IMPLEMENTATION OF TRANSFER PRICING AS A BUSINESS STRATEGY FOR MULTINATIONAL CORPORATIONS IN KENYA

BY

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OCTOBER 2012
DECLARATION

This research project is my original work and has not been submitted for examination in any other university.

Signature: ..................................................  Date: 12/11/2012

MUNGAI PETER MUHOHO
D61/63655/2010

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

Signature ..................................................  Date: 12-11-2012

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ACKNOWLEDGEMENTS

I would like to thank God for the gift of life and health and for seeing me to this point of completion of my final project. I would like to sincerely thank my family and especially my parents for their support and encouragement throughout my school life and during this project. Am also very gratefully for the support and encouragement accorded to me by my girlfriend, Susan, my friends and colleagues especially Jasper and Stephen for constantly encouraging and reminding me to finish this project in good time. Finally, I wish to express my deep and sincere gratitude to my supervisor, Dr John Yabs, for his support and guidance throughout this project.
DEDICATION

This research project is dedicated to my loving parents whose foresight in education and constant encouragement drove me to this level of education; and to my friend Jasper for being a constant source of inspiration thus far.
ABSTRACT

Transfer pricing is traditionally concerned with finance and economics issues as the most important objective. Transfer pricing has in the recent past evolved as a means to accomplish corporate objectives and thus creating strategic consequences. This study is therefore concerned with the implementation of transfer pricing as a business strategy and not merely a finance and economic issue. The study shall therefore seek to establish the link between transfer pricing implementation and accomplishing business objectives.

The MNCs were then stratified into various sectors of the economy to facilitate representative sampling using simple random sampling method. The initial sample constituted 40 MNCs operating in various sectors of the economy. The study relied on both primary and secondary data. Primary data was obtained by use of questionnaires while the main source of secondary data constituted information on the websites of the respective MNCs. The data collected was checked for completeness and consistency, validated, edited and coded. Subsequently, descriptive statistics was used to analyze the data and presented in form of tables and figures. The findings of this study suggest that transfer pricing can be considered as a means to accomplish corporate objectives and thus create strategic consequences. The study therefore established that there is a positive correlation between transfer pricing implementation and strategy. Further, the study established that many managers in MNCs are certain about their understanding of strategy and relatively certain on their understanding of transfer pricing and how its implementation affects strategy. In addition, the study established that there are numerous challenges encountered in the process of transfer pricing implementation.

Given that transfer pricing can be used as a tool for strategy implementation this study recommends that MNCs management should broaden their understanding of transfer pricing and how it can be used as a strategy tool.
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LIST OF ABBREVIATION

APA  Advance Pricing Agreement
GDP  Gross Domestic Product
GoK  Government of Kenya
FDI  Foreign Direct Investment
KRA  Kenya Revenue Authority
MNC  Multinational Corporation
OECD Organization of Economic Co-operation and Development
USA  United States of America
UK   United Kingdom

In order to enjoy the benefits of international expansion MNCs are expected to come up with sound business strategies which enable them to fit in the environment whereby they are able to overcome challenges presented by the global markets, such as cost environment and pricing regulations and at the same time take advantage of opportunities created by such markets, including unmet demand and un-exploited markets. Without a clear strategy MNCs may never succeed in global markets according to [Node and Mithiel, 2001] without a strategy the organization is like a ship without a rudder, going around in circles.

Most MNCs are currently implementing transfer pricing as a business strategy for achieving growth in the global markets they operate in. Transfer pricing is therefore one of the most important strategic activities involved in the management of multiple business units within a multinational firm. Transfer pricing is the process of pricing
CHAPTER ONE: INTRODUCTION

1.1 Background of the study

According to the Oxford Analytica (2010), MNCs are facing an increasingly competitive landscape, an uncertain economic outlook, as well as cultural and regulatory differences, this led to a more rigorous strategy on international expansion. International expansion has a number of advantages for MNCs, including higher growth potential and access to cheaper resources and labor. However, organizational theorists have drawn attention to the challenges associated with the management of MNCs. For example, pressure arising from increasing research and development costs, the implementation of cost control measures, issues related to pricing as well as profit repatriation and pricing regulations create significant barriers to intra-firm trading (ICRA Rating Feature, 2010).

In order to enjoy the benefits of international expansion MNCs are expected to come up with sound business strategies which enable them to fit in the environment whereby they are able to overcome challenges presented by the global markets such costs containment and pricing regulations and at the same time take advantage of opportunities created by such markets including un-met demand and un-explored markets. Without a clear strategy MNCs may never succeed in global markets, according to (Ross and Michael Kami, 2001) without a strategy the organization is like a ship without a rudder, going around in circles.

Most MNCs are currently implementing transfer pricing as a business strategy for achieving growth in the global markets they operate in. Transfer pricing is therefore one of the most important strategic activities involved in the management of multiple business units within a multinational firm. Transfer pricing is the process of pricing
goods and services transferred between related firms of an MNC company across different countries. A related party transaction normally takes place between two or more companies and involves two or more countries (Li, 2006). A properly designed transfer pricing strategy will enable management to make decisions congruent with the firm’s goals. It will also help a company achieve its corporate-wide goals (Martinson, Englebrecht and Mitchell, 1999).

One of the main goals for businesses including MNCs is to enhance growth and profitability. Growth may be achieved by way of increased sales as well as market expansion. A key factor of sales value is the price charged. Venturing into global markets is an expansion strategy but may not necessarily lead to growth especially where there is no profitability. Therefore, MNCs have resulted into transfer pricing as a business strategy in as far as growth and profitability are concerned.

1.1.1 The concept of strategy

Johnson and Scholes (2003) define strategy as the direction and scope of an organisation over the long-term which achieves advantage for the organisation through its configuration of resources within a challenging environment, to meet the needs of markets and to fulfil stakeholder expectations.

A strategy is therefore a plan of action designed to achieve set and desired goals. Strategy is concerned with gaining (or being prepared to gain) a position of advantage over adversaries or best exploiting emerging possibilities. As there is always an element of uncertainty about the future, strategy is more about a set of options normally referred to as strategic choices than a fixed plan. For example, most MNCs have a business
objective of increasing growth and profitability in various countries by a given percentage and achieve given percentage in overall growth and profitability.

1.1.2 Transfer pricing

Transfer pricing refers to the pricing arrangements set by MNCs in respect of transactions between the group such as the sale of goods, provision of services, transfer of intangible assets, lending or borrowing of money and any other transactions which may affect the profit or loss of the entities within the group (Azemar, 2010).

