	This action aims to develop necessary changes in defining the status of permanent establishment that can be used to avoid having a taxable presence in another country.	Tax treatment
Action 8 – transfer pricing (intangibles)	This action aims to develop guidelines to prevent misallocation of the profits derived from intangible assets.	Transfer pricing
Action 9 – transfer pricing (risks and capital)	This action aims to develop rules to prevent profit shifting through risk transfer among multinationals affiliates, members, and subsidiaries.	Transfer pricing

Action 10 – transfer pricing (high-risk transactions)	This action focuses on transfer pricing methods that can be used to divert profits and the use of intragroup services and other payments to erode country's tax base.	Transfer pricing
Action 11 – BEPS data collection and analysis	This action establishes methodologies to quantify the economic scale of the impact of BEPS and controls the implementation of the BEPS initiatives.	Documentation
Action 12 – disclosure of aggressive tax planning	This action provides recommendations concerning the design of domestic regulations that oblige taxpayers to disclose their aggressive tax planning schemes.	Documentation
Action 13 – country-by-country reporting	Under this action, multinationals are required to provide all necessary information on global allocation of the income, profits, risks, and taxes and to prepare a country-by-country report based on such allocations.	Documentation
Action 14 – dispute resolution mechanism	This action seeks to implement minimum standard on tax dispute resolution among jurisdictions and to resolve tax dispute in timely manner to increase efficiency for the taxpayers.	Dispute resolution
Action 15 – multilateral instrument	This action offers solutions according to the agreed minimum standard on the bilateral tax treaties and to improve the dispute resolution mechanism.	Dispute resolution

Source: adapted from the OECD (2013a, pp.29-34)

Table 2.2 Studies on tax auditor behaviour

Author(s)	Method(s)	Findings
Roberts (1995)	Experimental design using sixteen cases involving IRS revenue agents.	The size of the audit adjustment affects the tax auditor's judgment to assess the penalty for negligence of the taxpayer.
Pentland and Carlile (1996)	Interviews with 142 IRS revenue agents.	Tax audit is a form of expression game. Taxpayers and tax auditors have different knowledge of skills, resources, and facts about fraud committed by the taxpayers. Tax auditors use tax legislation as a resource to find facts, and taxpayers challenge the audit's result.
Hite and Sawyer (2000)	A survey of 116 tax investigators from the Inland Revenue Department, New Zealand.	The tax investigators' team leaders assessed relatively more penalties when the reporting standard in the legislation was numerical. Conversely, when the reposting standard was verbal, penalties were unlikely to be imposed.
Hasseldine and Hansford (2003)	Interview with the tax auditors (Inland Revenue staff) on the specific tax auditing process that currently operates in the UK. Inland Revenue was then changed to HMRC in 2005.	Tax auditors under the self-assessment regime are motivated to reach a final settlement with taxpayers and avoid having cases transferred to the appeal process.
Mulyani (2010)	- 157 surveys and 20 interviews with Indonesian tax auditors. - semi-structured interview with 9 subsidiaries of foreign companies and 4 permanent establishments in Indonesia.	This study is the first to explore factors influencing MNEs in Indonesia to comply with transfer pricing regulations. The findings revealed that institutional issues such as heavy workload on regular refund claims, career structures, rotation policy, lack of training, understanding, and comparable data prevent tax auditors in the Indonesian tax authority from conducting transfer pricing audits.
George and Diavastis (2015)	205 structured surveys to tax auditors working at the Greek tax authority.	It is found that the use of information technology helps tax auditors to detect tax infringements properly. Also, constant changes in tax code restrain tax auditors from being effective.

Muhammad (2013)	49 in-depth interviews with tax auditors at Inland Revenue Board of Malaysia (IRBM).	Using Grounded Theory as the basis, this study finds that tax auditors apply different enforcement regulatory styles: firm, explain and educate, bargaining, and threatening when dealing with taxpayers. However, when it comes to the public, tax auditors apply an “avoiding” regulatory style.
Boll (2014)	A 10-month ethnography of a tax audit process at the Danish Tax and Customs Administration with the total of 63 hours of observation and 6 interviews.	The analysis shows that tax inspectors produce oligoptic and panoptic visions when they account for taxpayers’ economic activities and that tax inspectors’ visions are received differently by the represented taxpayers. Some tax-payers fall out of sight, whereas others are highly visible and are interrogated in detail.
Muhammadi et al. (2016)	Case studies and semi-structured interviews with 16 tax auditors working at Indonesian tax authority – Directorate General of Taxes (DGT).	The findings reveal that Indonesian tax auditors encounter difficulties during the audit process concerning transfer pricing of intangible properties, such as a lack of transparency, limited cooperation, and limited access to documentation, regulations, and human resources.
Nordin et al. (2017)	636 surveys to tax auditors working for the IRBM in Peninsular Malaysia.	The findings show that tax complexity and managerial control statistically impact tax auditors’ conciliatory style.
Blaufus et al. (2022)	A survey to 620 tax auditors working in Berlin, Germany.	The results of this study show that a competitive negotiation strategy by the auditors is associated with higher additional assessed taxes compared to cooperative negotiation strategy. A mixed strategy results in a higher probability of agreement on audit findings.

Source: summarised from relevant studies

Table 2.3 Description of audit quality elements

Element	Descriptions
Inputs	Inputs relate to the auditors' attitude, values, ethics, skills, knowledge, and experience. The time allocated to perform the audit is also within the scope of inputs.
Process	It connects with the audit process, procedures, and quality control that may impact quality of the audit.
Outputs	Reports include formal documentation prepared by the auditors as the output of the audit process with all the findings and recommendations.
Key interactions	This part explores the interaction among actors in the audit process that may affect the audit quality. For example, the formal and informal communication between the auditor and the audit committee of the company in the initial stage of the audit.
Contextual factors	In the context of financial reporting other factors may be impacted the nature and quality of financial statement such as business practices, laws and regulations regarding financial reporting, and corporate governance. These factors have the potential effect, directly or indirectly, the audit quality in which auditors would adjust the way they obtain audit document or evidence accordingly.

Source: summarised from IAASB (2021, pp.5-6)

Table 2.4 Descriptions of the four postures

Posture	Meaning
Commitment	It reflects accommodation to the agenda of authority. From a tax research perspective, commitment deals with people's belief that they pay tax for society's benefits and as part of their moral obligation.
Capitulation	It captures acceptance of the legitimation of authority. This also applies to tax research, where people accept and feel that the tax authority has the proper power to collect taxes.
Resistance	It reflects the intention to fight against the authority. For example, this posture questions the intentions of tax officials to conduct their work cooperatively based on regulations. As such, taxpayers fight to curb the power of the tax authority.
Disengagement	It reflects detachment from the regulatory effort of the authority. This posture shares a similar concept to resistance but with massive disenchantment. It can be seen by the behaviour of disengaged taxpayers who want to keep themselves below the radar and socially distant from the tax authority.

Source: elaborated from Braithwaite et al. (1994) and Braithwaite (1995)

Table 3.1 - Amendments of the 1983 tax laws during the modern tax regime

Laws	Amendments	Considerations
Law Number 6 of 1983 concerning General Provisions and Tax Procedures	First Amendment: Law Number 9 of 1994	Tax simplification, fairness, legal certainty, and tax overpayment procedures
	Second Amendment: Law Number 16 of 2000	Legal certainty, tax services, overpayment procedures for compliant taxpayers, and legal enforcement for tax officers
Law Number 7 of 1983 concerning Income Tax	First Amendment: Law Number 7 of 1991	Supporting economic development, tax incentives, and foreign capital investment
	Second Amendment: Law Number 10 of 1994	Broadening tax bases, increasing tax compliance, and intensifying final income tax
	Third Amendment: Law Number 17 of 2000	Tax simplification is used to increase domestic and foreign investments and support tax fairness.
Law Number 8 of 1983 concerning Value – Added Tax	First Amendment: Law Number 11 of 1994	Maintaining export trading, legal certainty, and investment
	Second Amendment: Law Number 18 of 2000	Increasing Indonesian products in a foreign market and simplifying VAT restitution procedures

Source: summarized from relevant tax legislations

Table 3.2 Tax revenue contribution to total state revenue and expenditure (in trillion Indonesian Rupiah)

Year	Total tax revenue	Total domestic revenue	Total expenditure	Tax revenue to total revenue	Tax revenue to total expenditure
2018	1,313.32	1,928.11	2,213.12	68.11%	59.34%
2019	1,332.66	1,955.13	2,309.29	68.16%	57.71%
2020	1,072.11	1,628.95	2,595.48	65.82%	41.31%
2021	1,278.65	2,006.33	2,786.41	63.73%	45.89%
2022	1,716.76	2,630.15	3,096.26	65.27%	55.45%

Source: DGT 2022 Annual Report

Table 4.1 Data collection design

Consideration	Design
Samples in the quantitative and qualitative stages	• The two stages use the same participants (tax auditors working at DGT) for the survey and the interview. The use of the same samples indicates this study aims to directly compare the findings from the two stages. The samples are collected from some of tax offices in which multinationals are registered. These offices are selected based on a criterion according to the high presence of transfer pricing cases brought to Indonesian tax court. • This criterion shows essential implication that transfer pricing might be scrutinized during tax audit, and thus assessing tax auditors' behaviour regarding transfer pricing in these offices is relevant. In addition, there will be other participants during interview phase that might enrich exploration on transfer pricing behaviour. • These individuals are the tax professionals working at multinationals, tax advisers helping multinationals in dealing with transfer pricing issues, high-level policymakers in Ministry of Finance and DGT, and tax court judge who deals with transfer pricing litigation process.
The size of the samples	For tax auditors, there will be unequal sample sizes between survey and interview – less participants during interview. This is expected because at the end of survey questions interview process is an option. According to Creswell and Plano Clark (2018), uneven samples promotes both approaches to be applied rigorously, but the integration process might be limited.
The application of concepts or theories	The questions in survey and interview are developed according to the same theories to support merging process.
The sources of data collection: two independent sources of one single source	The data will be collected independently using two sources, survey survey and semi-structured interview, to corroborate the two conclusions and to certify that each stage showcases rigorous result.

Source: Adapted from Creswell and Plano Clark (2018, p.187) to accommodate the objective of this study

Table 4.2 Cronbach's alpha of the pre-test instrument

Cronbach's alpha	Cronbach's alpha (standardised items)	N items
0.873	0.892	32

Source: calculation of pre-test items

Table 4.3 Indicators for attitude

Codes	Indicators
att1	I believe a tax audit is necessary to protect the tax base and to increase tax revenue
att2	I believe a transfer pricing audit is necessary to protect the tax base and to increase tax revenue
att3	I believe intra-firm transactions related to intangibles, services, and other types of payments need to be scrutinised during tax audit in terms of the transfer price, the choice of comparable data, and the determination of interquartile range.
att4	I believe the OECD transfer pricing guidelines are essential to determine the intra-firm transfer price during transfer pricing audit
att5	I believe the Indonesian tax regulations related to transfer pricing are essential to determine intra-firm transfer price during transfer pricing audit

Table 4.4 Indicators for subjective norm

Codes	Indicators
norm1	In general, most tax auditors I know think that tax audit is important to protect tax base and to increase tax revenue
norm2	In general, most tax auditors I know think that transfer pricing audit is important to protect tax base and to increase tax revenue
norm3	My colleagues in the tax audit team would agree with me that intra-firm transactions need to be scrutinised during tax audit
norm4	Most tax auditors I know believe that the arm's length principle is essential to determine the transfer price during transfer pricing audit

Table 4.5 Indicators for PBC

Codes	Indicators
control1	In general, the content of Indonesian tax regulations around transfer pricing are precise
control2	For me, understanding transfer pricing around intangible assets is more challenging than intra-group services
control3	I am confident that I can work on transfer pricing audit with its complexities
control4	I believe I have a moral obligation to conduct transfer pricing audit to protect tax base and increase tax revenue

Table 4.6 Indicators of behavioural intention

Codes	Indicators
intent1	If I find intra-firm transactions among associated enterprises during audit process, I will initiate further investigation using appropriate transfer pricing method
intent2	I am willing to conduct transfer pricing audit even if my superior does not ask me to
intent3	I believe it will be necessary to explore transfer pricing transactions during tax audit process

Table 4.7 Indicators of perceived tax knowledge

Codes	Indicators
know1	I think tax professionals in multinational enterprises reasonably understand the intricate description of the OECD transfer pricing guidelines and domestic transfer pricing legislations
know2	I believe tax professionals' knowledge on the complex tax laws regarding transfer pricing is backed by tax advisers
know3	In general, I believe transfer pricing regulations affect compliance by multinational enterprises in Indonesia
know4	I believe tax professionals in majority of multinational companies in Indonesia have been involved in tax disputes (both in objection and appeal processes) due to transfer pricing audit

Table 4.8 Indicators of deference posture

Codes	Indicators
deference1	I am committed to ensuring that my transfer pricing audit work is conducted with the highest standard possible according to the audit standard procedures
deference2	I think of conducting transfer pricing audit helping government to protect national interest
deference3	Domestic transfer pricing regulations may not be perfect, but they work well for most of us as the legal bases for audit adjustment and correction
deference4	Directorate General of Taxes (DGT) is helping tax auditors who have difficulty during transfer pricing audit by giving necessary assistance

Table 4.9 Indicators of defiance posture

Codes	Indicators
defiance1	DGT is more interested in catching you for not identifying appropriate adjustments and corrections during transfer pricing audit than helping you
defiance2	It is impossible to satisfy DGT's performance objective completely related to transfer pricing audit
defiance3	DGT will brand me as a non-competent auditor if I do not want to conduct transfer pricing audit and I will likely to have job mutation to other tax offices in remote area
defiance4	I am not willing to conduct transfer pricing audit because DGT never explains the concept of BEPS action plan 8, 9, and 10

Table 4.10 Indicators of behaviour

Codes	Indicators
behave1	In making adjustments and corrections related to transfer pricing transactions, I have read and incorporated relevant legislations as legal bases
behave2	I always ask substantial evidence and documents in conducting transfer pricing audit
behave3	I incorporate relevant comparable companies to determine the transfer price
behave4	I conduct transfer pricing audit because it is an important issue

Table 4.11 Legitimation procedure

Typology	Brief description	Application in present study
Sample integration	Sampling design in quantitative and qualitative stages should promote quality meta-inferences.	Present study incorporates the same population for the tax auditor both for survey and interview. It maintains generalisability and integration between statistical analysis and thematic findings.
Inside - outside	It represents researcher's subjective insider views and objective outsider views.	In quantitative survey, researcher serves as an outsider because survey is circulated using web based. Participants dealt with the survey in objective manner. The role is shifted in qualitative interview because researcher plays an insider actor who dealt with subjectivity in designing questions and analysing them reflexively. However, insider – outsider legitimation is established by incorporating the role of supervisors and independent tax scholars to review different part of components in this study. Also, a pilot project is conducted to add legitimation in this regard.
Pragmatic mixing	Researcher's reflection on philosophical and methodical paradigm shapes the choice of mixed research.	It is already declared in section 4.2. Pragmatism as research paradigm that the current study incorporates pragmatism as the underlying philosophical stance. It is consistently and coherently applied throughout the stages of research design, data collection, and analysis.
Weakness minimisation	The complementary role of the two methods. The weakness of one approach will be compensated with the strength of another approach.	In present study, quantitative analysis of PLS-SEM quantifies numerical and statistical significance of research constructs. It misses out subjective nuances. To compensate this concern, in-depth, semi-structured interview is conducted to explore tax auditor's understanding around transfer pricing.
Conversion	High-quality data	This study presents a joint display

	transformation to draw interpretations.	analysis to integrate and converse quantitative and qualitative datasets.
Commensurability	Meta-inferences drawn in mixed analysis should reflect a mixed worldview.	In present study, this is established by going back and forth from the quantitative and qualitative data to capture tax auditor's behaviour around transfer pricing during tax audit. This iterative process including analysing inference statistics and developing coding and themes to generate meta-inferences.
Multiple validities	Identify and address relevant quantitative, qualitative, and mixed validities, yielding high quality meta-inferences.	The use of different strategies to assess the same issue. Legitimation is carried out in various levels in present study. In quantitative study, validity and reliability are assessed under accepted framework. Further, credibility reflexive thematic analysis is counted based on literature in conducting analysis. Last, mixed analysis integration is carried out to juxtapose the two findings.
Multiple stakeholders sociopolitical legitimization	/ A mixed study should appropriately accommodate the interests of multiple stakeholders.	Present study attempts to provide channel for underexplored group of tax auditor to capture their voices around transfer pricing issue. This study also addresses the interests of the Indonesian tax authority as key stakeholder in the tax system. While the core participant of this research is the tax auditor, other groups such as tax professionals, tax advisers, policymakers, and tax judge are incorporated during interview session to capture their voices and concerns around transfer pricing.

Pragmatic function	The extent to which mixed research intends to judge any practical issues and answer research questions.	Transfer pricing is a growing and important issue in many tax jurisdictions including Indonesia. The exploration of this issue needs to be addressed from different viewpoints, which the current study aims to fill. The findings from this study may be put in action to accommodate different groups in the tax system.
Integration	The degree to which mixed study integrates quantitative and qualitative data, analysis, and findings. The integration goal is supported by meta-inferences.	Integration in present study is depicted by side-by-side and circular joint display where there will be combination of quantitative and qualitative findings in single visualisation.

Table 5.1 Summary characteristics of survey participants

Characteristics	Number	Percentage (%)
Gender		
1. Male	118	85
2. Female	20	15
Total	138	100
Age		
1. < 25 years	0	0
2. 25 – 35 years	34	25
3. 36 – 45 years	52	37
4. 46 – 55 years	48	35
5. > 55 years	4	3
Total	138	100
Job roles		
1. Auditor	68	49
2. Lead auditor	41	30
3. Supervisor	29	21
Total	138	100
Working experience		
1. < 5 years	3	2
2. 5 to 10 years	41	30
3. > 10 years	94	68
Total	138	100
Training on transfer pricing		
1. Yes	121	88
2. No	17	12
Total	138	100
The kind of transfer pricing training		
1. Basic	74	61
2. Intermediate	27	22
3. Advanced	7	6
4. Others	13	11
Total	121	100
Education level		
1. Diploma	14	10
2. Bachelor	77	56
3. Master	45	33
4. Doctoral	2	1
Total	138	100
Familiarity with BEPS 8, 9, and 10		
Not familiar	12	9
Slightly familiar	54	39
Somewhat familiar	37	27
Moderately familiar	24	17
Very familiar	9	7
Extremely familiar	2	1
Total	138	100
Percentage has been rounded to the nearest whole number (if applicable)		

Source: calculation of survey data

Table 5.2 Kolmogorov – Smirnov normality test

Items	Statistic	Degrees of freedom	p
att1	0.329	138	<.001
att2	0.305	138	<.001
att3	0.316	138	<.001
att4	0.373	138	<.001
att5	0.274	138	<.001
norm1	0.325	138	<.001
norm2	0.330	138	<.001
norm3	0.374	138	<.001
norm4	0.312	138	<.001
control1	0.351	138	<.001
control2	0.326	138	<.001
control3	0.349	138	<.001
control4	0.379	138	<.001
know1	0.256	138	<.001
know2	0.245	138	<.001
know3	0.383	138	<.001
know4	0.340	138	<.001
intent1	0.327	138	<.001
intent2	0.274	138	<.001
intent3	0.357	138	<.001
deference1	0.354	138	<.001
deference2	0.355	138	<.001
deference3	0.391	138	<.001
deference4	0.359	138	<.001
defiance1	0.256	138	<.001
defiance2	0.170	138	<.001
defiance3	0.172	138	<.001
defiance4	0.216	138	<.001
behave1	0.343	138	<.001
behave2	0.322	138	<.001
behave3	0.356	138	<.001
behave4	0.318	138	<.001

Significance value (p) at 0.05

Source: calculation of survey data

Table 5.3 Difference between the two means

Items	Original mean	5% Trimmed Mean	Difference
att1	5.85	6.00	0.15
att2	5.72	5.84	0.12
att3	5.83	5.95	0.12
att4	5.67	5.83	0.16
att5	6.00	6.13	0.13
norm1	5.86	5.97	0.11
norm2	5.81	5.93	0.12
norm3	5.94	6.04	0.10
norm4	6.05	6.15	0.10
control1	5.54	5.63	0.09
control2	5.51	5.56	0.05
control3	5.84	5.89	0.05
control4	5.51	5.60	0.09
know1	5.15	5.19	0.04
know2	5.14	5.17	0.03
know3	5.74	5.85	0.11
know4	5.42	5.51	0.09
intent1	5.77	5.82	0.05
intent2	5.46	5.52	0.06
intent3	5.42	5.55	0.13
deference1	6.01	6.06	0.05
deference2	6.01	6.08	0.07
deference3	5.77	5.89	0.12
deference4	5.62	5.72	0.10
defiance1	2.91	2.85	-0.06
defiance2	3.72	3.73	0.01
defiance3	3.42	3.40	-0.02
defiance4	2.96	2.90	-0.06
behave1	5.94	6.06	0.12
behave2	5.90	6.05	0.15
behave3	5.87	6.02	0.15
behave4	5.74	5.88	0.14

Source: calculation of survey data

Table 5.4 Descriptive statistics of items and constructs

Parameters	N	Minimum	Maximum	Mean	Median	SD	Skewness*	Kurtosis*
Attitude	138	2.20	7.00	5.81	6.00	0.922	-1.811	4.193
att1	138	1.00	7.00	5.85	6.00	1.126	-1.925	4.182
att2	138	1.00	7.00	5.72	6.00	1.208	-1.505	2.507
att3	138	1.00	7.00	5.83	6.00	1.171	-1.704	3.250
att4	138	1.00	7.00	5.67	6.00	1.233	-2.032	4.629
att5	138	2.00	7.00	6.00	6.00	1.094	-1.798	3.873
Subjective Norm	138	1.31	7.00	5.94	6.00	0.799	-2.621	11.30
norm1	138	1.00	7.00	5.86	6.00	1.036	-1.821	4.770
norm2	138	1.00	7.00	5.81	6.00	1.050	-1.839	4.925
norm3	138	1.00	7.00	5.94	6.00	0.844	-2.700	12.028
norm4	138	2.00	7.00	6.05	6.00	0.891	-1.988	6.559
PBC	138	2.25	7.00	5.60	5.75	0.715	-1.660	5.378
control1	138	2.00	7.00	5.54	6.00	1.047	-1.316	1.933
control2	138	2.00	7.00	5.51	6.00	1.013	-1.026	1.210
control3	138	3.00	7.00	5.84	6.00	0.865	-1.058	1.284
control4	138	1.00	7.00	5.51	6.00	1.020	-1.842	4.082
Perceived knowledge	138	2.00	7.00	5.36	5.50	0.836	-0.917	1.690
know1	138	2.00	7.00	5.15	5.00	1.080	-0.591	0.082
know2	138	2.00	7.00	5.14	5.00	1.075	-0.493	0.063
know3	138	2.00	7.00	5.74	6.00	1.055	-1.878	4.185
know4	138	2.00	7.00	5.42	6.00	1.113	-1.248	1.491
Behavioural intention	138	2.67	7.00	5.54	6.00	0.878	-0.634	0.294
intent1	138	2.00	7.00	5.77	6.00	0.898	-1.117	2.043
intent2	138	2.00	7.00	5.46	6.00	1.075	-0.924	1.060
intent3	138	1.00	7.00	5.42	6.00	1.377	-1.594	2.286
Deference posture	138	3.00	7.00	5.85	6.00	0.664	-1.463	4.160
1 deference	138	3.00	7.00	6.01	6.00	0.683	-1.132	3.465
2 deference	138	3.00	7.00	6.01	6.00	0.769	-1.381	3.467
3 deference	138	1.00	7.00	5.77	6.00	1.055	-2.017	5.082
4 deference	138	1.00	7.00	5.62	6.00	1.041	-1.832	4.358
Defiance posture	138	1.00	6.00	3.25	3.25	1.058	0.110	-0.415

defiance1	138	1.00	6.00	2.91	2.00	1.406	0.732	-0.362
defiance2	138	1.00	7.00	3.72	4.00	1.566	-0.098	-1.110
defiance3	138	1.00	7.00	3.42	4.00	1.361	0.135	-0.745
defiance4	138	1.00	6.00	2.96	3.00	1.312	0.534	-0.446
Behaviour	138	3.50	7.00	5.86	6.00	0.798	-1.229	1.495
behave1	138	2.00	7.00	5.94	6.00	0.957	-2.163	6.343
behave2	138	1.00	7.00	5.90	6.00	1.142	-2.277	6.391
behave3	138	2.00	7.00	5.87	6.00	1.113	-1.708	5.566
behave4	138	2.00	7.00	5.74	6.00	1.363	-0.634	2.165

Source: calculation of survey data

*The values of skewness and kurtosis beyond -1 and +1 suggest significant nonnormality (Hair et al. 2022, p.76)

Table 5.5 Mann – Whitney U test for the nonresponse bias analysis

Items	p-value	Results
att1	0.552	Insignificant outcomes
att2	0.475	Insignificant outcomes
att3	0.826	Insignificant outcomes
att4	0.885	Insignificant outcomes
att5	0.199	Insignificant outcomes
norm1	0.388	Insignificant outcomes
norm2	0.185	Insignificant outcomes
norm3	0.471	Insignificant outcomes
norm4	0.796	Insignificant outcomes
control1	< 0.001*	Significant outcomes
control2	0.061	Insignificant outcomes
control3	0.086	Insignificant outcomes
control4	0.054	Insignificant outcomes
know1	0.587	Insignificant outcomes
know2	0.496	Insignificant outcomes
know3	0.169	Insignificant outcomes
know4	0.913	Insignificant outcomes
intent1	0.037**	Significant outcomes
intent2	0.098	Insignificant outcomes
intent3	0.913	Insignificant outcomes
deference1	0.565	Insignificant outcomes
deference2	0.389	Insignificant outcomes
deference3	0.536	Insignificant outcomes
deference4	0.240	Insignificant outcomes
defiance1	0.222	Insignificant outcomes
defiance2	0.039**	Significant outcomes

defiance3	0.021**	Significant outcomes
defiance4	0.084	Insignificant outcomes
behave1	0.593	Insignificant outcomes
behave2	0.857	Insignificant outcomes
behave3	0.413	Insignificant outcomes
behave4	0.535	Insignificant outcomes

