CHALLENGES AFFECTING IMPLEMENTATION OF TRANSFER PRICING POLICIES BY MULTINATIONAL COMPANIES IN KENYA

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DECLARATION

I declare that this research project is my original work and has not been presented for degree in any other university.

Sign: ……………………………………….. Date: ………………………

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This research project has been submitted for examination with my approval as university supervisor.

Sign: …………………………………… Date: …………………………

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DEDICATION

I dedicate this research dissertation to my family members for their love, support, patience and encouragement.

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I first thank the God almighty for the gift of life and protection.

I am greatly indebted to thank my supervisor for his positive critique on the document and guidance. I appreciate his help, dedication and support offered in completion of this research dissertation. I also acknowledge the support of the lecturers in KCA, fellow classmates, the administration staff and the whole University fraternity who have always been positive and supportive.

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TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

ABBREVIATIONS AND ACRONYMS

APA	Advance Pricing Agreement
BEPS	Base Erosion and Profit Shifting
ETRs	Electronic tax registers
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
MDG	Millennium Development Goals
MNCs	Multinational companies
MNEs	Multinational Enterprises
OECD	Organization for Economic cooperation and Development
PWC	Price Water Coppers
TP	Transfer Pricing

OPERATIONAL DEFINITION OF TERMS

Compliance Costs: are defined as the direct costs to businesses of performing the various tasks associated with complying with various regulations (operational and enforcement costs) (Preshaw *et al.,* 2008).

Double taxation: is a taxation principle referring to income taxes paid twice on the same source of earned income (Paudice, 2014).

Implementation of transfer pricing policies: Process of determining the pricing of goods, services, and financial instruments when transferred between affiliates in various countries within an organization (Captain & Brown, 2014).

Multinational Corporation: is a business organization whose activities are located in more than two countries and usually have a centralized head office where they coordinate global management (Dunning & Lundan, 2008).

Regulations: Principle or rule (with or without the coercive power of law) employed in controlling, directing, or managing an activity, organization, or procedure (Maither, 2014).

Revenue Loss: Loss of profits/income or a company makes less from operations than expected due to external and internal factors (Mckinley & Owsley, 2013).

Transfer Pricing: is the pricing of goods, services, and financial instruments when transferred between affiliates in various countries within an organization (Captain & Brown, 2014).

ABSTRACT

The objective was to examine the challenges affecting implementation of transfer pricing policies by multinational companies in Kenya. The study specifically sought to determine the extent to which compliance costs, threat of double taxation, loss of revenue and the existing regulations affect implementation of transfer pricing policies by multinational companies in Kenya. The study was guided by theory of optimal transfer prices, agency theory, and modern financial theory. The study adopted a descriptive research design. The target population was senior finance officers, one from each of the 213 MNCs in Kenya. The study adopted a formula by Cochran to calculate the sample size. The sample size of the study was 137 senior finance officers in MNCs. The study collected primary data though a questionnaire which had closed questions. The researcher administered the questionnaire through drop and pick later method. The developed questionnaire was checked for its validity and reliability through pilot testing. Reliability of the questionnaire was tested by Cronbach's alpha test with the and a co-efficient of above 0.8 was achieved which implied that the instrument was sufficiently reliable for the measurement. The data was analyzed using descriptive and inferential statistics. The descriptive statistics included frequency distribution tables and the means, standard deviation and measures of relative frequencies. The inferential statistics included a multiple regression model which established the relationship between variables. The analyzed quantitative data was presented using tables, charts and graphs. The study found out that there was a negative and significant regression relationship between compliance costs and implementation of transfer pricing policies in MNCs in Kenya. There was a positive and significant relationship between threat of double taxation and implementation of transfer pricing policies. The study also found out that there is a positive and significant relationship between regulations and implementation of transfer pricing policies. The study concludes that an increase in compliance costs such as those associated with transfer pricing audits in order to comply with the regulations and documentation of transfer pricing policy negatively affects implementation of transfer pricing policies in MNCs. It can also be concluded that when MNCs are exposed to threats of double taxation, for instance in cross-border transfers of goods and services by tax authorities of different jurisdictions; the companies will tend to implement transfer pricing policies such as use of Arm's length principle so to minimize the possibility for double taxation. It can also be concluded that the existing TP legislation lack clarity and give rise to uncertainty and they tend to be a hindrance to implementation of transfer pricing policies by MNCs in Kenya. The study recommends that Kenyan government should come up with a clear law or legislation on transfer pricing. The study also recommends that MNCs should pay more emphasis on the implementation of transfer pricing policies to avoid such penalties. The MNCs should aligned their business objectives to the Kenyan transfer pricing regulations to avoid any legal penalties.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

As the world economy becomes more globalized, transfer pricing is becoming increasingly challenging to revenue authorities in planning and implementing their mandate of collecting revenue through taxation. Transfer pricing has grown into a global issue because of the increase in international transactions which generate revenue for Multinational Enterprises (MNEs), and the realization by these businesses that through manipulation of the tax rules in different jurisdictions, they can report higher profits than their competitors (OECD, 2009). Globalization is causing multinational corporation (MNCs) to play a significant role in the economy of most nations. It has been estimated that approximately two-thirds of all business transactions worldwide take place between related parties. Developing countries are no exception (World Bank, 2011). International organizations consider transfer pricing a development financing issue, because without adequate tax revenues, a countries ability to mobilize domestic resources for development can be hampered (Sundam, 2012).

Recent advancements have further expanded the attention transfer pricing, including activities to extend review extensions and complexities, reclassify assessment positions, and uphold more stringent transfer pricing documentation necessities. For example, the OECD's project on Base Erosion and Profit Shifting (BEPS) aims to develop approaches for addressing concerns that MNCs are inappropriately avoiding taxes and reducing their tax liabilities through BEPS activities (Captain & Brown, 2014). Through a progression of 15 action plans, the OECD distinguishes activities expected to address BEPS, sets due dates to actualize the activities, and recognizes the assets required and the technique to execute the activities. Along these lines, the OECD likewise issued a white paper that stresses straightforwardness in exchange estimating documentation to empower hazard appraisals all through the production network. These are two examples of the dynamic and ever-changing sphere of transfer pricing (Captain & Brown, 2014).

A study by Sonja (2012) on tax avoidance activities of United States Multinational Corporations also noted that MNCs frequently use their foreign operations to avoid income taxation, and Electronic Tax Registers (ETRs) capture this type of tax avoidance. For example, shifting income from a high-tax jurisdiction to a low-tax jurisdiction reduces a multinational corporations worldwide ETR. While under relevant laws and regulations, prices for related-party transactions should be set according to comparable market prices similar to other arm's length transactions; in practice, MNCs treat international transfer pricing as a mechanism to manoeuvre funds internationally and to choose the countries in which they wish profits to be reported (Chan & Chow 1997). They strategically select transfer prices so as to maximize global tax savings, minimize operating risks and circumvent restrictions imposed by host governments.

1.1.1 Concept of Transfer Pricing

Transfer pricing is the pricing of goods, services, and financial instruments when transferred between affiliates in various countries within an organization (Captain & Brown, 2014). Ngumy et al. (2010) defines transfer pricing as the estimating game plans set by multi-national related entities in respect of transactions between them, for example, the offer of merchandise, arrangement of administrations, exchange of immaterial resources, loaning or acquiring of cash and any other transactions which may affect the profit or loss of the entities.

A transfer price affects the distribution of total profits across entities in different tax jurisdictions and is along these lines an essential determinant of the total taxes paid by the MNC. From a worldwide point of view, the world economy is turning out to be more coordinated, and MNCs represent an expanding extent of the worldwide economy. Intercompany transactions represent a growing factor of cross-border trade, and, according to the Organization for Economic Co-operation and Development (OECD), approximately 60% of world trade takes place within multinational enterprises (Captain & Brown, 2014).

1.1.2 Policies of Transfer Pricing

Transfer pricing has become by far one of the most important and contentious international tax issues facing multinational corporations, whatever their size (Ngumy et al., 2010). The exceedingly complex nature of transfer pricing is a times misjudged as a plan by a MNC to move profits to affiliates in low-tax jurisdictions. In all actual sense, arm's-length transfer pricing in its present structure, when well managed, is an effective system for both tax authorities and companies to reduce audit controversy while demonstrating to allocate income fairly among multiple taxing jurisdictions around the world

Conversely, if inadequately administered, transfer pricing can be costly for all stakeholders, leading to lengthy audits and litigation, transfer pricing adjustments, potential nondeductible penalties, and double taxation (Captain & Brown, 2014). With varying functions being performed by decentralized affiliates worldwide, MNCs face the challenge of establishing their transfer prices and defending them against tax authorities on both sides of each transaction, with all looking to maximize their own interests.

In Kenya, the operative legal provision on transfer pricing is contained in Section 18(3) of the Income Tax Act. Kenya adopted specific TP legislation in 2006 in response to losing a TP case between "Unilever Kenya Limited v. The Commissioner for Income Tax". Prior to the coming into force of the Income Tax (Transfer Pricing) Rules on June 16 2006 there were no guidelines to assist multinational companies to comply with Section 18, particularly with the method of determination of arm's-length pricing. Multinational companies had, in the absence of any such regulations, generally applied the universally recognized Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations issued by the Organization for Economic Cooperation and Development (OECD), which the Kenya Revenue Authority had been reluctant to accept. In 2005 the High Court of Kenya held, in the case of Unilever Kenya Limited v the Commissioner for Income Tax, that in absence of any guidelines on transfer pricing in Kenya, OECD guidelines were acceptable. It was in this context that the minister of finance enacted the Income Tax (Transfer Pricing) Rules 2006. The rules are substantially based on the OECD guidelines. However, they are fraught with certain interpretational difficulties which can be exploited by a taxpayer in the case of a dispute (Anjarwalla, 2007). Therefore no dispute, transfer pricing is a current topical issue bothering many authorities.

According to PricewaterhouseCoopers (2012), the Kenyan Income Tax Act Cap 470, section 18(3) explicitly refers to the arm's length principle and provides tax authorities with a legal foundation to adjust transfer prices that they consider not to be at arm's length. Further guidance on application of the arm's length principle has been issued in separate TP legislation. Under this legislation, five methods can be applied to determine the appropriate transfer prices between related parties. These methods are in line with the OECD standard and, in principle, apply equally, though preference is given to transaction-based methods. The current TP legislation does not contain any thresholds or materiality clauses. Overall, the TP legislation is perceived as lacking clarity and giving rise to uncertainty.

1.1.3 Challenges Affecting Implementation of Transfer Pricing Policies

Transfer pricing (TP) is a challenge for developing countries. According to Silberztein (2010) while a lot of debate about tax and developing countries nowadays tends to focus on how to reduce revenue leakage through offshore tax havens; there is another issue called transfer pricing which developing countries have to be mindful of, particularly if they want to avoid the risk of losing out on tax revenue from cross-border transactions carried out by multinational enterprises. In the study done by PWC (2012) on transfer pricing and developing countries it was noted that that developing countries encounter particular problems when dealing with TP.

The study first highlighted that developing countries often lack the necessary legal framework to enforce TP and sanction non-compliance and misconduct. Secondly, local tax administrations are often inexperienced with regard to TP and lack basic understanding in the field. For substantiating TP, for example comparables are difficult to identify because there are fewer organized companies in any given sector in developing countries. In addition, there are no databases which allow information to be extracted on comparable transactions or companies in order to verify TP between related parties. Further problems exist in gathering taxpayer information due to the absence of documentation requirements or the inability to enforce existing requirements. A case in point is the Kenyan Revenue Authority, which make use of non-publicly available information for validating TP, to the disadvantage of bona fide taxpayers that do not have access to such data and hence are not able to verify such comparisons. This generates legal and economic uncertainty for taxpayers, which potentially precludes commitments with respect to investment decisions and business development (Wright, 2010).