When purchase and sale contracts are signed between the subsidiary and the parent company, at trade terms that favor the parent firm, it results in profit repatriation through transfer pricing. This kind of tilted transfer pricing, that favors high prices when the parent company sells something to its subsidiary, allows for effective transfer of profits from the subsidiary to the parent. Though this method is legal, it can cross the borders of legality if the transfer prices used are completely out of line with the market rates and are also blatantly overinflated. It is legal but only if the transfer prices are reasonable and justifiable. Transfer pricing is therefore significant for MNCs because it determines the strategy and direction of MNCs.

1.1.3 MNCS in Kenya

An MNC is a corporation enterprise that manages production or delivers services in more than one country. It can also be referred to as an international corporation that has its management headquarters in one country, known as the home country, and operates in several other countries, known as host countries. Some MNCs are very big, with revenues that exceed some countries' GDPs. MNCs can have a powerful influence in
local economies, and even the world economy, and play an important role in international business and globalization (Cole, 1996).

According to Porter (1990), a firm that owns business operations in more than one country is considered to be an MNC. The Investopedia Dictionary (2011), defines an MNC as a corporation that has its facilities and other assets in at least one country other than its home country. Such companies have offices and/or factories in different countries and usually have a centralized head office where they co-ordinate global management. Very large multinationals have budgets that exceed those of many small countries.

The Business Dictionary (2011), defines an MNC as an enterprise operating in several countries but managed from one (home) country. Generally, any company or group that derives a quarter of its revenue from operations outside of its home country is considered an MNC. There are four categories of multinational corporations: a multinational, decentralized corporation with strong home country presence, a global, centralized corporation that acquires cost advantage through centralized production wherever cheaper resources are available, an international company that builds on the parent corporation’s technology or research and development, or a transnational enterprise that combines the previous three approaches.

MNCs can be classified into inward and outward MNCs. From a Kenyan perspective inward MNCs are foreign companies that have set business operations in Kenya such as Barclays Bank of Kenya Limited which is a subsidiary of Barclays Plc, a company incorporated and domiciled in the United Kingdom. Outward MNCs on the other hand
are local companies which have set up operations in foreign jurisdiction such as Sameer Africa Limited which is a Kenyan based company with subsidiaries in Uganda and Tanzania. This study is concerned with both inward and outward MNCs.

According to the OECD, about 60% of international business consists of internal transfers within MNCS. When MNCs trade internationally with their own subsidiaries they use the transfer pricing as a business strategy.

1.1.4 International business

According to Reid (2007) an international business may be defined simply as business transactions that take place across national borders. This broad definition includes the very small firm that exports (or imports) a small quantity to only one country, as well as the very large global firm with integrated operations and strategic alliances around the world.

MNC operate in the international business environment which comprises the environment in different sovereign countries, with factors exogenous to the home environment of the organization, influencing decision making on resource use and capabilities. This includes the social, political, economic, regulatory, tax, cultural, legal, and technological environments.

1.2 Rationale behind MNCs and international business

The world has increasingly become a global village with many businesses operating in the international environment. Globalization, the process whereby businesses develop worldwide brands and products which they supply across the world, and in which they
employ labor in many different countries, has increasingly transformed business relations.

The Electronic Library of Scientific Literature (1996), explained the benefits of MNCs from the point of view of those who maintain the importance of FDI as part of the engine necessary for growth. In his contribution Davies (1989), took a comprehensive and critical look at the benefits of MNCs, amongst the benefits identified includes enhancing competition, improved economic growth and transfer of technology and knowledge.

Today, no country can provide all of the resources necessary to fully develop its economic potential and satisfy the needs of its population. International trade has enabled countries to gain from the advantages of specialization by exchanging surplus goods for surpluses produced by other countries. Thus its inhabitants can prosper from lower prices and higher living standards. Ideally a country should sell a lot of exports to other countries, because high levels of exports raise living standards for people in the exporting country. At the same time, it is good to import goods from overseas because this enables the importing country to enjoy more goods and services than it can produce itself.

1.3 Research problem

Transfer pricing is traditionally concerned with finance and economics issues as the most important objective. However, transfer pricing has in the recent past evolved as a means to accomplish corporate objectives and thus creating strategic consequences. This study is therefore concerned with the implementation of transfer pricing as a business strategy
and not merely a finance and economic issue. The study shall test the link between transfer pricing implementation and accomplishing business objectives.

Many authors have written on transfer pricing from a finance (Azemar and Corcos, 2009), and economics (Hyde and Choe, 2005), point of view but few have pointed out its impact from a strategic management point of view. There is also considerable literature on transfer pricing as a major tax issue laying little or no emphasis on the question as to whether transfer pricing is a strategic tool. Mbiuki (2011), examines transfer pricing legislation in Kenya and in particular the impact of the decision in the Unilever case. Nyamori (2012), notes that Kenya introduced the 2006 Transfer Pricing Rules to provide guidelines that govern transfer pricing law and policy. Amable (2012), has addressed both the legal and administrative framework for addressing transfer pricing concerns in Kenya. Similarly, Mwangi (2008), discusses the Kenyan law on arms length principle of transfer pricing and its applicability and also evaluates the various method of achieving the arms length principle and its practicability.

The common thread with what most authors have written about in the transfer pricing area is that they have taken a very keen interest on the finance and economics perspective as well as the taxation aspect on transfer pricing. MNCs however employ transfer pricing to assist in achieving competitive advantage and other corporate objectives. How is Transfer pricing implemented in Multinational corporations in Kenya?
1.4 Research objectives

The main objective of this study was to determine how MNCs operating in Kenya use transfer pricing as a business strategy in order to achieve certain strategic business objectives. In addition, this study also sought to determine the challenges faced by MNCs in the implementation of transfer pricing as a business strategy.

1.5 Value of the study

Transfer pricing plays a key role in formulating and implementing corporate goals and it is against this back drop that every MNC regardless of its size, must deal with the complexities of transfer pricing issues. Making sound business decisions regarding transfer pricing goes beyond finance and economics and complying with tax laws and reacting to transfer pricing audits as it is key in strategy formulation and implementation. Therefore, this study is invaluable to MNCs on how they can formulate and implement business strategies using transfer pricing.

Given that transfer pricing is a relatively new and evolving concept both in Kenya and globally this study is contribution to the existing literature and is therefore very valuable to the academia fraternity as it forms a basis for replicative research in this area as well as literature review for further research on transfer pricing.

KRA has increasingly viewed transfer pricing as an important new tax revenue stream for the GoK. With increased revenue target as a result of implementation of the new constitution and financing the devolved government the KRA has to cast its net far and wide, in doing so the KRA will find this study very useful in understanding how MNCs operate and how it can increase tax revenues from MNCs operations.
CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This Chapter examines existing knowledge and information on transfer pricing and strategy formulation. The chapter specifically addresses the impact of transfer pricing on MNCs from various perspectives such as finance, economics and taxation with specific emphasis on transfer pricing as a strategy issue.