*Significant at 0.01

**Significant at 0.05

Source: calculation of survey data

Table 5.6 Covariance matrix among variables

Variables	Attitude	Norm	Control	Intention	Deference	Defiance	Behaviour	Knowledge
Attitude	0.850							
Norm	0.568	0.685						
Control	0.322	0.299	0.512					
Intention	0.298	0.219	0.256	0.772				
Deference	0.144	0.140	0.154	0.184	0.441			
Defiance	-0.065	-0.096	-0.096	-0.236	-0.191	1.120		
Behaviour	0.247	0.191	0.046	0.150	0.148	-0.043	0.638	
Knowledge	0.223	0.251	0.300	0.293	0.079	-0.070	0.097	0.700

Source: calculation of survey data

Table 5.7 Principal component analysis result

Constructs	Component	Eigenvalue	Result
Attitude	1	2.172	Multidimensional
	2	1.080	
Subjective norm	1	2.357	Unidimensional
Perceived behavioural contro	1	1.770	Multidimensional
	2	1.022	
Perceived knowledge	1	2.240	Unidimensional
Behavioural intention	1	2.169	Unidimensional
Deference posture	1	2.339	Unidimensional
Defiance posture	1	2.243	Unidimensional
Behaviour	1	2.928	Unidimensional

Source: calculation of survey data

Table 5.8 Outer loadings for the measurement model

Indicators	Loadings	T-statistics	P values
att1 <- Attitude	0.627	4.872	0.000
att2 <- Attitude	0.619	5.122	0.000
att3 <- Attitude	0.752	10.924	0.000
att4 <- Attitude	0.477	2.312	0.021
att5 <- Attitude	0.766	14.309	0.000
behave1 <- Behaviour	0.854	26.763	0.000
behave2 <- Behaviour	0.857	25.645	0.000
behave3 <- Behaviour	0.850	23.577	0.000
behave4 <- Behaviour	0.861	24.898	0.000
control1 <- PBC	0.587	4.992	0.000
control2 <- PBC	0.768	11.268	0.000
control3 <- PBC	0.844	16.136	0.000
control4 <- PBC	-0.041	0.216	0.829
deference1 <- Deference	0.857	20.191	0.000
deference2 <- Deference	0.797	14.734	0.000
deference3 <- Deference	0.702	6.266	0.000
deference4 <- Deference	0.641	4.883	0.000
defiance1 <- Defiance	0.826	14.794	0.000
defiance2 <- Defiance	0.718	8.468	0.000
defiance3 <- Defiance	0.678	7.328	0.000
defiance4 <- Defiance	0.747	9.954	0.000
intent1 <- Intention	0.873	38.218	0.000
intent2 <- Intention	0.877	26.952	0.000
intent3 <- Intention	0.792	17.601	0.000
know1 <- Knowledge	0.667	6.477	0.000
know2 <- Knowledge	0.690	7.760	0.000
know3 <- Knowledge	0.839	20.687	0.000
know4 <- Knowledge	0.721	9.658	0.000
norm1 <- Norm	0.626	4.768	0.000
norm2 <- Norm	0.825	10.506	0.000
norm3 <- Norm	0.785	12.973	0.000
norm4 <- Norm	0.822	18.316	0.000

Source: calculation of survey data

Table 5.9 AVE coefficients

Constructs	Average Variance Extracted (AVE)
Attitude	0.431
Behaviour	0.732
Deference	0.568
Defiance	0.554
Intention	0.719
Knowledge	0.536
Norm	0.591
PBC	0.412

Source: calculation of survey data

Table 5.10 Outer loadings, VAE, and unidimensionality after trimmings

Constructs Items	Loadings	AVE	Unidimensionality	
			Component	Eigenvalue
Attitude		0.502	1	2.035
att1	0.659			
att2	0.662			
att3	0.742			
att5	0.764			
Behaviour		0.732	1	2.928
behave1	0.854			
behave2	0.857			
behave3	0.850			
behave4	0.861			
PBC		0.583	1	1.759
control1	0.677			
control2	0.760			
control3	0.844			
Deference		0.568	1	2.339
deference1	0.857			
deference2	0.797			
deference3	0.702			
deference4	0.641			
Defiance		0.554	1	2.243
defiance1	0.826			
defiance2	0.718			
defiance3	0.678			
defiance4	0.747			
Intention		0.719	1	2.169
intent1	0.876			
intent2	0.876			
intent3	0.789			
Knowledge		0.536	1	2.240
know1	0.667			
know2	0.690			
know3	0.839			
know4	0.721			
Norm		0.585	1	2.357
norm1	0.605			
norm2	0.824			
norm3	0.784			
norm4	0.825			

Source: calculation of survey data

Table 5.11 The values of Cronbach's alpha and composite reliability

Constructs	Cronbach's alpha	Composite reliability
Attitude	0.677	0.800
Behaviour	0.878	0.916
Deference	0.761	0.839
Defiance	0.738	0.832
Intention	0.808	0.884
Knowledge	0.736	0.821
Norm	0.764	0.848
PBC	0.646	0.806

Source: calculation of survey data

Table 5.12 Discriminant validity assessment results

Constructs	Attitude	Behaviour	Deference	Defiance	Intention	Knowledge	Norm	PBC
Attitude								
Behaviour	0.522							
Deference	0.599	0.681						
Defiance	0.416	0.386	0.432					
Intention	0.620	0.560	0.446	0.520				
Knowledge	0.281	0.500	0.332	0.236	0.504			
Norm	0.814	0.585	0.679	0.408	0.517	0.336		
PBC	0.651	0.567	0.510	0.431	0.747	0.530	0.486	

Source: calculation of survey data

Table 5.13 Collinearity statistics

Indicators	VIF
att1	1.305
att2	1.322
att3	1.325
att5	1.232
behave1	2.375
behave2	2.430
behave3	2.193
behave4	2.318
control1	1.180
control2	1.347
control3	1.328
deference1	1.751
deference2	1.480
deference3	1.862
deference4	1.726
defiance1	1.444
defiance2	1.495
defiance3	1.370
defiance4	1.385
intent1	1.744

intent2	2.209
intent3	1.668
know1	1.779
know2	1.799
know3	1.326
know4	1.339
norm1	1.638
norm2	2.186
norm3	1.567
norm4	1.765

Source: calculation of survey data

Table 5.14 Path coefficients significance

Structural relationships	Coefficients	T statistics	P values	Confidence interval 95%	Significance
Attitude -> Intent	0.201 (+)	2.127	0.017	[0.052, 0.364]	Significant*
Norm -> Intention	0.160 (+)	1.811	0.035	[0.025, 0.314]	Significant*
PBC -> Intention	0.423 (+)	4.660	0.000	[0.265, 0.566]	Significant**
Deference -> Behaviour	0.430 (+)	4.394	0.000	[0.271, 0.602]	Significant**
Defiance -> Behaviour	-0.066 (-)	0.908	0.182	[-0.191, 0.050]	Non-significant***
Intention -> Behaviour	0.186 (+)	2.153	0.016	[0.031, 0.313]	Significant*
Knowledge -> Behaviour	0.223 (+)	3.190	0.001	[0.103, 0.334]	Significant**

* p < 0.05, ** p < 0.01 (one-tailed).

*** from perspective of confidence interval, zero is within the value between -0.191 and 0.050, and thus the relationship is not significant.

Table 5.15 Coefficient of determination

Endogenous constructs	R ²	Adjusted R ²
Behaviour	0.473	0.458
Intention	0.399	0.398

Source: calculation of survey data

Table 5.16 The rank order of the f^2 effect sizes and path coefficients

Endogenous construct: Behaviour			
	f^2	categories	path coefficients
Deference -> Behaviour	0.366	large effect	0.430
Knowledge -> Behaviour	0.175	medium effect	0.223
Intention -> Behaviour	0.044	small effect	0.186
Defiance -> Behaviour	0.007	no effect	-0.066

Endogenous construct: Intention			
	f^2	categories	path coefficients
PBC -> Intention	0.234	medium effect	0.423
Attitude -> Intention	0.041	small effect	0.201
Norm -> Intention	0.028	small effect	0.160

Source: calculation of survey data

Table 5.17 Prediction statistics summary using PLSpredict for manifest variables

Indicators	Q ² predict	PLS-SEM_RMSE	PLS-SEM_MAE	LM_RMS E	LM_MAE
behave1	0.285	0.524	0.373	0.576	0.417
behave2	0.273	0.592	0.427	0.641	0.478
behave3	0.307	0.535	0.371	0.598	0.430
behave4	0.318	0.557	0.414	0.565	0.414
intent1	0.400	0.635	0.499	0.723	0.548
intent2	0.156	0.840	0.658	0.918	0.700
intent3	0.168	0.760	0.559	0.793	0.571

Source: calculation of survey data

Table 5.18 PLSpredict evaluation

MV	Q ² predict	PLS-SEM_RMSE	LM_RMSE	PLS-SEM – LM (RMSE)
behave1	0.285	0.524	0.576	-0.052
behave2	0.273	0.592	0.641	-0.050
behave3	0.307	0.535	0.598	-0.063
behave4	0.318	0.557	0.565	-0.008
intent1	0.400	0.635	0.723	-0.089
intent2	0.156	0.840	0.918	-0.078
intent3	0.168	0.760	0.793	-0.033

Source: calculation of survey data

Table 5.19 CVPAT summary: PLS-SEM vs IA

Parameters	PLS loss	IA loss	Average loss difference	t-value	p-value
Behaviour	0.305	0.433	-0.128	2.616	0.010
Intention	0.562	0.734	-0.172	3.188	0.002
Overall	0.415	0.562	-0.147	3.466	0.001

Source: calculation of survey data

Table 5.20 CVPAT summary: PLS-SEM vs LM

Parameters	PLS loss	LM loss	Average loss difference	t-value	p-value
Behaviour	0.305	0.355	-0.050	2.973	0.003
Intention	0.562	0.664	-0.103	2.450	0.016
Overall	0.415	0.487	-0.072	3.725	0.000

Source: calculation of survey data

Table 5.21 PLS-SEM Model fit indices

Parameters	Estimated model	95%	99%
SRMR	0.068	0.062	0.078
d_ ULS	4.402	2.828	3.166
d_ G	1.237	1.196	1.327

Source: calculation of survey data

Table 5.22 Summary of hypothesis testing

Hypotheses	Relationship	Coefficient	t-value	Confidence interval 95%	Decisions
H1	Attitude -> Intention	0.201	2.127*	[0.052, 0.364]	Supported
	Norm -> Intention	0.160	1.811*	[0.025, 0.314]	Supported
	PBC -> Intention	0.423	4.660**	[0.265, 0.566]	Supported
H2	Intention Behaviour	-> 0.186	2.153*	[0.031, 0.313]	Supported
H3	Knowledge Behaviour	-> 0.223	3.190**	[0.103, 0.334]	Supported
H4	Deference Behaviour	-> 0.430	4.394**	[0.271, 0.602]	Supported
H5	Defiance Behaviour	-> -0.066	0.908	[-0.191, 0.050]	Not supported

Source: calculation of survey data

*Significant at 0.05 level

**Significant at 0.01 level

Table 5.23 Nonlinearity test: intention

Model	R	R ²	Adjusted R ²	SE	Change Statistics	
					R ² Change	Sig. F Change
1	.646	.417	.404	.7948	.417	.000
2	.647	.418	.396	.7999	.001	.860

Source: calculation of survey data

Table 5.24 Nonlinearity test: behaviour

Model	R	R ²	Adjusted R ²	SE	Change Statistics	
					R ² Change	Sig. F Change
1	.682	.466	.461	.7419	.466	<.001
2	.696	.485	.449	.7439	.019	.090

Source: calculation of survey data

Table 5.25 REBUS test global model

Group Quality Index (GQI) = 0.58454

Replications: 1000

	Global	Class_1	Class_2
Observations	138	66	72
Percentage	100	47.826	52.174
GoF	0.513	0.689	0.485
p-value = 0.000			

Source: calculation of survey data

Table 7.1 Side-by-side table of the key quantitative and qualitative results

Overarching constructs	Survey results	Interview results	Meta-inferences
Behavioural intention	There was a significant association between the tax auditors' intention and audit behaviours ($\beta = 0.186$, $t = 2.153$, $p = 0.016$, $f^2 = 0.044$).	The tax auditors considered behavioural intentions appeared in two forms, conditional and unconditional, depending on the presence of other factors. Supporting quote: "In foreign investment tax units, we are forced to handle Transfer pricing audit, and the supervisor is likely to put it in the audit plan" (TA30, supervisor).	Expansion. The auditors noted the importance of intention, which may derive internally and externally. This finding indicated that two conditions, enforced intention and voluntary intention, affected the auditors' intentions to scrutinise transfer pricing during an audit.
Perceived transfer knowledge	MNEs' pricing There was a significant association between the tax auditors' perception of MNEs' transfer pricing knowledge and the actual audit behaviour ($\beta = 0.223$, $t = 3.190$, $p = 0.001$, $f^2 = 0.175$).	The tax auditors indicated MNEs as entities with many resources who are always ready for a Transfer pricing audit. They can use internal staff to design and plan pricing policies for intercompany transactions. Also, MNEs may hire professional tax consultants to help them design their transfer pricing policies. All these factors were associated with MNEs' knowledge around the TP issue. Supporting quote: "I think some multinationals are starting to learn to handle transfer pricing arrangements using internal resources. However, during Transfer pricing audit, the majority of, if not all, multinationals hire tax advisers because they feel Transfer pricing audit is daunting and scary" (TA8, supervisor).	Confirmation. The auditors' perceptions of their behaviours in handling transfer pricing audits were derived from the assessment of MNEs' capability to address transfer pricing-related issues. This result confirmed both the data revealed in the quantitative construct association and the qualitative themes.

Deference posture	There was a significant association and large effect size between the auditors' commitment to conducting Transfer pricing audit and their actual audit behaviours ($\beta = 0.430$, $t = 4.394$, $p = 0.000$, $f^2 = 0.366$).	The auditors considered commitment to helping their institution through conducting a transfer pricing audit critical. Every audit team member displayed positive commitment. Supporting quote: "As a tax auditor, I need to be more aware of interfirm schemes among MNEs' members and to scrutinise the arm's length transactions among them during Transfer pricing audit" (TA12, supervisor).	Confirmation. The commitment to conduct a transfer pricing audit was different among audit members. For example, a supervisor perceived MNEs' data as the main driver to handle the Transfer pricing audit. The team leader indicated raising more tax revenue as the commitment to scrutinise transfer pricing. Lastly, junior auditors perceived the availability of time to handle the audit as a critical factor.
Defiance posture	There was no significant association and no effect size between the tax auditors' disengagement posture and their audit behaviours regarding transfer pricing ($\beta = -0.066$, $t = 0.908$, $p = 0.182$, $f^2 = 0.007$).	Despite no statistical association, the qualitative finding revealed contradictory results. The auditors perceived the transfer pricing audit as complicated, which prevented them from scrutinising it. Supporting quote: "Without any practical examples on the use of different TP methods, there will be an additional burden for the auditors to find relevant source of information, which makes us think that it is better not to handle Transfer pricing audit" (TA23, team leader).	Dissonance. The inconsistent results may be triggered by participants' different interpretations of survey scales. Further, during the interviews, the tax auditors perceived many challenges in the transfer pricing audit, which prevented them from scrutinising it.

Table 8.1 Summary of research questions, answers, and associated chapters

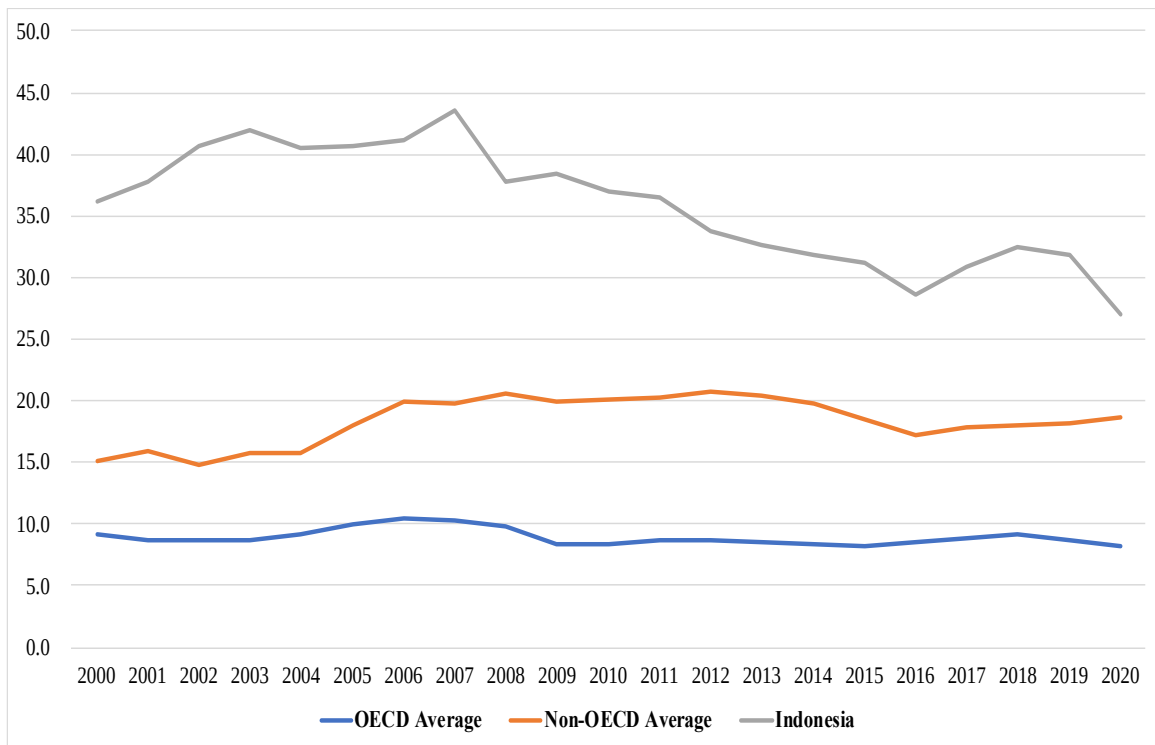
Method	Research questions	Answers	Chapters
Quantitative	1. Do perceptions on attitudes, subjective norms, and perceived behavioural control as posited in the Theory of Planned Behaviour influence tax auditors' intention to conduct a transfer pricing audit, which subsequently affects their behaviour?	Yes, the tax auditors' attitude, subjective norm, and perceived behavioural control affect their intention to conduct a transfer pricing audit. Subsequently, their intention is also associated with their actual behaviour in conducting such audits. These results support and are consistent with the TPB framework (Ajzen, 1985, 1991).	Chapter 5 (refer to the statistical significance outcomes)
	2. Do the tax auditors' perceptions of the tax professionals' knowledge of transfer pricing influence their behaviour to conduct a transfer pricing audit?	Yes, the tax auditors' perception of tax professionals' knowledge affects their behaviour in conducting transfer pricing audits. This finding is consistent with a study by Langham et al. (2012).	
	3. Does social distance, as noted in Motivational Postures theory, placed between the tax auditors and the tax authority influence transfer pricing audit behaviour?	Partially, yes. Only the deference posture affects the tax auditors' behaviour when conducting transfer pricing audits. The result for deference posture is consistent with the Motivational Posture concept (Braithwaite 1995; Braithwaite 2004), while in contrast, the outcome for defiance posture is not consistent.	
Qualitative	1. How do the tax auditors perceive transfer pricing audit?	The tax auditors perceived the transfer pricing audit as complex and stipulated different conceptions around intention to conduct the audit. The outcome of the qualitative interview reveals that individuals' intention may come in various forms, such as conditional	Chapter 6 (refer to the outcomes of themes and subthemes)

	intention and unconditional intention (Audi 2003). This study's two types of intentions expand the concept of behavioural intention in the TPB model.
2. How do the tax auditors perceive the tax professionals' and tax advisers' behaviour related to the transfer pricing audit?	The tax auditors considered MNEs as one of the actors in the tax system that have the resources to handle intricate transfer pricing policy, design, and administration. As such, an increasing trend of transfer pricing scrutiny of MNEs was perceived as a rational action from the tax authority to monitor MNEs' compliance. In addition, the presence of professional tax practitioners to represent MNEs during transfer pricing audits was perceived as both advantageous and challenging.
3. What are the future directions of transfer pricing in Indonesia?	The participants expected DGT to consider a simplification measure to minimise disputes and reduce the compliance burden related to transfer pricing. Besides that, a well-coordinated strategy among relevant government officials, such as DGT, Ministry of Finance, and Ministry of Investment, to regulate transfer pricing was perceived as critical to addressing the future development of transfer pricing in Indonesia.

Mixed methods	To what extent do the results from quantitative instrument data measurement on transfer pricing audit behaviour agree with interview findings for the tax auditors working at the Indonesian tax authority?	The qualitative interview outcomes agree, confirm, and extend the quantitative data measurement variables (intention, deference posture, and perceived knowledge). One exception applies for the defiance posture variable in which the qualitative outcome is inconsistent with the insignificant association in the quantitative finding.	Chapter 7 (refer to the integration outcomes of the study)

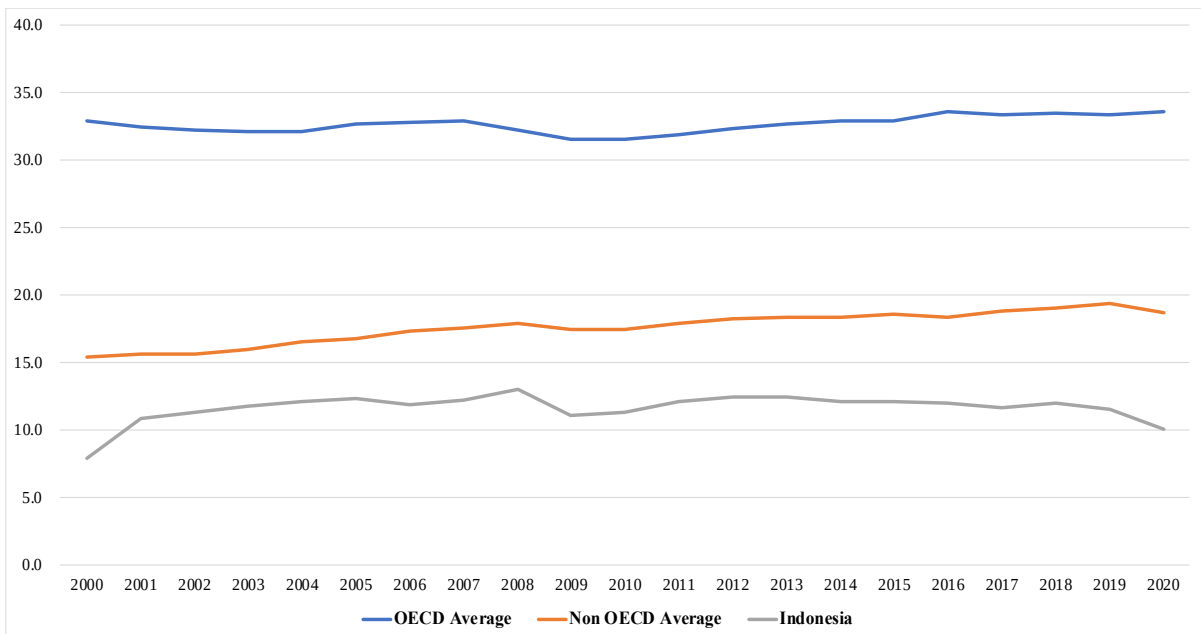
APPENDIX B

Figure 2.1 Corporate tax revenue as a percentage of total tax revenue



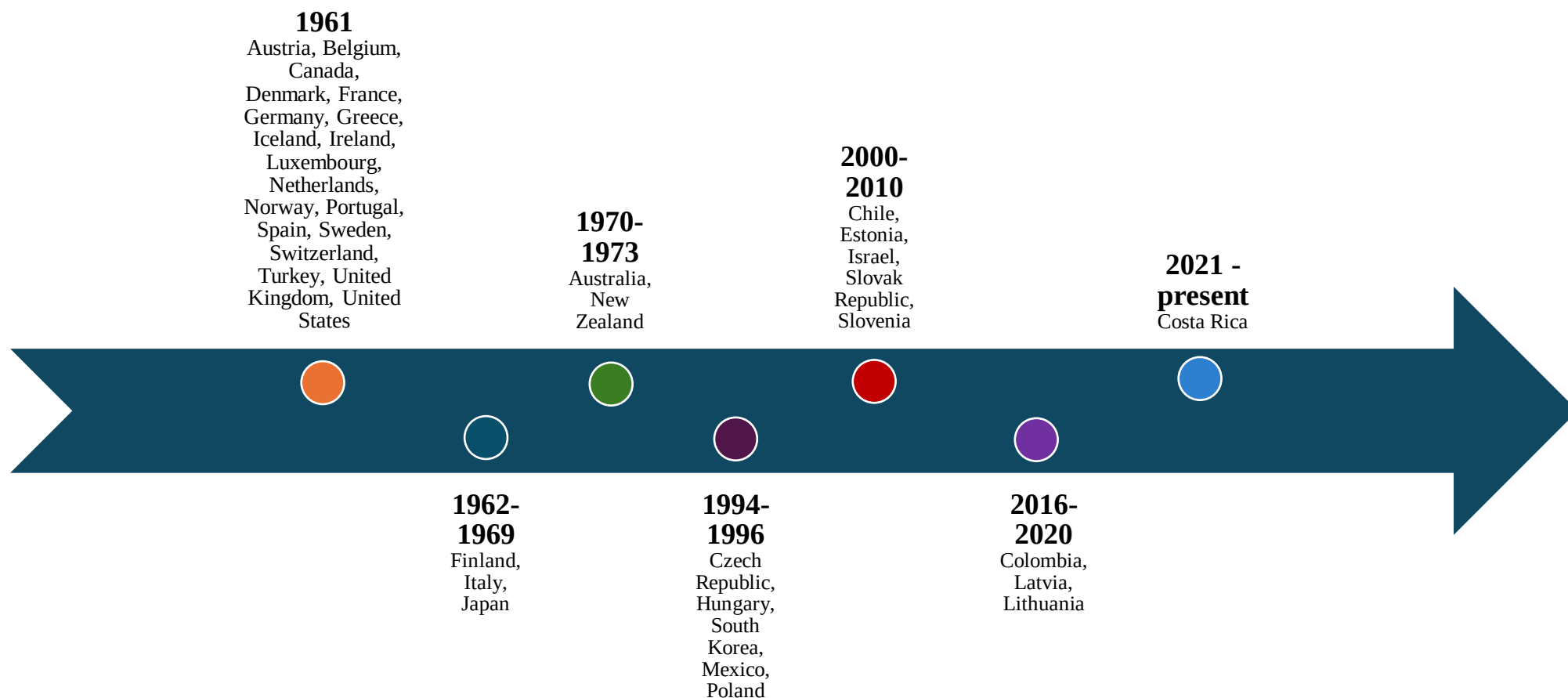
Source: author's analysis using cross-country data from the OECD Global Revenue Statistics Database and the Bank of Indonesia statistics report.

