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The effect of practicing transfer pricing and financial performance: Evidence from multinational corporations in the UAE

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ABSTRACT

This research aimed to determine if the financial performance of multinational firms in the United Arab Emirates (UAE) and the appraisal of transfer pricing are significantly correlated. The firms' financial statements from 2012 to 2022 were used as the primary source data. The research used the panel least squares regression approach to analyze the data acquired from multinational firms in the UAE to assess the research hypotheses. A correlational research methodology was employed to investigate the hypothesized association between transfer price assessment factors and financial performance. The results showed an insignificant effect for bonus mechanisms, tax expenses, and return on assets as measurements of financial performance, but tunneling incentives have an insignificant relationship with return on assets. As a result, the research suggests that multinational corporations in the UAE enhance tax expenses, tunneling, and bonus mechanisms to achieve a higher rate of return on assets. Additionally, UAE multinational firms should reassess their bonus mechanism for optimal financial performance. The study's limitations and findings offer several investigation opportunities related to transfer pricing practices in the UAE, and future researchers could make a comparative study on transfer pricing in different countries.

Contribution/Originality: The study will raise awareness among legislators and policy officials in a number of nations because of its focus is on multinational corporations that may have several branches across the globe, which may be helpful in extrapolating this study's findings to different nations.

1. INTRODUCTION

Transfer prices are considered one of the important management accounting tools that management needs in multi-divisional companies, or in which the production process goes through several stages, or in transactions between holding companies, subsidiaries, and related parties, to follow up on the performance in the departments or subsidiaries. Through transfer prices, a company's management can evaluate the performance of its divisions, and thus it has a fair basis for motivation (Bärsch, Heckemeyer, & Olbert, 2020).

Transfer pricing (TP) is often used as a company strategy to achieve high revenues from sales (Marfuah, Mayantya, & Prasetyo, 2021). Some of the goals of firms practicing transfer pricing are to provide added value to management and departments and increase the opportunities to maximize income and reduce costs. Firms usually reduce their tax burden by manipulating the prices of goods and services to avoid international taxes (Davies, Martin, Parenti, & Toubal, 2018). It is therefore not surprising that various firms that deliberately practice transfer pricing ignore tax compliance issues when conducting transfer pricing. One of the problems facing multinational companies

is the difference in tax rates between countries. This difference in tax rates leads multinational companies to use transfer prices in international transactions (Marfuah et al., 2021).

Over the last four decades, the negative effects of multinational firms' operations on transfer pricing have drawn attention from the public on a worldwide scale (Mashiri, Dzomira, & Canicio, 2021). The primary source of this worry is the threat posed by multinational firms' detrimental influence on transfer pricing.

As a result of the focus on financial performance, certain steps have been taken to safeguard stakeholders and shareholders from asymmetric information, insider trading, tax avoidance and evasion, company failure and scandal, and loss of investor trust (Santoso, 2004). Multinational companies have been looking for strategies to lessen their unwanted influence on transfer pricing through the sharing of qualitative financial data considering this rising issue (Adams & Drtina, 2010). Consequently, there has been a surge in research on the evaluation of transfer pricing (Hassnain, Hakeem, & Yassir, 2017). Nevertheless, Abbas and Eksandy (2020) contend that managers consider their own interests when exercising judgement on transfer price reporting, meaning that transfer pricing does not always suit the interests of the users. Consequently, the reporting gap widened. As a result, a variety of factors, including tax rates, tunneling incentives, bonuses, exchange rates, non-controlling interest, and other transfer pricing evaluation attributes, are likely to influence the decision of whether to provide certain transfer pricing information (Bärsch et al., 2020; Cristea & Nguyen, 2013).

One aspect influencing the financial performance of multinational firms is the assessment of transfer pricing (Anisa & Amrie, 2018; Augustine, 2011). Financial performance is therefore regarded as one of the key components of a thorough transfer price examination. The improvement in financial performance necessary to attain firm objectivity is consistent with the assessment of transfer pricing. This suggests that to improve qualitative reporting, there is a demand for convergence between transfer price evaluation and financial performance.