2.1.1 Strategy concept

Thompson and Strickland (1999), defined strategy as the game plan management has for positioning the company in its chosen market arena, competing successfully, pleasing customers and achieving good business performance. Scholes and Tom (2005), on the other hand defined strategy as the direction and scope of an organization over the long term, which achieves advantage in a changing environment through its configuration of resources and competences with the aim of fulfilling stakeholder expectations.

According to Hofer and Schendel (1980), strategic management is a process that deals with the entrepreneurial work of the organization, and more particularly, with developing and utilizing the strategy which is to guide the organization's operations. Thus, strategic management places emphasis on the achievement of objectives as the major aim of an organization. The combination of objectives, strategy, and policies focus the master strategy for the firm.

According to Porter (1980), corporate strategy answers the questions of “in which business should we compete? “and” how does being one business add to the competitive
advantage of another portfolio firm as well as the competitive advantage of the corporation as a whole.

The concept of strategy also entails strategy implementation which essentially calls for specific action points aimed at realizing the set objectives. According to (Okumus and Roper, 1999), great strategies are worth nothing if they cannot be implemented. Therefore, companies must set out to implement strategies chosen, implementation may include use of transfer pricing to achieve certain objectives (Foley, Klopfer, Waldens and Wulfekuhler, 2007).

2.1.2 Transfer pricing

International business involves the exchange of goods and services among individuals and businesses in multiple countries. International business also arises where a specific entity, such as a multinational corporation or international business company engages in business among multiple countries. International business therefore deals with business activities (both production and services) that cross the national boundaries. This activity includes movement of goods, services capital or personnel, transfer of technology amongst others (Business Dictionary, 2011).

International businesses are therefore concerned with transfer of goods, services and intangibles between related parties such as a parent company and a subsidiary. The price charged for these transfers is known as a ‘transfer price’ and is required to be paid at arm’s length prices, that is, at market prices (Azemar, 2010).
According to (OECD Transfer Pricing Guidelines, 2010), transfer pricing refers to the setting, analysis, documentation, and adjustment of charges made between related parties for goods, services, or use of property (including intangible property). Transfer prices among components of an enterprise may be used to reflect allocation of resources among such components, or for other purposes. Transfer prices are significant for strategists, taxpayers and tax administrations because they determine in large part the business growth and profitability as well as income and expenses, and therefore taxable profits, of associated enterprises in different tax jurisdictions.

2.2 Transfer pricing implementation challenges in Kenya

In the implementation of transfer pricing as a strategy MNCs face certain challenges. These challenges may be legislative, administrative and or technical in nature.

Governments world over are concerned that MNCs manipulate transfer prices (over or under invoice transactions) so as to avoid paying taxes (Abdallah and Murtuza, 2006). Government’s response, have developed complex set of rules and procedures at the national and international levels designed to regulate MNC transfer pricing activities. Kenya introduced transfer pricing rules in 2006 which requires MNCs to maintain transfer pricing policy documenting transactions with related parties and justification of the transfer price charged.

2.3 Transfer pricing as a finance, economic and taxation issue

Therefore, MNCs objectives and transfer pricing policies have to be aligned to the applicable tax regulations. A major complexity associated with setting appropriate international transfer pricing policies and corporate objectives is the fact that countries
with fundamentally different tax legislation must be factored into the transfer pricing
decision process (Martinson et al. 1999).

MNCs are under intense scrutiny from revenue authorities who considers transfer pricing
a tax evasion mechanism. Anecdotal evidence indicates that MNCs operating in Kenya
are increasingly facing transfer pricing queries and audits from the KRA, and this is
bound to intensify (Nyamori, 2012).

Lack of technical knowledge is another challenge hampering implementation of transfer
pricing as a business strategy. Transfer pricing is one of the most complex areas since it
involves a balancing act between strategy, finance and economics as well as taxation.
This is further exacerbated by the fact that transfer pricing is not an exact science and is
ever-changing (Robertis, Kaut and Preshaw, 2006). In Germany, for example, recent
legislation allows a broad definition of what must be paid for when business functions
move from Germany to another Country. China has adopted a much narrower view of
what the Chinese subsidiary of a foreign group can pay for the use, for instance, of its
parent’s intellectual property (Dhayale et al. 2008). Therefore, MNCs require in-depth
technical knowledge and understanding of transfer pricing from all aspects in order to
realize corporate strategies through transfer pricing.

2.3 Transfer pricing as a finance, economic and taxation issue

According to Feinschreiber and Hammer (2001), global trading is a practice of trading in
countries around the world, this frequently results in multiple jurisdictions contributing
to profits. As a result, there is a need to apportion the income to the respective
jurisdictions, apportionment methods for dividing income have been subject of intense
worldwide debate for decades. Except in rare cases, global apportionment of MNCs combined income according to a preset formula has increasingly been rejected by tax authorities. The implication of this is that MNCs have not been able to apportion profits as they desire. Consequently, MNCs seek to apportion profits through transfer pricing where they under or over invoice their affiliates.

MNCs often use transfer pricing for purposes of allocating capital and profits between parent company and its subsidiaries. Insurance companies for instance, use intra-group re-insurance to reduce the amount of capital which is required by the local regulator and to optimize capital management at a group level. The uniqueness of each portfolio of risks under reinsurance means that it cannot be treated as a commodity for which a price can be easily established. Thus arriving at the transfer price to be used is a complex process. This complexity, together with a perceived lack of transparency, means that insufficient understanding of the role and pricing of re-insurance and a degree of scepticism are evident among some fiscal authorities. The need to prepare and maintain robust transfer pricing analysis is therefore paramount (Bergen and Seymour, 2007).

Within financial institutions where capital is required to undertake business, the capital is held to absorb unexpected losses and regulators require financial institutions to have minimum amounts of capital, depending on the risks assumed. Financial institutions actively manage their capital and their capital requirements: for example, a bank may seek to lower its overall regulatory capital requirement by having a trader in a “high” capital country trade a portfolio held in a “low” capital country. The trader in the “high” capital country is able to trade the portfolio held in the “low” capital country because from the counterparty’s perspective, the bank as a whole has the capital necessary to
support the risks arising from its trading activities. Such cross-border use of capital creates tax issues that impact directly on the profitability of each party (Howard, Neighbour, Clair, Preshaw and Martens, 2006).

Feinschreiber and Hammer (2001), provides a comprehensive analysis of the transfer pricing issues that affect taxpayers and tax collectors. The Handbook has a practical focus, advising taxpayers about transfer pricing techniques and their consequences. The Handbook has a USA perspective, encompassing companies doing business abroad and foreign companies doing business in the USA.