Equally, tax administrations sometimes lack the capacity to process and evaluate such information, partly because of the lack of technical expertise or because they do not have the necessary resources at their disposal to process the data. There is now widespread recognition of the importance of domestic resource mobilization in developing countries, and one key area within that relates to the tax revenues raised from multinational companies. Central to debate in this is the challenge posed by transfer pricing, the mechanism by which profit is allocated between related subsidiaries of companies (Christian-aid, 2010).

Jansky (2013) argued that the low level of tax revenues raised in developing countries is caused by a number of reasons. The existence of large informal sectors, high levels of poverty and the consequent inability of poorer citizens to pay taxes, the abuse of tax incentives (tax holidays) to attract foreign direct investment, and tax avoidance and evasion by corporations and individuals can be identified as the most relevant causes, coupled with the existence of weak institutional capacity to expand the tax base and enforce taxpayers' compliance. Business advisers claim that transfer pricing continues to be, and will remain, the most important international tax issue facing MNEs. This is entirely plausible because transfer pricing enables corporations to minimize tax payments by enabling capital to be exported to more favorable locations.

Multinational companies play a significant role in the economies of countries. In Kenya, it is estimated that MNEs account for a significant percentage of the large taxpayer population, which contributes to about 75% of total tax revenues (Kenyan Ministry of Finance, 2010).

Many MNEs in Kenya began their operations in the early 1990s, but a significant share of them already started to invest when the country attained independence (1963). In some industry sectors, especially agriculture, manufacturing, transport and financing, a strong MNE presence can be observed. Even though MNEs have traditionally operated as fully-fledged entrepreneurs in Kenya, some have recently opted to lower the risk profile of their local entities by transferring functions and value-addition processes out of Kenya. This is due to activities such as manufacturing being centralised in other countries like Egypt, South Africa and the United Arab Emirates.

Multinational companies operating in Kenya and engaged in cross-border trade with related overseas companies have over the past few months endured a tax nightmare as a result of the Kenya Revenue Authority's drive to enforce transfer pricing rules under the Income Tax Act. The Kenya Revenue Authority has identified transfer pricing as a major area of tax revenue leakage and has recently been conducting transfer pricing audits of multinational companies with a view of curbing 'profit dumping' in Kenya (Anjarwalla & Khanna, 2007).

1.2 Statement of the Problem

Transfer pricing is an enormous challenge globally, but the challenge is more acute in developing countries (Silberztein, 2010; Captain & Brown, 2014). Generally, TP is high on the agenda because globalization has lifted the level of cross-border trade between related entities to new heights. It is estimated that, worldwide, about 2/3 of all business transactions take place within related parties (World Bank, 2011). This is particularly relevant for developing countries as their economies have recently opened up or are in the process of opening up, attracting large amounts of foreign direct investment FDI from MNEs. In the absence of adequate knowledge on TP and legislation, both tax administrations and MNEs have only limited guidance they can refer to when determining TP in related-party transactions.

Developing countries such as Kenya encounter particular problems when dealing with TP (Curtis & Todorova, 2012; Silberztein, 2010). Local tax administrations are often inexperienced with regard to TP and lack basic understanding in the field. For substantiating TP, for example comparables are difficult to identify because there are fewer organised companies in any given sector in developing countries. In addition, there are no databases which allow information to be extracted on comparable transactions or companies in order to verify TP between related parties. Further problems exist in gathering taxpayer information due to the absence of documentation requirements or the inability to enforce existing requirements. Equally, tax administrations sometimes lack the capacity to process and evaluate such information, partly because of the lack of technical expertise or because they do not have the necessary resources at their disposal to process the data (PWC, 2012).

There have been some researches done in Kenya in the area of transfer pricing. Mbiuki (2011) examines Transfer pricing legislation in Kenya and in particular the impact of the decision in the Unilever verses the Commissioner of income taxes case. The decision of the case provided guidance on the application of the arm's-length principle and the policy governing transfer pricing practice in Kenya. Nyamori (2012) in his study noted that Kenya introduced 2006 transfer pricing rules to provide guidance that govern TP law and policy. Amable (2012) focused on both legal and administration framework for addressing TP concerns in Kenya.

A study by Muchina (2013) on transfer pricing goals and methods among unlisted companies in Kenya, found out that transfer pricing was a major decision issue among top managers. However, proper decisions cannot be made without adequate knowledge of transfer pricing and as Ngundi (2012) recommended; MNEs should improve their efforts in their understanding of what transfer pricing means; should be aware and comprehend the challenges and the effects of transfer prices. The above studies highlights that there is little understanding on transfer pricing; the benefits and/or also challenges faced by MNCs in developing countries such as Kenya in implementing transfer pricing policies in Kenya. It is against this background therefore that the study sought to examine the challenges affecting implementation of transfer pricing policies by multinational companies in Kenya.

1.3 Objectives of the Study

The general objective was to examine the challenges affecting implementation of transfer pricing policies by multinational companies in Kenya.

1.3.1 Specific Objectives

The study was guided by the following specific objectives:

i. To determine the extent to which compliance costs affect implementation of transfer pricing policies by multinational companies in Kenya.

ii. To assess the extent to which threat of double taxation affect implementation of transfer pricing policies by multinational companies in Kenya.

iii. To establish the extent to which possibility of loss of revenue affect implementation of transfer pricing policies by multinational companies in Kenya.

iv. To examine how the existing regulations affect implementation of transfer pricing policies by multinational companies in Kenya.

1.4 Research Questions

This study sought to address following research question:

i. To what extent do compliance costs affect implementation of transfer pricing policies by multinational companies in Kenya?

ii. To what extent does the threat of double taxation affect implementation of transfer pricing policies by multinational companies in Kenya?

iii. To what extent does the possibility of loss of revenue affect implementation of transfer pricing policies by multinational companies in Kenya?

iv. How do the existing regulations affect implementation of transfer pricing policies by multinational companies in Kenya?

1.5 Significance of the Study

The study could be of significance to the following:

1.5.1 Multinational Companies

The study might be of value to the multinational companies as the study may enlighten the companies about transfer pricing and the challenges affecting implementation of transfer pricing policies in among MNCs operating in Kenya. The findings and recommendation made in this study may greatly help them to make sound decisions as they decide to implement transfer pricing policies in their companies in future. This may assist the company management team to implement the transfer pricing policies with some background knowledge of the challenges and benefits of implementing such a policy in their companies.

1.5.2 Government Agencies

The study may be of significance to government agencies such as the Kenya Revenue Authority through highlighting the challenges that companies are facing in implementing the Transfer Pricing Rules especially with regard to the loopholes that exist in the current legislation on transfer pricing. On the other hand, with increase revenue targets by KRA to meet developments and repaying of state debts, this study matters to the income tax authorities, and would understand how transfer pricing affect the taxes that it can levy upon corporate profits. The study might therefore enlighten the authorities to strike a balance on maximizing taxes collected and at the same time seeking to avoid any leakage of revenue through use of transfer pricing mechanisms that are likely to deny them of their revenue.

1.5.3 Potential Investors

This study may be of importance to a number of stakeholders, for instance the prospective investors who are willing to set up companies in Kenya. Investors are motivated to invest in areas or regions that promise high returns for their investment. By highlighting the transfer pricing practice in Kenya and the potential challenges affecting implementation of transfer pricing policies among MNCs operating in Kenya; the investors would make sound decisions on how to approach the Kenyan business environment.

1.5.4 Researchers and Academicians

The study may also be of benefit researchers and academicians through contributing towards sealing the gap that is in existence with regard to transfer pricing in Kenya as an emerging market as well as to highlight issues of interest that need further redress by future researchers. By virtue that TP is a relatively evolving concept globally and locally, this study may contribute greatly to the existing literature and may be very valuable to the academic fraternity and form a basis for further research on transfer pricing.

1.6 The Scope of the Study

In the proposed study the researcher only evaluated the challenges affecting implementation of transfer pricing policies by multinational companies in Kenya. The study specifically examined the extent to which compliance costs, threat of double taxation, possibility of loss of revenue, and existing regulations and guidelines affects implementation of transfer pricing policies by multinational companies in Kenya. The target population in the study was Multinational companies registered in Kenya. Due to the constrained resources, this study focused on MNCs operating in Nairobi. The study collected primary data.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter covers theoretical review, empirical review, the conceptual framework, knowledge gap and operationalization of variables. The theoretical review discusses the theories that inform the study; empirical review discusses past studies by other authors on the specific research objectives while the conceptual framework presents the schematic diagram that shows the interactions between the independent variables and the dependent variable. The chapter ends with research gaps identified and operationalization of variables.

2.2 Theoretical Review

The theoretical reviewed theories attributed by other authors and scholars and are relevant to implementation of transfer pricing policies. The study was guided by Theory of Optimal Transfer Prices, Agency Theory, and Modern Financial Theory.

2.2.1 Theory of Optimal Transfer Prices

There is an extensive assortment of examination on ideal exchange costs that stems fundamentally from the microeconomics and bookkeeping works. There are a few thorough review of this work for example Eccles (1985), and Eccles and White, 1988). In his fundamental article, Hirshleifer (1956) determines ideal exchange costs that lead autonomous profit centers to make decisions that maximize firm profits. Accepting that the working expenses of every middle are free of the level of operations in different focuses (mechanical autonomy) and that extra outer deals by an inside don't decrease outside interest for the other focuses' items (demand independence), Hirshleifer demonstrates that the optimal transfer price is the marginal cost of producing the intermediate good or service. All the more by and large, the middle that delivers the moderate item ought to give a timetable of minimal expense connected with various yield levels so that the inside that creates the finished result can pick the ideal joint level of yield. The main situation under which this ideal value rises to the business sector cost for the halfway item is the point at which the outside business sector for the item is impeccably focused. Negligible cost exchange costs give the middle that creates the final result with the data important to deliver at the level that is ideal for the firm overall—the level that compares the minor expense of generation with minimal income.

Benke and Edwards (1980) have similar views on constructing transfer prices. They examined the transfer pricing practices of 19 firms to find principles that other organizations could use to implement transfer pricing policies that are appropriate for their individual circumstances. Their investigation led to a general rule: an internal transfer price should equal the product's standard variable cost plus the opportunity cost associated with outside sales that were lost due to internal sales. This opportunity cost is zero when there is excess production capacity or there is no reliable external price for the product. The authors specifically exclude fixed costs from transfer prices because including them in the internal price transforms them into variable costs to the purchasing center, thus distorting decision making in that center. However, they suggest several ways to pay for these fixed costs without interfering with the evaluation of centers. One way is to leave them in the selling center but not include them in profit calculations. Another is to transfer them to the corporate level. A third option is to transfer them to the purchasing center through periodic charges that are unrelated to the volume of purchases (RAND Corporation, Undated).

Eccles interviewed 144 managers in 13 firms from the chemicals, electronics, heavy machinery, and machinery components industries to determine how transfer prices are implemented and managed in practice. Eccles (1985 and 1991) and Eccles and White (1988) discuss the three most common transfer pricing policies observed in the survey: mandated full-cost transfers, mandated market-based transfers, and exchange autonomy in which prices range between full cost and market. In addition to observing diversity in policies across firms, the authors observed multiple policies even within firms corresponding to different product strategies and environments. This divergence between theory and practice—in particular, a lack of marginal cost pricing and frequent use of full-cost transfers—led to a new theory to explain transfer pricing practices.