The research on transfer pricing evaluation and financial performance has been dominated by studies conducted in developed countries due to the increasing need for financial performance (Anisa & Amrie, 2018; Baldenius, Melumad, & Reichelstein, 2004). This is not the case in developing countries, especially the United Arab Emirates, where most studies only focused on transfer pricing and ignored the effect of transfer pricing assessment on financial performance (Alade & Okafor, 2004). Furthermore, many research investigations have been conducted in established and emerging nations to examine the potential considerable influence that transfer pricing examination may have on financial performance. But according to Cristea and Nguyen (2013); Alade and Okafor (2004) and Bärsch et al. (2020) the results are contradictory and mixed.

Additionally, the majority of earlier research conducted in the UAE has not concentrated on certain particular transfer pricing evaluation determinants (such as tax expenses, tunneling incentives, and bonus mechanisms) that have a major impact on financial performance in both developed and developing nations (Lo, Wong, & Firth, 2010; Nurazi, Santi, & Usman, 2015). Therefore, there is a gap because of the inadequate assessment of transfer pricing.

Given these issues, the main object of this research is to determine if there is a statistically significant relationship between the financial performance of multinational firms in the UAE and the appraisal of transfer pricing. The research limited its transfer pricing analysis to tax, tunneling incentives, and bonus to accomplish this goal. Additionally, ROA was used to gauge financial success.

This study focuses on multinational companies that may have many branches in various countries globally, and therefore the results will contribute to increasing awareness among policy and legislation makers in several countries regarding the violations that may be committed by some multinational companies. This study seeks to contribute to highlighting the advantages of transfer pricing practices on the financial performance of companies.

The remainder of this study is structured as follows: Section 2 reviews the relevant literature, the framework of the study, and the theories related to the study's relationships. Section 3 provides the methodology and the model specifications. Section 4 presents the results and discussion regarding the data and hypothesis. Section 5 presents the conclusion, and Section 6 provides the limitations and recommendations for future studies.

2. REVIEW OF THE LITERATURE

This section focuses on conceptual literature, which looks at different points of view on study-relevant ideas.

2.1. Financial Performance

Financial performance is critical to investors, stakeholders, and the whole economy. Profits on investments pique the curiosity of investors, who may receive larger profits from well-run firms. A firm's financial performance will boost pay for staff, provide high-quality products to consumers, and improve the operational environment (Amidu, Coffie, & Acquah, 2019). A firm with strong financial performance earns more money, which might result in investments in the future that could raise salaries and provide jobs for people. According to Barbosa and Louri (2005) a company's financial performance is an evaluation of how well it executes its business plan or the result of that plan. According to Amidu et al. (2019) a firm's financial performance is determined by how well it uses its resources to accomplish its goals. The assessment of a firm's strategy, policies, and operations in monetary terms is known as its financial performance. An inferential indicator of a firm's ability to earn revenue from its business activities is also an indicator of financial performance.

Measuring financial performance is one of management's strategy objectives, along with appeasing other shareholders and stakeholders. An assessment that is conducted routinely to ascertain if the company's goals have been met is known as a performance appraisal (Anderson & McAdam, 2004). A company's performance must be evaluated according to a set of external or internal criteria. External standards relate to comparing a firm with its competitors in the industry, and internal standards relate to a company's capacity to fulfil its stated objectives. This will help the company create a winning business plan that will allow it to outperform its rivals in the marketplace (Khresat, Al-Fasfus, Shaban, Shahwan, & Alsilawi, 2023; Mehra, 2015).

Several techniques for assessing financial performance have been employed in previous conducted on the connection between transfer pricing evaluation and financial performance. Most of the earlier research on financial performance used either an accounting- or market-based approach to quantify financial performance. Fan, Lau, and Young (2007) demonstrated that repayment capability, financial efficiency, solvency, liquidity, and profitability are the best metrics for measuring financial success. In an investigation of financial performance measures for 95 multinational corporations, O'Connell and Cramer (2010) discovered that 49 employed accounting-based measures, 12 employed market-based measures, and the other 34 combined the use of market-based and accounting-based measures.