Ganapati (2009), in his paper evaluates the ways and means available to governments to prevent tax-motivated transfer pricing. It also analyses the magnitude and the impact of tax havens as it is closely linked to transfer pricing. The paper also discusses the factors that motivate MNCs to engage in transfer pricing and analyzes the options available for stopping transfer pricing with income shifting as its objective, focusing on the advantages and disadvantages of separate accounting and formula apportionment methods and finally examined the efforts of international tax regimes to plug the loopholes and makes a number of policy recommendations.

PricewaterhouseCoopers (2009), in a recent handout explores the African transfer pricing landscape. The handout raises and addresses diverse transfer pricing issues relevant to Africa as a whole. It particularly, points that Africa has no uniform tax system and is marked by high effective tax rates and tax uncertainty. Tax system often used to protect income base and investors often seen as not paying fair share of taxes.
Tax authorities in Africa have embraced transfer pricing which is now considered as new mechanism to protect local tax base.

It is clear from the above literature review that transfer pricing is a strategy issue as well as a finance, economics and taxation issue for MNCs. Therefore, MNCs are required to be clear on their strategy and how transfer pricing may be used to realize such strategies. In addition, MNC should anticipate and plan how to deal with challenges emanating from the implementation of transfer pricing.

3.2 Research Design

This study adopted a descriptive research design. A descriptive research design was best for this study as it describes what exists at a point in time or characteristics of the subject population.

According to Cooper and Schindler (2009), descriptive design discovery and describes the cause and effect or relationships between variables. Descriptive design will allow collection of a large quantity of in-depth information about the population under study and enable the researcher to test and measure the population needed for hypothesis experimentation since it gives valuable pointers as to what variables are worth testing quantitatively.

3.3 Population

The target population for this study was all MNCs operating in Kenya. Currently, there are over 200 MNCs in Kenya operating in the various sectors of the economy such as...
CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter deals with the research methodology as the mode of achieving the objectives of the study. It specifically highlights the research methods used in carrying out the study in order to achieve the research objectives.

The various methodological issues discussed include research design, population, sampling technique(s), data collection and analysis of the methods adopted in conducting the study.

3.2 Research Design

This study adopted a descriptive research design. A descriptive research design was best for this study as it describes characteristics associated with the subject population.

According to Cooper and Schindler (2003), descriptive design discovers and measures the cause and effect of relationships between variables. Descriptive design will allow collection of a large quantity of in-depth information about the population being studied and enable the researcher to test and measure the population needed for quantitative experimentation since it gives valuable pointers as to what variables are worth testing quantitatively.

3.3 Population

The target population for this study was all MNCs operating in Kenya. Currently, there are over 200 MNCS in Kenya operating in the various sectors of the economy such as
agriculture, manufacturing, construction, tourism, financial services amongst others (Economic Survey, 2011).

3.4 Sampling

The population was subsequently stratified according to the respective sectors in the economy due to the fact that MNCs vary in size.

Simple random sampling was applied within each stratum to arrive at a sample of 40 MNCs where all the major sectors are represented, appendix I of this report lists the sampled MNCs. The sample size was informed by previous studies done on MNCs which have concentrated on an average of 30 to 40 MNCs (Ernst and Young, 2008).

3.5 Data Collection

This study relied on both primary and secondary data. Primary data was obtained by use of questionnaires and facilitated understanding of the business objectives of MNCs operating in Kenya as well as the extent to which MNCs implement transfer pricing to achieve such objectives. The questionnaire is attached as appendix II to this report and has four sections, section one is basically the introduction and states the objective of the study, section two contains general information regarding the respondents and the organization, section three is the substantive section on how transfer pricing is used as tool for implementing business strategy as well as the challenges faced while section four is the conclusion. The target respondents for the questionnaire was Senior Managers and Managers working in the respective MNCs since they have a better understanding of the corporate objectives and implementation of transfer pricing as a means to achieving such objectives.
The main source of secondary data that was relied on in this study is information on the websites of the various MNCs. This helped in understanding MNCs' corporate objectives and business strategies. Other secondary data sources used included Transfer Pricing policies of the MNCS, Articles, and Journals on transfer pricing which helped in understanding the MNCs being subject of this study.

3.6 Data Analysis

The data collected was checked for completeness and consistency after which the data was validated, edited, and coded. The researcher then evaluated and analyzed the data to determine the adequacy of the information in achieving the research objectives.

Descriptive statistics was used to analyze the data. According to Denscombe (1998), descriptive analysis involves using statistical indexes such as frequency, percentages, average, mean, mode and standard deviation. Inferential statistics were also applied to establish further relationship between transfer pricing implementation and strategy.

In order to draw clear and informed conclusion and meet the objectives of this study, the analyzed information was subsequently presented in the form of tables and figures according to the research objectives.

<table>
<thead>
<tr>
<th>Sector</th>
<th>Target population</th>
<th>Sample size</th>
<th>Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>60</td>
<td>12</td>
<td>8</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>10</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Tourism and Hospitality</td>
<td>40</td>
<td>11</td>
<td>6</td>
</tr>
<tr>
<td>Financial services</td>
<td>20</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Construction</td>
<td>20</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td>200</td>
<td>40</td>
<td>25</td>
</tr>
</tbody>
</table>
CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents the findings based on the data collected during the field work by way of the questionnaire as a research tool. The purpose of this study was to determine how MNCs operating in Kenya use transfer pricing as a business strategy in order to achieve certain business objectives. In addition, this study also sought to determine the challenges faced by MNCs in the implementation of transfer pricing as a business strategy.

This section therefore presents an analysis of the information obtained with a view of fulfilling the research objectives as outlined in the study. There were four subsections presented on the questionnaire, section one was basically the introduction and states the objective of the study, section two contains general information regarding the respondents and the organization, section three is the substantive section on how transfer pricing is used as tool for implementing business strategy as well as the challenges faced while section four is the conclusion. 40 questionnaires were distributed to the respondents of which 26 responded thereby creating a response effective rate of 65%.

The results are indicated in Table 4.1 below. The list of the companies from which the responses were received are indicated in the attached Appendix 1.

Table 4.1: Response Rate

<table>
<thead>
<tr>
<th>Sector</th>
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<th>Response</th>
</tr>
</thead>
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<tr>
<td>Manufacturing</td>
<td>50</td>
<td>10</td>
<td>6</td>
</tr>
<tr>
<td>Tourism and hospitality</td>
<td>40</td>
<td>8</td>
<td>3</td>
</tr>
<tr>
<td>Financial services</td>
<td>20</td>
<td>8</td>
<td>7</td>
</tr>
<tr>
<td>Construction</td>
<td>30</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>200</strong></td>
<td><strong>40</strong></td>
<td><strong>26</strong></td>
</tr>
</tbody>
</table>
4.2 General information

The target respondents for the questionnaire were senior managers and managers working in the respective MNCs. The key consideration for the respondents included position in the organization, background or area of expertise and years of service.