Figure 2.2 Tax-to-GDP ratio



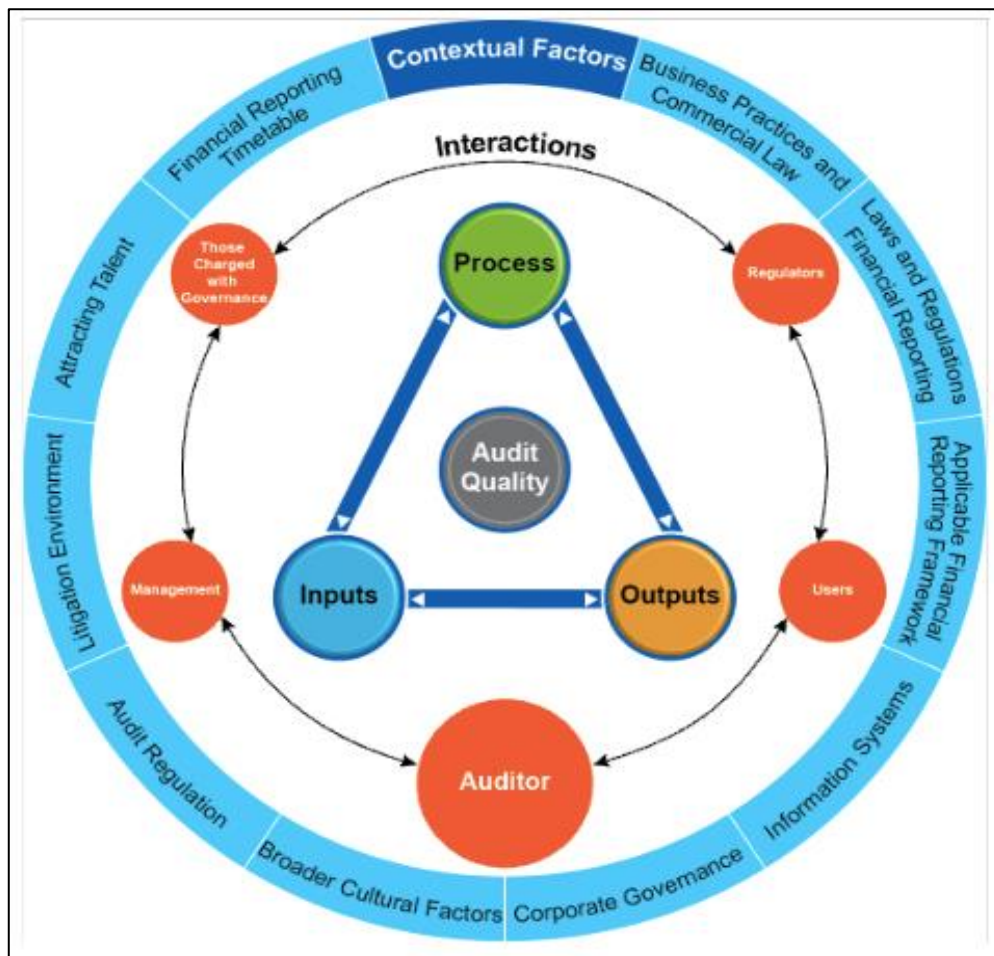
Source: author's analysis using cross-country data from the OECD Global Revenue Statistics Database

Figure 2.3 The OECD membership timeline



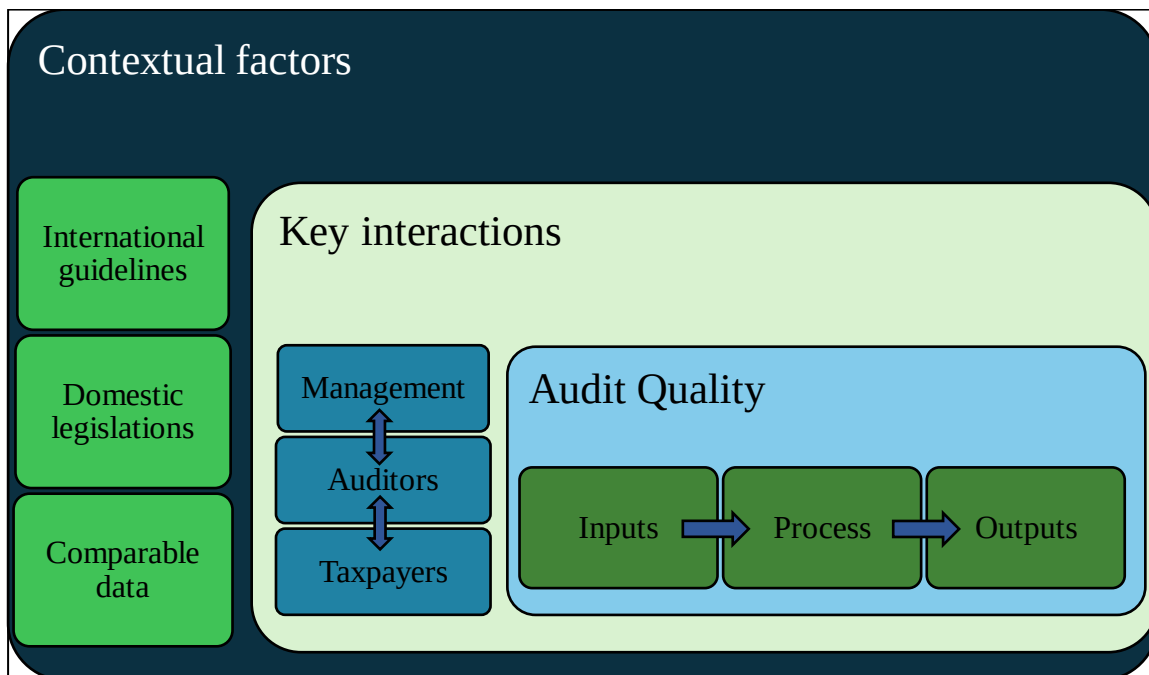
Source: adapted from list of OECD member countries – ratification of the convention on the OECD, <https://www.oecd.org/about/document/ratification-oecd-convention.htm> (last accessed: 25 May 2025).

Figure 2.4 Frameworks on audit quality



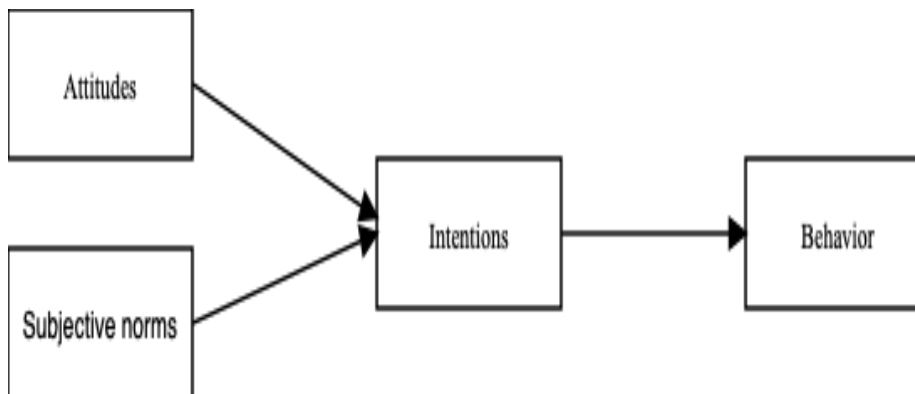
Source: IAASB (2021)

Figure 2.5 Key elements of transfer pricing audit quality



Source: author analysis

Figure 2.6 Path models of TRA



Source: Fishbein and Ajzen (1975); Ajzen and Fishbein (1980)

Figure 2.7 Path model for the Theory of Planned Behaviour (Ajzen 1991)

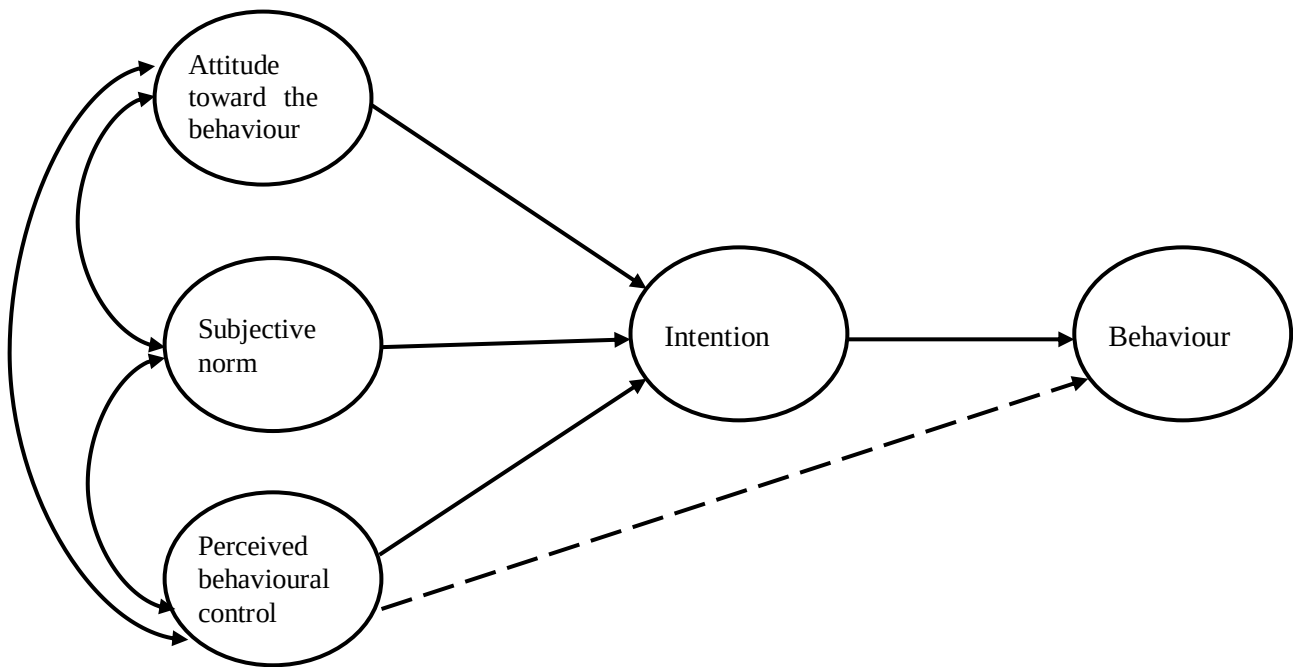
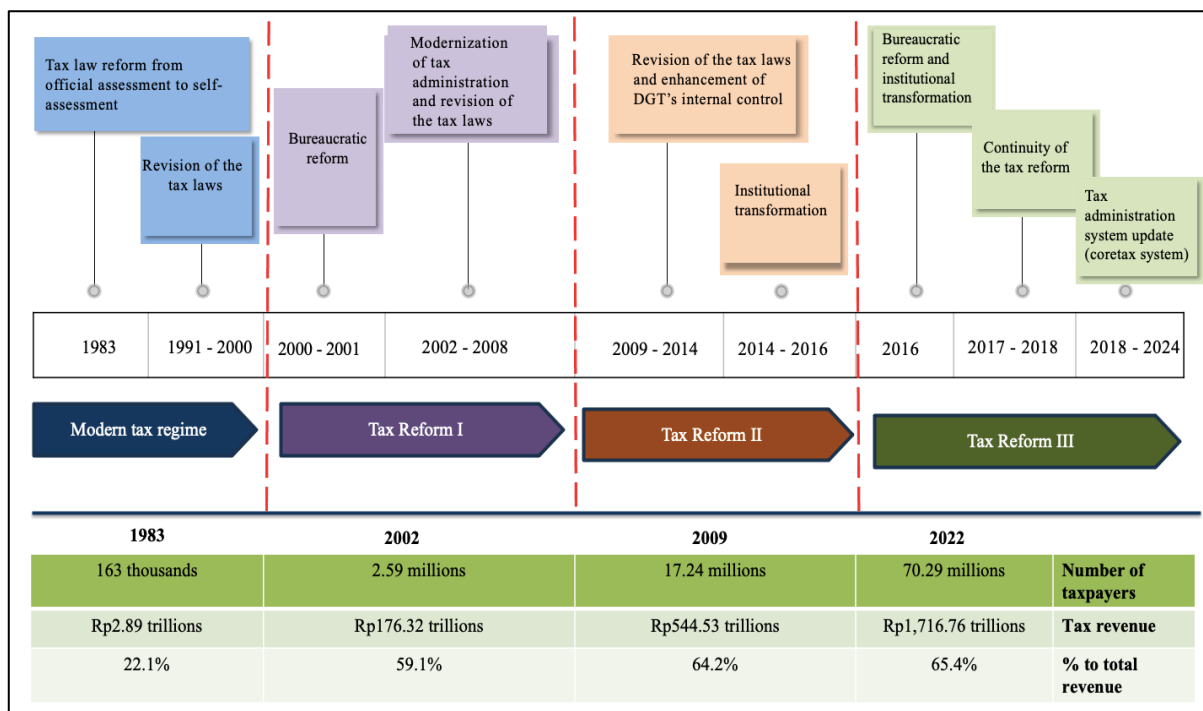
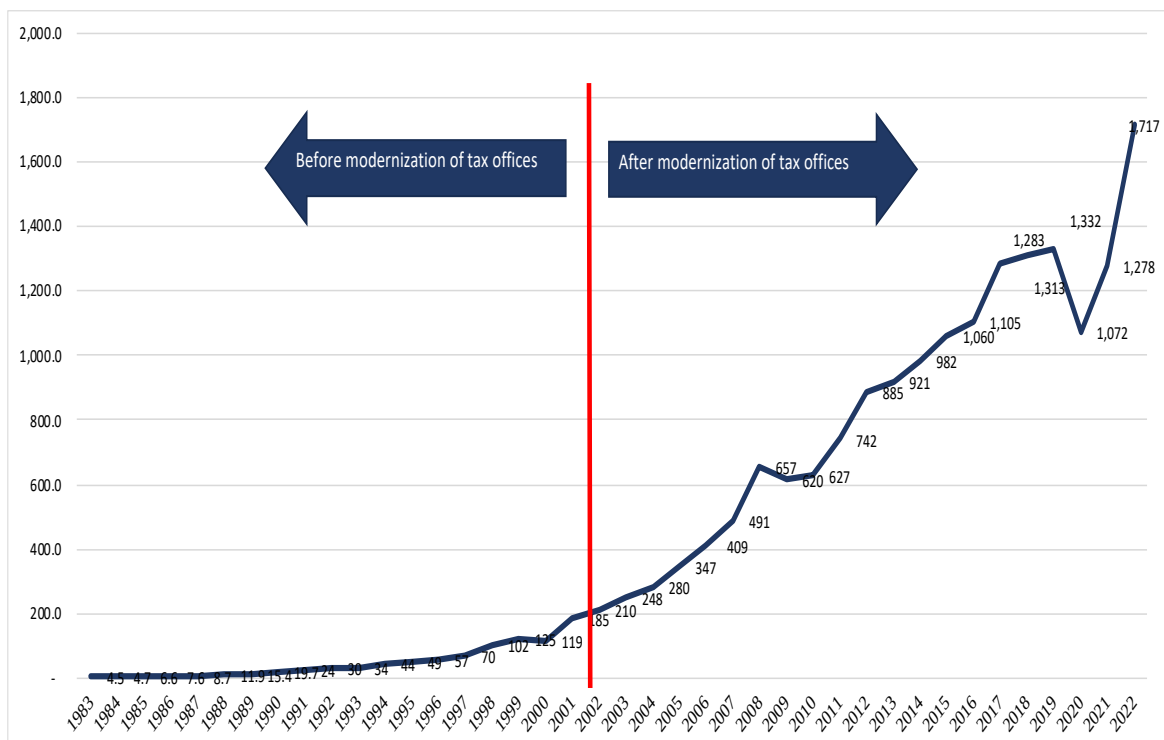


Figure 3.1 Indonesia tax reform roadmap



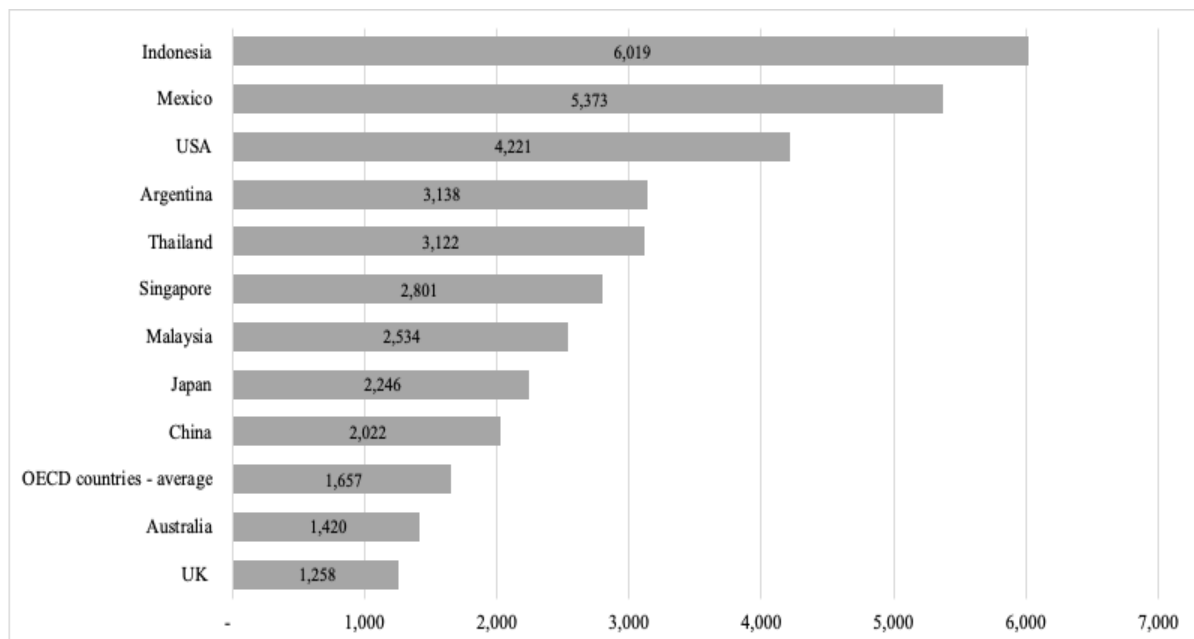
Source: summarized from Sukarno et al. (2023), DGT (2021), and DGT Annual Report 2022

Figure 3. 2 Tax Revenue (in Trillion Indonesian Rupiah)



Source: Ministry of Finance, State Budget Document, DGT Annual Report, DGT Performance Report

Figure 3.3 The ratio of tax officer over total population

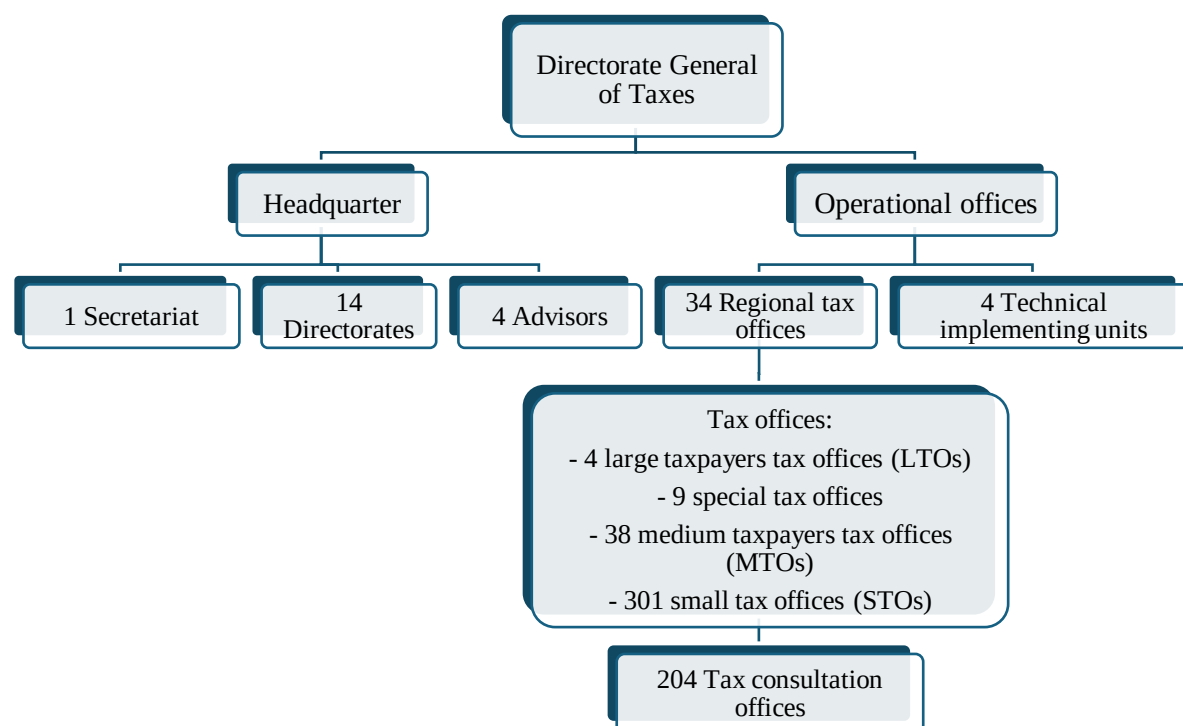


Source: Author's calculation.

Total tax employees can be found in the OECD report(OECD 2023c) and total population is from the World Bank data at

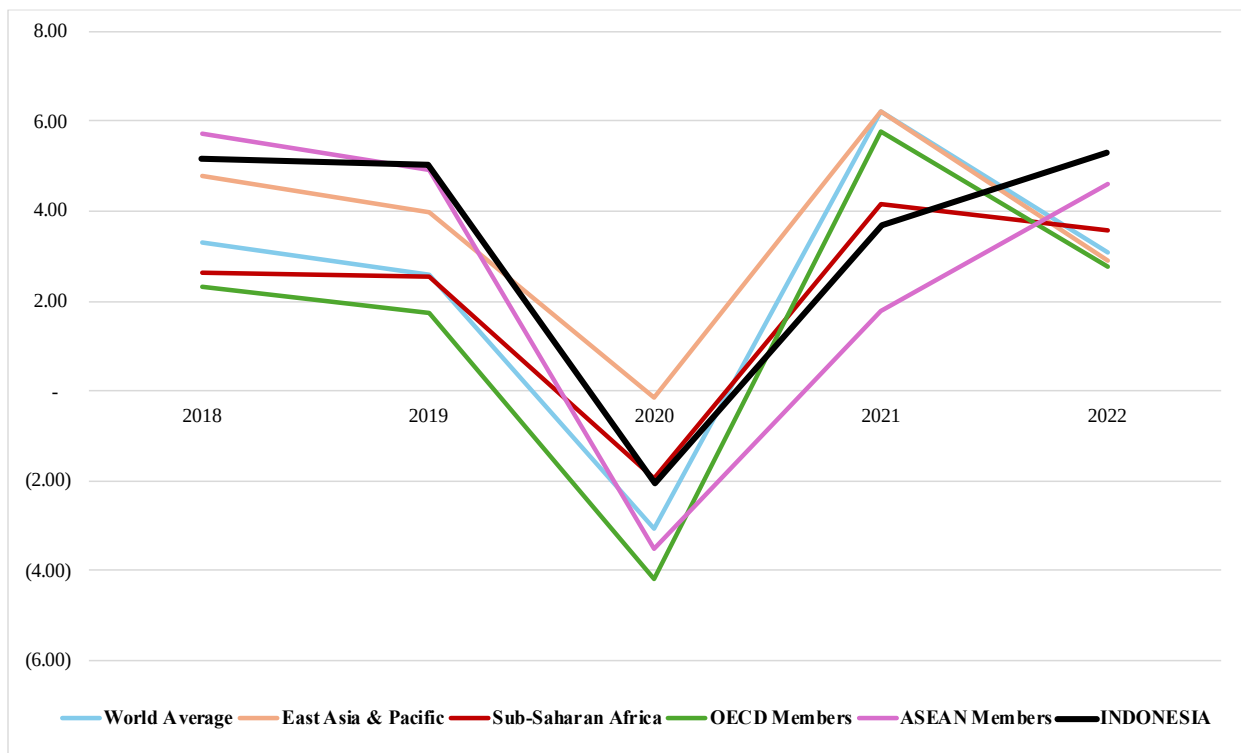
https://data.worldbank.org/indicator/SP.POP.TOTL?most_recent_year_desc=false (last accessed: 25 May 2025). Both data are ended for fiscal year 2021.