Returns on assets (ROA) has been extensively employed in research. Mehra (2015) and Andrews (2019) are the most widely used financial performance accounting-based assessments. According to Huse and Solberg (2008) ROA shows how profitable a company is in relation to the total assets under its control. Another accounting metric, return on equity (ROE), has been utilized in earlier research, including Connelly, Limpaphayom, Nguyen, and Tran (2016) to assess company performance. Another accounting metric for assessing financial performance is Tobin's Q, which has been applied in earlier empirical research by Bhagat and Black (2001) and Ahmadu, Aminu, and Tukur (2005). The market-based metric for financial success employed in earlier research is inventory return, which is calculated as the price-to-book ratio of the share. Lin, Yang, and Liou (2009) and Brammer, Brooks, and Pavelin (2009) employed this metric.

2.2. Transfer Pricing Evaluation

Anisa and Amrie (2018); Deloitte (2017) and Suandy (2011) highlight how transfer pricing practices were driven in part by management's needs and desires to secure adequate cash flow, reduce takeover exposure, minimize tax burden, maximize profit, and foster cordial relationships with third parties in order to meet the company goals of shareholders to exercise their ownership rights, provide guidance against systemic crisis or firm failure, maximize wealth, and enhance share value.

As a result of the rising instances of information asymmetry, tax fraud, and insider trading between large multinational corporations, such as WorldCom, Tyco, Xerox, Parmalat, and Enron Corp., among others, focus on transfer pricing by multinational corporations has grown among shareholders and regulatory bodies worldwide since the early 2000s (Adeniji, 2013). The governments of both emerging and developed nations have enacted laws and policies to tighten transfer pricing practices to stop the current wave of tax fraud and insider trading. Transfer pricing, a method for distributing income and expenses between subsidiaries, joint ventures, and divisions within a group of connected businesses as efficiently as possible, has gained prominence among a wider audience in the business world. To improve goal congruence, performance evaluation, and autonomy, and to inspire different stakeholders to regain their trust and attract investors to increase the business value, sound transfer pricing decisions are essential (Awodiran, 2014).

Transfer pricing is the term used to describe the monetary value assigned to products and services that are traded between connected enterprises in two or more countries, or across divisions of the same organization. Academic experts and practitioners have given different definitions of transfer pricing. Transfer pricing is an internal pricing agreement between intrafirm cross-border transactions for the transfer of products and services within an organization, according to Ernst and Young (2020). According to Burns (2020) transfer pricing is an expensive process for the reciprocal transfer of products and services between associated businesses. Transfer pricing is defined as "a value placed on goods and services exchanged among divisions under the same central control" by Alade and Okafor (2004). According to ICAN (2014) transfer pricing is a type of price agreement used when linked parties exchange physical and intangible goods.

2.3. Transfer Pricing Assessment Determinants

Many financial performance-related variables examine transfer pricing. They consist of tax expenses, tunneling incentives, and bonus mechanisms.

2.3.1. Tax Expenses

Tax expenses are the mandatory payments that taxpayers (individuals and corporations) must make to the relevant tax authorities based on their taxable income, or the government-imposed contributions that taxpayers must make. Moreover, taxes are mandatory contributions made by individuals and corporations to the revenue authority. These contributions are made without any expectation of reward and are entirely used for the advancement of economic growth and development, including the provision of social amenities and the welfare of the citizens. Tax expenditures are analyzed by economists as a transfer of economic resources from the capitalist to the socialist sectors. According to Ibadin and Eiya (2013) tax rates vary per nation. Multinational firms have been able to conduct international business and find ways to reduce their tax obligations because of the discrepancies in the tax rates of various countries.

By transferring their tax burden through linked firms from an authority with a higher tax rate to one with a lower tax rate, multinational firms will be incentivized to engage in transfer pricing. According to Kaur (2013) a firm is less likely to use transfer pricing if the effective firm tax rate is higher, and multinational firms must bear a greater tax burden. The effective tax rate (ETR) is used in literature to calculate tax costs (Anisa & Amrie, 2018; Kaur, 2013).