4.2.1 Position in the organization

The target respondents for the questionnaire were senior managers and managers working in the respective MNCs given that they would have a better understanding of what implementation of transfer pricing entails and what business strategy is all about. To find out the position of the respondents involved in the study, it was established that 73% of the respondents were senior managers and 27% of the respondents were managers and junior managers. The results are indicated on Figure 4.1 below.

Figure 4.1: Respondents position in the organization

From the analysis of the responses senior managers seemed to have a better understanding of both business strategy and transfer pricing and the nexus between this two concepts.

20
4.2.2 Respondents background or area of expertise

The study targeted managers and senior managers in various departments in the supply chain including research and development, supplies and procurement, production, sales and marketing, finance and human resource. The areas selected are important in strategy formulation and implementation and are affected by transfer pricing in one way or another.

The response rate was fairly spread in all the departments selected with the highest response of 30% coming from the finance department. The research and development department had the lowest response of 10%. The results are indicated on Figure 4.2 below.

**Figure 4.2: Respondents background or area of expertise**

![Graph showing distribution of respondents across departments: Finance, Human Resource, Sales & Marketing, Supplies and Procurement.]

From the analysis of the responses the finance department seemed to have a deeper understanding of the role of transfer pricing in strategy implementation. This was more
pronounced on the impact of transfer pricing on turnover, regional market share and profitability amongst others.

4.2.3 Respondents years of service with the company

To find out the length of service of the respondents involved in the study, it was established that 85% of the respondents had worked for between 16-25 years, 10% of the respondents between 6-10 years and 5% had worked for between 0-5 years. The results are indicated on Figure 4.3 below.

Figure 4.3: Respondents years of services

From the review of the responses obtained it seemed that more experienced respondents had a better understanding of transfer pricing and its impact on business strategy.

4.3 Understanding business strategy

4.3.1 Business strategy

To find whether the respondents understood what business strategy is, it was established that, 63% strongly agreed, 27% agreed, 7% remained neutral, 2% disagreed while 1% strongly disagreed. Most of the respondents were certain about their understanding of business strategy. The results are indicated on Figure 4.4 below.
From the analysis of the responses it was established that most managers and senior managers had a good understanding of business strategy largely because as managers they are involved in strategy formulation and implementation. From the responses it was observed that most respondents viewed business strategy as the unifying theme that gives the direction of the organization geared towards superior performance through establishing competitive advantage. In addition, most respondents pointed out that strategy acts as a vehicle for communication and coordination within organizations. Based on these responses it was concluded that selected sample understand the concept of strategy and as such their responses are reliable for purposes of this study.

4.3.2 Business strategy formulation

To find whether the respondents understood strategy formulation, it was established that, 57% strongly agreed, 23% agreed, 11% were neutral, 5% disagreed while 4% strongly disagreed. Most of the respondents were certain about their understanding of strategy formulation. The results are indicated on Figure 4.5 below.
From the analysis of the detailed responses it was established that most of the respondents were able to briefly explain the strategy formulation process. From the responses most respondents indicated that business strategy is not an event but rather a logical process which entails a rational analysis of the organization where the current environment is analyzed and objectives for the future are set hence necessitating revising of an organization’s mission and vision. Based on the analysis of the detailed responses it was concluded that most of the respondents gave information that is reliable for purposes of this study.

4.3.3 The role of the parent company in strategy formulation

To find whether the parent company played a significant role in strategy formulation of MNCs operating in Kenya, it was established that, 43% strongly agreed, 21% were neutral, 19% agreed, 10% disagreed while 7% strongly disagreed. Most of the respondents are of the view that the parent company plays a significant role in strategy formulation of MNCs operating in Kenya. The results are indicated on Figure 4.6 below.
According to most of the respondents the parent company participates in the business strategy of subsidiaries in a number of ways such as cascading down the business direction, setting growth targets and other business objectives for the subsidiaries as well as direct participation in the senior management of subsidiaries which is tasked with the responsibility of formulating and implementing the business strategy.

4.3.4 Corporate objectives

To find out whether the respondents knew corporate objectives both short, medium and long term objectives, it was established that 41% strongly agreed, 25% agreed, 13% remained neutral, 15% disagreed while 6% strongly disagreed. Most of the respondents had clear knowledge of the company objectives including short, medium and long term objectives. The results are indicated on Figure 4.7 below.
From the detailed responses it was established that according to most of the respondents, corporate objectives is an objective of medium and long term nature that aims either at exploiting an opportunity or strength, or deals with a threat or a weakness facing the organization. Most respondents indicated organizations objectives to include increasing turnover, increasing market share globally, regionally and locally, increasing profitability, cutting on costs to attain competitive advantage, enhancing brand perception and quality assurance, increasing production, enhancing technology and corporate social responsibility amongst others. In order to establish the most common objectives the detailed responses on objectives were further analysed by testing the frequency. From the analysis it was established that the most common objectives include growth in turnover and profitability with a 100% frequency or popularity. Other common objectives included managing costs for competitive advantage, enhancing technology and quality assurance with 88.46%, 80.76% and 80.76% respectively. The least common objectives included corporate social responsibility and increasing production with 57.69% and 53.84% respectively. The results are indicated on Table 4.2 below.
<table>
<thead>
<tr>
<th>Ranking</th>
<th>Business objectives</th>
<th>Total population</th>
<th>Frequency</th>
<th>Frequency as percentage of total population</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Companies with an objective of growing their turnover</td>
<td>26</td>
<td>26</td>
<td>100%</td>
</tr>
<tr>
<td>2</td>
<td>Companies with an objective of improving their profitability</td>
<td>26</td>
<td>26</td>
<td>100%</td>
</tr>
<tr>
<td>3</td>
<td>Companies with an objective of managing costs</td>
<td>26</td>
<td>23</td>
<td>88.46%</td>
</tr>
<tr>
<td>4</td>
<td>Companies with an objective of enhancing technology</td>
<td>26</td>
<td>21</td>
<td>80.76%</td>
</tr>
<tr>
<td>5</td>
<td>Companies with an objective of quality assurance</td>
<td>26</td>
<td>21</td>
<td>80.76%</td>
</tr>
<tr>
<td>6</td>
<td>Companies with an objective of enhancing brand perception</td>
<td>26</td>
<td>20</td>
<td>76.92%</td>
</tr>
<tr>
<td>7</td>
<td>Companies with an objective of growing their regional market share</td>
<td>26</td>
<td>19</td>
<td>73.07%</td>
</tr>
<tr>
<td>8</td>
<td>Companies with an objective of growing their local market share</td>
<td>26</td>
<td>17</td>
<td>65.38%</td>
</tr>
<tr>
<td>9</td>
<td>Companies with an objective of being responsible socially</td>
<td>26</td>
<td>15</td>
<td>57.69%</td>
</tr>
<tr>
<td>10</td>
<td>Companies with objective to increasing production</td>
<td>26</td>
<td>14</td>
<td>53.84%</td>
</tr>
</tbody>
</table>
The main objective of the study is to determine how MNCs operating in Kenya use transfer pricing as a business strategy in order to achieve the above business objectives.

