The Effect of Transfer Pricing and Firm Size on Financial Performance with Liquidity as a Moderating Variable in Manufacturing Companies Listed on The Indonesia Stock Exchange (IDX)

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Abstract

Manufacturing companies listed on the Indonesia Stock Exchange (IDX) face challenges in improving financial performance amidst global competition. Transfer pricing is used to optimize profits, while firm size is believed to affect operational stability. This study aims to examine the impact of transfer pricing and firm size on financial performance, with liquidity as a moderating variable. The research utilizes secondary data from financial statements for the 2021-2023 peri-od. The analysis method employed is Moderated Regression Analysis (MRA) to evaluate direct effects and the interaction of the moderating variable. The results show that transfer pricing has a positive and significant impact on financial performance, while firm size does not significantly influence it. Additionally, liquidity does not moderate the relationship between independent var-iables and financial performance. This study highlights the importance of transfer pricing as a fi-nancial efficiency strategy without reliance on liquidity as a moderating factor.

Kata Kunci: *Transfer Pricing, Firm Size, Liquidity, Financial Performance.*

Introduction

The manufacturing companies listed on the Indonesia Stock Exchange (IDX) represent a cru-cial sector that plays a significant role in Indone-sia's economy (Priska Lliani, 2021). In their ef-forts to sustain their existence amidst increasing-ly intense business competition, Indonesian manufacturing companies face challenges to con-tinuously optimize their financial performance to remain competitive. Financial performance serves as one of the key indicators for evaluating a company's success and the sustainability of its operations (Liando, 2021; Yang et al., 2020). Therefore, continuous optimization is necessary to enhance a company's performance prospects (Karim, 2019). However, company performance can some-times decline due to unintended impacts, either from external or internal factors (Wulandari, 2018). For instance, issues affecting the manu-facturing industry's performance have been high-lighted in a report by Kompas.id, as noted by M Paschalia Judith J, regarding weakened purchas-ing power in Indonesia. Macroeconomic factors, including weakened domestic purchasing power and reduced export demand from China—a key trading partner of Indonesia—have significantly impacted the financial performance of manufac-turing companies, including those listed on the IDX. On August 31, 2023, the Ministry of Indus-try reported that the Industrial Confidence Index (IKI) reached 53.22 points for August 2023, indi-cating the national manufacturing sector re-mained in the expansion phase. However, this figure marked a decline of 0.09 points compared to the previous month and represented the second

consecutive drop since June 2023, when the IKI stood at 53.93 points. Amid such sluggish market conditions, some companies may resort to enhancing their transfer pricing strategies to optimize tax obliga-tions or shift income to branches in lower-tax jurisdictions. With financial performance under pressure due to declining global demand and domestic purchasing power, transfer pricing be-comes critical for cost management and profit optimization. This strategy not only plays a role in tax management but also affects resource allo-cation across regions (Shahwan, 2024).

Transfer pricing refers to a strategy used by companies to maximize cost efficiency by setting prices for transactions between divisions or sub-sidiaries within the same corporate group. Ac-cording to research by Fauziah & Saebani (2021), transfer pricing can significantly impact a company's financial performance as it deter-mines interdepartmental revenues and influences the amount of tax to be paid. In Indonesia, trans-fer pricing is often associated with efforts to min-imize tax liabilities or maximize profits through transfer price adjustments to achieve tax efficien-cy (Komala et al., 2023). Financial performance remains a critical indicator for assessing a com-pany's success and business sustainability (Azzahra et al., 2023). In addition, firm size plays a role as a factor influencing performance, as larger companies generally have broader access to financial re-sources and the ability to implement efficiency strategies (Miswanto et al., 2017). Large-scale firms are better equipped to cope with global economic uncertainties and demand fluctuations. Research by Edy et al., (2023) indicates that large companies often bear higher risks and en-gage in business diversification, positively im-pacting their financial performance. The relation-ship between firm size and financial performance can be explained through agency theory, which posits that larger firms typically have more com-plex structures requiring effective management to maintain operational efficiency (Jensen & Meckling, 1976). However, financial performance is not sole-ly influenced by transfer pricing and firm size but also by liquidity, a factor that can strengthen or weaken financial performance. Liquidity, which reflects a company's ability to meet short-term obligations, is crucial for maintaining financial stability (N. Cahyani & Nyale, 2022). Research by Ruliyanti et al., (2024) shows that high liquid-ity can help companies navigate market fluctua-tions and enhance financial performance, particu-larly in the manufacturing sector. Manufacturing firms in Indonesia, which often face intense competition, require strong liquidity to support their operations and remain competitive in the global market.

Agency theory suggests that larger compa-nies often face more complex agency problems, particularly concerning transfer pricing, which may benefit certain parties within the organiza-tion (Jensen & Meckling, 1976). This implies that firm size has the potential to amplify the im-pact of transfer pricing on financial performance, as larger companies are more likely to take risks in managing transfer pricing to achieve tax effi-ciency and optimize financial outcomes (Fauziah & Saebani, 2021). In this context, the role of li-quidity as a moderating variable becomes signifi-cant, as high liquidity can help companies man-age financial risks arising from transfer pricing activities (Ruliyanti et al., 2024). This study aims to evaluate the impact of transfer pricing and firm size on financial per-formance, considering liquidity as a moderating variable in manufacturing companies listed on the Indonesia Stock Exchange (IDX). Additional-ly, this research is expected to contribute to the literature on the relationship between transfer pricing, firm size, and financial performance. It also provides new insights into the role of li-quidity as a moderating factor, enhancing the understanding of the dynamics within Indonesia's manufacturing sector.