2.3.2. Tunneling Incentive

According to Hartati and Desmiyati (2015) the majority shareholders' tunneling motive is the act of transferring a company's assets and income for their own benefit by setting the costs that are paid to the non-controlling shareholders. The complete transfer of business resources or related transactions that allow most of the shareholders to raise their shareholding in the firm without transferring any assets by the issuance of shares or other actions are the two types of tunneling incentives identified by Aruomoaghe and Atu (2010).

The two forms of ownership arrangements identified by Mutamimah (2009) are distributed ownership structures and concentrated ownership structures. An ownership structure is between the manager and the shareholders, whereas the dispersed concentrated ownership structure is focused on the right to control financial flows. Being a controlling shareholder at some parties—be they family, the government, or others—tends to put the board of directors of the non-controlling shareholder in conflict with that of the foreign controlling shareholder. This will make the controlling shareholder more likely to use his position of power for shady party activities to further his personal interests. The degree to which foreign controlling shareholders own shares directly correlates with their level of influence over different corporate choices, such as transfer pricing policies.

2.3.3. Bonus Mechanism

The bonus mechanism is a part of the process used to determine how much in bonuses a firm's owner or shareholders will provide to board members who are thought to have performed well each year, and when the business turns a profit, through the Shareholders' General Meeting. The directors may try to manipulate the profit and even take steps to restrict the net profit to maximize their bonus because the bonus system is dependent on the quantity of profit (Al-Ramahi, Abuhussein, & Shahwan, 2021). The most common method used by firm owners to compensate their directors is a bonus system based on the profit margin. The firm's owner evaluates the board's performance based on the total earnings of the company, encouraging the board to pursue all methods necessary to boost the company's profit and maximize their bonus. One such method is transferring pricing (Alzeaideen, 2018). One business division within the organization will suffer from this deal. Therefore, it is more likely that directors attempt to maximize their incentives through transfer pricing the higher the profits that the firm's owner sets.

2.4. Study Model

The model of the study is depicted in Figure 1, which shows the various relationships between each factor that was studied.

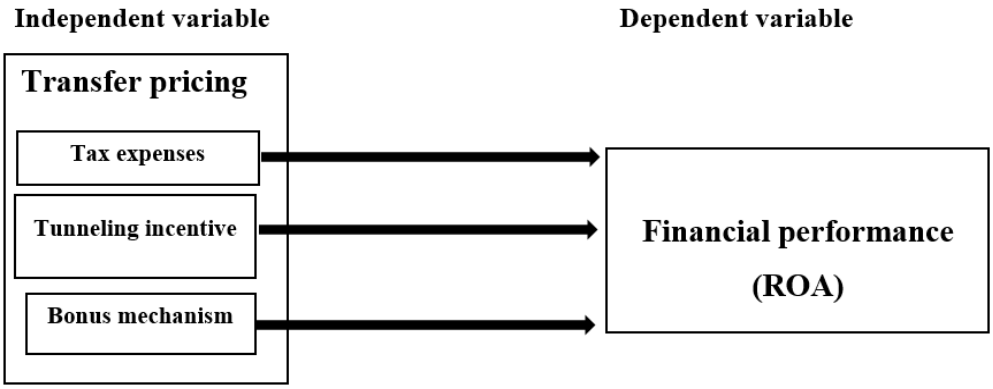

Figure 1. Model the study.

2.5. Theoretical Framework

Many proposals have been discovered for transfer price assessment and financial performance from the body of existing research. Signaling theory and stakeholder theory are used in this investigation. These theories were taken into consideration since the owners of an entity, also known as stakeholders, have the complete authority to administer the resources under the management of the entity's managers. Additionally, it has been noted in the body of existing literature that managers possess greater knowledge than shareholders because they have access to information about the inner workings of the company, allowing them to make decisions regarding whether to share critical information with shareholders. Still, the stakeholders' serve as the foundation for our investigation (Shahwan & Abdel-Hamid, 2020).