4.3.5 Action plans

To find out whether the respondents knew the action plans set in order to achieve the desired corporate objectives, it was found that 39% strongly agreed, 23% agreed, 17% remained neutral, 11% disagreed while 10% strongly disagreed. Most of the respondents had clear knowledge of the company's action plans for achieving set objectives. The results are indicated on Figure 4.8 below:

Figure 4.8: Action plans

From the detailed responses it was established that most of the respondents considered strategy implementation tougher and more time consuming than strategy formulation. Most respondents indicated that strategy implementation calls for clear and objective action plans and co-operation from all people and top management support in terms of resource allocation and constant communication. 18 out of the 26 approximately 70% of the respondents listed pricing decisions as one of the key aspects of strategy implementation. Transfer pricing is part of pricing decisions, this study is concerned with the implementation of transfer pricing as a business strategy tool. In the ensuing part of this chapter we analyze the respondent's understanding of transfer pricing.
4.4 Understanding transfer pricing

4.4.1 Understanding transfer pricing

To find whether the respondents understood what transfer pricing is, it was established that, 30% strongly agreed, 25% remained neutral, 19% disagreed, 16% agreed while 10% strongly disagreed. Most of the respondents were clear that transfer pricing plays a key role in strategy implementation. The results are indicated on Figure 4.9 below.

![Pie Chart showing understanding of transfer pricing](image)

**Figure 4.9: Understanding transfer pricing**

From the analysis of the responses it was established that while 80% of the respondents had a good understanding of business strategy only a reasonable number of the respondents, approximately 46% understood what transfer pricing is. Subsequent analyses were based on a reduced sample of 12 respondents who either strongly agreed (30%) or agreed (16%) that they understand what transfer pricing is. The composition of the reduced sample is presented in table 4.3 below.
Table: 4.3 Respondents with an understanding of transfer pricing

<table>
<thead>
<tr>
<th>Sector</th>
<th>Respondents with an understanding of transfer pricing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>33%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>25%</td>
</tr>
<tr>
<td>Construction</td>
<td>0%</td>
</tr>
<tr>
<td>Tourism and hospitality</td>
<td>16%</td>
</tr>
<tr>
<td>Financial services</td>
<td>25%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
</tr>
</tbody>
</table>

4.4.2 Setting the transfer price

To find whether the respondents understood how the transfer price between related parties is arrived at, the considerations and objective there on, it was established that 33% strongly agreed, 29% remained neutral, 27% agreed, 7% strongly disagreed and 4% disagreed. A good number of the respondents understood how MNCs set their transfer prices, the considerations thereon and the objectives of transfer pricing. The results are indicated on Figure 4.10 below.

![Figure 4.10: Setting the transfer price](image)

According to most of the respondents transfer price is set to achieve certain objectives such as achieving a given return, recovering costs, supporting subsidiaries and promoting business growth amongst others. The respondents indicated that in setting the price factors such as costs, market price and business strategy are considered.
4.4.3 Periodical review of the transfer price

To find whether the respondents understood how often the transfer price is reviewed and what necessitates such review, it was found that, 39% remained neutral, 19% strongly agreed, 17% strongly disagreed, 15% agreed while 10% disagreed. Most respondents did not understand how often the transfer price is reviewed. The results are indicated on Figure 4.11 below.

Figure 4.11: Review of the transfer price

![Pie chart showing responses]

Most of the respondents indicated that there are periodical reviews for transfer prices with 64% of the reviews happening quarterly. In addition, most of the respondents stated that organizations effect transfer price adjustment at the end of the year to adjust for any mispricing that may have occurred in the course of the year.

4.4.4 The role of transfer pricing in strategy implementation

To find out whether transfer pricing plays a role in strategy implementation, it was established that 37% strongly agreed, 29% agreed, 13% remained neutral, 12% strongly disagreed and 9% disagreed. Most of the respondents were certain that transfer pricing plays a significant role in strategy implementation. The results are indicated on Figure 4.12 below.
Figure 4.12: The role of transfer pricing in strategy implementation

From the review of the detailed responses it was established that those who agreed that transfer pricing implementation play a key role in business strategy further indicated that transfer pricing is a tool for achieving objectives such as increasing turnover, profitability and market share. In addition, a few respondents also indicated that transfer pricing may be used to support subsidiaries for example providing stock and raw materials at a favourable price.

4.4.5 Challenges in transfer pricing implementation

To find out whether there are challenges in implementing transfer pricing, it was found that 29% strongly agreed, 27% remained neutral, 17% disagreed, 15% agreed while 12% strongly disagreed. Most of the respondents indicated that there are serious challenges affecting the implementation of transfer pricing. The results are indicated on Figure 4.13 below.
From the analysis of the detailed responses it was established that the common challenges in implementing transfer pricing as a business strategy include lack of technical knowledge and understanding of transfer pricing, negative perception by the revenue authority where they view transfer pricing as a conduit for tax evasion and restrictive and rigid legislation and policy on transfer pricing.

4.4.6 Mitigation of transfer price implementation challenges

To find out whether there are actions taken to mitigate the challenges encountered during implementing transfer pricing, it was established that 29% strongly agreed, 26% remained neutral, 18% disagreed, 17% agreed while 10% strongly disagreed. Most of the respondents indicated that there were actions taken to mitigate on challenges affecting the implementation of transfer pricing. The results are indicated on Figure 4.14 below.
Figure 4.14: Mitigating transfer pricing implementation challenges

From the analysis of the detailed responses it was established that organizations adopt several approaches to mitigate transfer pricing challenges, these include engaging transfer pricing experts, enrolling their staff for transfer pricing courses and engaging the revenue authority during transfer pricing decision making process.

4.5 Transfer pricing implementation and business strategy

In order to establish whether there is indeed a cause and effect relationship between business strategy and transfer pricing the detailed responses of the respondents who understand strategy and transfer pricing were coded and further analyzed statistically.

4.5.1 Correlation analysis

Correlation analysis helps in determining the degree of relationship between two or more variables. Whenever some definite connection exists between two or more groups, classes or series of data there is said to be a correlation. Using coefficient of correlation analysis presented in Table 4.3 below it is clear that there is positive correlation between company objectives of turnover growth, profitability growth, cutting on costs, regional market share growth, and transfer pricing with coefficient correlation values of 0.8161, 0.9293, 0.4354 and 0.8779 respectively.
On the other hand, there is no correlation between objectives to increase local market share, to be responsible socially, to increase production and enhance technology with coefficient correlation values of 0.0150, 0.0214, 0.2016 and 0.0017 respectively. Statistical analysis further suggests that there is a negative correlation between quality assurance, enhanced brand perception, and transfer pricing with coefficient correlation values of 0.3791 and 0.0068 respectively. The results are indicated on Table 4.4 below.