This theory is therefore critical in guiding this study as it helps analyze optimal transfer pricing, with optimal being defined as transfer pricing that maximizes overall firm profits. Transfer pricing entails the setting, analysis, documentation, and adjustment of charges of goods and services within a multi-divisional organization, particularly in regard to cross-border transactions. Intra-company transactions across borders are growing rapidly and are becoming much more complex. Compliance with the differing requirements of multiple overlapping tax jurisdictions is a complicated and time-consuming task. Based on the principle of this theory, firms must set the optimal transfer prices to maximize company profits.

2.2.2 Agency Theory

Jensen and Meckling (1976) published and theory of the firm concept based on conflicts of interest of different participating subjects. These subjects are specified as stockholders, managers and creditors. Jensen and Mackling define the agency relationship as relationship where one or more persons (principals) hire a different person or persons (Agents) to manage their concerns, which means to delegate decision making rights to agents. If both principal and agents are individual utility maximizers, we can expect them to follow their self-interests which may not be identical. Jensen and Mackling (1976) states that the existence of agency costs is based on an incompatibility of individual interest of agents and principals. They distinguish the costs as follows: monitoring costs, bonding costs, residual costs.

According to Kaiser (2006), transfer pricing policy could be ineffective when the transfer prices are set by the parent firm. The situation, when transfer prices differ from market ones, leads to deformation of supply and demand. When the motivation of management of subsidiary firms is based on the profit of the subsidiary firms, a conflict of interests arises. The management of subsidiary firms cannot influence the prices of inputs and outputs which results in huge inconsistence of authority and responsibility.

In this study, agency theory is applied on the transfer pricing problem with the primary aim to analyze the possibilities of how a controlling company can motivate the management of subsidiary companies so that they act in the best interest of the controlling company. It can be stated that there must exist an optimal transfer pricing so that the profit of the concern is maximal. The principals motivate agents to act in their best interest. Agents create systems which are to convince the principal that agents act in their best interest.

2.2.3 Modern Financial Theory

In financial theory the relationship between risk and return focuses on the explanation of the risk premia (the difference between expected returns and the riskless rate of interest) analyzed by the Capital Asset Pricing Model which is an extension of Harry Markowitz's mean-variance portfolio model. Modern finance theory puts risk in the centre, but its interpretation is shaped by the wish to utilise the concept to create and defend high returns

(Caldentey & Vernengo, 2010). Risk has become the centre of gravity of financial model building in developed markets. However, it is conceptually diffuse, and the question has been posed by authors such as Taleb (2007) and Triana (2009) if systemic risk (i.e. risk to the whole system) has not been either ill assessed or directly augmented by the use of the standard models.

Transfer pricing techniques ought to mirror the hidden business substances that go with the cross-fringe trade of merchandise, administrations, or intangibles by related gatherings. Notwithstanding, current exchange estimating strategies depend on suspicions about valuation that regularly repudiate cutting edge money related hypothesis. In a few administrations, for example, in U.S. transfer pricing is based on the arm's length standard, and impliedly the separate entity concept, current transfer pricing methodologies fail to account for corporate behavior. Such transfer pricing rules are conflicting with cutting edge plans of action which sort out by procedure as opposed to by capacity. In addition, value-based techniques taking into account the assessment of equivalent inconsequential exchanges are insufficient to distribute benefits among related gatherings where intangibles constitute a noteworthy part of the important merchandise or administrations (Ackerman and Chorvat (2002).

Ackerman and Chorvat (2002) also assert that the guiding principle for any transfer pricing regime should be the adoption and administration of a set of rules that promotes economic neutrality. That is, transfer pricing rules should divide the tax base to reflect the economic arrangement among members of a multinational enterprise operating in different countries in the same manner as if the related members were in fact unrelated parties dealing at arm's length. Transfer pricing rules should not impose economic penalties upon MNEs that conduct business among related parties instead of among unrelated parties. Global economic efficiency will be fostered if business decisions regarding whether to operate in an integrated manner are not distorted by overly restrictive transfer pricing rules.

2.3 Empirical Review

This section presents a review of literature on studies done by others and guided by the specific objectives.

2.3.1 Compliance Costs and Implementation of Transfer Pricing Policies

According to Preshaw, Trapé, Stappen and Vincent (2008), a major challenge facing MNEs with regard to transfer pricing is the increase in compliance costs. This arises because of their need to satisfy several different documentation requirements. The authors also revealed that transfer pricing demands have imposed additional costs on MNEs since it has forced companies to focus on their internal controls which can help them to improve processes and controls related to transfer pricing. Transfer pricing is all about compliance with tax legislation governing various jurisdictions. MNEs are required to maintain a certain level of compliance with regard to transfer pricing.

According to OECD (2012), developing countries need to create a compliance regime that is proportionate to perceived risks, realistic in terms of its impact, and takes account of available capacity and capability. Developing countries will want to ensure that their tax administrations collect the right amount of tax; counter abusive transfer pricing tax planning, and create a predictable business climate, without double taxation wherever possible. An important first step is to put in place the necessary legislative framework-transfer pricing and thin capitalisation rules in particular. It is also important to take a practical approach; while expertise in these areas takes some time to build up it is important to make a start, tackling actual cases and developing the practical skills that are as important as an understanding of the principles of international taxation.

2.3.2 Threat of Double Taxation and implementation of Transfer Pricing

A persistent tax problem faced by multinational groups of companies (also MNEs) is the threat of double taxation as a result of price adjustments, by the tax authorities, as regards cross-border transfers of goods, services and intangibles such as copyrights, patents, licences, brand names, etc from one group company to another (transfer pricing) (Paudice, 2014). According to Andarajan et al. (2007), double taxation arises when the same income of an MNE is subjected to tax in two separate tax jurisdictions. For example the revenue authority in the MNE origin country and the country where the MNEs subsidiary is located, may carry out inter-company and intra-company cost allocations. These cases may involve issues such as adjustments to inter-company pricing, royalty rates, interest, management fees, business expense and gross revenue allocation adjustments. Thus an MNE may end up being taxed twice on the same transactions. With transfer pricing, this risk is very high and tends to be costly to the MNE. However, Feinschreiber and Kent (2008) argue that this transfer pricing challenges facing MNEs can be solved via use of an Advance Pricing Agreements. The right transfer pricing strategy can eventually generate tax savings and achieving a lower overall effective tax rate.

Muli (2012) studied the relationship between tax enforcement environment, transfer prices and taxes on multinational companies operating in Kenya. According to the study TP is the largest tax risk facing multinational companies. The research findings were in agreement with the findings of Njeia (2013) who found that the second-largest area of corporate income tax uncertainty as disclosed in 2010 is related to international TP. Awour and Ngigi (2013) find that increased tax risk related to strict TP enforcement adversely impacts cross-border merger and acquisition premier. Given the growing focus on minimizing tax risk, it is therefore unclear whether TP is currently a useful tool for tax minimization for MNEs, or whether the operational and enforcement costs are too great to risk implementing aggressive TP strategies.

2.3.3 Loss of Revenue and Implementation of Transfer Pricing Policies

Transfer pricing is generally considered to be the major international taxation issue faced by MNEs today. Even though responses to it will in some respects vary, transfer pricing is a complex and constantly evolving area and no government or MNE can afford to ignore it. Transfer pricing is a difficult challenge for both governments and taxpayers; it tends to involve significant resources, often including some of the most skilled human resources, and costs of compliance. It is often especially difficult to find comparables, even those where some adjustment is needed to apply the transfer pricing methods. For governments, transfer pricing administration is resource intensive and developing countries often do not have easy access to resources to effectively administer their transfer pricing regulations. In addition, from the government's perspective, transfer pricing manipulation reduces revenue available for country development, and with increasing globalization the potential loss of revenue may run into billions of dollars (United Nations, 2013).

Transfer prices directly influence the designation of gathering wide assessable taxable income over national tax jurisdictions. Therefore, an organization's transfer-pricing policies can specifically influence its after-tax income to the degree that tax rates are different across national jurisdictions. In determining the likelihood that the position will be sustained under audit, or the expected benefits that will be upheld as a result of an audit, several factors can be taken into consideration. Advance-pricing agreements (APAs) are negotiated agreements between the taxpayer and tax authorities pertaining to the transfer pricing on particular future intercompany transactions. Provided that the taxpayer does not violate any part of the agreement by implementing a transfer-pricing policy different from what was specified in the agreement, tax authorities will consider a transaction covered by the APA to be priced at arm’s length. In this case, the full tax benefit from the position could be recognized (Mckinley & Owsley, 2013).

According to Dhawale, Horiguchi, Luquet, Manasuev and Slimmen (2008), transfer pricing is a zero-sum game, an extra point of taxable income gained in one jurisdiction is a point lost in another. Because of this reason, revenue authorities around the world have increased their vigilance in their scrutiny of tax compliance by MNEs. They are concerned that many MNEs manipulate their transfer prices so as to avoid paying corporate income taxes (Abdalla & Murtuza, 2006). Transfer pricing rules are intended to prevent the arbitrary shifting of income, deductions, or credits among commonly owned or controlled taxpayers. This is in line with the fact that governments try to lower their tax rates so as to attract foreign MNEs (Schwarz, 2009). In line with this, is the requirement by the revenue authorities to maintain a certain level of documentation for purposes of ensuring that the correct revenue is reported for purposes of taxation.

2.3.4 Regulations and Guidelines and Implementation of Transfer Pricing Policies

Maither (2014) analyses the OECD guidelines and their application in TP law in Canada. The study established that APAs are a recommended approach for dispute resolution under the

OECD guidelines. On the other hand, Abdallah (2004) states that the conflicts between the determination of TPs between MNEs and the tax revenue authorities which seek to collect their share of profits has driven countries such as Canada, France, Germany, Japan, Mexico, Netherlands, the UK and the US to adopt the ALP.

Ndirangu (2013) conducted a study to evaluate the transfer pricing law in Kenya. The study argued that taxpayers and the tax revenue authorities face challenges in securing compliance with the current Transfer Pricing Rules. The study recommended for the introduction of Advance Pricing Agreements (APAs) in Kenya to create certainty in the process of determining transfer prices in transactions between resident persons and multinational enterprises (MNEs). The author argues that through the use of APAs, Kenya's tax revenue authority would find it easier to ensure compliance with the TP Rules as the arm's length price (ALP) will be pre agreed. In addition, it recommends the establishment of a pilot APA program to jumpstart efforts in efficient TP regulation.

The above findings are in agreement with those of Kebwaro (2014) who indicated that transfer pricing presents many tax, legal and operational challenges. To many taxpayers the magnitude of uncertainties – including the potential commitment of management time to successfully defend a transfer pricing examination – is not an acceptable business risk. The study recommended that Kenya Revenue Authority should focus more on various tax planning mechanisms adopted by Multinational companies to avoid the revenue leakages of the state. In general conclusion transfer pricing has an effect on tax planning of companies.

PWC (2013) report also indicated that the KRA was requesting transfer pricing documentation from all taxpayers with cross-border-related party transactions with the intention of risk profiling them for the purpose of conducting transfer pricing audits. All multinationals are potential targets for a transfer pricing audit. They recommended that multinationals should take transfer pricing seriously and develop and maintain properly documented and defensible transfer pricing policies. Kenyans may be losing billions of shillings through well-connected dodgy tax deals involving multinational corporations. Through transfer pricing, the foreign firms avoid taxes, denying the country the much-needed revenues for development.