2.5.1. Signaling Theory

Because ownership and management are kept apart, signaling theory explains reporting of financial statements as a strategy designed to lessen information asymmetry and promote an effective capital market (Cristea & Nguyen, 2013). When two parties (companies or investors) have access to disparate pieces of information, their conduct may be explained by the signaling theory (Veres, 2011). According to Gupta and Newberry (1997) the concept of information asymmetry serves as a foundation for this theory. The primary premise of signaling theory is that managers are more knowledgeable about a company's status than stakeholders are. The second informational advantage that managers possess is the ability to choose to provide transfer pricing information to stakeholders as a means of communicating the company's stance.

Financial reporting serves as a tool for signaling to investors and financial analysts about a company's performance (Lang, Petruzzi, & Storck, 2019). According to signaling theory, large, successful, and experienced companies reveal more information regarding transfer pricing to their stakeholders to demonstrate their stable performance (Owsley & McKinley, 2014). Omirigbe and Ibrahim (2020) contend that global companies must be prepared to offer investors all the information they want to make informed decisions.

2.5.2. Stakeholder Theory

By achieving stakeholders' expectations regarding financial performance through careful transfer pricing analysis, stakeholder theory offers a motivation to reduce the information gap between management and stakeholders. Furthermore, the theory has been widely used in accounting studies to support financial performance and the assessment of transfer pricing (Abbas & Eksandy, 2020). This is due to the fact that stakeholders have influence over a firm's assets and are engaged in its commercial endeavors (Freeman, Harrison, Wicks, Parmar, & De Colle, 2010). Stakeholder theory also offers strategies for managing several stakeholders with a variety of competing interests. Managers must use financial reporting, especially the yearly financial report, to interact with stakeholders to manage these conflicts (Ballout, Harb, Bataineh, Shahwan, & Zereban, 2023; Hassnain et al., 2017).

The theory of stakeholder relations views financial success as a tool for controlling stakeholders and winning their support for the company's continued existence (Adams & Drtina, 2010). However, Fama and Jensen (1983) concluded that stakeholders in big businesses might assign decision-making responsibilities and internal agents through "expert boards" while maintaining control over the agents. They asserted that the board has the authority to appoint and fire people, determine the pay scale for senior managers, and observe most significant policy efforts. Stakeholder theory posits that managers are incentivized to freely reveal information about transfer pricing decisions and that financial reporting functions as a tool for organizing their output (Harrison, Freeman, & Abreu, 2015). Therefore, in order to lessen conflicts of interest, management must reduce information asymmetry and increase transparency in their operations by providing more information on transfer pricing (Gevoian, 2013).

3. METHODOLOGY

3.1. Content Analysis of Annual Reports

Content analysis is a method used to measure the content of communication accurately, qualitatively, and systematically (Gray, Kouhy, & Lavers, 1995). This study uses cross-sectional and ex-post facto research methodology. It also uses a secondary data collection approach, gathering information from the annual reports and corporate websites of selected multinational firms in the UAE. This is because yearly reports are audited and are a dependable, consistent, and frequent means of communication with stakeholders.

Annual reports were used as the primary information source for secondary data for several reasons. Firstly, according to Buhr (1998) yearly reports they are readily available and are frequently utilized by academics and researchers. Content analysis of these reports reveals the narrative text for categories crucial to concluding thematic content. Secondly, according to Gray et al. (1995) annual reports are seen as reliable official documents, and any

information that companies release in them should have been approved by upper management beforehand. Thirdly, compared to other forms of promotion, annual reports are typically regarded as regulated papers with a higher degree of credibility. Since the government, investors, workers, creditors, and environmental organizations see annual reports from corporations as their major source of information, they are an effective way to control external perceptions (Neu, Warsame, & Pedwell, 1998; Unerman, 2000). According to Neu et al. (1998) an annual report is a means of disclosing company information to all interested parties, including shareholders and stakeholders. Fourthly, the primary source of information on a company's financial success is its yearly reports (Deegan & Rankin, 1999). Lastly, the data in an annual report may be utilized as a tool of marketing and image enhancer (Neu et al., 1998), which encourages businesses to regularly provide information.