Literature Review

Agency Theory

Agency Theory, introduced by Jensen & Meckling (1976), describes the principal-agent relationship as a contract in which the company owners (principals) delegate the authority to manage the company to managers (agents). In this context, owners entrust managers to manage resources and make decisions that significantly impact the

company's success (Jensen & Meckling, 1976). According to Jensen & Meckling, (1976), Agency Theory is founded on several key principles.

The first principle highlights conflicts of interest between principals and agents. The theory underscores divergent goals, where managers often make decisions based on personal interests, such as increasing compensation or bonuses, which may not align with the owners' long-term objective of maximizing company value. The second principle involves agency costs, referring to expenses incurred to monitor managers' performance and ensure alignment with the owners' interests. The third principle is the issue of information asymmetry between owners and managers (Jensen & Meckling, 1976). One of the main challenges in Agency Theory is this imbalance of information, where managers have more operational knowledge than owners. This asymmetry enables managers to take self-serving actions that may disadvantage the owners. Consequently, measures to enhance transparency and accountability in corporate governance are essential (Bergh et al., 2019). The fourth principle involves the use of incentives and control systems to align interests. Agency Theory advocates for mechanisms such as performance-based compensation or stock ownership for managers to align their goals with those of the owners. These mechanisms encourage managers to focus on the company's sustainability and (Colvin & Boswell, 2007). Lastly, the theory addresses risks of moral hazard and adverse selection. Moral hazard occurs when managers take undesired risks after the employment contract is established, while adverse selection happens when owners lack sufficient information about a manager's abilities during recruitment, potentially resulting in the selection of unsuitable managers (Guesnerie et al., 1989).

Financial Performance

Financial performance is a key metric used to assess the effectiveness and efficiency of a company in generating profits. Ratios such as Return on Assets (ROA) and Return on Equity (ROE) are often utilized to evaluate various aspects of a company's financial performance (Tutcu & Kayaku, 2024). High financial performance reflects the implementation of effective managerial strategies and the optimal utilization of resources (Horne & Wachowicz, 2008). According to Jensen & Meckling (1976), financial performance can also be influenced by ownership structure and debt levels, where an optimal capital structure can maximize shareholder wealth. Additionally, financial performance is affected by management efficiency in optimizing working capital and controlling operational costs (Van Horne, 2019). Factors such as capital structure and asset management play a central role in maintaining corporate liquidity and ensuring operational sustainability, particularly in an ever-changing economic environment (Yang et al., 2020). Jae Lee & Shawn Jang (2007) associate financial performance with a company's ability to adapt and grow in competitive markets. According to them, financial performance reflects a company's stability in meeting short-term obligations and its ability to generate sufficient profits to support future investments, thereby enhancing shareholder value.

Transfer Pricing

Transfer pricing is a policy implemented by multinational companies to determine the transfer price of goods or services between entities within the same corporate group (Shahwan, 2024). This practice is often associated with strategies to reduce tax burdens by adjusting transfer prices across jurisdictions with different tax rates. According to research by (Baiti et al., 2024), transfer pricing does not always carry a negative connotation, particularly when used for operational efficiency purposes between divisions. However, transfer pricing is often viewed as an aggressive practice employed by companies to evade taxes, which can influence financial performance differently depending on the regulatory frameworks in each country. In the context of manufacturing companies listed on the Indonesia Stock Exchange (IDX), transfer pricing is frequently used to optimize

reported net income by leveraging differences in tax rates across operational regions (Ridha & Suryono, 2021). The study by Sitanggang & Firmansyah (2021) revealed that transfer pricing could enhance production cost efficiency but may also pose risks of distrust from stakeholders, including tax authorities and investors. Findings from (Ouelhadj, 2023) indicate that transfer pricing has a positive and significant impact on financial performance. However, these findings contrast with those of Osho et al., (2022), who concluded that transfer pricing does not significantly affect financial performance. Based on research by Amaliah & Triono (2024), citing Widiyantoro & Sitorus (2019), the application of agency theory in the context of transfer pricing policies suggests that managers often use this strategy to optimize company profits by reducing tax burdens through inter-entity transactions within a corporate group. On one hand, transfer pricing can improve financial performance by reducing tax expenses (Mineridya & Paramitha, 2021). On the other hand, it may also be exploited by managers for personal gain, such as increasing bonuses or incentives based on reported profits, which may not always align with the interests of company owners (Fauziah & Saebani, 2021).