2.4 Knowledge Gap

A review of the existing literature on transfer pricing policies shows that this study area has attracted many researchers in the recent past. From literature review most studies have focused on legislation on transfer pricing, effects of transfer pricing on MNE's operations and use of transfer pricing as a tool of tax planning MNE's. From literature review limited research has been done on the area of challenges faced by MNE's and tax authorities in implementing transfer pricing policies in their various organization. From the various studies and publications reviewed, it is evident that the area of transfer pricing is and will remain a hot topic for both Multinational companies, revenue authorities and to the international tax experts. Moreover, locally there is limited literature on implementation of transfer pricing policies by MNE's, leaving a gap that needs to be filled.

2.5 Conceptual Framework

Figure 2.1 presents the conceptual framework which illustrates the interaction between the independent and the dependent variable. The independent variables were compliance costs, threat of double taxation, loss of revenue, regulations and guidelines while the dependent variable is implementation of transfer pricing policies.

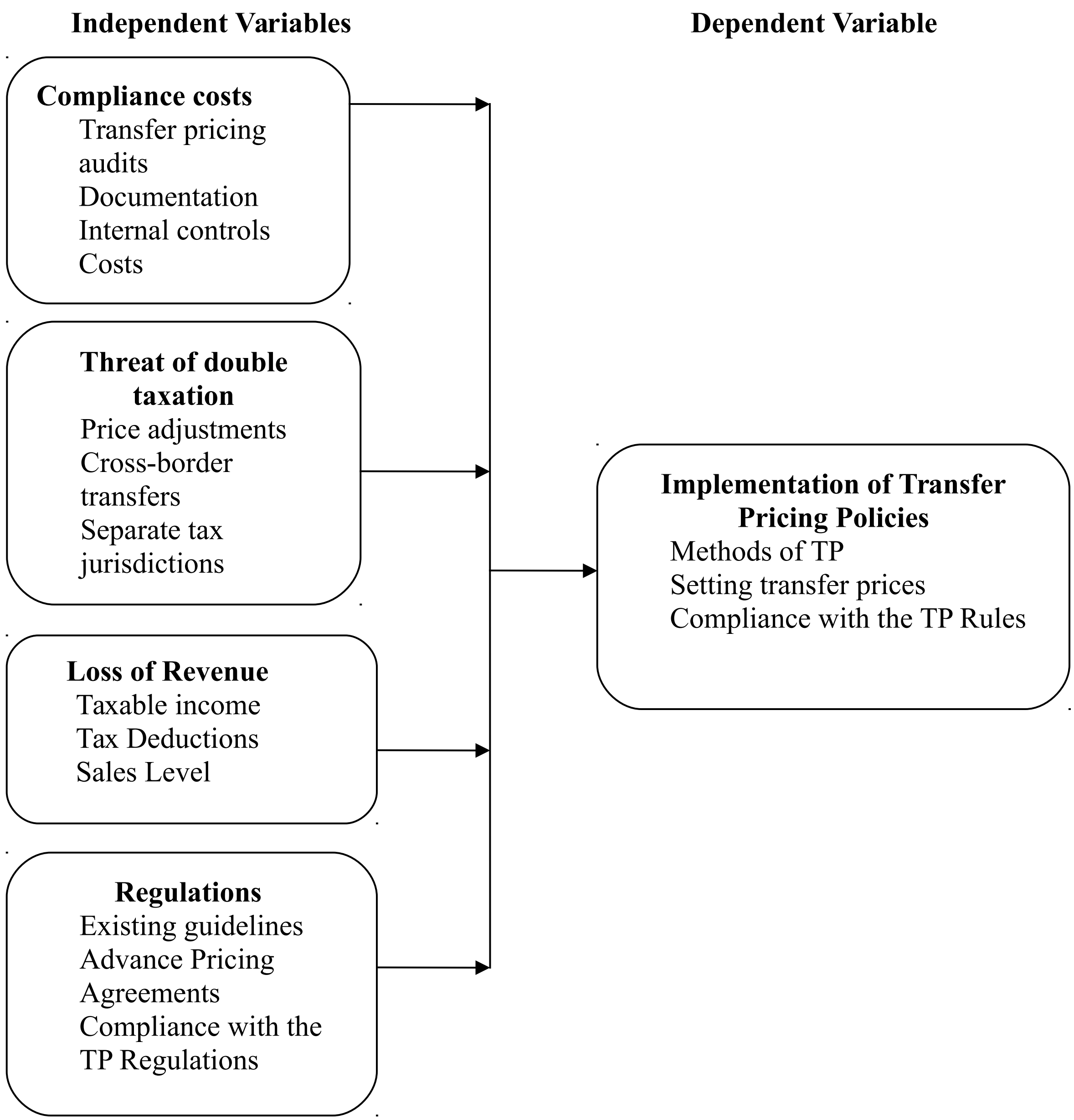

Figure 2.1: Conceptual Framework

2.6 Research Hypothesis

The study was guide by the following research hypotheses:

Ho_1: Compliance costs have no significant effect on the implementation of transfer pricing policies.

Ho_2: Threat of double taxation has no significant effect on the implementation of transfer pricing policies.

Ho_3: Loss of revenue has no significant effect on the implementation of transfer pricing policies.

Ho_4: The existing regulations have no significant effect implementation of transfer pricing policies.

2.7 Operationalization of Variables

Table 2.1 presents the operationalization of variables. It shows the variables of the study, the indicators to measure the variables and the scale to measure those variables.

Table 2.1: Operationalization of Variables

Variable/Variable Type	Indicator	Scale
Dependent variable		
Implementation of transfer pricing policies	• Methods of TP • Setting transfer prices • Compliance with the TP Rules	Likert scale (1 to 5) 5 indicated great extent/ strongly agree 1 indicated low extent/ strongly disagree
Independent Variables		
Compliance Costs	• Transfer pricing audits • Documentation • Internal controls Costs	Likert scale (1 to 5) 5 indicated great extent/ strongly agree 1 indicated low extent/ strongly disagree
Threat of Double Taxation	• Price adjustments • Cross-border transfers • Separate tax jurisdictions	Likert scale (1 to 5) 5 indicated great extent/ strongly agree 1 indicated low extent/ strongly disagree
Loss of Revenue	• Taxable income • Tax Deductions • Sales Level	Likert scale (1 to 5) 5 indicated great extent/ strongly agree 1 indicated low extent/ strongly disagree
Regulations	• Existing guidelines • Advance Pricing Agreements • Compliance with the TP Regulations	Likert scale (1 to 5) 5 indicated great extent/ strongly agree 1 indicated low extent/ strongly disagree

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The chapter looks at the research methods that were employed in the study in order to achieve the objectives of the study. This chapter covers the research design adopted, population of study, sample size and sampling technique, data collection instrument, pilot testing and data analysis procedures.

3.2 Research Design

The study adopted a descriptive research design. Robson (2002) points out that descriptive study portrays an accurate profile of persons, events or situation. Chandran (2004) also states that descriptive study describes the existing conditions and attitudes through observation and interpretation techniques. Robson (2002) argue that descriptive research design is one of the best methods for conducting research in human contexts, because of portraying accurate current facts through data collection for testing hypothesis or answering questions to conclude the study. A descriptive study is concerned with finding out the what, where and how of a phenomenon.

The descriptive design was therefore appropriate for this study since it helped in collecting data in order to answer the questions of the current status of transfer pricing policies in Kenya and describe the challenges affecting implementation of transfer pricing policies by multinational companies in Kenya.

3.3 Target Population

A population is defined as a complete set of individuals, case or objects with some common observable characteristic (Mugenda & Mugenda 2003). The target population was senior finance officers, one from each of the 213 MNCs in Kenya. The population was gathered from Kenya bureau of Statistics/Economic Survey and Kenya Association of Manufacturers report (2013) (see appendix III). The distribution of the study population is shown in Table 3.1.

Table 3.1: Target Population

Category	Total Population	Percentage
Manufacturing MNCs	120	56.3
Service MNCs	56	26.3
Manufacturing and Service MNCs	37	17.4
Total	**213**	**100.0**

3.4 Sampling Technique and Sample Size

Sampling is a procedure, process or technique of choosing a sub-group from a population to participate in the study. It is the process of selecting a number of individuals for a study in such a way that the individuals selected represent the large group from which they were selected (Mugenda & Mugenda, 2003). On the other hand, Kothari (2004) defines a sample as a small proportion of an entire population; a selection from the population.

The study adopted the formula and procedure for categorical data according to Cochran (1977) and Barlett et al (2001). The technique was also adopted by Ogutu and Samuel (2011) to select the desired number of respondents on disproportionate. The sampling method was also used by Nthigah (2015). In determining the sample size, this study will adopt the same procedure adopted by the two studies mentioned. The sample size for this study was therefore calculated as per the following formula:

$$n_0 = \frac{Z^2 p(1-p)}{e^2}$$

Where: n_0 = Required sample size

Z = Confidence level at 95% (standard value of 1.96)

p = is population proportion

e = Margin of error at 5% (standard value of 0.05).

$$n_0 = \frac{1.96^2 \times 0.5 \times (1-0.5)}{0.05^2} = 384$$

Considering that the sample size at a confidence level of 95% and a margin of error at 5% is larger than the target population, adjustment was done to arrive at the adjusted sample (n) using the following formula;

$$n = \frac{n_0 N}{n_0 + (N-1)}$$

Where

n is the sample size with the finite population correction factor

$\mathbf{n_o}$ is the sample size without the finite population correction factor

N is target population

$$n = \frac{384 \times 213}{384 + (213-1)} = 137$$

The sample size of the study was therefore be 137 as shown in Table 3.2.

Table 3.2: Sample Size Distribution

Category	Total Population	Sample Size
Manufacturing MNCs	120	77
Service MNCs	56	36
Manufacturing and Service MNCs	37	24
Total	**213**	**137**

3.5 Data Collection

The study collected primary data though a questionnaire. The data was collected from the finance officers in MNCs in Kenya. The researcher first sought permission and consent to collect data from the management of the sampled organizations. Consent was sought through use of a letter for data collection which was obtained from University. After permission was granted, appointments were made with the respective respondents. The researcher administered the questionnaire through drop and pick later method. This ensured that the respondents had enough time to answer the questions before answering hence ensuring high response rate.

3.6 Data Collection Instrument

The questionnaire had closed questions. The closed ended questions enabled the researcher to collect quantitative data. The questionnaire was divided into five sections. Section one gathered information on demographic information of the respondents; section two covered questions to show the extent to which compliance costs affect implementation of transfer pricing policies by multinational companies in Kenya; section three covered questions the extent to which threat of double taxation affects implementation of transfer pricing policies; section four presented questions on the extent to which loss of revenue affects implementation of transfer pricing policies while section five covered questions on how the existing regulations and guidelines affects implementation of transfer pricing policies. The questionnaire had a 1-5 likert scale questions whereby 5 meant very great extent or a strong agreement with the statement while 1 meant to a low extent or a strong disagreement with the statement.

The questionnaire was considered as the appropriate data collection instrument for this study since they provide a high degree of data standardization, they are relatively quick to collect information from people in a non-threatening way and they are cheap to administer. Questionnaires are also able to give a detailed answer to complex problems (Kombo & Tromp, 2006).