The current investigation adopted annual reports as a tool to collect the data of the variables used, consistent with prior research, such as Anggraeni and Lutfillah (2019); Lo et al. (2010); Osho, Soynika, and Oluwafemi (2021); Susanti and Firmansyah (2018) and Adams and Drtina (2010) because these studies have similar characteristics, similar factors and a similar sample type (multinational corporations).

3.2. Sample and Data Collection

This study used a cross-sectional and ex-post facto research methodology. It also used a secondary data collecting approach, gathering information from the annual reports and corporate websites of selected multinational firms in the UAE. This is because yearly reports are audited and are one of the most dependable, consistent, and frequent means of communication with stakeholders. The study's population consists of all multinational corporations operating in the UAE in the health, manufacturing, telecommunication, manufacturing, conglomerate, building, consumer, and transportation sectors. These international firms were selected due to their favorable influence on the country's economy. Using a purposive sampling approach, the study used a sample of twelve international corporations. The basis for the purposeful sampling approach was the availability of necessary data that complied with legal and disclosure requirements. Since multinational corporations were becoming more cognizant of transfer pricing during this time, the financial statements of the selected enterprises, which spanned from 2012 to 2022, were used.

Roscoe (1975) (as referenced in Sekaran (2000)) suggested that the number of constructs should be multiplied by ten as a general guideline for determining the sample size. Bollen (1989) made a similar recommendation, stating that the empirical ratio of the estimate's parameter requires at least ten observations. The minimum acceptable sample size, according to Hair, Black, Babin, Anderson, and Tatham (2010), should be five times the number of factors.

The current study includes four main variables, and based on the above, if the author follows the same criteria by multiplying the number of variables (four variables) by ten (4*10), the sample size will be 40. The sample size of this study comprises twelve companies. The sample size can be determined based on cross-sectional and ex-post facto research methodology, which for this study is 12*10 (120 companies' year observations) and is a sufficient sample size. The 120 observations offer accurate grades in more samples compared to further approaches, such as Roscoe (1975); Hair et al. (2010) and Bollen (1989).

Also, contrary to prior studies, this study focuses on multinational corporations in the UAE for several reasons. The UAE has one of the fastest growing economies in the Middle East. In addition, it is considered one of the countries that most attracts multinational companies, and it is one of the most important global commercial centers, especially in the Middle East. The UAE has many characteristics that may be similar or intersect with many developing and developed countries, such as demographic, environmental, and economical characteristics besides the strategic location. These might be useful for generalizing the results of this study in various countries and further research.

Panel least squares regression was used as it is the most frequently employed method to examine how transfer price assessment affects a firm's financial performance (Anisa & Amrie, 2018). Furthermore, it takes the individual

variability of the sample of multinational businesses into consideration (Anisa & Amrie, 2018; Imran, Ali, Shahwan, Zhang, & Al-Swiety, 2022).

3.3. Model Specification

To quantify the link between independent and dependent variables, the following clearly expresses an econometric model that was modified from Anisa and Amrie (2018) using Equations 1 and 2, respectively.

$$FP = f([TE, TI, BM]) \quad (1)$$

is stated clearly as:

$$FP = \beta 0_{it} + \beta_3 BM_{it} + \beta_2 TI_{it} + \beta_1 TE_{it} + \mu_{it} \quad (2)$$

FP = Financial Performance (calculated through return on assets by dividing the net profit before tax and interest on the total assets).

TE = Tax Expenses (determined by the percentage of tax expenses on income before taxes).

TI = Tunneling Incentive (a dummy variable with a value of "0" if the firm distributes dividends and "1" if the firm distributes dividends).

BM = Bonus Mechanism (determined by the percentage of net profit of the current year to rise in net profit, such as the trend of net profit).

$\beta 0$ = Regression line's intercept, which is thought to be constant.

i = Firm.

t = Year or period.

$\beta 1$, $\beta 2$, and $\beta 3$ = Independent variables or the regression line's slope.

μ = Terms of error for additional independent variables which impact the model but are not recorded.

The model classified transfer pricing evaluation (TE, TI, and BM) as the independent variables and financial performance (FP) as the dependent variable.