**Table 4.4: Coefficient correlation analysis**

<table>
<thead>
<tr>
<th>No</th>
<th>Business objectives</th>
<th>Transfer pricing implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Companies with an objective of growing their turnover</td>
<td>0.8161</td>
</tr>
<tr>
<td>2</td>
<td>Companies with an objective of improving their profitability</td>
<td>0.9293</td>
</tr>
<tr>
<td>3</td>
<td>Companies with an objective of managing costs</td>
<td>0.4354</td>
</tr>
<tr>
<td>4</td>
<td>Companies with an objective of enhancing technology</td>
<td>0.0017</td>
</tr>
<tr>
<td>5</td>
<td>Companies with an objective of quality assurance</td>
<td>-0.3791</td>
</tr>
<tr>
<td>6</td>
<td>Companies with an objective of enhancing brand perception</td>
<td>-0.0068</td>
</tr>
<tr>
<td>7</td>
<td>Companies with an objective of growing their regional market share</td>
<td>0.8779</td>
</tr>
<tr>
<td>8</td>
<td>Companies with an objective of growing their local market share</td>
<td>0.0150</td>
</tr>
<tr>
<td>9</td>
<td>Companies with objective of being responsible socially</td>
<td>0.0214</td>
</tr>
<tr>
<td>10</td>
<td>Companies with an objective of increasing production</td>
<td>0.2016</td>
</tr>
</tbody>
</table>
Based on the findings on implementation of transfer pricing as business strategy presented in Table 4.4 above it was established that the transfer price value directly affects the turnover reported, the market share size, cost management and also the profitability which are the most common business objectives for most MNCs.

8.2 Summary and Findings
The objective of this study was to determine how MNCs operating in Kenya use transfer pricing as a business strategy in order to achieve certain business objectives. In addition, this study also sought to determine the challenges faced by MNCs in the implementation of transfer pricing as a business strategy.

The research adopted a descriptive research design method. The population comprised of 49 MNCs operating in Kenya. The study adopted a stratified and random sampling technique to increase statistical efficiency and provide adequate data for analyzing the various sub-populations. Data was collected using questionnaires, video and audioclips scientifically for bias and reliable results. This study used descriptive statistics using statistical measures such as frequency, percentage and mode in using inferential statistics. The data was analyzed using correlation analysis, which was vital in making sense of the data. The analyzed data was presented in form of tabled, charts and figures according to the research objectives.
CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents a summary of the findings and the conclusion drawn from the study. Under this chapter, the researcher also discusses various recommendations that should be considered by various stakeholders affected by implementation of transfer pricing as a business strategy.

5.2 Summary and Findings

The objective of this study was to determine how MNCs operating in Kenya use transfer pricing as a business strategy in order to achieve certain business objectives. In addition, this study also sought to determine the challenges faced by MNCs in the implementation of transfer pricing as a business strategy.

The research adopted a descriptive research design method. The population comprised of 40 MNCs operating in Kenya. The study adopted a stratified and random sampling technique to increase statistical efficiency and provide adequate data for analyzing the various sub-populations. Data was collected using questionnaires, edited and analyzed statistically for better and reliable results. This study used descriptive statistics using statistical indexes such as frequency, percentage and mode. In using inferential statistics, the data was analyzed using correlation analysis, which was vital in making sense of the data. The analyzed data was presented in form of tables, charts and figures according to the research questions.
The first objective was to establish whether MNCs use transfer pricing as a tool for implementing business strategy the study revealed that most MNCs implement transfer pricing as a business strategy. Among the business objectives that MNCs seek to achieve through transfer pricing include increasing turnover, regional market share, cutting on costs and increasing profitability. The study further revealed that such objectives are achieved by adjusting the transfer price between related parties which is possible due to common control between related parties. The study also revealed that there are some business strategies or objectives which cannot be achieved through transfer pricing such objectives include increasing local market share, corporate social responsibility, enhancing technology, brand perception and quality amongst others.

The second objective for this study was to establish the challenges facing MNCs in implementing transfer pricing as a business strategy. The findings established that transfer pricing is complex and technical. Most of the respondents were not certain as to whether they have a good understanding of transfer pricing. Among the main challenges identified include negative perception from the revenue authority where they perceive transfer pricing as a tax evasion mechanism, lack of technical knowledge and training in transfer pricing as well as the complexity of the concepts involved coupled with unavailability of literature on this area.

This study also established that most MNCs have taken measures to navigate through the above challenges; the measures taken include amongst others enrolling for transfer pricing trainings, subscribing for literature materials, sending employees on exchange programmes and involving the revenue authorities in the pricing decisions.
5.3 Conclusions

5.3.1 Transfer pricing and business strategy

In contrast to a purely finance, economic and tax-driven mechanism, transfer pricing can be considered as a means to accomplish corporate objectives and thus create strategic consequences. Results indicate that executives are not solely focused on finance, economics and taxation issues as the primary objective of transfer pricing but also consider transfer pricing as a business strategy tool.

MNCs employ transfer pricing to assist in achieving competitive advantage and other corporate objectives as well. In general, executives perceive that transfer pricing does influence measures of corporate performance. This is supported by the finding that transfer pricing also contributes toward achieving objectives. Among the business objectives that MNCs seek to achieve through transfer pricing include increasing turnover, regional market share, cutting on costs and increasing profitability. The study further revealed that such objectivise are achieved by adjusting the transfer price between related parties which is possible due to common control between related parties.

5.3.2 Transfer pricing implementation challenges

This study established that transfer pricing is a complex concept whose implementation is coupled with various challenges. The biggest challenge is lack of proper knowledge in the field of transfer pricing due to its technical nature. Transfer pricing is a fairly new concept both in Kenya and the world over. In Kenya transfer pricing concept came into the lime light in 2005 during the Unilever Case where the KRA was challenging
Unilver's transfer prices with its related party, Unilever Uganda. Following the decision on this case the GoK promulgated the 2006 transfer pricing rules which provide guidance on how to arrive at transfer prices. Various stakeholders including the KRA, and MNCs have embarked on capacity enhancing through exchange programmes in countries with advanced knowledge in transfer pricing such as the USA, UK, Mexico and China, attending short term transfer pricing courses locally.

Keeping track of the fast-developing transfer pricing landscape is itself a challenge. From detailed transfer pricing regulations to stricter documentation requirements, robust audit practices to harsher penalties for non-compliance, MNCs companies must deal with an ever more complex environment. In mitigating this challenge MNCs engage services of tax experts in developing transfer pricing documentation and resolving transfer pricing disputes.