3.7 Validity and Reliability of the Questionnaire

The developed questionnaire was checked for its validity and reliability through pilot testing. Pilot test was conducted to detect weakness in design and instrumentation and to provide alternative data for selection of a probability sample. The study subjected the questionnaire to 5 finance managers in the MNCs to participate in the pilot study. This presents 7.8% of the sample size. According to Mugenda and Mugenda (2003) a successful pilot study would use 1% to 10% of the actual sample size. The five respondents were exempted from taking part in the actual study. The objectives of pre-testing were to allow for modification of various questions in order to rephrase, clarify and or clear up any shortcomings in the questionnaires before administering them to the actual respondents. It helped the researcher to correct inconsistencies arising from the instruments, which ensured that they measure what was intended.

Validity indicates the degree to which an instrument measures the construct under investigation (Saunders et. al., 2003). For a data collection instrument to be considered valid, the content selected and included must be relevant to the need or gap established. Internal validity of the questionnaire was established by the research and supervisor reviewing the items. The instrument was also subjected to other experts on transfer pricing policies. Before the actual study, the instruments were discussed with supervisors. The feedback from the supervisors and the experts helped in modifying the instruments. This ensured that the questionnaire collected reliable information and also improved the response rate.

Reliability is a measure of the degree to which a research instrument yields consistent results or data after repeated trials (Mugenda & Mugenda, 2003). Reliability test measures the internal consistency of the questionnaire. An instrument is reliable when it can measure a variable accurately and obtain the same results over a period of time. Reliability of the questionnaire was tested by Cronbach's alpha test with the help of Statistical Package for Social Sciences (SPSS). A co-efficient of above 0.8 was achieved which implied that the instrument was sufficiently reliable for the measurement (Tavakol & Dennick, 2011).

3.8 Data Analysis and Presentation

The data collected through the questionnaire was edited, coded, entered into SPSS which also aided in the data analysis. The data was analyzed using descriptive and inferential statistics. The descriptive statistics included frequency distribution tables and measures of central tendency (the mean), measures of variability (standard deviation) and measures of relative frequencies. The inferential statistics included a multiple regression model which established the relationship between variables. The analyzed quantitative data was presented using tables, charts and graphs.

The regression model took the following form:

$$Y = \beta_0 + \beta_1 \chi_1 + \beta_2 \chi_2 + \beta_3 \chi_3 + \beta_4 \chi_4 + \varepsilon_i$$

Where: Y = implementation of transfer pricing policies

χ_1 = Compliance costs

χ_2 = Threat of double taxation

χ_3 = Loss of revenue

χ_4 = Regulations

β_0 = the intercept (value of EY when X = 0)

β_{1-n} = the regression coefficient or change included in Y by each χ

ε_i = error term

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.1: Introduction

This chapter presents the data analysis and interpretation of the research findings in line with the objectives of the study. The objective of the study was to examine the challenges affecting implementation of transfer pricing policies by multinational companies in Kenya. The data was analyzed and presented in form of pie charts, bar graphs and tables.

4.2: Response Rate

Table 4.1: Response rate

Response Rate	Frequency	Percentage
Responses	98	71.5
None Response	39	28.5
Sample Size	**137**	**100.0**

The study sample size was 137 respondents who included one senior finance officers from 77 manufacturing MNCs, 36 Service MNCs and 24 manufacturing and service MNCs. Out of this sample, 98 responses were successfully received back which presents a sample size of 71.5%. The response was appropriate for the study to continue and provide reliable results that could help make inference on the study. According to Mugenda and Mugenda (2003), a fifty percent response rate is adequate, sixty percent good and above seventy percent rated very well.

4.3 Respondents Profile

This section presents the demographic information of the respondents. The respondents' demographic information reflects the relevant attributes of the population; it forms the basis under which the study can rightfully access the relevant information. The respondents' information captured included: gender, age of the respondents, level of education and number of years worked in the organization.

4.3.1 Gender of the Respondents

In this section, the study sought to establish the gender of the respondents who took part in the study. The findings are presented in Table 4.2.

Table 4.2: Gender of the Respondents

Gender	Frequency	Percentage
Male	61	62.2
Female	37	37.8
Total	**98**	**100.0**

Results in Table 4.2 shows that majority of the respondents (62.2%) were male while 37.8% were female. This implied that majority senior finance officers in MNCs in Kenya are male.

4.3.2 Age of the Respondents

The respondents were asked to indicate their age. The respondents' age was captured in structured age brackets. The results are presented in Table 4.3.

Table 4.3: Age of the Respondents

Age Bracket	Frequency	Percent
Below 30 years	3	3.1
31-40 Yrs	55	56.1
41-50 Yrs	34	34.7
Above 50 Yrs	6	6.1
Total	**98**	**100.0**

Results in Table 4.3 show that majority of the respondents (56.1%) were aged between 31-40 years while 34.7% were aged between 41-50 years. On the other hand, 6.1% of the respondents indicated that they were above 50 years of age while 3.1% were aged 30 years and below. This means that majority of the finance officers in MNCs in Kenya are between 30 years and 50 years of age.

4.3.3 Level of Academic Qualification

The respondents were asked to indicate the highest level of academic qualification they had attained. The findings are presented in Figure 4.1.

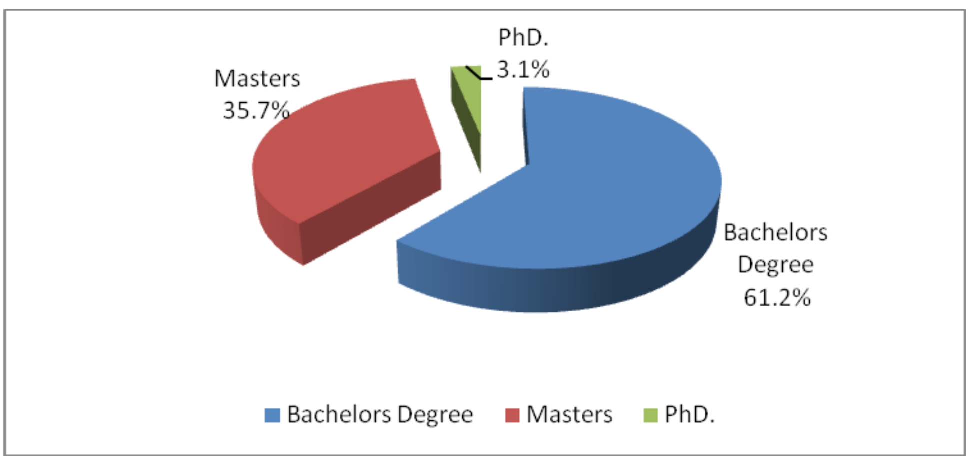

Figure 4.1: Level of Academic Qualification

The study findings show that majority of the respondents (61.2%) had attained a Bachelors degree while 35.7% of the respondents indicated that they had a Masters degree. On the other hand, 3.1% of the respondents indicated that they had a Doctorate degree. This shows that majority of the finance officers in the MNCs are well educated and knowledgeable hence it improves the reliability of the information given.

4.3.4 Duration Worked in the Organization

The respondents were asked to indicate the duration they had worked in their respective organizations. The findings are presented in Figure 4.2.

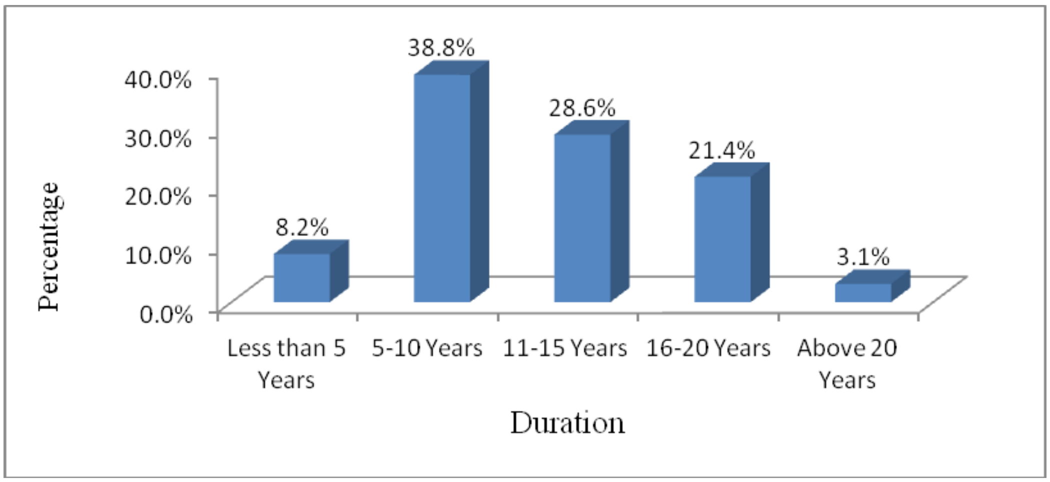

Figure 4.2: Duration Worked in the Organization

On the number of years worked, the findings in Figure 4.3 show that 38.8% of the respondents had worked in their respective organizations for a duration of 5-10 years, 28.6% for 11-15 years while 21.4% indicated that they had worked in their respective organizations for a duration of 16-20 years. On the other hand, 3.1% of the respondents indicated that they had worked in their respective organizations for more than 20 years while only 8.2% had worked in their organizations for less than 5 years. The results show that majority of the finance officers had worked in their respective MNCs for more than 10 years which is long enough to understand the operations of their organizations and the challenges affecting implementation of transfer pricing policies hence it improves the reliability of the information given.

4.4 Compliance Costs and Transfer Pricing

This section addresses the first objective of the study which seeks to determine the extent to which compliance costs affect implementation of transfer pricing policies by multinational companies in Kenya. A five point likert scale was used to interpret the responses whereby the scores of “strongly disagree” and “disagree” were represented by mean score, equivalent to 1 to 2.5 on the continuous Likert scale ($1 \leq$ disagree ≤ 2.5). The scores of ‘neutral’ were equivalent to 2.6 to 3.5 on the Likert scale ($2.6 \leq$ neutral ≤ 3.5). The score of “agree” and “strongly agree” represented were equivalent to 3.6 to 5.0 on the likert scale which shows a strong agreement with the statement.

The results presented in Table 4.4 show that the respondents neither agree nor disagreed whether the costs involved in documenting a transfer pricing policy are high; and on whether the internal costs involved in preparing a transfer pricing policy are high; this is shown by the mean scores 3.03 and 3.13 respectively. However, the respondents agreed that the company was required to modify its transfer prices on an annual basis which made the organization to incur extra costs as shown by a mean score of 3.79. The respondents also agreed that the costs associated with transfer pricing audits in order to comply with the regulations were high; and that transfer pricing demands had forced companies to focus on their internal controls to improve processes and controls hence additional costs; this is shown by the mean scores of 3.90 and 4.14 respectively. The results also show that 40.8% of the respondents indicated that compliance costs affect implementation of transfer pricing policies in MNCs in Kenya to a great extent. This was supported by 21.4% who indicated to a very great extent. This implies that majority of the respondents were of the opinion that compliance costs affect implementation of transfer pricing policies in MNCs to a great extent. However, 37.8% of the respondents felt that compliance costs affected implementation of transfer pricing policies to a moderate extent.