4. STUDY RESULTS

This part of the study covers the analysis, presentation, and interpretation of the data gathered and processed to empirically assess the study's model. The association between the dependent variable (financial performance) and the independent factors (bonus mechanism, tunneling incentive, and tax expenses) is estimated using the panel least squares regression test.

Table 1. Descriptive analysis of the variable.

Item	Financial performance	Bonus mechanism	Tunneling incentive	Tax expenses
Minimum	0.054	0.010	0.009	0.012
Maximum	71.09	1.100	0.501	0.606
Mean	8.961	0.611	0.100	0.186
Median	4.447	0.930	0.031	0.207
Std. dev.	0.310	-0.109	0.259	0.267
Kurtosis	2.127	1.101	2.996	2.004
Skewness	0.0195	0.486	0.201	0.255
Probability	0.000	0.000	0.000	0.000
Jarque–Bera	1097.3	62.8	474.3	495.7
Observations	120	120	120	120

The financial performance and descriptive information related to the assessment of transfer pricing is presented in Table 1. The mean shows a degree of consistency; financial performance and transfer pricing examination have a mean score of 8.961. In addition, the variables' skewness and kurtosis statistics, which are near to 0 and ±3,

respectively, indicate that they are distributed normally. Further, the Jarque–Bera statistics are 1097.3 with a p-value of 0.000, and the standard deviation, which measures the distribution's spread, is 0.0195.

Table 2. Matrix correlation for the variables.

Correlation	FP	TE	BM	TI
FP	1.00			
TE	0.652	1.00		
BM	0.429	0.157	1.00	
TI	0.411	0.720	0.644	1.00

A matrix of Pearson correlations for the variables used in the study is displayed in Table 2. The analysis of the multinational corporations' financial performance and their transfer price appraisal are related, as indicated by the correlation coefficients. With 95% confidence, there is a substantial link. The findings show a strong correlation between financial success and the assessment of transfer pricing. Additionally, the correlation results demonstrate a negative effect between TE and BM and FP, but a positive effect between TI and FP. Consequently, most of these findings support the theories about the connection between FP and TP appraisal.

Table 3. Summarized results of the PP Fisher unit root tests.

Variable	At the 5% level	
	PP Fisher statistics	Prob.
TI	-6.227	0.000
BM	-13.520	0.000
TE	-14.111	0.000
FP	-14.235	0.000

Table 3 demonstrates the stationarity of all independent variables (BM, TI, and TE) and the dependent variable (FP) at level (order 0). This suggests that when all the variables are stationary at level, ordinary least squares (OLS) is appropriate for analyzing the relationship that exists between BM, TI and TE, and the dependent variable FP. Thus, OLS was utilized in this research to examine the connection between the FP of the multinational companies in the UAE and the assessment of transfer pricing.

Table 4. Panel least squares regression results for financial performance.

Variable	Coefficient	Std. error	P-value	T-value
TE	-6.760	6.718	0.438	-0.952
TI	2.090	5.842	0.501	0.298
BM	-0.360	1.427	0.710	-0.310
R^2	0.64			
Durbin–Watson	0.00004			
Panel OLS	1.89			
F-statistic	0.0000			

Additional elements that are part of the disturbance (error) word are shown in Table 4. It presents the Durbin–Watson test, which is typically driven to zero when there is a unit root in the residual series; however, the statistic value of the panel OLS is 1.89 and is within the suitable range to zero autocorrelation, supporting the null hypothesis that there is no serial correlation in the residual model. The model's F-statistic (0.000) indicates that it is highly significant.

The developed theories are examined in this part. The null hypothesis is rejected and the alternative hypothesis is accepted if the p-value is less than the 5% level of significance. Given that the first hypothesis (H1) showed an insignificant effect, the results are consistent with expectations. The outcome demonstrated that the t-statistic of -

0.952 and the p-value of 0.438 were more than the 5% significance threshold. Therefore, the outcome was consistent with the null hypothesis being accepted. This suggests that the financial performance of multinational firms in the UAE is unaffected by an increase in tax expenses. These results are consistent with previous studies by Anisa and Amrie (2018) and Bärsch et al. (2020) however, Devi and Suryarini (2020) found a substantial correlation between tax expenditure and financial performance.