Figure 3.4 DGT's organisational structure



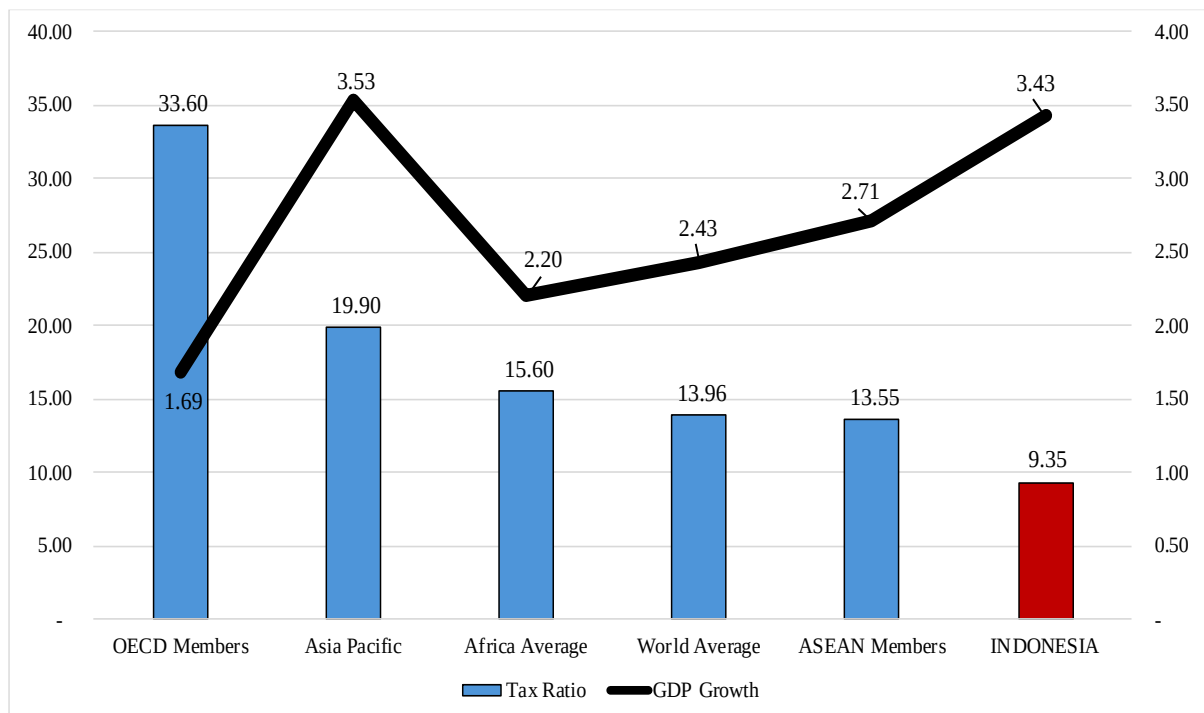
Source: summarised from 2022 DGT Annual Report and 2020-2024 DGT Strategic Planning

Figure 3.5 GDP growth (yearly %)



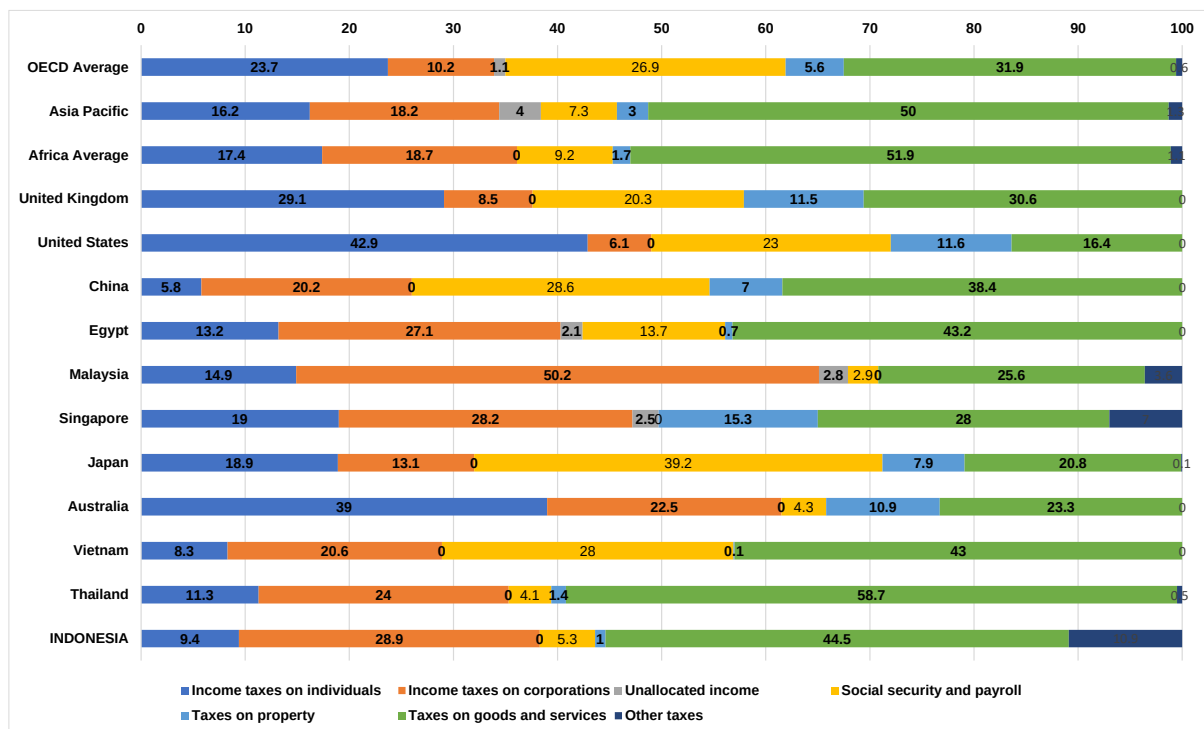
Source: World Development Indicators (World Bank 2022)

Figure 3.6 Tax ratio and GDP growth (five years average, 2018 – 2022)



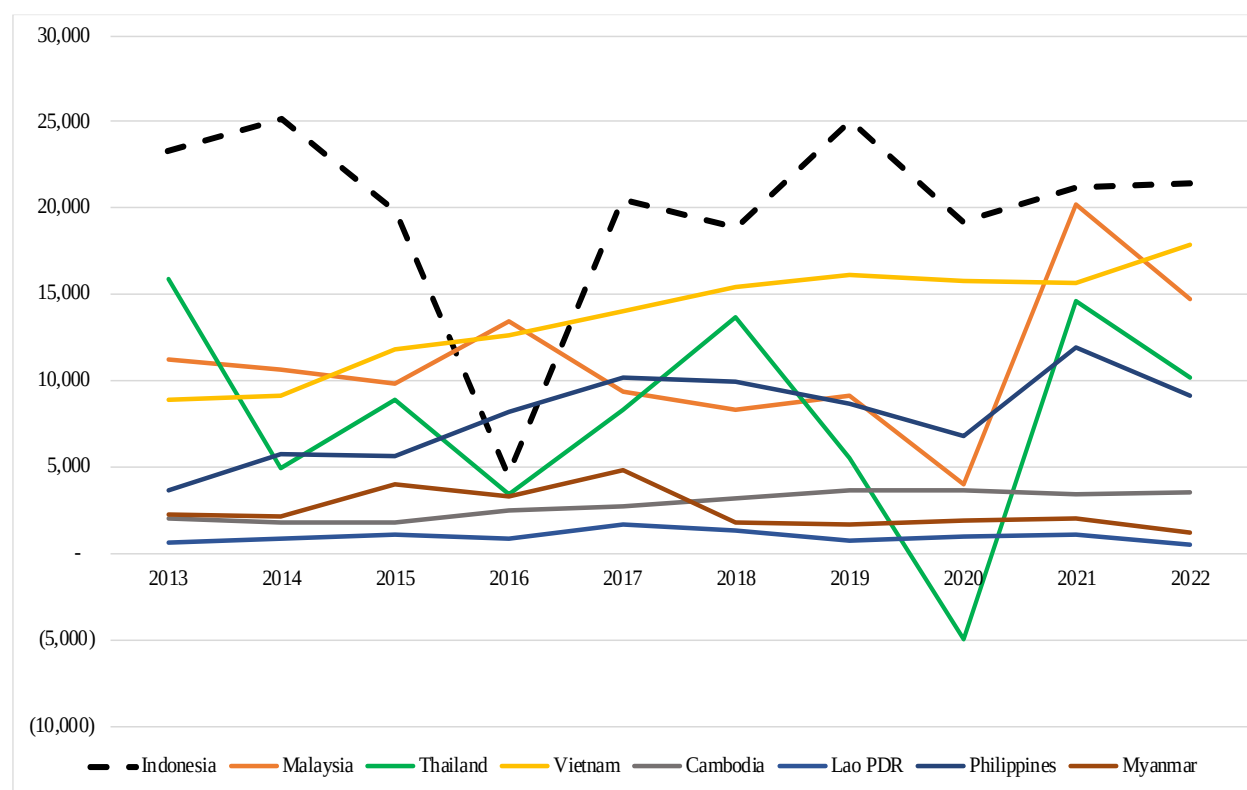
Source: Summarised from World Bank Open Data at <https://data.worldbank.org/>, OECD Data Explorer at <https://data-explorer.oecd.org/>, World Bank (2022) and UNU-WIDER Government Revenue Dataset (2023)

Figure 3.7 tax structures in percentage of total tax revenues



Source: summarised and calculated from OECD Global Revenue Statistics Database and OECD Data Explorer <https://data-explorer.oecd.org/> (last accessed 25 May 2025).

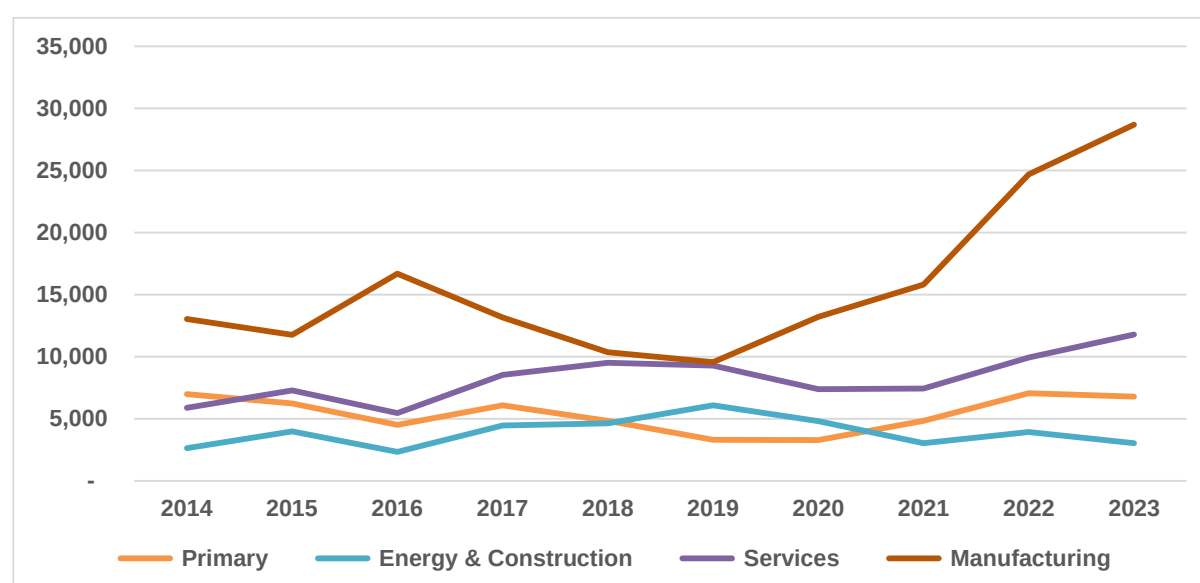
Figure 3.8 FDI net inflows (in million USD)



Source: summarised from World Development Indicators provided by the World Bank <https://data.worldbank.org/indicator/BX.KLT.DINV.CD.WD?end=2022&start=2000> (last accessed 25 May 2025).

Note: Singapore is not counted in the data. The country shares the largest FDI inflows in ASEAN region. Singapore is the leading country in terms of foreign investment inflows with more than 60% of FDI in ASEAN is flowing to the country. Political stability, excellent financial services, low corruption, and low corporate tax rates are the main drivers for so many foreign investments in Singapore which outperforms other ASEAN nations (Dang and Nguyen 2021).

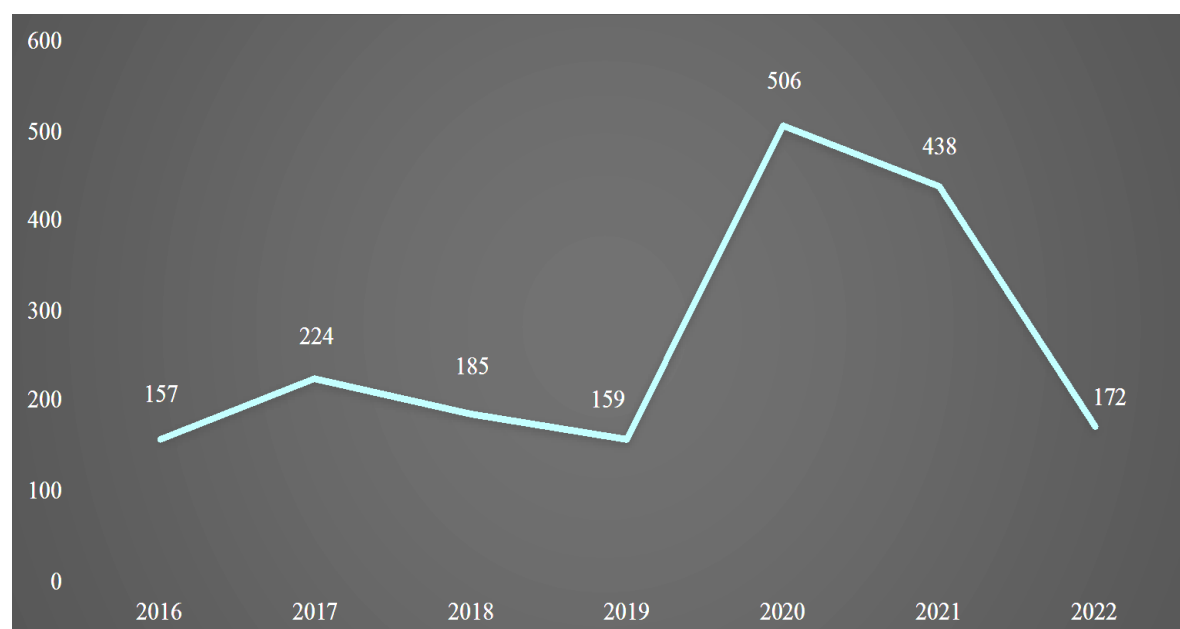
Figure 3.9 FDI inflows 2014 – 2023 based on business categories (in million USD)



Source: elaboration based on BKPM https://nswi.bkpm.go.id/data_statistik (last accessed 25 May 2025).

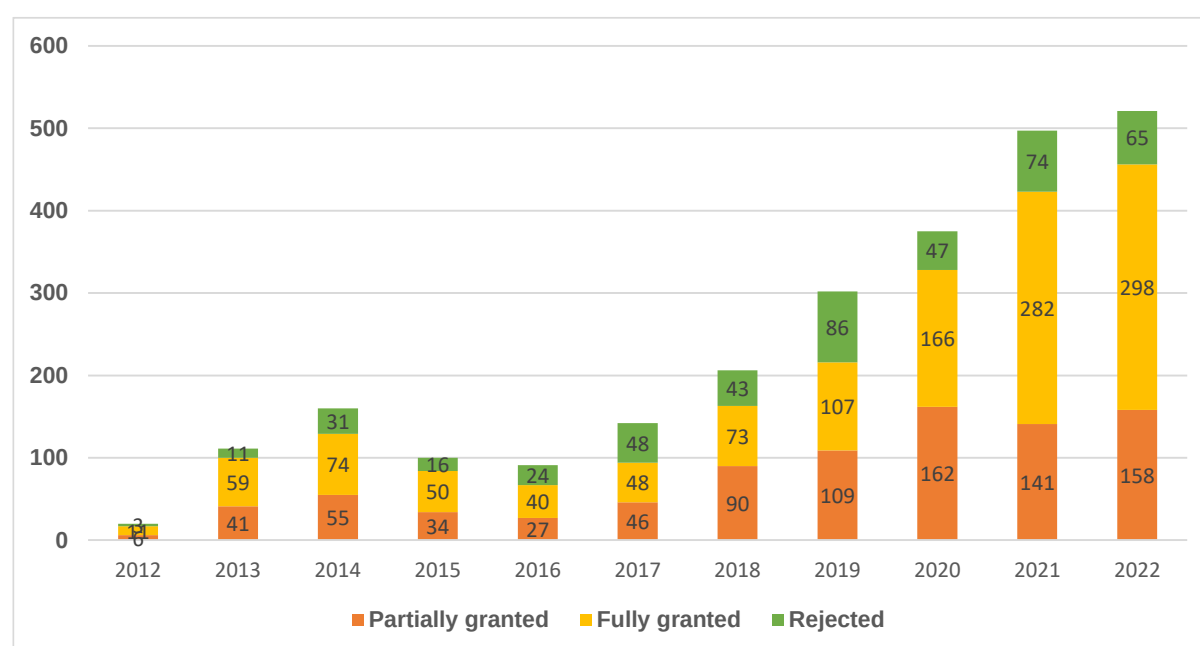
Note: oil and gas sectors, and financial and non-financial services are not within the scope of BKPM, so the trend of primary and services categories may be undervalued.

Figure 3.10 Trend in the number of tax audit instruction letters with transfer pricing adjustment



Source: Directorate of Tax Audit and Collection - DGT

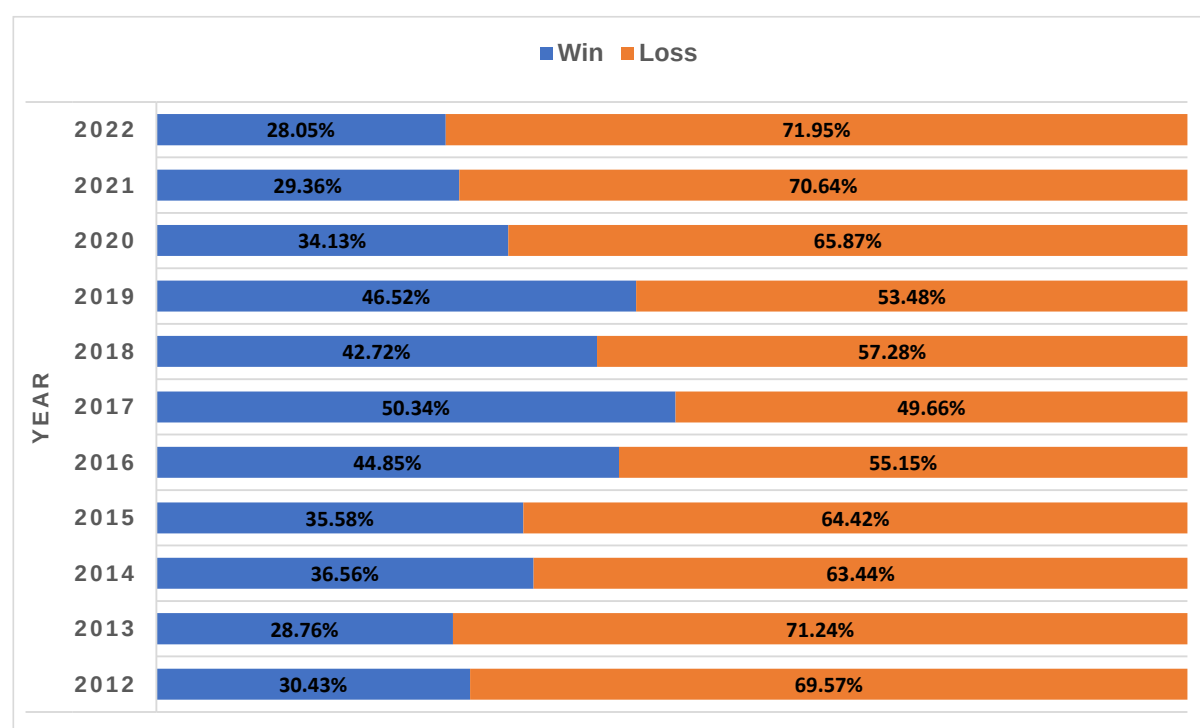
Figure 3.11 Tax court decision on transfer pricing cases



Source: Directorate of Objection and Appeal - DGT

Note: other decisions, such as corrections due to errors in writing and cancelled, are not presented

Figure 3.12 DGT's winning rate on transfer pricing tax disputes



Source: Directorate of Objection and Appeal – DGT

Figure 4.1 Four widely used paradigms

Post-positivism - Empirical observation and measurement - Science research - Theory verification - Mainly uses quantitative method	Constructivism - Individual's subjective meanings - Social and historical construction - Theory generation - Qualitative method
Transformative - Power and justice oriented - Collaborative - Change oriented - Uses both quantitative and qualitative approaches	Pragmatism - Consequences of actions - Problem centered - Real-world practice oriented - Philosophical underpinning for

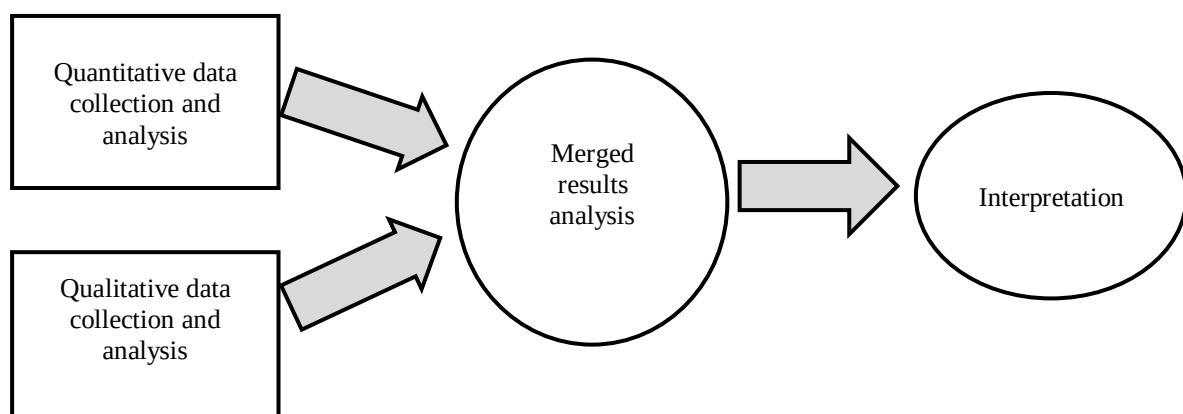
Source: Creswell and Creswell (2022, p.7)

Figure 4.2 Components of a mixed methods research



Source: summarized from Creswell and Creswell (2022, p.230)

Figure 4.3 Convergent mixed methods design



Source: elaborated from Bell et al. (2022) and Creswell and Creswell (2022)