Table 4.4: Compliance Costs and Transfer Pricing

Statements on Compliance Costs and Transfer Pricing	Mean	Std. Deviation
The costs involved in documenting a transfer pricing policy are high.	3.03	0.665
The internal costs involved in preparing a transfer pricing policy are high.	3.13	0.727
The company is required to modify its transfer prices on an annual basis which makes the organization to incur extra costs.	3.79	0.828
The costs associated with transfer pricing audits in order to comply with the regulations are high.	3.90	0.696
Transfer pricing demands have forced companies to focus on their internal controls to improve processes and controls hence additional costs	4.14	0.689
Extent Compliance Costs Affect Implementation of TPP	**Frequency**	**Percent**
To a very great extent	21	21.4
To a great extent	40	40.8
To a moderate extent	37	37.8
Total	**98**	**100.0**

4.5 Threat of Double Taxation and Transfer Pricing

This section addressed the second objective of the study which sought to assess the extent to which threat of double taxation affect implementation of transfer pricing policies by multinational companies in Kenya. The findings presented in Table 4.5 show that the respondents agreed that their company had experienced a threat of double taxation in regard to cross-border transfers of goods and services; and that they had adopted Arm's length principle to minimize the possibility for double taxation as shown by the mean scores 3.60 and 3.69 respectively. The respondents also agreed that the difference in structures of tax authorities involved in cross-border transfers exposed multinationals to risk of double taxation; and that cross-border transfers exposed the company to separate tax jurisdictions, hence threat of double taxation; this is shown by the mean score 3.72 and 4.20 respectively. The respondents also agreed that price adjustments by the tax authorities of different jurisdictions could lead to double taxation, as shown by the mean score 4.24.

The study results also show that majority of the respondents (54.1%) indicated that threat of double taxation affected implementation of transfer pricing policies to a great extent while 11.2% indicated to a very great extent. This shows that majority of the respondents were of the opinion that the threat of double taxation affected implementation of transfer pricing policies in multinational companies in Kenya. On the other hand, 34.7% of the respondents reported that threat of double taxation affected implementation of transfer pricing policies to a moderate extent.

Table 4.5: Effect of Threat of Double Taxation on Transfer Pricing

Statements on Threat of Double Taxation	**Mean**	**Std. Deviation**
The company has experienced a threat of double taxation in regard to cross-border transfers of goods and services.	3.60	0.685
The organization has adopted Arm's length principle to minimize the possibility for double taxation.	3.69	0.738
Difference in structures of tax authorities involved in cross-border transfers expose multinationals to risk of double taxation	3.72	0.809
Adjustments to royalty rates, interest, as regards cross-border transfers of goods, services may lead to double taxation	4.08	0.684
Cross-border transfers exposes the company to separate tax jurisdictions, hence threat of double taxation	4.20	0.625
Price adjustments by the tax authorities of different jurisdictions could lead to double taxation	4.24	0.690
Extent Threat of Double Taxation Affect Implementation of TPP	**Frequency**	**Percent**
To a very great extent	11	11.2
To a great extent	53	54.1
To a moderate extent	34	34.7
Total	**98**	**100.0**

4.6 Loss of Revenue and Transfer Pricing

This section addresses the third objective of the study which sought to establish the extent to which possibility of loss of revenue affect implementation of transfer pricing policies by multinational companies in Kenya. The results presented in Table 4.6 show that the respondents were neutral when asked whether the transfer prices set by the company affected the level of inter-company transactions with related non-resident companies; and on whether transfer prices affected the sales level achieved by the company, as shown by the mean scores 3.39 and 3.46 respectively. However, the respondents agreed that their companies had incurred losses of revenue as a result of transfer pricing; and that tax deductions from separate tax jurisdictions reduced the revenue of MNCs, as shown by the mean scores 3.92 and 4.14 respectively.

The study results also show that 40.8% of the respondents reported that loss of revenue affected implementation of transfer pricing policies to a great extent while 25.5% indicated to a very great extent. This shows that majority of the respondents wee of the opinion that loss of revenue affects implementation of transfer pricing policies by multinational companies in Kenya. On the other hand, 30.6% of the respondents indicated that loss of revenue affected implementation of transfer pricing policies to a moderate extent while 3.1% indicated to a little extent.

Table 4.6: Effect of Loss of Revenue on Implementation of Transfer Pricing

Statements on Loss of Revenue	Mean	Std. Deviation
The transfer prices set by the company affect the level of inter-company transactions with related non-resident companies hence exposing the company to revenue losses	3.39	1.181
Transfer prices affect the sales level achieved by the company	3.46	0.839
The company has incurred losses of revenue as a result of transfer pricing	3.92	0.833
Tax deductions from separate tax jurisdictions reduces the revenue of MNCs	4.14	0.689
Extent Loss of Revenue Affect Implementation of TPP	**Frequency**	**Percent**
To a very great extent	25	25.5
To a great extent	40	40.8
To a moderate extent	30	30.6
To a little extent	3	3.1
Total	98	100.0

4.7 Existing Regulations and Transfer Pricing

This section addresses the forth objective of the study which sought to establish how the existing regulations affect implementation of transfer pricing policies by multinational companies in Kenya. The findings presented in Table 4.7 show that the respondents agreed that their company complied with the laid down TP Regulations/rules in the country; and that the Kenya Revenue Authority conducts transfer pricing audit and assessments on the operations of the company to probe whether the company is compliant with set regulations; this is shown by the mean scores 4.27 and 4.24 respectively. The respondents also agreed that their company's transfer pricing policy was mirrored along the Kenyan Income Tax (Transfer Pricing) Rules of 2006 as well as along the OECD guidelines, as shown by the mean scores, 4.02 and 3.60 respectively. The respondents however agreed that the existing TP legislation lack clarity and it gave rise to uncertainty, this is shown by a mean score of 3.89.

The study findings also show that 48% of the respondents indicated that the existing regulations and guidelines affect implementation of transfer pricing policies in MNCs to a great extent while 28.6% indicated to a very great extent. This shows that majority of the respondents were of the opinion that the existing regulations and guidelines affect implementation of transfer pricing policies in MNCs in Kenya. On the other hand, 20.4% of the respondents indicated that existing regulations affect implementation of transfer pricing policies to a moderate extent while 3.1% indicated to a little extent.

Table 4.7: Effect of Existing Regulations on Transfer Pricing

Statements	Mean	Std. Deviation
The transfer prices applied on inter-company transactions are based on a mutually accepted intercompany agreements without any Advance Pricing Agreements	2.94	1.101
The Kenya Revenue Authority has in some instances imposed penalties to companies without transfer pricing policies	3.42	0.849
The company's transfer pricing policy is mirrored along the OECD guidelines	3.60	0.783
The existing TP legislation lack clarity and give rise to uncertainty	3.89	0.929
The company's transfer pricing policy is mirrored along the Kenyan Income Tax (Transfer Pricing) Rules, 2006	4.02	0.609
The Kenya Revenue Authority conducts transfer pricing audit/assessments on the operations of the company to probe whether the company is compliant with set regulations	4.24	0.659
Our company complies with the laid down TP Regulations/rules in the country	4.27	0.618
Extent Existing Regulations Affect Implementation of TPP	**Frequency**	**Percent**
To a very great extent	28	28.6
To a great extent	47	48.0
To a moderate extent	20	20.4
To a little extent	3	3.1
Total	**98**	**100.0**

4.8 Implementation of Transfer Pricing Policies

In this section, the study sought to establish the extent to which the above factors affect the implementation of transfer pricing policies in multinational companies in Kenya. A five point likert scale was used whereby 1 represents to no extent while 5 represents to a very great extent. The findings presented in Table 4.8 show that the above factors affect use of Advance Pricing Agreements and application of the arm's length principle to a great extent as shown by mean score 3.91 and 4.05 respectively. The respondents also agreed that the challenges reviewed above affected setting of transfer prices and compliance with the TP rules, as shown by a mean score of 4.17 and 4.29 respectively.

Table 4.8: Implementation of Transfer Pricing Policies

Statements on Implementation of TPP	Mean	Std. Deviation
Use of Advance Pricing Agreements	3.91	0.611
Application of the arm's length principle	4.05	0.817
Setting transfer prices	4.17	0.658
Compliance with the TP Rules	4.29	0.703

4.9 Relationship Between the Challenges and Implementation of TPP

A multivariate regression model was applied to determine the relationship between challenges and implementation of transfer pricing policies in MNCs in Kenya and the predictor factors: compliance costs, threat of double taxation, loss of revenue, regulations. The proposed model was:

$$Y= \beta_0 + \beta_1 \chi_1 + \beta_2 \chi_2 + \beta_3 \chi_3 + \beta_4 \chi_4 + \varepsilon_i$$

In this model Y is implementation of transfer pricing policies (ITPP), χ_1 is compliance costs (CC), χ_2 is threat of double taxation (TDT), χ_3 is loss of revenue (LoR), χ_4 is regulations (R), β_0 is the constant, β_{1-} β_1 are the regression coefficient or change included in Y by each χ while

ε_i is error term. The relationship between challenges and implementation of transfer pricing policies was examined by testing the following research hypothesis.

Ho_1: Compliance costs have no significant effect on the implementation of transfer pricing policies.

Ho_2: Threat of double taxation has no significant effect on the implementation of transfer pricing policies.

Ho_3: Loss of revenue has no significant effect on the implementation of transfer pricing policies.

Ho_4: The existing regulations have no significant effect implementation of transfer pricing policies.

The results of the multiple regression analysis are presented using the model summary, Anova and the coefficients as shown below. In Table 4.9, the R shows the linear relationship between the dependent and the independent variables in the regression analysis while R-Squared is the coefficient of determination which tells us how the various identified factors varied with the dependent variable. The results in model summary show the value of the R-squared as 0.279; which shows that the model provided a weak relationship. This implies that compliance costs, threat of double taxation, loss of revenue and regulations explained 27.9% of implementation of transfer pricing policies in MNCs in Kenya.

Table 4.9: Model Summary of Challenges and Implementation of TPP

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.528(a)	0.279	0.248	0.530

a Predictors: (Constant), Compliance Costs, Threat of Double Taxation, Loss of Revenue, Regulations

The study used ANOVA to establish the significance of the regression model to give reliable results. As shown in Table 4.10 below, an F-significance value of p=0.000 was established. This shows that the regression model provided by compliance costs, threat of double taxation, loss of revenue and regulations was significant in predicting changes on implementation of transfer pricing policies.

Table 4.10: ANOVA of Challenges and Implementation of TPP

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	10.099	4	2.525	9.005	0.000(a)
	Residual	26.075	93	0.280		
	Total	**36.173**	**97**			

a Predictors: (Constant), Compliance Costs, Threat of Double Taxation, Loss of Revenue, Regulations
b Dependent Variable: Implementation of Transfer Pricing Policies

The results in Table 4.11 show that there is a negative and significant regression relationship between compliance costs and implementation of transfer pricing policies in MNCs in Kenya as shown by $\beta = -0.352$, $p=0.000<0.05$. The study therefore rejects the null hypothesis $Ho_{1,}$ and accepts the alternative hypothesis that compliance costs have a significant effect on the implementation of transfer pricing policies.

The findings also show that there is a positive and significant relationship between threat of double taxation and implementation of transfer pricing policies as shown by $\beta = 0.326$,

$p=0.001<0.05$. The study rejects the null hypothesis Ho_2, and accepts the alternative hypothesis that threat of double taxation has a significant effect on the implementation of transfer pricing policies.

The study also found out that there is a positive and significant relationship between regulations and implementation of transfer pricing policies as shown by $\beta=0.265$, $p=0.003<0.05$. The study rejects the null hypothesis Ho_4 and accepts the alternative hypothesis that regulations have a significant effect implementation of transfer pricing policies.