The results for hypothesis two (H2) showed an insignificant relation between the financial performance of multinational firms in the UAE and tunneling incentive. A p-value of 0.501 and a t-value of 0.298 show that the outcome is greater than the 5% level of significance. Therefore, the outcome is consistent with accepting the null hypothesis (H2) and rejecting the alternative. This confirms that financial performance rises, even in the presence of a low tunneling incentive. These results are in line with studies by Abbas and Eksandy (2020) and Anita (2017) which found a negligible positive correlation between the financial performance of multinational firms in the UAE and tunneling incentives. The outcome, however, disagrees with research by Abbas and Eksandy (2020), who found no link between TI and FP.

In a similar vein, the findings for the third hypothesis show no significant relation between the multinational firms' financial success and their bonus system. The outcome demonstrated that the t-value of -0.310 and the p-value of 0.710 were more than the 5% level of significance. As a result, the outcome was consistent with accepting the null hypothesis rather than the alternative. This suggests that the financial performance of multinational corporations in the UAE is unaffected by an increase in the bonus mechanism. The outcome is consistent with the study by Saifudin and Luky (2018) who found no significant relation between the bonus system and financial success, but runs counter to the findings of Abbas and Eksandy (2020) and Alfin (2018) who found a favorable and statistically significant association between the bonus scheme and financial success.

5. CONCLUSION

This study looked at how the financial performance of multinational companies in the United Arab Emirates is affected by the assessment of transfer pricing. Tax expenses, tunneling incentive, and bonus mechanism are the transfer pricing assessment determinants that were applied in this investigation. According to the analysis and findings, tunneling incentive has a positive but insignificant impact on financial performance, whereas the dependent variable—financial performance—has a negative but insignificant relationship with tax expenses and the bonus mechanism. The study concludes that tax expenses have become a significant factor since they often make transfer pricing decisions more difficult. Additionally, since there are other trustworthy ways to resolve agency conflicts of interest between managers and shareholders, the study concludes that the inclusion of bonus mechanisms has no effect on financial performance. Lastly, the research concludes that tunneling incentive will help with the evaluation of transfer pricing and enhance the financial performance of multinational firms in the UAE. However, the research suggests that tax expenses should be within a fair range. Additionally, UAE multinational firms should reassess their bonus mechanism for optimal financial performance. Furthermore, the research suggests that tunneling incentives be strengthened because they often yield positive financial results for the stakeholders.

6. LIMITATIONS OF THE STUDY

To provide a reasonable explanation, the study's limitations should be taken into consideration while evaluating the findings. Firstly, the three transfer price assessment factors that are the focus of this study are tax expenses, tunneling incentive, and bonus mechanism. Unfortunately, the current study could not cover all the factors and methods used to practice transfer pricing by all the multinational corporations. Secondly, this study focused on the multinational corporations in UAE but did not consider the other companies that can practice transfer pricing with their allied or subsidiary companies.

7. FUTURE STUDIES

The study's limitations and findings offer several investigation opportunities related to transfer pricing practices in the UAE. The following are some proposed areas for further research:

Firstly, future research could increase the sample size by including national firms' coverage and not only focus on multinational corporations to increase the generalizability of the findings in the UAE. Secondly, future studies may consider the benefits of transfer pricing practice from the management's perspective, since there are no prior investigations that have concentrated on this perspective in the case of developing countries to the best of the author's knowledge. Thirdly, future studies could make a comparison of transfer pricing in different countries. Fourthly, future studies could consider additional factors such as debt ratio, non-controlling interest, corporate governance, and foreign exchange vulnerability. Additionally, more research could be conducted on industries served by multinational corporations in the other Gulf countries, such as Saudi Arabia, including the construction, wellness and health, banking, financial consulting, gas and oil, and telecommunication sectors.

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Transparency: The author states that the manuscript is honest, truthful, and transparent, that no key aspects of the investigation have been omitted, and that any differences from the study as planned have been clarified. This study followed all writing ethics.
Data Availability Statement: Yousef Shahwan can provide the supporting data of this study upon a reasonable request.
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