Figure 4.4 Convergent mixed methods diagram

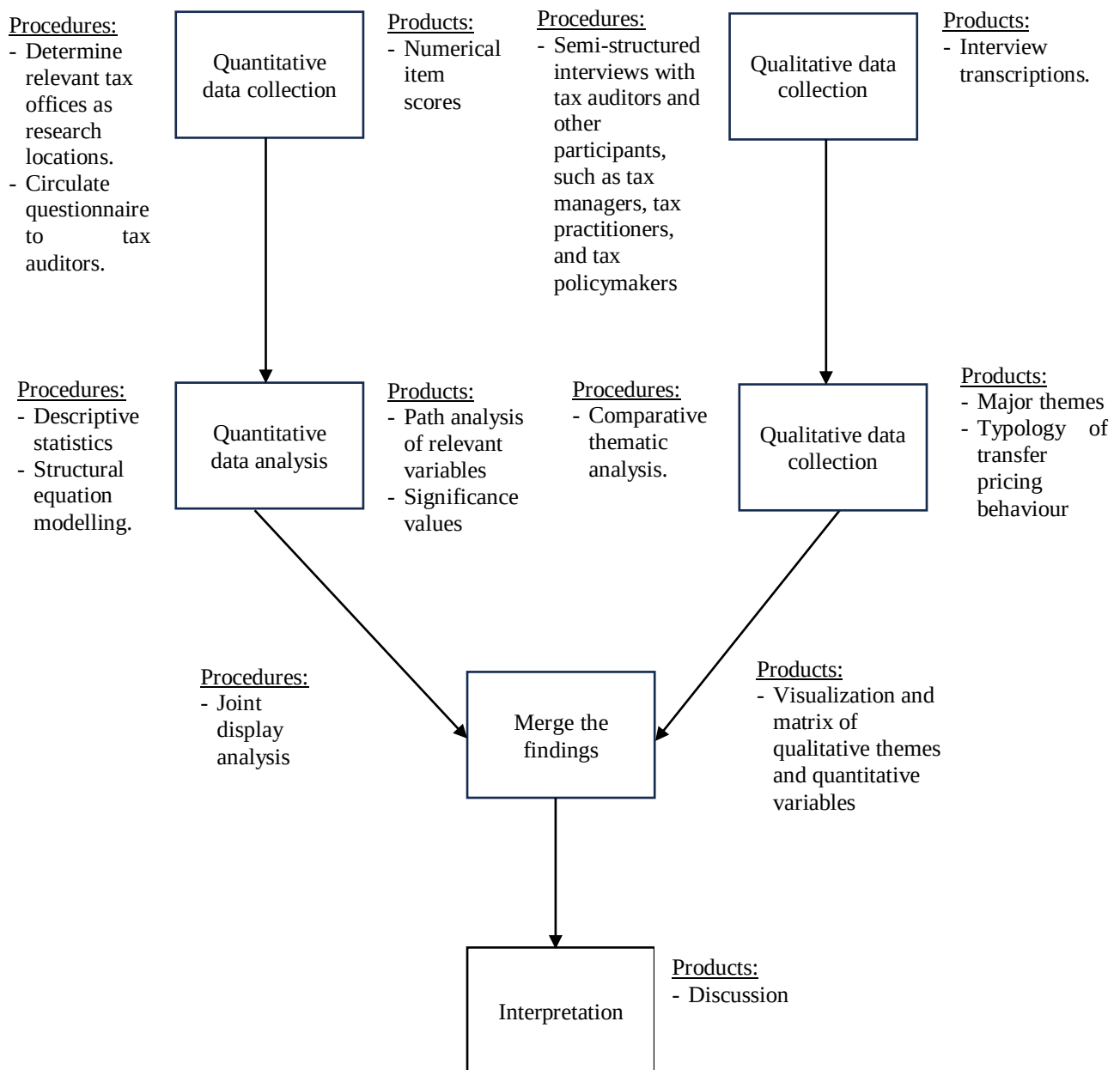


Figure 4.5 Web survey flowchart

fz

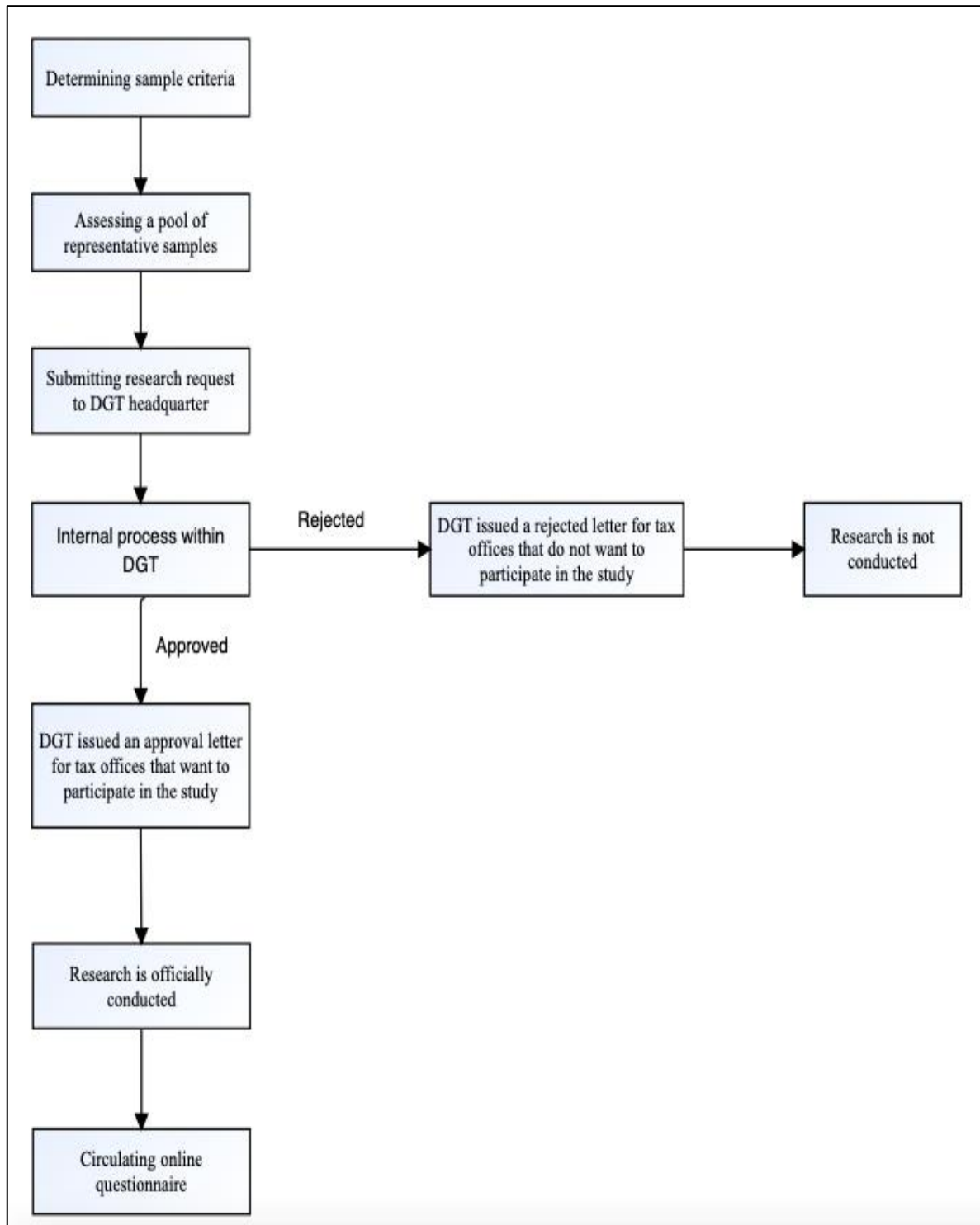
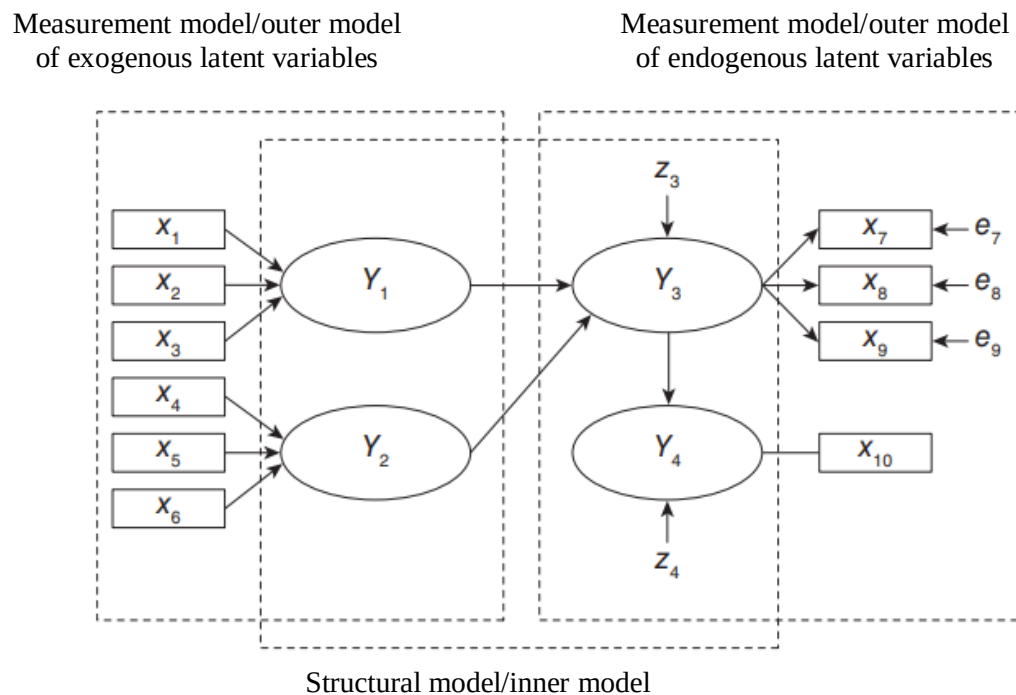
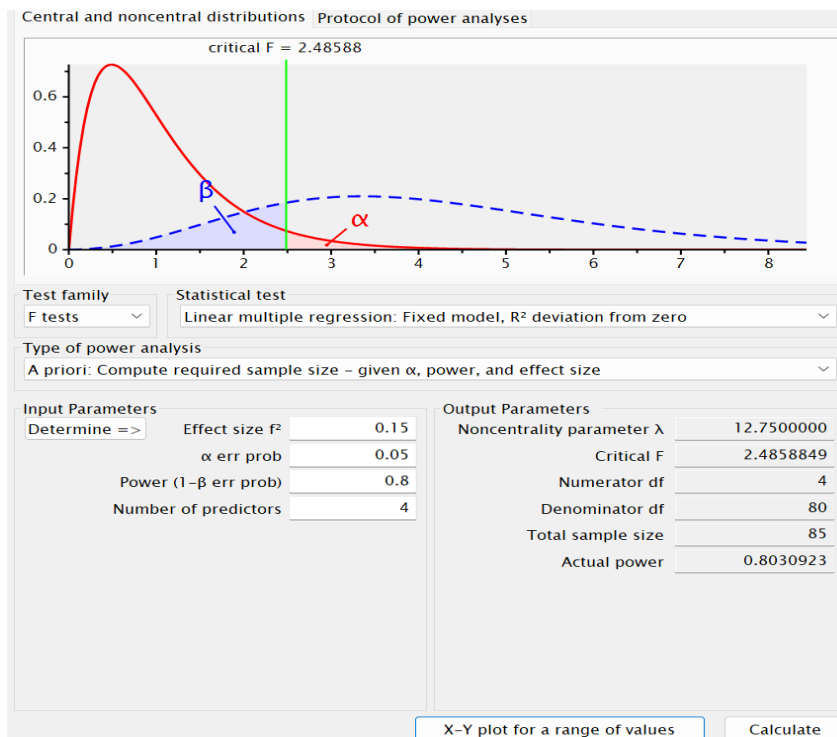


Figure 4.6 A simple path model



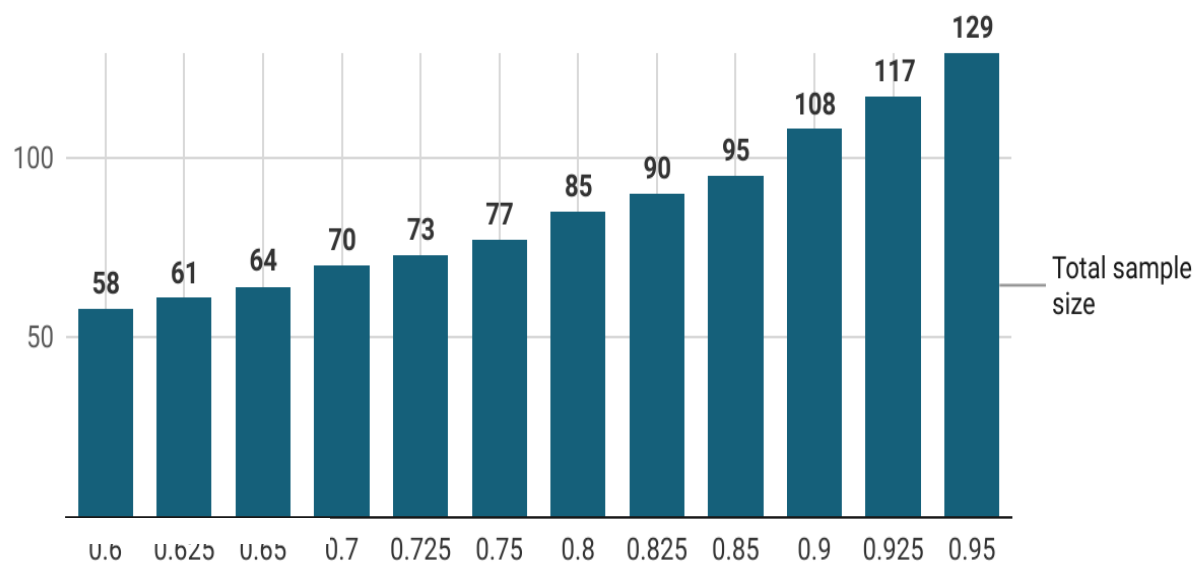
Source: Reproduced from Hair et al. (2022, p.27) with permission from SAGE publishing. Permission was granted by Lu Xu – SAGE Senior Licensing Executive through an email received on 22 May 2024.

Figure 4.7 Sample size calculation using G*Power (screenshot)



Source: output of G*Power (Faul et al. 2007)

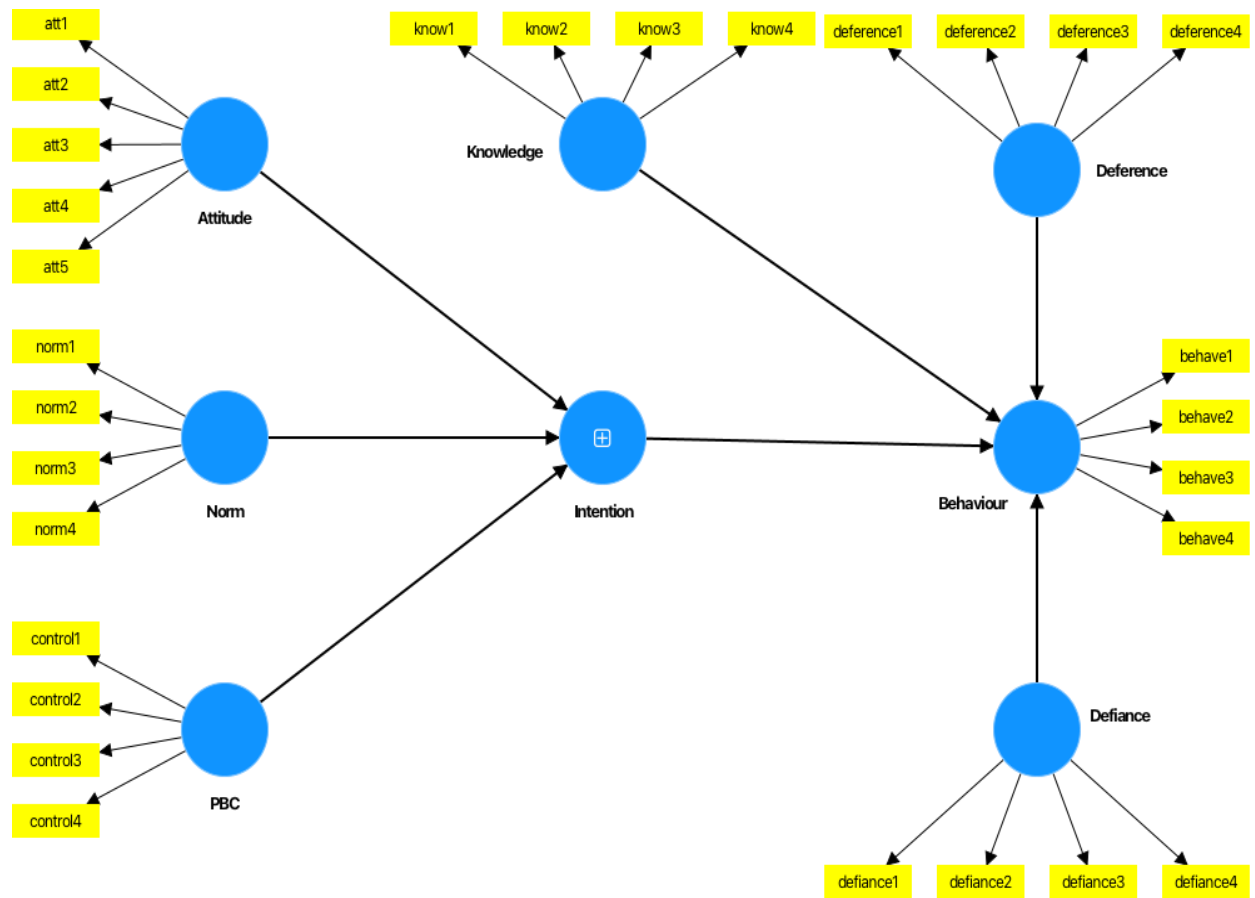
Figure 4.8 Total sample sizes for a range of power values



Created with Datawrapper

Source: calculation using G*Power with different power values

Figure 4.9 Measurement and structural model



Source: SmartPLS 4 (Ringle et al. 2024)

Figure 4.10 Excerpts of interview transcriptions

The figure consists of two screenshots of the NVivo software interface, showing interview transcripts. The interface is divided into a left sidebar with navigation options (Data, Coding, Cases, Notes, Sets, Queries, Visualizations) and a main workspace. The top screenshot shows a list of transcripts on the left, with '02_Transcript Pak Indra Acc' selected. The right pane displays the transcript content, which includes a section titled 'MD:' followed by a paragraph about the quality of transfer pricing audits. The bottom screenshot shows the same interface, but with '01_Transcript Pak Indra Acc' selected. The right pane displays the transcript content, which includes a section titled 'MD:' followed by a paragraph about the motivation for engaging in transfer pricing audits.

Top Screenshot:

Left Pane (Data):

Name	Codes	References	Created on
01_Transcript Pak In...	18	50	25 Sep 2024 at 13:...
02_Transcript Pak Edy	18	46	25 Sep 2024 at 13:...
03_Transcript TA1	23	44	25 Sep 2024 at 13:...
04_Transcript Bang...	6	6	25 Sep 2024 at 13:...
05_Transcript Pak Jo...	7	11	25 Sep 2024 at 13:...
06_Transcript Pak Ji...	17	38	25 Sep 2024 at 13:...
07_Transcript TA7	0	0	25 Sep 2024 at 13:...
08_Transcript Pak A...	11	23	25 Sep 2024 at 13:...
09_Transcript Pak W...	0	0	25 Sep 2024 at 13:...
10_Transcript	2	2	25 Sep 2024 at 13:...
11_Transcript	4	4	25 Sep 2024 at 13:...
12_Transcript TA12	8	13	25 Sep 2024 at 13:...
13_Transcript	6	6	25 Sep 2024 at 13:...
14_Transcript	0	0	25 Sep 2024 at 13:...
15_TranscriptPT	2	2	25 Sep 2024 at 13:...
16_Transcript	7	7	25 Sep 2024 at 13:...
17_Transcript	0	0	25 Sep 2024 at 13:...
18_Transcript	4	4	25 Sep 2024 at 13:...
19_Transcript	0	0	25 Sep 2024 at 13:...
20_Transcript	0	0	25 Sep 2024 at 13:...
21_Transcript	0	0	25 Sep 2024 at 13:...
22_Transcript	0	0	25 Sep 2024 at 13:...
23_Transcript	0	0	25 Sep 2024 at 13:...
24_Transcript	0	0	25 Sep 2024 at 13:...
25_Transcript	2	2	25 Sep 2024 at 13:...
26_Transcript	0	0	25 Sep 2024 at 13:...
27_Transcript	0	0	25 Sep 2024 at 13:...
28_Transcript	4	4	25 Sep 2024 at 13:...
29_Transcript	3	4	25 Sep 2024 at 13:...
30_Transcript	6	6	25 Sep 2024 at 13:...
31_TP1_Transcript P...	3	3	25 Sep 2024 at 13:...
32_TP2_ERLINA tra...	8	11	25 Sep 2024 at 13:...
33_TP3_Transcript b...	4	5	25 Sep 2024 at 13:...
34_TP4_Transcript b...	3	3	25 Sep 2024 at 13:...
35_TP5_Transcript B...	0	0	25 Sep 2024 at 13:...
36_TP6_Transcript...	2	2	25 Sep 2024 at 13:...
37_TP7_Transcript P...	5	5	25 Sep 2024 at 13:...
38_TP8_Transcript	0	0	25 Sep 2024 at 13:...

Right Pane (02_Transcript Pak Indra Acc):

MD:
 Apa aspek yang dapat ditingkatkan agar kualitas pemeriksaan transfer pricing dapat meningkat? Apakah kemampuan pemeriksanya harus ditingkatkan atau seperti apa? *What aspects can be improved to result in a better quality of transfer pricing audits? should tax auditor's knowledge and skill be increased? Or any other idea?*

TA-2:
 Wah ini pertanyaan nya cukup menarik ini karena skor kita di pengadilan pajak juga imbang begitu. Yang pertama tentu biasanya kita minta orang yang meriksa TP harus sudah punya pengetahuan dan pengalaman terlepas sedalam apa gitu yah. Biasanya yang selalu jadi dispute di kita adalah pemahaman proses bisnis wajib pajak karena transfer pricing kan facts and circumstances nya kan harus jelas yah. Menggali fakta dan lingkungan industry kan butuh waktu dan butuh iktiran yang makro gitu yah. Saya sih melihat kemauan pemeriksa untuk masuk ke dalam proses bisnis ini harus kuat gitu sehingga bisa mendefinisikan karakteristik wajib pajak dengan pas, ini perusahaan manufacturing atau industry atau sekedar jasa. Jadi kalau misalnya ada pemeriksa yang tidak telaten nah itu biasanya koreksinya akan gampang dipatahkan. Baru setelah itu analisis atas transaksi nya, analisis aset, fungsi dan risiko dari wajib pajak tadi.

Well, this is a quite interesting question because our success score in tax tribunal is equal with taxpayer. The first thing is human capacity, which means that we should ask experienced and knowledgeable tax auditor who will conduct transfer pricing audit. Usually, the common reason for tax dispute is the understanding of taxpayer's business process. Tax auditor should state precise facts and circumstances around taxpayer's business. as such, exploring industry characteristics and facts around them are critical and, sometimes, time consuming. Tax auditor's intention to do this step needs to be strong enough to better capture the definition of taxpayer's characteristics whether it is a manufacturing company, industry, or services. so, if the tax auditor is not exploring well around this issue, the audit correction will easily be challenged by taxpayer. The next step is conducting thorough FAR analysis in terms of taxpayer's asset, function, and risk.

MD:
 Menurut Pak Indra, apa sih tantangan tersulit dalam mengerjakan pemeriksaan transfer pricing? *What is the most difficult challenge in conducting transfer pricing audits?*

TA-2:
 Proses memahami facts and circumstances itu menurut saya. Selanjutnya data pembanding karena itu terkait. Kalau dia salah menganalisa, salah menentukan karakteristik wajib pajak tadi maka dia akan salah memilih data pembanding. Kalau data pembandingnya salah yaudah kita rontok itu koreksinya.

In my opinion, as I said before, understanding taxpayer's business with all facts and circumstances around it. Next is choosing the right comparable companies. These two are correlated because if we identify wrong taxpayer's characteristics then we would choose the

Bottom Screenshot:

Left Pane (Data):

Name	Codes	References	Created on
01_Transcript Pak In...	18	50	25 Sep 2024 at 13:...
02_Transcript Pak Edy	18	46	25 Sep 2024 at 13:...
03_Transcript TA1	23	44	25 Sep 2024 at 13:...
04_Transcript Bang...	6	6	25 Sep 2024 at 13:...
05_Transcript Pak Jo...	7	11	25 Sep 2024 at 13:...
06_Transcript Pak Ji...	17	38	25 Sep 2024 at 13:...
07_Transcript TA7	0	0	25 Sep 2024 at 13:...
08_Transcript Pak A...	11	23	25 Sep 2024 at 13:...
09_Transcript Pak W...	0	0	25 Sep 2024 at 13:...
10_Transcript	2	2	25 Sep 2024 at 13:...
11_Transcript	4	4	25 Sep 2024 at 13:...
12_Transcript TA12	8	13	25 Sep 2024 at 13:...
13_Transcript	6	6	25 Sep 2024 at 13:...
14_Transcript	0	0	25 Sep 2024 at 13:...
15_TranscriptPT	2	2	25 Sep 2024 at 13:...
16_Transcript	7	7	25 Sep 2024 at 13:...
17_Transcript	0	0	25 Sep 2024 at 13:...
18_Transcript	4	4	25 Sep 2024 at 13:...
19_Transcript	0	0	25 Sep 2024 at 13:...
20_Transcript	0	0	25 Sep 2024 at 13:...
21_Transcript	0	0	25 Sep 2024 at 13:...
22_Transcript	0	0	25 Sep 2024 at 13:...
23_Transcript	0	0	25 Sep 2024 at 13:...
24_Transcript	0	0	25 Sep 2024 at 13:...
25_Transcript	2	2	25 Sep 2024 at 13:...
26_Transcript	0	0	25 Sep 2024 at 13:...
27_Transcript	0	0	25 Sep 2024 at 13:...
28_Transcript	4	4	25 Sep 2024 at 13:...
29_Transcript	3	4	25 Sep 2024 at 13:...
30_Transcript	6	6	25 Sep 2024 at 13:...
31_TP1_Transcript P...	3	3	25 Sep 2024 at 13:...
32_TP2_ERLINA tra...	8	11	25 Sep 2024 at 13:...
33_TP3_Transcript b...	4	5	25 Sep 2024 at 13:...
34_TP4_Transcript b...	3	3	25 Sep 2024 at 13:...
35_TP5_Transcript B...	0	0	25 Sep 2024 at 13:...
36_TP6_Transcript...	2	2	25 Sep 2024 at 13:...
37_TP7_Transcript P...	5	5	25 Sep 2024 at 13:...
38_TP8_Transcript	0	0	25 Sep 2024 at 13:...

Right Pane (01_Transcript Pak Indra Acc):

MD:
 Apa yang memotivasi Pak Indra untuk melakukan pemeriksaan transfer pricing? *What motivates you to engage in transfer pricing audits?*

TA-2:
 Okey. Yang pertama saya terus terang akan melihat SDM nya dulu, kalau SDM nya ada otomatis akan bisa kita selesaikan. Yang kedua saya akan melihat sejauh mana keterbukaan wajib pajak mengungkap transaksi hubungan istimewa. Saya kan akan dapat tuh laporan keuangan audited, SPT beserta lampiran 3A/3B untuk transaksi hubungan istimewa atau tidak karena kadang di laporan audited dia mengungkapkan ada transaksi hubungan istimewa ternyata di SPT tidak ada. Hal ini terkait perbedaan pengakuan hubungan istimewa secara accounting dan pajak. Lalu kita akan melihat resiko wajib pajak tersebut, apabila resiko nya tinggi misalkan perusahaan rugi terus tetapi masih tetap eksis itu pasti kita periksa TP nya. Walaupun mungkin kita periksa tetapi tidak dalam.

Right. To be fair, the first thing I will consider is human resource factor. If there is a knowledgeable tax auditor on transfer pricing issue who can deal with transfer pricing audit, then it is likely I will conduct this audit. Second is taxpayers' openness to disclose affiliated transactions on their audited financial statement and annual tax return with its appendices. This step is critical because different treatment of accounting and tax on affiliated transaction leads to certain risk around transfer pricing.

MD:
 Apa pendapat Pak Indra mengenai alokasi FPP yang ada di DJP untuk melakukan pemeriksaan transfer pricing? Apakah cukup atau tidak cukup SDM untuk melakukan pemeriksaan tersebut? Mengapa? *What is your view on staff resources available in DGT for TP audits? Sufficient or insufficient, why?*

TA-2:
 Kebetulan background saya itu tidak pernah di pratama. Saya hanya di Madya, khusus dan Ito sehingga di kantor seperti itu kemungkinan adanya transaksi hubungan istimewa kan besar. Untuk typical kantor seperti itu bisa dipastikan setiap kantor punya SDM yang dapat meriksa TP. Misalnya ada 20 sampai 30 pemeriksa, yang punya kapasitas meriksa TP mungkin bisa setengahnya walaupun yang melakukan pemeriksaan TP mungkin lebih sedikit dari itu. Tapi hamper di setiap kantor ada untuk madya, khusus, dan Ito. Untuk pratama saya belum punya pengalaman.

I have never been assigned in small tax office because I have been working as tax auditor only in medium, special, and large tax offices. In these offices, there is a high chance of intragroup transactions among multinational members. As such, these offices have dedicated tax auditor to conduct transfer pricing audit. For example, among 20 or 30 tax auditors half of them may have experience with transfer pricing. For small tax office I do not have any experience.

Figure 4.11 Examples of merged codes

The figure displays two screenshots of the NVivo 14 software interface, showing merged codes in a list view. The interface includes a sidebar with navigation options (Data, Coding, Cases, Notes, Sets, Queries, Visualizations) and a main table with columns: Name, Files, References, Created on, and Created by.