Another challenge affecting transfer pricing is the negative perception from the KRA, world over, revenue authorities have always perceived transfer pricing as conduit for tax evasion through mispricing by way of under or over invoicing. This is not necessarily so as transfer pricing may also be used as a tool for achieving corporate objectives. In a bid to mitigate on this challenge some MNCs have been engaging the KRA in their transfer pricing activities. However, the law does not currently provide for a legal mechanism for involving the KRA in transfer pricing documentation development. In some jurisdictions the law provide for APA where revenue authorities and MNCs agree on transfer prices before hand.
5.4 **Limitation of the study**

This study is limited to the extent that it concentrated on inward MNCs largely because Kenya is a developing country and as such it has more inward MNCs as opposed to outward MNCs. With revamping of the EAC it is expected that more outward MNCs will come up, a study with a balanced number of inward and outward MNCs would provide better and balanced analysis.

Some respondents opted to remain neutral to some questions in the questionnaire while other completely refused to respond due to the sensitive nature of the information sought for, some respondents indicated that pricing decision are business secret as it comprises companies competition strategies while others feared that the information may find it ways with the KRA and thus get victimized.

This study was also limited by way resources such as time. Due to time constraints the researcher was not able follow up on all the respondents and especially where responses were not forth coming after severally follow up calls and email reminders.

5.5 **Recommendations**

The transfer pricing environment is constantly changing, in terms of both risks and opportunities. MNCs therefore need to ensure that they stay up-to-date with the latest developments and transfer pricing best practices. In doing so, they can optimize the opportunities to apply transfer pricing as strategy tool and at the same time reduce their global effective tax rate and ensure they remain compliant with changing guidelines and regulations, while at the same time minimizing the risks associated with a transfer
pricing audit. Therefore, MNCs should strive to enhance their understanding of what transfer pricing means and how transfer pricing is applied as a strategic management tool. Further, the employees of MNCs should ensure they understand the nexus between transfer pricing and strategy.

In addition, the researcher proposes that future researchers should focus on examining various ways of managing transfer pricing risks and challenges especially in emerging markets and develop on the limited theoretical framework on the topic.
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APPENDIX I

QUESTIONNAIRE

1 Introduction and objective

This questionnaire is prepared to seek your assistance in providing information to assist me in conducting a Project on implementation of transfer pricing as a business strategy for MNCs operating in Kenya in partial fulfilment of the requirement for the Degree of Master of Business.

The objective of this exercise is to determine whether MNCs implement transfer pricing as a business strategy as well as to determine the challenges that such MNCs face.

2 General information

Please indicate the responses to the questions listed below in the spaces provided.

a) Name of the respondent.................................................................

b) Gender of the respondent..............................................................

c) Position of the respondent.............................................................

d) Background and expertise of the respondents.................................

e) Organization name............................................................................

f) Years of service with the company:

\[
\begin{array}{ccc}
0 - 5 & ( ) & 6 - 10 & ( ) \\
16 - 20 & ( ) & Over 25 & \\
11 - 15 & ( ) & \\
\end{array}
\]

g) Organization industry........................................................................
h) Parent company name

i) Country in which the parent company is located

j) Country(ies) in which the company/entity’s other related parties are located 
(Attach a separate schedule if need be)

k) Does your organization trade with its related entities? if yes, please list down the trade items

3 Business strategy and transfer pricing

Please indicate the extent to which you agree with the following statements by using a scale of 1 to 4 where 1 = strongly disagree, 2 = disagree, 3 = neither agree nor disagree, 4 = agree, 5 = strongly agree. Tick (✓) which best describes your opinion of the statement in reference to impact of transfer pricing.

In addition, please provide brief comments on the additional questions based on your response to the statement.

a) I understand what strategy is:

<table>
<thead>
<tr>
<th>Strongly Agree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

i) I can describe the process of strategy formulation for the company:

<table>
<thead>
<tr>
<th>Strongly Agree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

48
Provide a brief description of strategy formulation.

ii) The parent company plays a significant role in strategy formulation

<table>
<thead>
<tr>
<th>Strongly</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disagree</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Provide details.

iii) I know the company’s long term and short term objectives

<table>
<thead>
<tr>
<th>Strongly</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disagree</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

List the short term and long term objectives.

iv) I know the strategic plan and action plans set for achieving the company’s objectives

<table>
<thead>
<tr>
<th>Strongly</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disagree</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

List the companies action plans.

b) I understand what transfer pricing is:

<table>
<thead>
<tr>
<th>Strongly</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disagree</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

i) I understand how the transfer price between the company and related party arrived at and the objectives thereon

<table>
<thead>
<tr>
<th>Strongly</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disagree</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Briefly explain how the transfer price is arrived at and the objectives thereon.

ii) The transfer price set is reviewed regularly

| Strongly Disagree Neutral Agree Strongly Agree |
| Disagree |

Indicate the periodical interval.

iii) How often is the transfer price reviewed and what necessities such review?


c) Transfer pricing plays a key role in strategy implementation:

| Strongly Disagree Neutral Agree Strongly Agree |
| Disagree |

d) There are many challenges in implementing transfer pricing as a business strategy:

| Strongly Disagree Neutral Agree Strongly Agree |
| Disagree |

i) Please list down the main challenges faced.

ii) I know the actions taken to mitigate encountered during transfer price implementation

| Strongly Disagree Neutral Agree Strongly Agree |
| Disagree |

Provide a summary of the actions taken.

50
4 Conclusion

e) Transfer price plays a key role in achieving the company’s overall strategy:

<table>
<thead>
<tr>
<th>Strongly</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly Agree</th>
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<tbody>
<tr>
<td>Disagree</td>
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f) Transfer price is a complex concept faced with numerous challenges during implementation:

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<tr>
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<tr>
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THANK YOU FOR YOUR TIME AND CONTRIBUTION
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<th>AGRICULTURE</th>
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</tr>
<tr>
<td>3 TEA PROPERTIES LTD</td>
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<td>4 TINDERET TEA ESTATE</td>
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<td>5 POLLEN LIMITED</td>
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<tr>
<td>7 JAMES FINLAY LIMITED</td>
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</tr>
<tr>
<td>8 HOME GROWN KENYA LIMITED</td>
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</tr>
<tr>
<td>9 SYNGENTA EAST AFRICA LIMITED</td>
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</tr>
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<td>10 UNILEVER TEA</td>
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<tr>
<td>11 ALLIANCE ONE TOBACCO (KENYA) LIMITED</td>
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<td>12 EXPORT TRADING COMPANY LIMITED</td>
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<td>3 BARCLAYS BANK OF KENYA LIMITED</td>
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<td>4 AFEX EXPEDITIONNA LIMITED</td>
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