The regression results however show a negative and statistically insignificant relationship between loss of revenue and implementation of transfer pricing policies by MNCs in Kenya as shown by $\beta= -0.142$ and $p=0.089>0.05$. The study therefore accepts the null hypothesis Ho_3, that loss of revenue has no significant effect on the implementation of transfer pricing policies.

Table 4.11: Coefficients of the Challenges and Implementation of TPP

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.460	0.708		4.886	0.000
	Compliance Costs	-0.352	0.087	-0.397	-4.038	0.000
	Threat of Double Taxation	0.326	0.099	0.333	3.294	0.001
	Loss of Revenue	-0.142	0.083	-0.160	-1.719	0.089
	Regulations	0.265	0.086	0.286	3.097	0.003

a Dependent Variable: Implementation of Transfer Pricing Policies

From the regression coefficients in Table 4.10, the following equation was derived.

$$ITPP = 3.460 - 0.352CC + 0.326TDT + 0.265R$$

From the equation, it implies that a unit increase in compliance costs (CC) would negate implementation of transfer pricing policies by MNCs in Kenya at a unit of 0.352 (35.2%). On the other hand, a unit increase in threat of double taxation (TDT) would increase implementation of transfer pricing policies at a unit of 0.326 (32.6%) while a unit increase in regulations would increase implementation of transfer pricing policies at a unit of 0.265 (26.5%).

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1. Introduction

This chapter provides a summary of findings, conclusions and recommendations of the study based on the objectives of the study. It entails a synthesis of key issues of the objectives of the study as deduced from the entire research.

5.2 Summary of the Findings

To first objective of the study was to determine the extent to which compliance costs affect implementation of transfer pricing policies by multinational companies in Kenya. The study found out that the costs associated with transfer pricing audits in order to comply with the regulations were high (mean score = 3.90); and that transfer pricing demands had forced companies to focus on their internal controls to improve processes and controls hence additional costs (mean score = 4.14). The study also found out that the company was required to modify its transfer prices on an annual basis which made the organization to incur extra costs (mean score =3.79). On overall, majority the respondents (62.2%) revealed that compliance costs affect implementation of transfer pricing policies in MNCs in Kenya to a great extent. The findings are in agreement with those of Preshaw et al., (2008), who found out that one of major challenge facing MNEs with regard to transfer pricing was the increase in compliance costs.

On the extent to which threat of double taxation affect implementation of transfer pricing policies by multinational companies in Kenya; the study found out that the MNCs had experienced a threat of double taxation in regard to cross-border transfers of goods and services (mean score = 3.60); and that they had adopted Arm's length principle to minimize the possibility for double taxation (mean score =3.69). The study also found out the difference in structures of tax authorities involved in cross-border transfers exposed multinationals to risk of double taxation (mean score = 3.72); and that cross-border transfers exposed the company to separate tax jurisdictions, hence threat of double taxation (mean score = 4.20. Price adjustments by the tax authorities of different jurisdictions could also found to lead to double taxation (mean score = 4.24. Majority of the respondents (65.3%) revealed that these threats of double taxation affected implementation of transfer pricing policies to a great extent. The finding are in line with those of Paudice (2014) who revealed that a persistent tax problem faced by multinational companies is the threat of double taxation as a result of price adjustments, by the tax authorities, as regards cross-border transfers of goods, services from one group company to another. The findings are also supported by Andarajan *et al.* (2007) who indicated that double taxation arises when the same income of an MNE is subjected to tax in two separate tax jurisdictions

The study also sought to establish the extent to which possibility of loss of revenue affect implementation of transfer pricing policies by multinational companies in Kenya. The study results found out that various MNCs had incurred losses of revenue as a result of transfer pricing (mean score = 3.92). The tax deductions from separate tax jurisdictions also reduced the revenue of MNCs (mean score = 4.14). Majority of the respondents (66.3%) revealed that the fear of possible loss of revenue affected implementation of transfer pricing policies to a great extent. According to Abdalla and Murtuza (2006) many tax authorities are concerned that many MNCs manipulate their transfer prices so as to avoid paying corporate income taxes. On the other hand however, Schwarz (2009) asserts that governments are also keen to prevent the arbitrary tax deductions on MNCs by offering lower their tax rates to attract MNCs. If the taxes on transfer pricing of MNCs are high, they may tend to avoid investing in such jurisdictions.

On how the existing regulations affect implementation of transfer pricing policies by multinational companies in Kenya; the study first found out that many MNCs complied with the laid down TP Regulations/rules in the country (mean score = 4.27) and their transfer pricing policies were mirrored along the Kenyan Income Tax (Transfer Pricing) Rules of 2006 (mean scores= 4.02) and the OECD guidelines (mean scores= 3.60). The respondents reported that Kenya Revenue Authority conducted transfer pricing audit and assessments on the operations of the company to probe whether the company is compliant with set regulations (mean scores= 4.24). The study however found out that the existing TP legislation lack clarity and it gave rise to uncertainty (mean score =3.89). As a result, the existing regulations were found to affect implementation of transfer pricing policies in MNCs to a great extent. These findings corroborates with those of Abdallah (2004) and Kebwaro (2014) who acknowledge that there are conflicts between the determination of TPs between MNCs and the tax revenue authorities. Ndirangu (2013) also established that taxpayers and the tax revenue authorities face challenges in securing compliance with the current Transfer Pricing Rules.

The study also found out that the identified challenges (compliance costs, threat of double taxation, loss of revenue, regulations) affected use of Advance Pricing Agreements (mean score = 3.91) and application of the arm's length principle by MNCs (mean score=4.05), setting of transfer prices (mean score = 4.17) and compliance with the TP rules (mean score =4.29).

5.3 Conclusions

The study concludes that there is a negative and significant regression relationship between compliance costs and implementation of transfer pricing policies in MNCs in Kenya. An increase in compliance costs such as those associated with transfer pricing audits in order to comply with the regulations and documentation of transfer pricing policy negatively affects implementation of transfer pricing policies in MNCs.

It can also be concluded that there is a positive and significant relationship between threat of double taxation and implementation of transfer pricing policies. This means that when MNCs are exposed to threats of double taxation, for instance in cross-border transfers of goods and services by tax authorities of different jurisdictions; the companies will tend to implement transfer pricing policies such as use of Arm's length principle so to minimize the possibility for double taxation. So in short, threat of double taxation will prompt MNCs in Kenya to implement transfer pricing policies.

The study also concludes that there is a positive and significant relationship between regulations and implementation of transfer pricing policies. This means that as more regulations on TP are put in place, the MNCs will increasingly implement transfer pricing policies. The existing TP legislation lack clarity and give rise to uncertainty and they tend to be a hindrance to implementation of transfer pricing policies by MNCs in Kenya.

5.4 Recommendations

The study found out that the existing TP legislation lack clarity and give rise to uncertainty. In this regard, the study recommends that Kenyan government should come up with a clear law or legislation on transfer pricing. In addition, transfer pricing should be mirrored along the Kenyan Income Tax. The Kenyan transfer pricing rules should also be less complex and technical.

The study also found out that Kenya Revenue Authority has in some instances imposed penalties to MNCs without transfer pricing policies. In this regard, the study recommends that MNCs should pay more emphasis on the implementation of transfer pricing policies to avoid such penalties. The MNCs should aligned their business objectives to the Kenyan transfer pricing regulations to avoid any legal penalties. Implementation of transfer pricing policies will also minimize threats of double taxation and loss of revenue through tax deductions from separate tax jurisdictions.

The study also recommends for MNCs to be aware and comprehend the effect of transfer prices on the level of inter-company transactions with related non-resident companies. Alertness should also be emphasized on the application of transfer prices on inter-company transactions are based on mutually accepted inter-company agreements.

5.5 Suggestions for Further Study

The researcher suggests that a future study should focus on examining the most appropriate methods for determining transfer pricing. Then future study should examine the extent of application and use of Advance Pricing Agreements and arm's length principle in determining transfer pricing. The following suggestion was made since various MNCs were found to use varying methods for determining transfer pricing and therefore there is need to establish the most appropriate one.

5.6 Limitations of the Study

During the process of carrying out this study, the researchers experienced a few challenges. For instance some respondents were reluctant to provide the necessary data because the research study dealt with quite internal business issues which raise suspicion on the use of the data/information. Employees also feared giving information about their company, as some were not be sure whether they were allowed to give the information and did not want to be associated with such mistakes because they could be victimized by management. To overcome this challenge, the researcher first sought permission from the management to collect data from the organization. The respondents were also assured confidentiality of the information given which was only used for study purposes only. The questionnaires used were not prompt to disclose the respondents' identity.

Another foreseen challenge was the problem of getting accurate data or information from the respondents. This was because the researcher did not have prior knowledge of the respondents on whether they could give adequate information on the matter under research. To overcome this problem; the researcher made sure that he targeted the right staff in the organization as respondents to the study. The researcher also personally administered the questionnaire to the respondents so that he could clarify and interpret the questions for the respondents to fully understand before they gave information.

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APPENDICES

APPENDIX I

COVER LETTER

RE: REQUEST FOR DATA COLLECTION

I am a student pursuing a Degree of Master of Business Administration Corporate Management, School of Business, KCA University. I am conducting a research study to 'examine the challenges affecting implementation of transfer pricing policies by multinational companies in Kenya'.

Your institution has been selected as a key respondent for the study. Any information you give will be purely used for academic purposes only and will be handled with utmost confidentiality. Your contribution, participation and co-operation will be highly appreciated.

Thank you for your Assistance.

Victor Songol

APPENDIX II

QUESTIONNAIRE

Instructions: Please read the answer the questions as appropriately as possible. It is advisable that you answer or fill in each section as provided. Tick (√) where appropriate.

Section A: Respondents Profile

1. Indicate your gender.

a) Male [ ]   b) Female [ ]

2. Indicate your appropriate age bracket.

a) Below 30 years [ ]   b) 31-40 Yrs [ ]   c) 41-50 Yrs [ ]

d) Above 50 Yrs [ ]

3. Kindly indicate your highest level of academic qualification.

a) Certificate/Diploma [ ]   b) Bachelors Degree [ ]

d) Masters [ ]   c). PhD. [ ]

d). Other (specify)……………………………………………..

4. How many years have you worked in this organisation? .

a) Less than 5 Years [ ]   b) 5-10 Years [ ]

c) 11-15 Years [ ]   d) 16-20 Years [ ]

d) Above 20 Years [ ]

Section B: Compliance Costs and Transfer Pricing

To what extent do you agree with the following statements on compliance costs and implementation of transfer pricing policies by multinational companies in Kenya? Use a scale of 1 to 5 where: 1 is strongly disagree (SD), 2 is Disagree (D), 3 is Neutral (N), 4 is Agree (A) and 5 is Strongly Agree (SA).

	Statements on Compliance Costs	1	2	3	4	5
5.	The costs associated with transfer pricing audits in order to comply with the regulations are high.					
6.	The costs involved in documenting a transfer pricing policy are high.					
7.	The internal costs involved in preparing a transfer pricing policy are high.					
8.	The company is required to modify its transfer prices on an annual basis which makes the organization to incur extra costs.					
9.	Transfer pricing demands have forced companies to focus on their internal controls to improve processes and controls hence additional costs					

10. To what extent do you think compliance costs affect implementation of transfer pricing policies in your organization?