Top Screenshot:

Name	Files	References	Created on	Created by
☐ The needs to level-up tax official's knowledge	5	5	8 Oct 2024 at 11:29	MD
☒ More settlement, less litigation	8	9	8 Oct 2024 at 22:14	MD
☐ systematised workflow of transfer pricing issue	3	3	27 Sep 2024 at 09:...	MD
☐ The needs for amendment for TP regulation	2	2	8 Oct 2024 at 10:10	MD
☐ The needs for fair treatment and regulation	2	2	8 Oct 2024 at 12:04	MD
☐ The needs for TP risk analysis	1	1	8 Oct 2024 at 21:02	MD
☐ Unregulated BEPS action plan	1	1	28 Sep 2024 at 08:...	MD
☒ Multinationals should be audit ready	12	18	28 Sep 2024 at 08:...	MD
☐ MNEs are resourceful entities	11	12	27 Sep 2024 at 09:...	MD
☐ Perceived TP risks across industries	2	2	28 Sep 2024 at 08:...	MD
☐ The importance of localisation	2	2	27 Sep 2024 at 08:...	MD
☒ The needs for simplification measure	7	13	12 Oct 2024 at 21:52	MD
☐ The need for safe harbour rule	3	5	28 Sep 2024 at 08:...	MD
☐ The needs for guidelines support	2	2	28 Sep 2024 at 08:...	MD
☐ The use of the OECD TP guidelines	4	6	27 Sep 2024 at 09:...	MD
☒ The spectrum of intention	18	54	Today, 23:04	MD
☒ Conditional intention	13	32	8 Oct 2024 at 22:06	MD
☐ Being enforced	6	8	11 Oct 2024 at 20:49	MD
☐ External forces on TP audit	6	8	1 Oct 2024 at 09:57	MD
☐ Forced TP correction	1	1	8 Oct 2024 at 19:52	MD
☐ Formal assignment	1	3	27 Sep 2024 at 09:...	MD
☐ Intention by regulation	3	5	1 Oct 2024 at 13:04	MD
☐ Intention by transaction	4	4	4 Oct 2024 at 16:57	MD
☐ Supervisor role	3	3	28 Sep 2024 at 08:...	MD
☒ Different roles, different drivers	6	8	Today, 23:08	MD
☐ Audit focus	2	3	27 Sep 2024 at 09:...	MD
☐ Intention by experience	1	1	6 Oct 2024 at 08:17	MD
☐ Intention by self recognition	1	1	5 Oct 2024 at 21:55	MD

Bottom Screenshot:

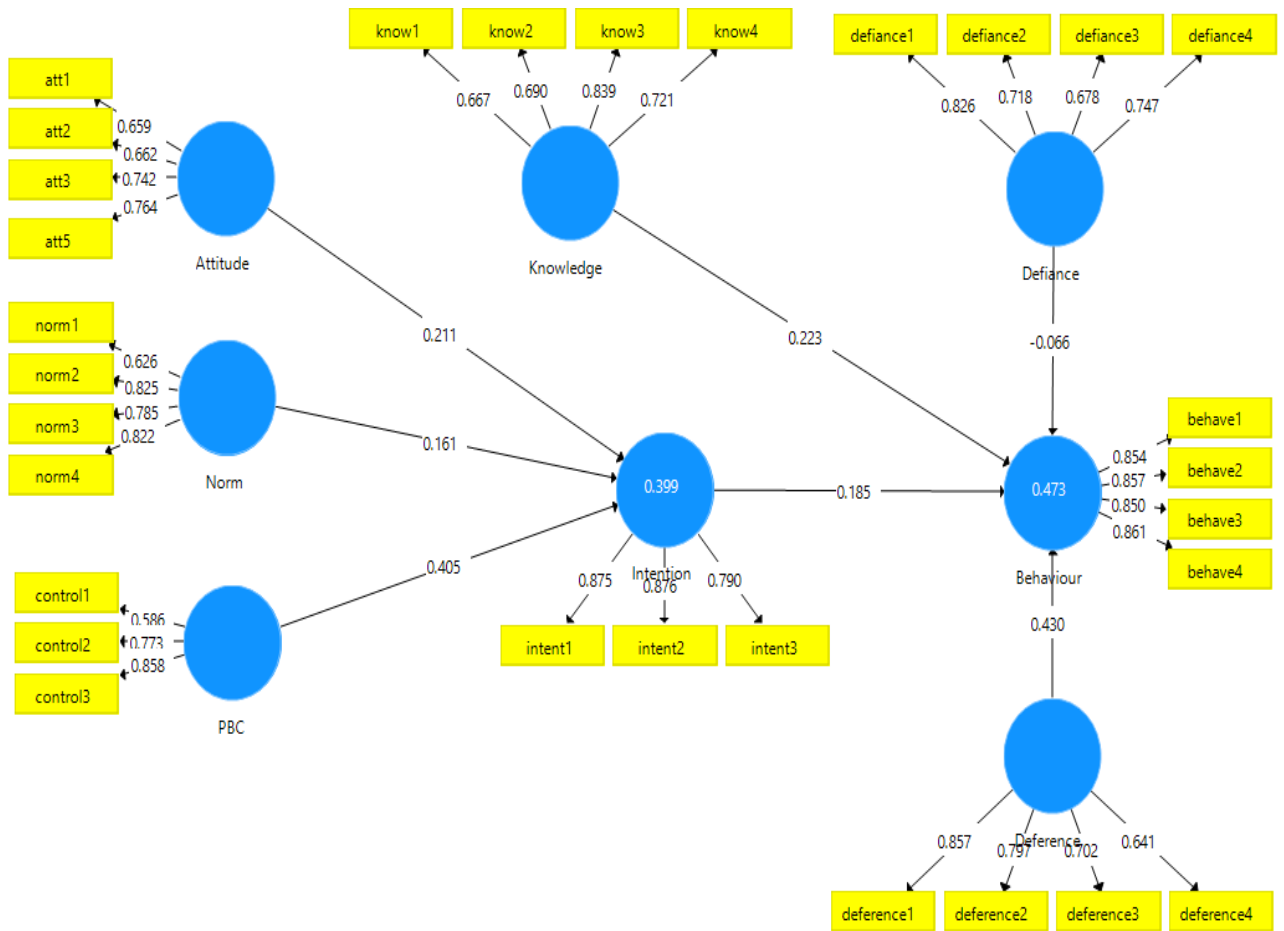
Name	Files	References	Created on	Created by
☒ An audit with many challenges	7	14	12 Oct 2024 at 21:24	MD
☐ Being TP specialist is not my call	1	1	12 Oct 2024 at 20:12	MD
☐ Difficulty in TP audit	2	3	4 Oct 2024 at 20:59	MD
☐ Limited knowledge	1	1	11 Oct 2024 at 20:35	MD
☐ Lose the battle	1	1	11 Oct 2024 at 20:36	MD
☐ Reward mechanism	1	2	1 Oct 2024 at 12:57	MD
☐ TP audit is complicated	1	1	12 Oct 2024 at 20:13	MD
☐ TP audit is time-consuming	2	3	11 Oct 2024 at 20:35	MD
☐ Transfer pricing is negotiation	1	1	8 Oct 2024 at 20:38	MD
☐ Uncooperative taxpayer	1	1	11 Oct 2024 at 20:49	MD
☒ Dualism of the tax advisers	15	58	8 Oct 2024 at 22:19	MD
☒ Professionalism versus institutional attachment	4	18	27 Sep 2024 at 09:...	MD
☐ Alignment between domestic regulations a...	4	9	27 Sep 2024 at 09:...	MD
☐ Dedicated tax auditors to handle TP	2	3	27 Sep 2024 at 09:...	MD
☐ The importance of non-technical support	1	4	11 Oct 2024 at 08:22	MD
☒ The mediator versus the defender	14	40	27 Sep 2024 at 09:...	MD
☐ Knowledge gap	2	3	27 Sep 2024 at 09:...	MD
☐ knowledgeable tax auditor	5	7	27 Sep 2024 at 08:...	MD
☐ Technical support by DGT	11	23	27 Sep 2024 at 09:...	MD
☐ The importance of domestic TP regulation	3	6	27 Sep 2024 at 09:...	MD
☒ Issues around TP	9	10	8 Oct 2024 at 22:28	MD
☐ Incompetent auditor	2	2	8 Oct 2024 at 09:17	MD
☐ Insufficient allocation of tax auditor on TP	1	1	28 Sep 2024 at 08:...	MD
☒ Revenue target for auditor	1	1	4 Oct 2024 at 07:56	MD
☐ Tax audit revenue target	1	1	8 Oct 2024 at 20:25	MD
☐ The issue on tax revenue target	1	1	8 Oct 2024 at 20:45	MD
☐ The needs for cooperation and synergy	1	1	8 Oct 2024 at 12:00	MD
☐ The needs to level-up tax official's knowledge	5	5	8 Oct 2024 at 11:29	MD

Figure 4.12 Final themes

The screenshot shows the NVivo software interface with the 'PhD.nvpx (Edited)' project. The left sidebar contains navigation options: IMPORT (Data, Files, File Classifications, Externals), ORGANIZE (Coding, Codes, Cases, Notes, Sets), and EXPLORE (Queries, Visualizations). The top toolbar includes Clipboard, Item, Organize, Visualize, Code, Autocode, Uncode, Code In Vivo, and Spread C. The main table displays a list of themes with columns for Name, Files, References, Created on, and Created...

Name	Files	References	Created on	Created...
> ☐ An audit with many challenges	7	14	12 Oct 2024 at 21:24	MD
✓ ☐ Dualism of the tax advisers	15	58	8 Oct 2024 at 22:19	MD
> ☐ Professionalism versus institutional attachment	4	18	27 Sep 2024 at 09:...	MD
> ☐ The mediator versus the defender	14	40	27 Sep 2024 at 09:...	MD
> ☐ Increased coordination and dissemination	9	10	8 Oct 2024 at 22:28	MD
> ☐ More settlement, less litigation	8	9	8 Oct 2024 at 22:14	MD
✓ ☐ Multinationals should be audit ready	12	18	28 Sep 2024 at 08:...	MD
☐ MNEs are resourceful entities	11	12	27 Sep 2024 at 09:...	MD
☐ Perceived TP risks across industries	2	2	28 Sep 2024 at 08:...	MD
> ☐ The importance of localisation	2	2	27 Sep 2024 at 08:...	MD
> ☐ The needs for simplification measure	7	13	12 Oct 2024 at 21:52	MD
✓ ☐ The spectrum of intention	18	54	Yesterday, 23:04	MD
> ☐ Conditional intention	13	32	8 Oct 2024 at 22:06	MD
> ☐ Different roles, different drivers	6	8	Yesterday, 23:08	MD
> ☐ Unconditional intention	8	14	8 Oct 2024 at 22:09	MD

Figure 5.1 Summarised path model of the tax auditors' transfer pricing audit behaviours

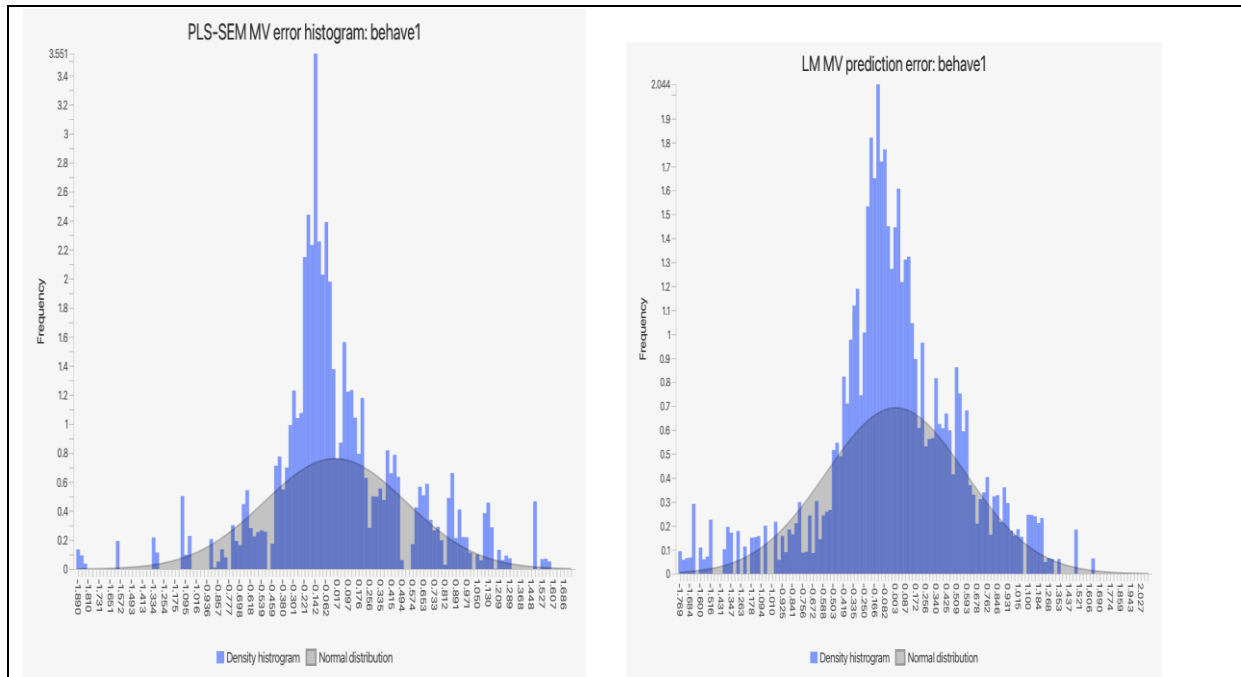


Source: calculation of survey data using SmartPLS 4 (Ringle et al. 2024)

Figure 5.2 Residual plot of behave1

PLS-SEM

LM

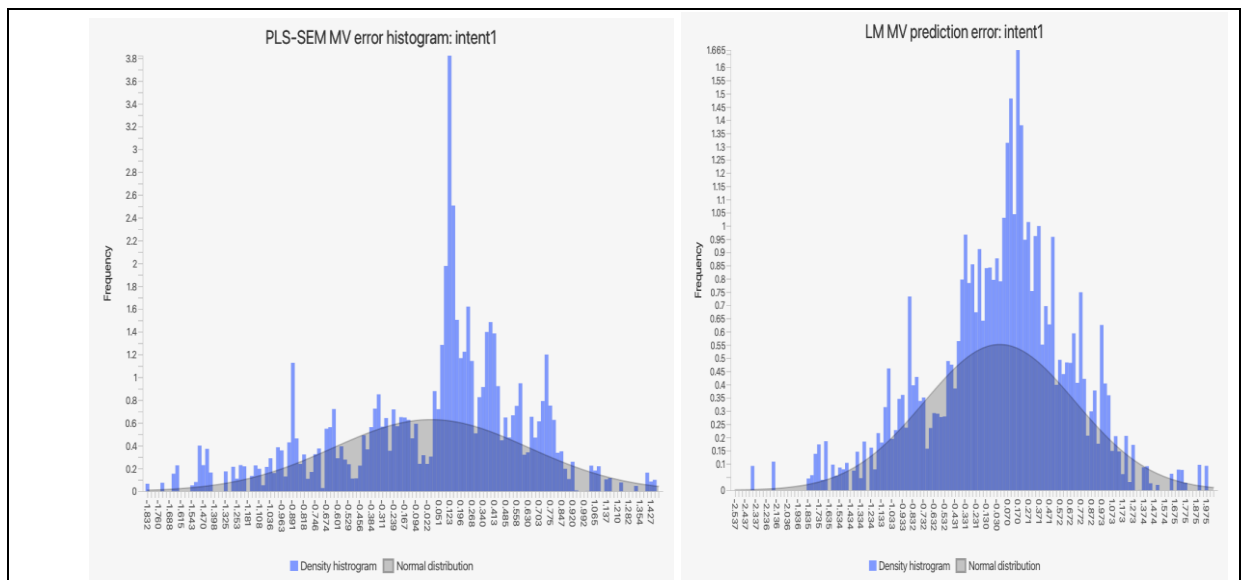


Source: calculation of survey data

Figure 5.3 Residual plot of intent1

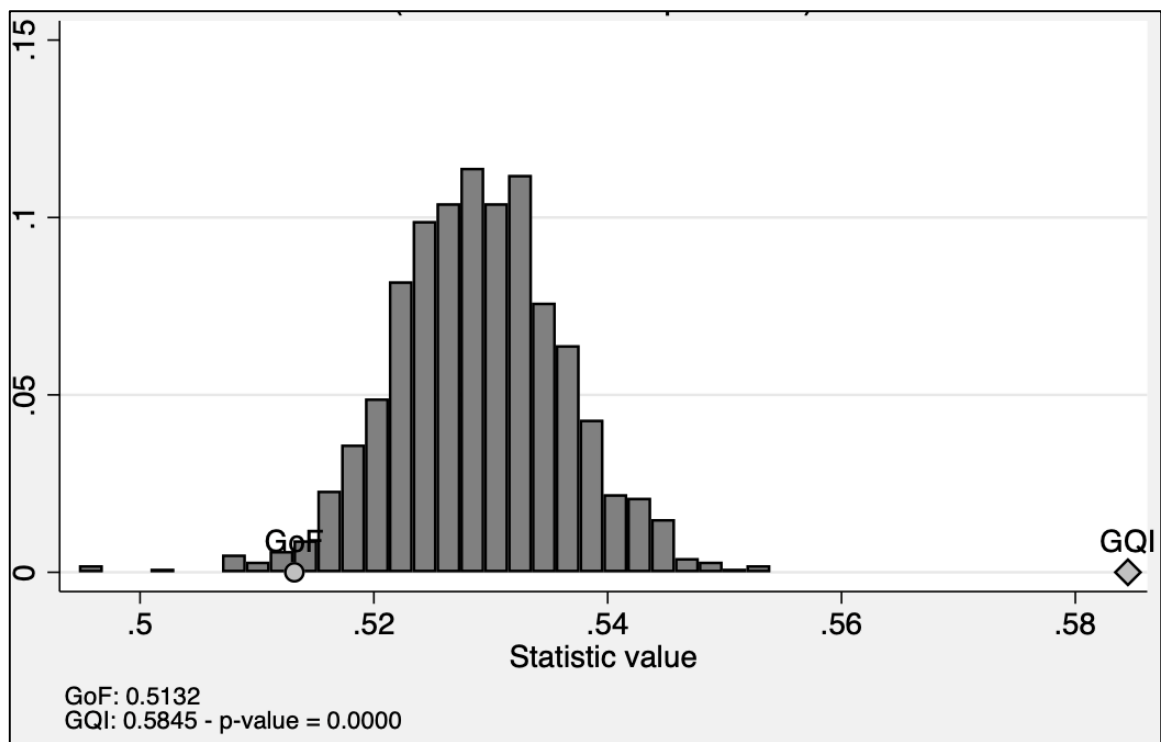
PLS-SEM

LM



Source: calculation of survey data

Figure 5.4 Empirical distribution of the GQI (1000 replications)



Source: the output of REBUS test

Figure 7.1 Circular display of quantitative and qualitative findings

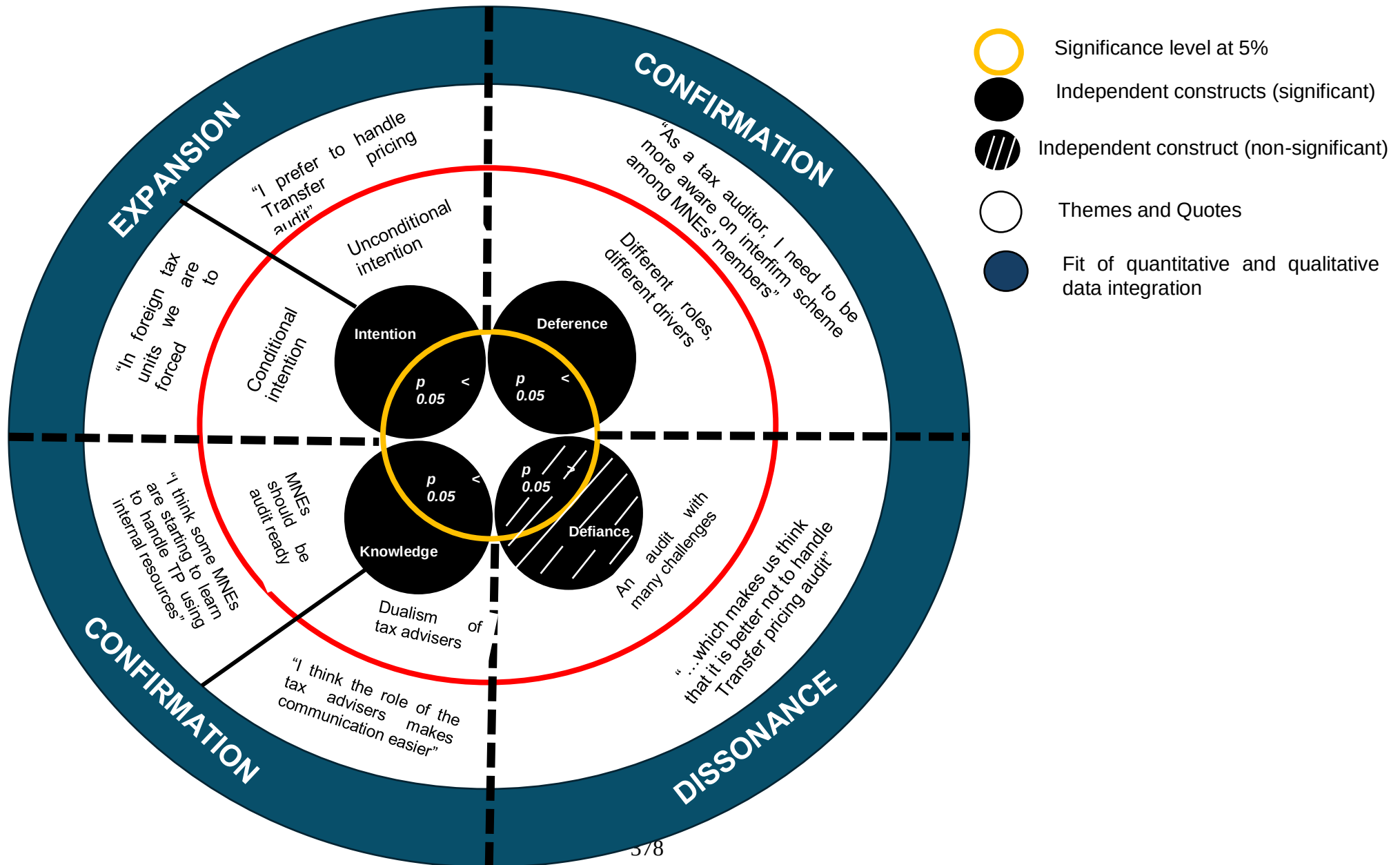


Figure 7.2 Proposed extended TPB framework regarding transfer pricing audit behaviour

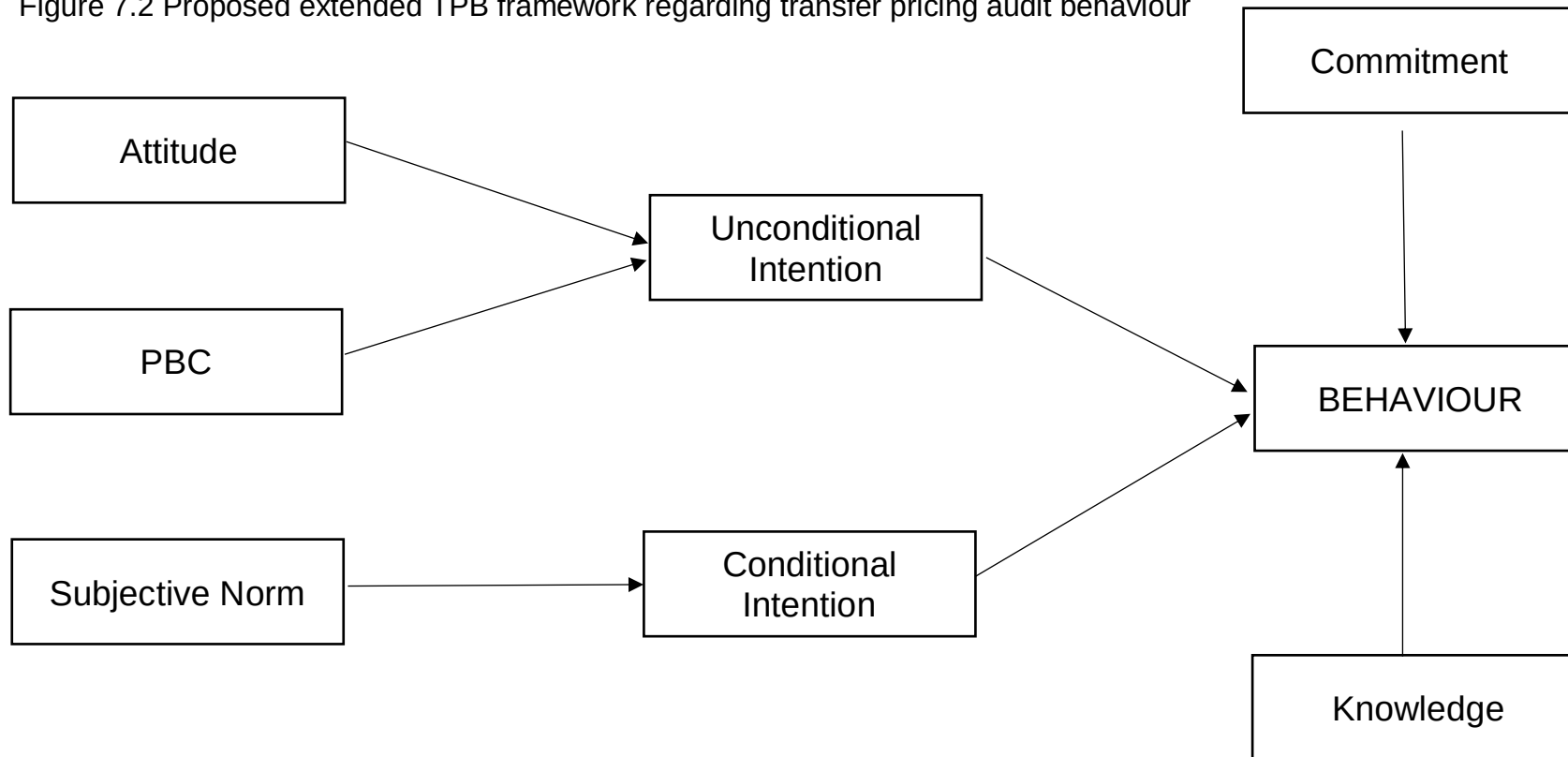
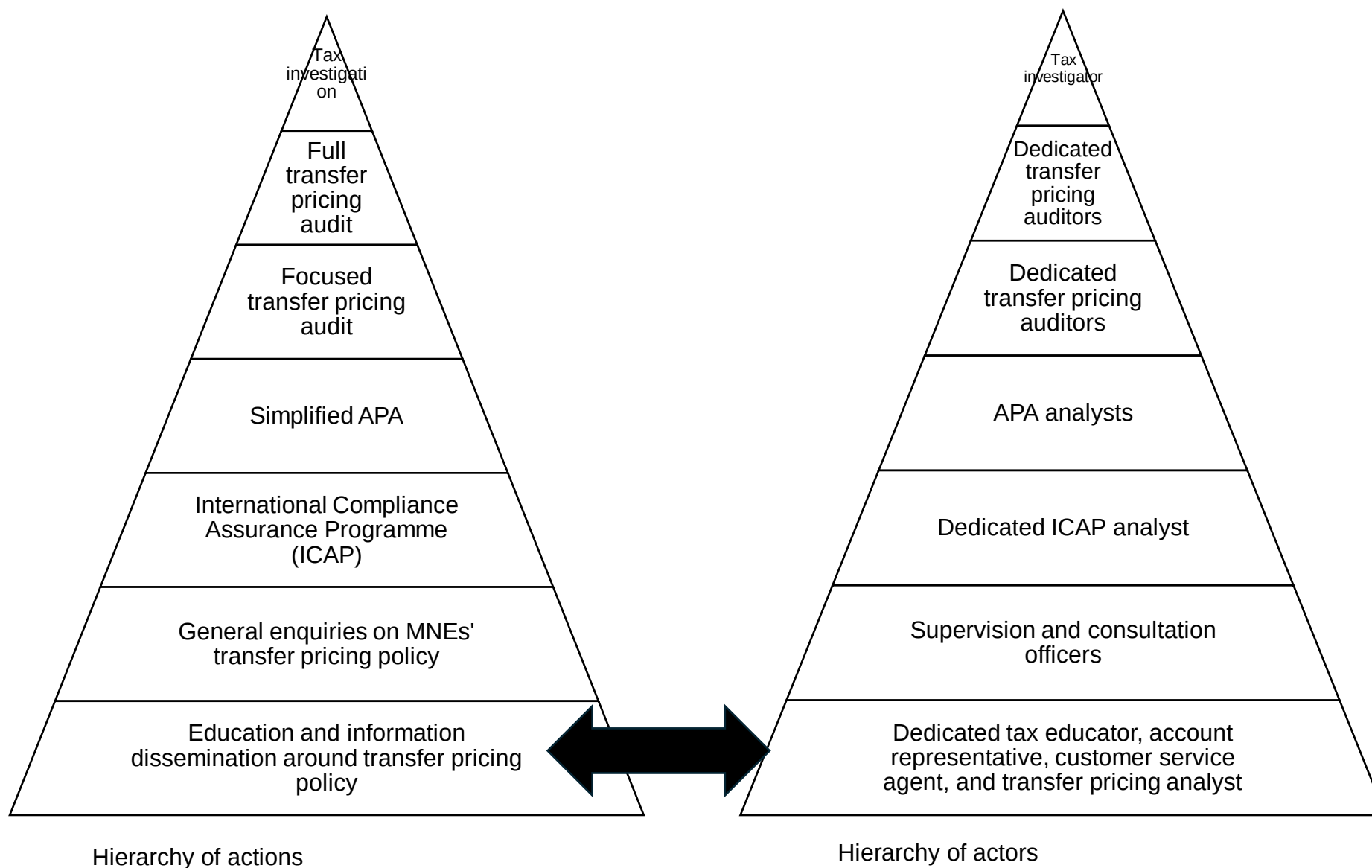


Figure 7. 3 Proposed policy sequence for transfer pricing issue in DGT



APPENDIX C

SURVEY INSTRUMENTS

1. GENERAL QUESTIONS

What is your age?

- ☐ Under 25 years
- ☐ 25 - 35 years
- ☐ 36 - 45 years
- ☐ 46 - 55 years
- ☐ Above 55 years

What is your gender?

- ☐ Male
- ☐ Female

What kind of training related to transfer pricing did you receive?

- ☐ Basic transfer pricing
- ☐ Intermediate transfer

What is your highest education background?

- ☐ Diploma
- ☐ Bachelor
- ☐ Master
- ☐ Doctoral

How long have you been working as a tax auditor?

- ☐ Less than 5 years
- ☐ 5 to 10 years
- ☐ More than 10 years

Have you received any trainings related to transfer pricing?

- ☐ Yes
- ☐ No

How familiar are you with the BEPS Action Plan 8, 9, and 10 concerning transfer pricing?

- ☐ Not familiar at all

- pricing
- transfer
- Advanced pricing
- Tax treaty
- Other (please specify)
- Slightly familiar
- Somewhat familiar
- Moderately familiar
- Very familiar
- Extremely familiar

2. CONSTRUCTS

	Strongly Disagree	Disagree	Somewhat Disagree	Neither Agree nor Disagree	Somewhat Agree	Agree	Strongly Agree
I believe tax audit is necessary to protect the tax base and to increase tax revenue							

I believe transfer pricing audit is necessary to protect the tax base and to increase tax revenue							
I believe intra-firm transactions related to intangibles, services, and other types of payments need to be scrutinized during tax audit in terms of the transfer price, the choice of comparable data, and determination of interquartile range							
I believe the OECD transfer pricing guidelines are essential to determine intra-firm transfer price during transfer pricing audit							
I believe the Indonesian tax regulations related to transfer pricing are essential to determine intra-firm transfer price during transfer pricing audit							
In general, most tax auditors I know think that tax audit is important to protect tax base and to increase tax revenue							
In general, most tax auditors I know think that transfer pricing audit is important to protect tax base and to increase tax revenue							
My colleagues in the tax audit team would agree with me that intra-firm transactions need to be scrutinised during tax audit							
Most tax auditors I know believe that the arm's length principle is essential to determine the transfer price during transfer pricing audit							
In general, the content of Indonesian tax							

regulations around transfer pricing are precise							
For me, understanding transfer pricing around intangible assets is more challenging than intra-group services							
I am confident that I can work on transfer pricing audit with its complexities							
I believe I have a moral obligation to conduct transfer pricing audit to protect tax base and increase tax revenue							
If I find intra-firm transactions among associated enterprises during audit process, I will initiate further investigation to explore further using appropriate transfer pricing method							
I am willing to conduct transfer pricing audit even if my superior does not ask me to							
I believe it will be necessary to explore transfer pricing transactions during tax audit process							
I think tax professionals in multinational enterprises reasonably understand the intricate description of the OECD transfer pricing guidelines and domestic transfer pricing legislations							
I believe tax professionals' knowledge on the complex tax laws regarding transfer pricing is backed by tax advisers							
In general, I believe transfer pricing regulations affect compliance for multinational enterprises in							

Indonesia							
I believe tax professionals in majority of multinational companies in Indonesia have been involved in tax disputes (both in objection and appeal processes) due to transfer pricing audit							
I am committed to ensuring that my transfer pricing audit work is conducted with the highest standard possible according to the audit standard procedures							
I think of conducting transfer pricing audit helping government to protect national interest							
Domestic transfer pricing regulations may not be perfect, but they work well for most of us as the legal bases for audit adjustment and correction							
Directorate General of Taxes (DGT) is helping tax auditors who have difficulty during transfer pricing audit by giving necessary assistance							
DGT is more interested in catching you for not identifying appropriate adjustments and corrections during transfer pricing audit than helping you							
It is impossible to satisfy DGT's performance objective completely related to transfer pricing audit							
DGT will brand me as a non-competent auditor if I do not want to conduct transfer pricing audit and I will likely to have job mutation to other tax offices in remote area							

I am not willing to conduct transfer pricing audit because DGT never explains the concept of BEPS action plan 8, 9, and 10							
In making adjustments and corrections related to transfer pricing transactions, I have read and incorporated relevant legislations as legal bases							
I always ask substantial evidence and documents in conducting transfer pricing audit							
I incorporate relevant comparable companies to determine the transfer price							
I conduct transfer pricing audit because it is an important issue							

INTERVIEW QUESTIONS

Semi-structured interview question lists with the tax auditors working at the Indonesian tax authority

Interviewee	The tax auditors deal with transfer pricing audits.
Objective	To explore the behavior and motivation of the tax auditors related to transfer pricing audits in a post-BEPS regime and to assess their compliance with international guidelines and domestic transfer pricing regulations.
Date and time	To be confirmed
Introduction	This study explores factors affecting tax auditors' behavior concerning transfer pricing audits in the Indonesian context. The results of this interview will be used in a doctoral dissertation at Cardiff Business School, Cardiff University. Any data or information will be treated as confidential and anonymised in the analysis. The interviewee may choose not to answer any questions or withdraw from the interview at any time.

List of questions:

Background

- 1) Sudah berapa lama Anda bekerja sebagai pemeriksa pajak?
How long have you been working as a tax auditor?
- 2) Dapatkah Anda jelaskan secara singkat tugas utama sebagai pemeriksa pajak?
Could you explain what your primary responsibilities are?
- 3) Pernahkah Anda melakukan pemeriksaan pajak terkait transfer pricing? Bagaimana peran Anda dalam pemeriksaan transfer pricing?
Have you engaged in transfer pricing audits? How have you got involved in TP audit?
- 4) Pernahkan Anda menerima pelatihan terkait transfer pricing?
Have you received training in transfer pricing?
- 5) Secara umum, apa pendapat Anda mengenai pencarian data pembanding selama proses pemeriksaan transfer pricing?
In general, what is your opinion on finding comparable data during transfer pricing audits?
- 6) Apa persepsi/pendapat Anda mengenai peraturan perpajakan yang ada di Indonesia terkait transfer pricing dan juga OECD transfer pricing guidelines?
What is your perception of the domestic tax regulations and international OECD guidelines on transfer pricing?
- 7) Apa pendapat Anda mengenai OECD BEPS Action Plan?

Intentions

- 1) Secara singkat, dapatkah Anda jelaskan proses pemeriksaan pajak untuk perusahaan multinasional?
In brief, could you explain the process of tax audits for corporations?
- 2) Berdasarkan pengalaman Anda, apakah perbedaan antara pemeriksaan pajak secara umum dengan pemeriksaan transfer pricing?
Based on your experience, what is the difference between general tax and transfer pricing audits?
- 3) Apa yang memotivasi Anda untuk melakukan pemeriksaan transfer pricing?
What motivates you to engage in transfer pricing audits?
- 4) Menurut Anda, apa kriteria pemeriksaan transfer pricing disebut sebagai pemeriksaan yang berkualitas?
What is your opinion on a good transfer pricing audit quality?
- 5) Apa aspek yang dapat ditingkatkan agar kualitas pemeriksaan transfer pricing dapat meningkat?
What aspects can be improved to result in a better quality of transfer pricing audits?
- 6) Menurut pendapat Anda, bagaimana penegakan aturan terkait transfer pricing dapat ditingkatkan?
In your opinion, how enforcement of regulations around transfer pricing can be improved?
- 7) Menurut Anda, apa tantangan tersulit dalam mengerjakan pemeriksaan transfer pricing?
What is the most difficult challenge in conducting transfer pricing audits?
- 8) Jika dapat memilih, apakah anda lebih memilih untuk melakukan pemeriksaan pajak yang berfokus pada transaksi transfer pricing atau non transfer pricing? Mengapa?
If you can choose, do you prefer doing an audit focusing on transfer pricing or non-transfer pricing transactions? Why?
- 9) Bagaimana Anda mendapatkan data pembanding selama proses pemeriksaan transfer pricing?
How do you obtain comparable data during transfer pricing audits?
- 10) Apa pendapat Anda mengenai prinsip kewajaran dan kelaziman usaha (PKKU / ALP)?
What is your opinion on the arm's length principle?

Socially distant

- 1) Apa pendapat Anda mengenai kepatuhan Wajib Pajak terhadap peraturan transfer pricing yang ada di Indonesia?

What is your opinion on taxpayers' compliance with transfer pricing regulations?

- 2) Menurut Anda, apa faktor utama yang mempengaruhi kepatuhan Wajib Pajak terhadap peraturan transfer pricing? Apakah terdapat perbedaan berdasarkan jenis usaha atau industry?

What in your view are the key factors affecting taxpayers' compliance with transfer pricing regulations? Do you observe differences between companies e.g. by type of industry, or Indonesian headquartered MNEs vs. those which are foreign based?

- 3) Apa pendapat Anda mengenai pengetahuan Wajib Pajak atas peraturan transfer pricing?

What is your opinion on taxpayers' knowledge of transfer pricing regulations?

- 4) Apa pendapat Anda atas tren sengketa pajak antara Wajib Pajak dengan DJP terkait transfer pricing, terutama sejak 2015 dengan adanya BEPS? Bagaimana Anda menggambarkan pendekatan yang dilakukan DJP Ketika terdapat sengketa transfer pricing? Apakah terdapat perbedaan pendekatan selama beberapa tahun ini?

What is your opinion on the trend around the level of disputes between taxpayers and DGT on transfer pricing, especially in the post-BEPS era? How would you describe DGT's approach when it faces a transfer pricing dispute with a foreign tax administration involved? Have you seen any changes over time in the approach taken by DGT in these disputes?

- 5) Apa pendapat Anda mengenai asistensi atau dukungan DJP atas proses pemeriksaan transfer pricing?

What is your opinion on the support or assistance from DGT in transfer pricing audits?

- 6) Apa pendapat Anda mengenai alokasi FPP yang ada di DJP untuk melakukan pemeriksaan transfer pricing? Apakah cukup atau tidak cukup SDM untuk melakukan pemeriksaan tersebut? Mengapa?

What is your view on staff resources available in DGT for TP audits? Sufficient or insufficient, why?

- 7) Apa pendapat Anda atas komentar yang menyatakan bahwa inti transfer pricing adalah negosiasi untuk menentukan harga wajar?

What is your opinion about a comment that transfer pricing is all about negotiation to determine the arm's length price?

- 8) Menurut pandangan Anda, bagaimana DJP menerjemahkan OECD TP guidelines ke dalam peraturan perpajakan domestic?

How in your view has DGT translated the OECD TP regulations in Indonesian tax regulations?

- 9) Menurut pendapat Anda, apa yang dapat DJP lakukan untuk membuat peraturan transfer pricing yang lebih sederhana dan tidak kompleks?
In your opinion, can DGT do anything to make transfer pricing regulations less complex? If so, what?
- 10) Perubahan terkait TP apa yang kemungkinan dapat terjadi di masa depan?
What changes in the TP area are likely to happen in the future?

Semi-structured interview question lists with the tax executives from MNEs

Interviewee	The tax executive (manager/director) who is responsible for the company's transfer pricing policy and administration.
Objective	To explore the behavior and motivation of the tax executive related to cross-border transactions in a post-BEPS regime and to assess their compliance with international guidelines and domestic transfer pricing regulations.
Date and time	To be confirmed
Introduction	This study explores factors affecting taxpayers' behavior concerning transfer pricing arrangements in the Indonesian context. The results of this interview will be used in a doctoral dissertation at Cardiff Business School, Cardiff University, Wales, United Kingdom. Any data or information will be treated as confidential and anonymised in the analysis. The interviewee may choose not to answer any questions or withdraw from the interview at any time.

List of questions:

Background

- 1) Could you please explain in brief what is your role in the company?
- 2) What is the main activity of the company?
- 3) Does the company transact with related party resident outside of Indonesia (cross-border transactions)?
- 4) What type of cross-border transactions. has the company with its affiliates in the last five years?
- 5) Does the company use a professional agent or specialist to advise with cross-border transactions.?
- 6) Has the company been audited by the tax office focusing on cross-border transactions? If yes, when was it, and how was the audit result?

Intentions

- 1) What motivates the company to engage in cross-border transactions?
- 2) What is the role of international guidelines and domestic tax regulations in the company's transfer pricing policy?
- 3) What is your opinion on the concept of the arm's length price? Does it still relevant for transfer pricing transactions in your company?
- 4) What factors do you think can affect internal pricing for cross-border transactions?
- 5) What is your perception of the requirements to comply with transfer pricing regulations?

Socially distant

- 1) What is your perception of tax auditors who conduct transfer pricing audits?
- 2) What do you think about the tax auditor's knowledge of transfer pricing and international tax issue? What about resources/staff available in DGT for TP? Are you able to compare DGP's TP expertise and resources with what tax administrations in other countries have dedicated to this audit area?
- 3) Can you identify any trend on TP disputes between taxpayers and tax auditors? If so, what is your opinion on the trend around the level of disputes between taxpayers and DGT on transfer pricing, especially in the post-BEPS era?
- 4) What is your opinion on the statement that "transfer pricing is not an exact science"?
- 5) What is your perception of Indonesian domestic transfer pricing regulations and the OECD TP guidelines? In your opinion, what can DGT do to make transfer pricing regulations less complex?
- 6) Have your company ever been questioned by the tax office regarding the price charged and the choice of transfer pricing method for transactions between your company and affiliate parties?
- 7) Has your company experience with having been involved in a TP dispute? If yes, what was the experience and what was the outcome? Did this only involve DGT or also a foreign tax administration?
- 8) Does the exchange of information between tax authorities worry you at all? If so why? (or if not, why not?)
- 9) Do you expect that more TP disputes will arise once tax authorities have additional information?
- 10) What changes do you expect in future in the TP area, if any?

Open-ended interview question lists with the tax advisers dealing with transfer pricing

Interviewee	The tax consultant who is responsible for client's transfer pricing policy and administration or who represents client at tax litigation regarding transfer pricing
Objective	To explore the behavior and motivation of the tax executive related to cross-border transactions in a post-BEPS regime and to assess their compliance with international guidelines and domestic transfer pricing regulations.
Date and time	To be confirmed
Introduction	This study explores factors affecting taxpayers' behavior concerning transfer pricing arrangements in the Indonesian context. The results of this interview will be used in a doctoral dissertation at Cardiff Business School, Cardiff University, Wales, United Kingdom. Any data or information will be treated as confidential and anonymised in the analysis. The interviewee may choose not to answer any questions or withdraw from the interview at any time.

List of questions:

- 1) Could you please explain in brief what is your role as a tax consultant?
- 2) Have you represented multinational enterprises regarding their transfer pricing arrangements, mainly during the tax audit process? If yes, when was it, and how was the audit result?
- 3) How long have you been working representing client with transfer pricing issue?
- 4) In your opinion, what are multinational's intentions in arranging transfer pricing?
- 5) Do you think multinationals use transfer pricing to minimise their tax payment?
- 6) How do you think international transfer pricing affecting Indonesia's tax base?
- 7) In your opinion, what is the biggest share of transfer pricing activity by Indonesian multinationals: intangible, tangible, service, interest, dividend, royalty, or other payments?
- 8) Could you please share your opinion on the arm's length principle in determining the fair price for intrafirm transaction? Does this basis sufficient for current development of international tax regime?
- 9) Many tax offices are now scrutinizing taxpayers' transfer pricing transactions particularly during tax audit. What is your opinion on this trend?
- 10) Do you think DGT has sufficient tax officers to monitor taxpayer's transfer pricing transactions?
- 11) What is your opinion on tax auditor's knowledge and skills in conducting transfer pricing audit?

- 12) In your opinion, has DGT maximized its effort to provide efficient policy to non-litigation process such as APA and MAP?
- 13) Can you share your opinion on the tax dispute trend between DGT and multinational enterprises regarding transfer pricing issue?
- 14) How can tax dispute on transfer pricing be minimized? Please share your opinion
- 15) In your opinion, what are the future directions of Indonesian transfer pricing after the BEPS action plan regime?

Open-ended interview question lists with the Director of Audit and Collection at the Indonesian tax authority

Interviewee	Director of Audit and Collection at DGT
Objective	To explore policy regarding transfer pricing audit in post-BEPS era and future development of how DGT anticipate the growing inter-company transactions, mainly during the tax audit process.
Date and time	To be confirmed
Introduction	This study explores factors affecting tax auditors' behavior concerning transfer pricing audits in the Indonesian context. The results of this interview will be used in a doctoral dissertation at Cardiff Business School, Cardiff University. Any data or information will be treated as confidential and anonymised in the analysis. The interviewee may choose not to answer any questions or withdraw from the interview at any time.

List of questions:

- 1) Dapatkah Bapak jelaskan tugas dan tanggung jawab Bapak terkait kebijakan pemeriksaan transfer pricing?
Could you please tell me your current responsibilities specifically in relation to transfer pricing audit?
- 2) Bagaimanakah tren pemeriksaan transfer pricing khususnya di era setelah adanya BEPS action plan?
How are the trends of transfer pricing audit specifically in the era of post-BEPS (starting in 2015) compared to pre-BEPS?
- 3) Apa strategi pemeriksaan yang ada di DJP terkait dengan transaksi transfer pricing yang dilakukan oleh WP dengan pihak afiliasinya? Apakah ada target khusus terkait pemeriksaan transfer pricing dari sisi jumlah pemeriksaan yang harus dilakukan dan dari sisi nominal rupiah yang harus dikumpulkan? Kalau ada, apa basis yang digunakan DJP untuk menentukan target ini dan apakah terdapat perubahan atas target tersebut selama beberapa tahun terakhir?
What are DGT's audit strategies in coping with transfer pricing transactions? Is DGT using yield targets for transfer pricing disputes? If yes, could you comment how these are set and whether there have been changes in targets over time (eg post-BEPS)?
- 4) Secara umum, dapatkan Bapak jelaskan mengenai pengetahuan pemeriksa pajak terkait isu transfer pricing?
In general, could you please describe DGT's tax auditor knowledge to transfer pricing?
- 5) Bagaimana DJP menyediakan akses atas data pembanding bagi pemeriksa pajak selama proses pemeriksaan transfer pricing?

How DGT maintains an access to comparable data software for the tax auditor?

- 6) Apa harapan/ekspektasi Bapak terhadap pemeriksa pajak terkait pemeriksaan transfer pricing?
What is your expectation for tax auditor in terms of transfer pricing audit?
- 7) Menurut pandangan Bapak, apa yang memotivasi pemeriksa pajak melakukan pemeriksaan transfer pricing?
In your views, what motivates tax auditor to conduct transfer pricing audit?
- 8) Dapatkah Bapak jelaskan penyebab/alasan utama sengketa pajak antara WP dan pemeriksa pajak terkait pemeriksaan transfer pricing? Bagaimana pendekatan yang diambil oleh DJP Ketika terhadap sengketa TP tersebut melibatkan institusi pajak dari negara lain (misalnya terkait pembagian hak pemajakan)? Apakah terdapat perbedaan kebijakan yang dilakukan oleh DJP atas sengketa pajak terkait TP?
Could you please tell me about the main reason for tax disputes between taxpayers and tax auditors during transfer pricing audit? How would you describe DGT's approach when it faces a transfer pricing dispute with a foreign tax administration involved? Have you seen any changes over time in the approach taken by DGT in these disputes?
- 9) Apakah EOI di antara otoritas pajak internasional berpengaruh terhadap pemeriksaan transfer pricing di Indonesia?
Does the automatic exchange of information between tax authorities internationally impact upon TP audits in Indonesia?
- 10) Seberapa aktif Indonesia bertukar informasi dengan negara lain khususnya dikaitkan dengan pemeriksaan transfer pricing yang dilakukan oleh DJP?
How active is Indonesia in exchanging information with other tax authorities and how often does this relate to TP? How would you compare Indonesia's/DGT/ approach in exchanging information compared to other tax authorities?
- 11) Bagaimana Direktorat Pemeriksaan dan Penagihan menangani pemeriksa pajak yang resisten dan tidak mau melakukan pemeriksaan transfer pricing, khususnya untuk pemeriksa pajak yang ada di KPP Madya, LTO, dan Jakarta Khusus?
How do you deal with tax auditors if they are reluctant to do transfer pricing audit?
- 12) Apa pendapat Bapak mengenai kebijakan safe harbour terkait transfer pricing? Apakah Indonesia sudah mengimplementasikan aturan tersebut? Dapatkan safe harbour rule mengurangi potensi sengketa antara Wajib Pajak dan pemeriksa pajak dalam proses pemeriksaan?

What is your opinion on the safe harbour rule in transfer pricing? Has Indonesia implemented such rules? Can safe harbour rule minimize tax disputes between taxpayer and tax auditor during tax audit process?

- 13) **Perubahan terkait TP apa yang kemungkinan dapat terjadi di masa depan?**
What changes in the TP area are likely to happen in the future?

Semi-structured interview questions with tax court judge

Interviewee	Chief Judge
Objective	To explore how tax court judge address and resolve transfer pricing cases brought to the Indonesian tax court.
Date and time	To be confirmed
Introduction	This study explores factors affecting taxpayers' and tax auditors' behaviour concerning transfer pricing arrangements in the Indonesian context. The results of this interview will be used in a doctoral dissertation at Cardiff Business School, Cardiff University, Wales, United Kingdom. Any data or information will be treated as confidential and anonymised in the analysis. The interviewee may choose not to answer any questions or withdraw from the interview at any time.