To a very great extent [ ] To a great extent [ ] To a moderate extent [ ]
To a little extent [ ] To no extent [ ]

Section C: Threat of Double Taxation and Transfer Pricing

To what extent do you agree with the following statements on threat of double taxation and implementation of transfer pricing policies by multinational companies in Kenya? Use a scale of 1 to 5 where: 1 is strongly disagree (SD), 2 is Disagree (D), 3 is Neutral (N), 4 is Agree (A) and 5 is Strongly Agree (SA).

	Statements on Threat of Double Taxation	1	2	3	4	5
11.	Our company has experienced a threat of double taxation in regard to cross-border transfers of goods and services.					
12.	Price adjustments by the tax authorities of different jurisdictions could lead to double taxation					
13.	Adjustments to royalty rates, interest, as regards cross-border transfers of goods, services may lead to double taxation					
14.	Cross-border transfers exposes the company to separate tax jurisdictions, hence threat of double taxation					
15.	Difference in structures of tax authorities involved in cross-border transfers expose multinationals to risk of double taxation					
16.	The organization has adopted Arm's length principle to minimize the possibility for double taxation.					

17. To what extent does threat of double taxation affect implementation of transfer pricing policies in your organization?

To a very great extent [ ] To a great extent [ ] To a moderate extent [ ]
To a little extent [ ] To no extent [ ]

Section D: Loss of Revenue and Transfer Pricing

To what extent do you agree with the following statements on loss of revenue and implementation of transfer pricing policies by multinational companies in Kenya? Use a scale of 1 to 5 where: 1 is strongly disagree (SD), 2 is Disagree (D), 3 is Neutral (N), 4 is Agree (A) and 5 is Strongly Agree (SA).

	Statements on Loss of Revenue	**1**	**2**	**3**	**4**	**5**
18.	Our company has incurred losses of revenue as a result of transfer pricing					
19.	The transfer prices set by the company affect the level of inter-company transactions with related non-resident companies hence exposing the company to revenue losses					
20.	Transfer prices affect the sales level achieved by the company					
21.	Tax deductions from separate tax jurisdictions reduces the revenue of MNCs					

22. To what extent does loss of revenue affect implementation of transfer pricing policies in your organization?

To a very great extent [ ] To a great extent [ ] To a moderate extent [ ]
To a little extent [ ] To no extent [ ]

Section E: Existing Regulations, Guidelines and Transfer Pricing

To what extent do you agree with the following statements on existing regulations, guidelines and implementation of transfer pricing policies by multinational companies in Kenya? Use a scale of 1 to 5 where: 1 is strongly disagree (SD), 2 is Disagree (D), 3 is Neutral (N), 4 is Agree (A) and 5 is Strongly Agree (SA).

	Statements on Existing Regulations and Guidelines	**1**	**2**	**3**	**4**	**5**
23.	Our company complies with the laid down TP Regulations/rules in the country					
24.	The Kenya Revenue Authority has in some instances imposed penalties to companies without transfer pricing policies					
25.	The Kenya Revenue Authority conducts transfer pricing audit/assessments on the operations of the company to probe whether the company is compliant with set regulations					
26.	The company's transfer pricing policy is mirrored along the Kenyan Income Tax (Transfer Pricing) Rules, 2006					
27.	The company's transfer pricing policy is mirrored along the OECD guidelines					
28.	The transfer prices applied on inter-company transactions are based on a mutually accepted intercompany agreements without any Advance Pricing Agreements					
29.	The existing TP legislation lack clarity and give rise to uncertainty					

30. To what extent do existing regulations and guidelines affect implementation of transfer pricing policies in your organization?

To a very great extent [ ] To a great extent [ ] To a moderate extent [ ]

To a little extent [ ] To no extent [ ]

Section F: Implementation of Transfer Pricing Policies

To what extent has the above identified challenges affected implementation of the following aspects of transfer pricing policies by multinational companies in Kenya? Use a scale of 1 to 5 where: 1 is to no extent, 2 is to a little extent, 3 is to a moderate extent, 4 is to a great extent and 5 is to a very great extent.

	Statements on Implementation of Transfer Pricing Policies	1	2	3	4	5
31.	Use of Advance Pricing Agreements					
32.	Setting transfer prices					
33.	Application of the arm's length principle					
34.	Compliance with the TP Rules					

35. Which other challenges affect implementation of transfer pricing policies by multinational companies in Kenya……………………………………………………………

……………………………………………………………………………………………………

…………………………………………………………………………………………………….

THANK YOU FOR YOUR PARTICIPATION

APPENDIX III

LIST OF MNCS

1.	Bata Shoes Co (K) Ltd
2	Tiomin Resources Inc
3	China Jiangsu International Economic-Technical Cooperation Corporation
4	China National Aero-Technology Import –Export Corp
5	China Overseas Engineering Corp
6	China Road & Bridge Corporation
7	Chinese Technical Cooperation
8	Sietco Development Corp
9	Sinotaco
10	Airlink Ltd
11	Anova Food BV
12	Anova East Africa (ANEA)
13	Christchurch Holdings
14	Dreamcoat Automotive Refinishing Products Ltd
15	Fairview Hotel
16	Fourteen Flowers
17	Grabowsky & Poort (Arcadis)
18	Groundwater Survey (Kenya) Ltd
19	Happy Cow Limited
20	Indu Farm EPZ Ltd
21	Jet Travel Ltd
22	Kenya Shell & BP
23	KLM Royal Dutch Airlines
24	Logistic Container Centre
25	Martinair Holland BV P & O
26	Philip Medical Systems
27	Procter & Gamble
28	Regina Seeds
29	SDV Transami
30	SERA Software East Africa
31	Sher Flowers
32	TNT Express Worldwide
33	Van Leer East Africa Ltd
34	WEC lines Ltd
35	D.T. Dobie (Kenya)
36	Peugeot Kenya
37	Total Kenya ltd
38	BASF
39	Bayer East Africa Ltd
40	Henkel Kenya Ltd
41	Pfizer Laboratories Ltd
42	Siemens

43	Schenker Ltd
44	Air India
45	Bank of Baroda
46	Bruce Trucks Ltd – Iveco trucks
47	Cadila Pharmaceuticals ltd
48	CMC (Maruti)
49	Kenindia Assurance company ltd
50	Kingsway Motors (Eicher)
51	Lakshmi Textiles Exports ltd
52	Manugraph Kenya Ltd
53	Marshalls EA (Tata)
54	Orient Paper Mills (Pan African Paper Mills)
55	Praj Industries Ltd
56	UB Pharma ltd
57	Auto Italia / Car & General (agents for Alfa Romeo & Piaggio)
58	Chimaco East Africa (agents for Enichem)
59	Fila East Africa
60	Framin Kenya Ltd (agents for Farmitalia)
61	Kenya Motors (agents for IVECO)
62	Kirdam Consortium
63	New Holland – Fiat Spa
64	Pirelli Tyre
65	Technogym
66	Asahi Shimbun Nairobi Bureau
67	Asami Motor Services
68	Chiyo & Company
69	Construction Project Consultants
70	Escape Ltd
71	Falcon Travel services
72	Itochu Corporation
73	Japan African Culture Interchange Institute
74	Japan External trade Corporation
75	Japanesse International Cooperation Agency (JICA)
76	Kajima Corporation
77	Kenya Tenri Society
78	Kyodo News Services
79	Matsushita Electric Industrial
80	Metameta Office
81	Mitsubishi Corporation (Rep Office)
82	Mitsui & Co ltd
83	Nec Corporation
84	Nippon Koei Ltd
85	Nissan (KVA)
86	Nissho Iwai Corporation

87	Osaka Motors Company
88	Overseas Courier Company
89	Sanyo Armco
90	Sumitomo Corporation
91	Toyota Kenya
92	Daewoo Corporation
93	Hwan Sung Industries (Kenya) Ltd
94	Hyundai Corporation
95	LG
96	Safari Park Hotel
97	Samsung
98	Alfa Laval Regional Office
99	Atlas Copco
100	EARS group Kenya
101	Kenya Grange Vehicle Industries
102	Photomap (Kenya) ltd
103	Riverdell Gardens
104	Sandvik (Kenya)
105	Scala (EA) Ltd
106	Skanska
107	SKF (Kenya) Ltd
108	Technical engineering ltd
109	Tetra Pak Ltd
110	Tour Africa Safaris
111	Ulf Ashcan Safaris
112	Water & Drilling Consultancy Ltd
113	ABB Asea Brown Boveri Ltd
114	African Safari Club
115	Airside Ltd
116	Andre Promotion & Consulting Co. Ltd
117	Baobab Farm Ltd
118	Ciba Geigy
119	Express Kenya
120	Heritage AII Insurance Ltd
121	International Cementia
122	Nestle
123	Pollmans Tours
124	Private Safaris
125	Roche Products
126	Schindler
127	SGS Kenya Ltd
128	Texchem Ltd
129	Yellow Wing Air Services Ltd
130	Abercrombie & Kent Tours Ltd
131	African Consulting Engineering
132	African Highland Produce Co Ltd
133	Avery Kenya Ltd

134	Bacho United Printers
135	Barclays Bank (K) Ltd
136	Barker & Barton (K) Ltd
137	Baumann (K) Ltd
138	Bee Health Propolis Ltd
139	Berger Paints
140	Blackwood Hodge
141	BOC Kenya Limited
142	Bonar EA ltd
143	Booker Tate
144	BP Solar
145	Brackla Nodor Ltd
146	British Airways
147	British American Tobacco
148	British Broadcasting Corporation
149	British Leyland
150	Cadbury Kenya Carnaud Metalbox Kenya Ltd
151	Carnaud Metalbox Kenya Ltd
152	Chancery
153	Chloride Exide
154	Church Orr & Associates
155	Coates Bros (EA)
156	Commonwealth Development Cooperation
157	Crown Paints
158	Cussons & Co Ltd
159	De La Rue
160	Deloitte & Touché
161	Dunlop Kenya
162	Eastern Produce Kenya
163	Elgon Chemicals Ltd
164	Ernst & Young
165	George Williamson
166	Gestetner
167	GlaxoSmithkline Beecham (GSK)
168	Guinness PLC
169	ICL Kenya
170	Inchcape Shipping Services
171	Intercontinental Hotels
172	Kenya Supply & Logistics
173	Knight Frank
174	KPMG Peat Marwick
175	La Farge Cement UK (East Africa Portland Cement
176	Mackenzie Maritme Ltd
177	Magadi Soda

178	Minet ICDC Insurance Brokers
179	Nairobi Hilton Hotel
180	Next Technology
181	Otis Elevators
182	Pricewaterhouse Coopers
183	Rea Vipingo Plantations
184	Rectitt Benkiser
185	Rentokil Ltd
186	Reuters
187	Ryden International UK
188	Securicor
189	Shell-British Petroleum
190	Silentnight
191	Sir Isaac Pitman
192	Sollatek electronics
193	Standard Chartered
194	Stem cor Kenya
195	Thomas Cook Group Ltd
196	Tibett & Britten Kenya
197	Unilever E.A.
198	Vitafoam
199	Vodafone (Safaricom)
200	Watson Wyatt Worldwide Actuaries
201	Wilken Communications Ltd
202	World Cargo
203	Caltex Oil (Kenya) Ltd
204	Coca Cola
205	Colgate Palmolive
206	Firestone East Africa
207	Fresh Del Monte
208	General Motors
209	IBM
210	Mobil Oil Kenya ltd
211	The Wrigley Company (EA) Ltd
212	DHL
213	Microsoft

Source: Kenya bureau of Statistics/Economic Survey and Kenya Association of Manufacturers (2011).