List of questions:

- 1) Dapatkah Bapak jelaskan tugas dan tanggung jawab Bapak di Pengadilan Pajak?
Could you please tell me about your current responsibilities in the tax court?
- 2) Menurut Bapak, bagaimanakah tren sengketa pajak selama beberapa tahun ini yang masuk ke Pengadilan Pajak? Dan bagaimana dengan trend sengketa pajak terkait isu transfer pricing?
In your opinion, how are the trends of tax dispute cases over the years brought to the Indonesia tax court? And how about the trends of transfer pricing-related cases?
- 3) Spesifik untuk kasus banding terkait isu transfer pricing, menurut pengalaman Bapak, apakah penyebab mayoritas Wajib Pajak melakukan banding? Apakah ada isu transfer pricing khusus yang menjadi concern dari Wajib Pajak?
To be specific for transfer pricing cases, in your opinion, what is the main cause for taxpayer to appeal the cases? Is there any particular transfer pricing issue?
- 4) Menurut Bapak, bagaimanakah pendekatan yang dilakukan oleh DJP terkait isu transfer pricing, terutama dalam proses pemeriksaan, yang membuat Wajib Pajak pada akhirnya melakukan banding atas hasil pemeriksaan ke Pengadilan Pajak?
In your opinion, what kind of approaches conducted by DGT, mainly during the tax audit, which triggered the taxpayer to bring the audit findings to the court?
- 5) Secara umum, dapatkan Bapak gambarkan trend tingkat kemenangan kasus banding transfer pricing? Apakah putusan pengadilan pajak banyak memenangkan Wajib Pajak atau DJP? Menurut Bapak apa pertimbangan

yang dipakai oleh Hakim di Pengadilan Pajak dalam menangani kasus transfer pricing?

In general, could you please describe the winning rate trend of transfer pricing cases? Is it in the favour of DGT or taxpayer? Also, in your opinion, DGT's tax officer knowledge to transfer pricing? How about tax auditor's knowledge in this growing issue?

- 6) Menurut Bapak apa pertimbangan yang dipakai oleh Hakim di Pengadilan Pajak dalam menangani dan memutus sengketa terkait kasus transfer pricing?

In your opinion, what are considerations used by tax court judge to handle and decide tax dispute around transfer pricing?

- 7) Menurut pendapat Bapak, bagaimanakah kedudukan OECD Transfer Pricing Guidelines dalam sengketa transfer pricing? Apakah sejajar dengan aturan domestik?

What is your opinion on the use of OECD Transfer Pricing Guidelines in transfer pricing dispute? Does it have the same degree as domestic tax regulations?

- 8) Menurut Bapak, apakah strategi yang dapat dilakukan oleh DJP untuk menangani kasus transfer pricing dalam proses pemeriksaan sehingga sengketa dapat diselesaikan di tingkat DJP?

In your opinion, what kind of strategies that can be done by DGT to handle transfer pricing cases in a way that such cases will be resolved internally in DGT, instead of bringing them to the tax court?

- 9) Menurut Bapak, bagaimanakah peran konsultan pajak dalam isu transfer pricing antara Wajib Pajak dengan DJP, terutama dalam proses persidangan di Pengadilan Pajak?

In your opinion, how is the role of tax adviser in transfer pricing disputes between taxpayer and DGT, mainly during trial process in the tax court?

- 10) Secara umum bagaimanakah pendapat Bapak atas pengetahuan dan kemampuan hakim pengadilan pajak di Indonesia dalam menangani kasus transfer pricing dan BEPS? Apakah ada hakim khusus untuk kasus transfer pricing?

In general, what is your opinion on the knowledge and understanding of the tax court judges in Indonesia related to transfer pricing and BEPS? Is there any dedicated judge to handle transfer pricing dispute?

- 11) Perubahan terkait aturan transfer pricing seperti apa yang Bapak harapkan dapat diatur oleh DJP agar kasus transfer pricing tidak semakin meningkat?

What changes in transfer pricing regulations that you are expect to regulate by DGT to minimise transfer pricing disputes?

APPENDIX D

PARTICIPANT INFORMATION SHEET

UNVEILING COMPLEXITIES: A MIXED METHODS STUDY OF INVESTIGATING TRANSFER PRICING AUDIT BEHAVIOURS IN INDONESIA

You are being invited to take part in a research project. Before you decide whether or not to take part, it is important for you to understand why the research is being undertaken and what it will involve. Please take time to read the following information carefully and discuss it with others, if you wish.

Thank you for reading this.

1. What is the purpose of this research project?

This research's main objective is to explore taxpayers and tax auditors' behavior. Moreover, this study aims to examine taxpayers' and tax auditors' understanding, commitment, and attitudes towards BEPS regime, particularly for the transfer pricing transactions and its relationship with the BEPS Action Plan 8, 9, and 10. This study incorporates the Indonesian corporate taxpayers as part of the multinational enterprises' group, and tax auditors represent the Indonesian tax authority. Little is known about MNEs' and tax auditors' attributes to the particular problem of transfer pricing that every tax authority is facing. The urgency to study on transfer pricing and BEPS Action Plan 8, 9, and 10 is because the Indonesian tax authority puts huge attention on these issues and is committed to manage them seriously, particularly during the audit process.

2. Why have I been invited to take part?

You have been invited because you are working as a tax auditor at the Directorate General of Taxes of Indonesia.

3. Do I have to take part?

No, your participation in this research project is entirely voluntary and it is up to you to decide whether or not to take part. If you decide to take part, we will discuss the research project with you. The research project is consisted of two stages, filing the online survey and – if you want to participate, there will be an interview. You will be asked to sign a consent form. If you decide not to take part, you do not have to explain your reasons and it will not affect your legal rights in any way.

You are free to withdraw your consent to participate in the research project at any time, without giving a reason, even after signing the consent form.

4. What will taking part involve?

You will be asked to do an online survey that will last probably around 15-20 minutes to fill. You just need to tick the options available in the questionnaires. If you want to participate in the interview session, it will last for an hour to an hour and a half. The interview session will be held face-to-face at the tax office where you are currently working given current low

restrictions from the Indonesian government regarding the COVID-19 pandemic. We will ask open questions and the subject areas are around your perceptions on BEPS Action Plan 8, 9, and 10 related to transfer pricing. The discussion in the interview will be recorded on voice recorder for analysis purposes.

All the data in the survey and interview will be confidential and will be anonymised in all research outputs. You have to answer all the questions in questionnaires, but for the interview, you do not have to answer the questions on a subject if you prefer not to. Only the research team will have access to the recordings, and this will be held securely on a university OneDrive, where only the researchers have access that is password protected.

5. Will I be paid for taking part?

No.

You will be entitled to receive a copy of any research we subsequently publish, and this will be freely distributed to you.

6. What are the possible benefits of taking part?

By taking part, your contribution will help us understand and write about, current perceptions of BEPS initiatives regarding complex transfer pricing both from perspectives of taxpayers and tax auditors. This, hopefully, leads to policy recommendations for the Indonesian Tax Authority (DGT) and the tax policy development process related to transfer pricing that is currently a focus audit by DGT. There will also be benefits to participants in interview session on shared issues and concerns they have.

7. What are the possible risks of taking part?

For survey stage, there is no possible risks by taking part to this project. However, for the interview session, we recognise that discussing complex issue such as transfer pricing may be overwhelming and as a willing participant, you only need to share what you feel comfortable talking about – and you can do this anonymously.

You may also prefer not to answer question or withdraw at any time during the interview. You may find you would prefer to speak to a researcher at a later point in time and you may withdraw from the interview session without any concerns about not being to subsequently become involved in the project in a different way.

8. Will my taking part in this research project be kept confidential?

All information collected from (or about) you during the research project will be kept confidential and any personal information you provide will be managed in accordance with data protection legislation. Please see ‘What will happen to my Personal Data?’ (below) for further information.

9. What will happen to my Personal Data?

Personal data, according to the General Data Protection Regulation (GDPR) means any information relating to an identifiable living person who can be directly or indirectly identified in particular by reference to an identifier. This may include information such as an individual's name, email address or date of birth or diversity characteristics. This data will only be accessible by the research team. In preparing a transcript of the discussions for research analysis, the data will be anonymised.

Cardiff University is the Data Controller and is committed to respecting and protecting your personal data in accordance with your expectations and Data Protection legislation. Further information about Data Protection, including:

- your rights
- the legal basis under which Cardiff University processes your personal data for research
- Cardiff University's Data Protection Policy
- how to contact the Cardiff University Data Protection Officer
- how to contact the Information Commissioner's Office

may be found at <https://www.cardiff.ac.uk/public-information/policies-and-procedures/data-protection>

There is no collaboration with any other third parties in this project where any data will be shared.

We will keep research data for a period of 5 years.

After 5 years, the research team will anonymise all the personal data it has collected from, or about, you in connection with this research project, with the exception of your consent form. Your consent form will be retained for 5 years and cannot be linked to any data you have provided. It may be accessed by members of the research team and, where necessary, by members of the University's governance and audit teams or by regulatory authorities. Anonymised information will be kept for a minimum of 5 years as at an aggregated level, this may be published in support of the research project and/or retained indefinitely, where it is likely to have continuing value for research purposes.

If you withdraw from the project at any time, while you have the right to amend or withdraw any data you have provided, it will not be possible to withdraw any **anonymised data** that has already been published.

10. What happens to the data at the end of the research project?

Following the research records retention schedule, personal data collected will be retained until 5 years after the end of the project or after publication of any findings based upon the data (whichever is later). All the data will be deleted permanently from one drive storage in Cardiff University intranet.

11. What will happen to the results of the research project?

It is our intention to publish the results of this research project in a form of dissertation and possibly academic journals and present findings at conferences. Participants will not be identified in any report, publication, or presentation. Timelines on publication are likely to be within the next five years. We may use verbatim quotes but only where the context is not such that any individual, or organisation can be identified from the context.

12. What if there is a problem?

If you wish to complain, or have grounds for concerns about any aspect of the manner in which you have been approached or treated during the course of this research, please contact Professor Kevin Holland at hollandk2@cardiff.ac.uk. If your complaint is not managed to your satisfaction, please contact the Chair of the Ethics Committee - Dr Carmela Bosangit, BosangitC@cardiff.ac.uk.

If you are harmed by taking part in this research project, there are no special compensation arrangements. If you are harmed due to someone's negligence, you may have grounds for legal action, but you may have to pay for it.

13. Who is organising and funding this research project?

The research is organised by Muhammad Dahlan, Professor Kevin Holland, and Dr. Dennis De Widt in the Accounting and Finance Section, Cardiff Business School, Cardiff University. The research is currently funded by the Indonesia Endowment Fund for Education (LPDP).

14. Who has reviewed this research project?

This research project has been reviewed and given a favourable opinion by the Business School Research Ethics Committee, Cardiff University.

15. Further information and contact details

Should you have any questions relating to this research project, you may contact us during normal working hours:

Muhammad Dahlan

PhD Candidate

Cardiff Business School, Aberconway Building Colum Road, Cardiff CF10 3EU

dahlanm@cardiff.ac.uk

+6281288040483

Thank you for considering to take part in this research project. If you decide to participate, you will be given a copy of the Participant Information Sheet and a signed consent form to keep for your records.

CONSENT FORM

Title of research project: Unveiling complexities: a mixed methods study of investigating transfer pricing audit behaviours in Indonesia

SREC reference and committee: 1750

Name of Chief/Principal Investigator: Muhammad Dahlan, Professor Kevin Holland, and Dr. Dennis De Widt

**Please
initial box**

I confirm that I have read the information sheet dated 31 January 2023 version 01 for the above research project.	
I confirm that I have understood the information sheet dated 31 January 2023 version 01 for the above research project and that I have had the opportunity to ask questions and that these have been answered satisfactorily.	
I understand that my participation is voluntary and I am free to withdraw at any time without giving a reason and without any adverse consequences (e.g. to medical care or legal rights, if relevant). I understand that if I withdraw, information about me that has already been obtained may be kept by Cardiff University.	
I understand that data collected during the research project may be looked at by individuals from Cardiff University or from regulatory authorities, where it is relevant to my taking part in the research project. I give permission for these individuals to have access to my data.	
I consent to the processing of my personal information: name, address, and type of company for the purposes explained to me. I understand that such information will be held in accordance with all applicable data protection legislation and in strict confidence, unless disclosure is required by law or professional obligation.	
I understand who will have access to personal information provided, how the data will be stored and what will happen to the data at the end of the research project.	
I understand that after the research project, anonymised data may be included in academic papers and reports that will be made publicly available via a data repository and may be used for purposes not related to this research project.	
I consent to being audio recorded for the purposes of the research project and I understand how it will be used in the research.	
I understand that it will not be possible to identify me from this data that is seen and used by other researchers, for ethically approved research projects, on the understanding that confidentiality will be maintained. I understand that all data used in any research outputs will be confidential, and anonymised.	

I understand that anonymised excerpts and/or verbatim quotes from my interview or questionnaire may be used as part of the research publication.	
I understand that I am entitled to review the transcription of the meeting and request for any information that I have provided to be subsequently amended and deleted.	
I understand that I will be given access to any papers and reports subsequently published.	
I understand how the findings and results of the research project will be written up and published.	
I agree to take part in this research project.	

Name of participant (print)

Date

Signature

Name of person taking consent
(print)

Date

Signature

**Role of person taking consent
(print)**

THANK YOU FOR PARTICIPATING IN OUR RESEARCH
YOU WILL BE GIVEN A COPY OF THIS CONSENT FORM TO KEEP

INVITATION LETTER

UNVEILING COMPLEXITIES: A MIXED METHODS STUDY OF INVESTIGATING TRANSFER PRICING AUDIT BEHAVIOURS IN INDONESIA

You are invited to participate in an interview about the behavior of multinational enterprises (MNEs) and tax auditors regarding BEPS action plan 8, 9, and 10 concerning transfer pricing. You were selected as a possible participant because your job as a tax auditor at the Directorate General of Taxes (DGT). It will take approximately an hour to an hour and a half to complete the interview.

All information collected from (or about) you during the research project will be kept confidential and any personal information you provide will be managed in accordance with data protection legislation. We plan to analyse the results as part of research for a doctoral degree at the Cardiff University. In any publication, information will be used in such a way that you cannot be identified.

As participant in the interview, your feedback will be used to evaluate and analyse behavior variables that can affect transfer pricing arrangement and transfer pricing tax audit quality. Furthermore, the information given may be very helpful in development and design of the future Indonesian tax regulations and its administration.

If you decide to participate, you are free to withdraw your [consent](#) and to discontinue participation at any time without prejudice. Please do read this condition above carefully before you decided to participate. By completing the interview, we believe that you accept the conditions explained above. If you have any concerns or questions in connection with the questionnaire, you are welcome to contact me on +6281288040483 or email: dahlanm@cardiff.ac.uk, or my supervisors Professor Kevin Holland: hollandk2@cardiff.ac.uk and Dr. Dennis De Widt: dewidtd@cardiff.ac.uk.

Thank you for your participation.

Yours Sincerely,

Muhammad Dahlan
PhD Candidate

Cardiff Business School, Aberconway Building Colum Road, Cardiff CF10 3EU

Participant Debrief Sheet

Thank you for taking part in the study, greatly appreciated.

It is important to talk to the tax auditors working at the Directorate General of Taxes (DGT) about their behaviour to comply with transfer pricing regulations, particularly in the era after the BEPS action plan, to make sure their concerns, voices, and views are being heard.

The aims of this study were to gather information about the behavior of tax executives and tax auditors in relation to BEPS action plan 8, 9, and 10 concerning transfer pricing. Transfer pricing is a complex issue for multinationals and tax officials, as such this study intends to capture challenges they face to comply with the international guidelines and domestic tax regulations. I hope this study helps to suggest ways to improve both multinationals and tax auditors' compliance to transfer pricing regulations.

The information you gave me will be treated anonymously. This means that it will be impossible for people to know what you told me and to identify you personally. If you want to withdraw your data from the study, please email me at dahlanm@cardiff.ac.uk.

If you have concerns or if you would like to view a summary of the results of my research, please email the researcher or the supervisors detailed below.

Researcher Muhammad Dahlan
Dahlanm@cardiff.ac.uk

Supervisor(s) 1. Kevin Holland
hollandk2@cardiff.ac.uk

2. Dennis De Widt
dewidtd@cardiff.ac.uk

Ethics approval

Fieldwork approval DAHLAN

Hide message history

From: CARBS Research Office-Ethics <CARBS-ResearchEthics@cardiff.ac.uk>

Sent: Thursday, July 6, 2023 3:11 PM

To: Muhammad Dahlan <DahlanMj@cardiff.ac.uk>

Subject: Your ethics application has been APPROVED: ID 1750; Understanding Indonesian Taxpayers' and Tax Auditors' Behavior Towards Base Erosion and Profit Shifting (BEPS) Regime: A Mixed Method Approach

Dear Muhammad Dahlan,

Research project title: Understanding Indonesian Taxpayers' and Tax Auditors' Behavior Towards Base Erosion and Profit Shifting (BEPS)
Regime: A Mixed Method Approach
SREC reference: 1750

The School Research Ethics Committee (SREC) reviewed the above application via its proportionate review process.

Ethical Opinion

The Committee gave a favourable ethical opinion of the above application on the basis described in the application form, protocol and supporting documentation.

Additional approvals

This letter provides an ethical opinion only. You must not start your research project until all any other approvals required for your

Request letter to DGT

Director of Counseling, Service and Public Relations
Directorate General of Taxes, The Ministry of Finance of Indonesia
Gatot Subroto Street Number 40-42
South Jakarta, 12190, Indonesia

June 2023

Subject: Request for Authorization to Collect Data for Research

Dear Mrs. Dwi Astuti,

My name is Muhammad Dahlan (Student ID: 1988947), an employee of the Ministry of Finance of Indonesia, Directorate General of Taxes, and currently studying for a doctoral degree at Cardiff University, the United Kingdom, under the supervision of Professor Kevin Holland and Dr. Dennis De Widdt. This letter is regarding my research inquiry at the Directorate General of Taxes, Ministry of Finance of Indonesia. The research aims to explore taxpayers' and tax auditors' behavior towards BEPS Action Plan 8, 9, and 10 regarding transfer pricing arrangements. Furthermore, this research intends to capture taxpayers' and tax auditors' perception, understanding, and motivation to comply with transfer pricing regulations using two theories: Theory of Planned Behavior and Theory of Motivational Postures. Hence, this study bridges the interests of the two actors in relation to transfer pricing regime in Indonesia.

Therefore, concerning the above description, I would like to request permission to circulate a questionnaire and conduct a series of interviews with the tax auditors working at the Directorate General of Taxes. I am focusing on tax auditors working at large tax offices, middle tax offices, and foreign investment tax offices. Also, I would like to access data related to transfer pricing audits such as the number of audit cases, revenue collected from the audits, the trend for transfer pricing trainings, number of transfer pricing disputes, development of transfer pricing regulations, and procedures for transfer pricing audits.

All data collected will be handled and stored in accordance with Cardiff University's Research Integrity and Governance Code of Practice. In writing up the results of the research participants' anonymity will be protected.

The research is intended to be conducted in some of the relevant tax offices in several regions, and some of the data will be provided by The Directorate of Audit and Collection and the Directorate of International Taxation. The availability of such data is crucial to the research success in giving insight into planning for future transfer pricing audit strategies in the Directorate General of Taxes.

If you require any further information about the research, please do not hesitate to contact either of us.

Thank you for your time and consideration in this matter.

Yours faithfully

Lead Supervisor,

Dr. Kevin Holland

Professor of Accounting and Taxation

Doctoral Student,

Muhammad Dahlan

Research units

Number	Unit	Location	Number of auditors
1	Directorate of Audit and Collection	Jakarta	32
2	Large Taxpayers Regional Tax Office	Jakarta	22
3	South Jakarta I Regional Tax Office	Jakarta	36
4	North Jakarta Regional Tax Office	Jakarta	34
5	Large Taxpayers I Tax Office	Jakarta	30
6	Large Taxpayers II Tax Office	Jakarta	30
7	Large Taxpayers III Tax Office	Jakarta	29
8	Large Taxpayers IV Tax Office	Jakarta	30
9	Foreign Investment I Tax Office	Jakarta	49
10	Foreign Investment II Tax Office	Jakarta	49
11	Foreign Investment III Tax Office	Jakarta	32
12	Foreign Investment IV Tax Office	Jakarta	49
13	Foreign Investment V Tax Office	Jakarta	42
14	Foreign Investment VI Tax Office	Jakarta	35
15	Permanent Establishments and Expatriates Tax Office	Jakarta	28
16	Oil and Gas Industry Tax Office	Jakarta	48
17	North Jakarta Medium Tax Office	Jakarta	30
18	North Jakarta Medium Tax Office II	Jakarta	29
19	South Jakarta I Medium Tax Office	Jakarta	30
20	South Jakarta I Medium Tax Office II	Jakarta	30
21	Central Jakarta Medium Tax Office	Jakarta	56
22	Central Jakarta Medium Tax Office II	Jakarta	56
23	Batam Medium Tax Office	Batam	30
24	Bandung Medium Tax Office	Bandung	27
25	Bekasi Medium Tax Office	Bekasi	34
26	Denpasar Medium Tax Office	Denpasar	24
27	Surabaya Medium Tax Office	Surabaya	30

Interview data – tax auditors

Number	Initial	Date of interview	Type of office	Role	Mode	Place of interview	Duration (in minutes)
1	TA1	21/07/2023	Special unit	Supervisor	Online	Zoom meeting	55
2	TA2	26/07/2023	Medium unit	Supervisor	Online	Zoom meeting	55
3	TA3	26/07/2023	Medium unit	Team leader	Online	Zoom meeting	60
4	TA4	26/07/2023	Medium unit	Team leader	Online	Zoom meeting	62
5	TA5	02/08/2023	Medium unit	Team leader	In-person	Designated office	54
6	TA6	02/08/2023	Medium unit	Team leader	In-person	Designated office	45
7	TA7	04.08/2023	Medium unit	Team leader	Online	Zoom meeting	40
8	TA8	08/08/2023	Headquarter	Supervisor	In-person	Designated office	53
9	TA9	08/08/2023	Headquarter	Team leader	In-person	Designated office	65
10	TA10	09/08/2023	Large unit	Junior auditor	In-person	Designated office	45
11	TA11	09/08/2023	Large unit	Junior auditor	In-person	Designated office	55
12	TA12	09/08/2023	Large unit	Supervisor	In-person	Designated office	65
13	TA13	09/08/2023	Regional office	Team leader	In-person	Designated office	55
14	TA14	09/08/2023	Regional office	Junior auditor	In-person	Designated office	50
15	TA15	10/08/2023	Medium unit	Supervisor	In-person	Designated office	45
16	TA16	14/08/2023	Large unit	Junior auditor	In-person	Designated office	50
17	TA17	14/08/2023	Large unit	Junior auditor	In-person	Designated office	60
18	TA18	14/08/2023	Large unit	Team leader	In-person	Designated office	55
19	TA19	15/08/2023	Large unit	Supervisor	In-person	Designated office	45
20	TA20	15/08/2023	Large unit	Supervisor	In-person	Designated office	50
21	TA21	15/08/2023	Special unit	Supervisor	In-person	Designated office	45
22	TA22	23/08/2023	Medium unit	Junior auditor	In-person	Designated office	55
23	TA23	23/08/2023	Medium unit	Team leader	In-person	Designated office	45
24	TA24	23/08/2023	Medium unit	Team leader	In-person	Designated office	45
25	TA25	23/08/2023	Medium unit	Junior auditor	In-person	Designated office	40
26	TA26	25/08/2023	Medium unit	Junior auditor	In-person	Designated office	45
27	TA27	25/08/2023	Medium unit	Team leader	In-person	Designated office	55
28	TA28	31/08/2023	Special unit	Supervisor	In-person	Designated office	55
29	TA29	31/08/2023	Special unit	Junior auditor	In-person	Designated office	45
30	TA30	04/09/2023	Large unit	Supervisor	In-person	Designated office	55

Interview data – other participants

Number	Initial	Date interview	of participants	Type of participants	Role	Mode	Place of interview	Duration (in minutes)
1	TPRO1	15/09/2023		Tax professional	Accounting and Finance Manager	Online	Zoom meeting	36
2	TPRO2	19/09/2023		Tax professional	Accounting Manager	Online	Zoom meeting	25
3	TPRO3	20/09/2023		Tax professional	Head of Finance	Online	Zoom meeting	35
4	TPRO4	20/09/2023		Tax professional	VP of Finance	Online	Zoom meeting	30
5	TPRO5	20/09/2023		Tax professional	Accounting, Finance, and Tax Manager	Online	Zoom meeting	35
6	TPRO6	21/09/2023		Tax professional	Finance Director	Online	Zoom meeting	45
7	TPRO7	24.09/2023		Tax professional	Tax Compliance Manager	Online	Zoom meeting	50
8	TPRO8	26/09/2023		Tax professional	Finance and Accounting Manager	Online	Zoom meeting	40
9	TPRO9	27/09/2023		Tax professional	Finance Director	In-person	Designated office	60
10	TPRO10	14/11/2023		Tax professional	Finance and Accounting Manager	Online	Zoom meeting	45
11	TCON1	21/09/2023		Tax Consultant	Partner	In-person	Designated office	55
12	TCON2	21/09/2023		Tax Consultant	Senior Auditor	Online	Zoom meeting	40
13	TCON3	22/09/2023		Tax Consultant	Transfer Pricing Specialist	Online	Zoom meeting	45
14	TCON4	25/09/2023		Tax Consultant	Transfer Pricing Specialist	Online	Zoom meeting	50

15	TCON5	26/09/2023	Tax Consultant	Partner	Online	Zoom meeting	60
16	TCON6	02/10/2023	Tax Consultant	Partner	Online	Zoom meeting	50
17	TCON7	16/10/2023	Tax Consultant	Partner of Transfer Pricing	Online	Zoom meeting	70
18	TCON8	17/10/2023	Tax Consultant	Tax and Transfer Pricing Advisor	Online	Zoom meeting	65
19	TCON9	05/11/2023	Tax Consultant	Senior Adviser	Online	Zoom meeting	46
20	POL1	31/08/2023	Policymaker	Adviser at MOF	In-person	Designated office	60
21	POL2	08/09/2023	Policymaker	Adviser at MOF	In-person	Designated office	50
22	POL3	25/09/2023	Policymaker	Policymaker at DGT	In-person	Designated office	45
23	POL4	25/09/2023	Policymaker	Adviser at DGT	In-person	Designated office	65
24	POL5	03/10/2023	Policymaker	Expert at DGT	Online	Zoom meeting	75
25	POL6	04/10/2023	Policymaker	Expert at DGT	In-person	Designated office	60
26	JUD	31/05/2024	Tax court judge	Chief Judge	Online	Zoom meeting	50