H1: *Transfer pricing has a significant impact on the financial performance of manufacturing companies listed on the IDX*

Frim Size

Firm size reflects the scale of an entity, which is typically measured based on total assets, total sales, average total sales, and average total assets (Jaya, 2020). Additionally, firm size is often associated with operational stability and cost efficiency. Handayani & Karnawati (2021) explain that larger firms tend to have better access to capital markets and broader resources, enabling them to achieve economies of scale. Nathanael & Paramitha (2024) also found that large firms tend to have more stable financial performance due to their ability to adapt to market fluctuations. In the manufacturing sector, larger firms are more likely to survive economic uncertainties thanks to cost efficiency and stronger bargaining power. Research by Gunawan et al., (2022) shows that firm size has a positive and significant impact on financial performance. However, these findings contrast with those of Wardati et al., (2021), who found that firm size does not significantly affect financial performance. Furthermore, firm size is often considered a factor influencing financial performance, particularly in the context of agency costs. Larger firms generally have more resources to improve performance but also face a greater risk of agency problems due to their complex structures (Miswanto et al., 2017). Research by Salsabila & Pertiwi (2022) found that large firms tend to be more efficient in asset and capital management but often encounter agency issues due to ineffective oversight of management. This is relevant for manufacturing companies listed on the Indonesia Stock Exchange (IDX), where firm size can either enhance or reduce efficiency.

H2: *Firm size significantly affects the financial performance of manufacturing companies listed on the IDX*

The Relationship Between Liquidity and Transfer Pricing

Liquidity reflects a company's ability to meet its short-term obligations using its current assets. Commonly used liquidity ratios include the Current Ratio (CR) and Quick Ratio (QR) (Machmud, 2021). High liquidity can provide security for a company in facing short-term financial crises, but excessively high liquidity may indicate suboptimal asset investment (S. S. Cahyani, 2024). High liquidity is often seen as a buffer that allows a company greater flexibility in managing short-term obligations (Harsono & Pamungkas, 2020). However, from an agency theory perspective, high liquidity may also increase the risk of moral hazard, where managers feel freer to use current assets for activities that might not align with the owners' interests (Salama et al., 2019). For example, managers may be more inclined to

engage in aggressive transfer pricing practices because they believe the company has sufficient liquidity to address potential problems arising from such policies (Linsley, 2018). On the other hand, when liquidity is low, managers tend to be more cautious in making decisions that could impact the company's cash flow, including transfer pricing strategies (Linsley, 2018). From an agency theory perspective, liquidity can also help mitigate conflicts of interest by providing better oversight of asset utilization. When a company's liquidity is adequate, owners can more easily monitor how assets are used by managers, ensuring they are directed toward investments that align with long-term interests (F. I. Cahyani et al., 2024).

H3: *Liquidity moderates the relationship between transfer pricing and financial performance*

The Relationship Between Liquidity and Firm Size

Adequate liquidity can either strengthen or weaken the relationship between firm size and financial performance (Blankson et al., 2019). Large companies with high liquidity levels are generally better able to manage short-term financial obligations and maintain operational stability, which ultimately supports the achievement of more optimal financial performance (Malik, 2015). A study conducted by N. Cahyani & Nyale (2022) shows that liquidity can strengthen the relationship between firm size and financial performance. This is due to the ability of large, liquid firms to access external financing more easily and utilize market opportunities more effectively.

H4: *Liquidity moderates the relationship between firm size and financial performance*

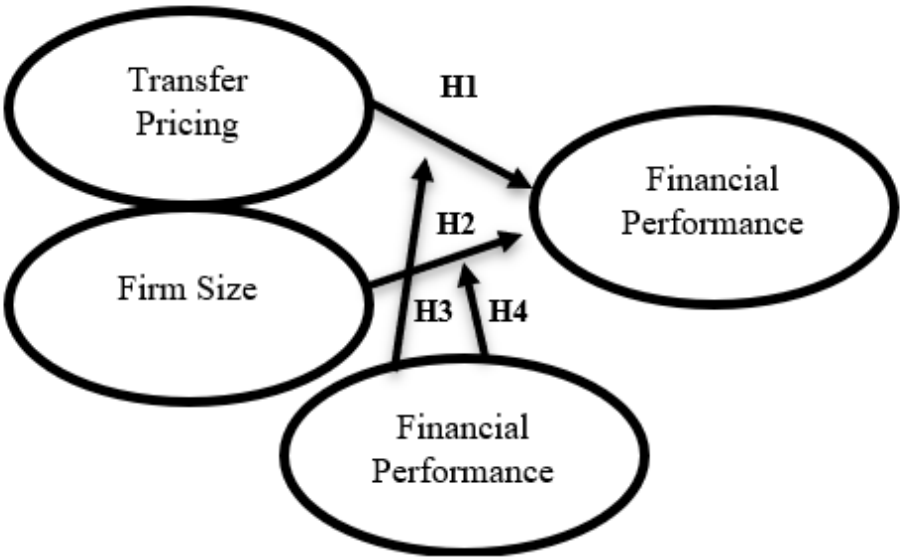From the hypotheses described, the conceptual framework of the research is as follows:

Figure 1. Theoretical framework

Analysis Method

This study employs a quantitative approach with the primary objective of examining the influence of transfer pricing and firm size on financial performance, with liquidity serving as a moderating variable. The quantitative approach was chosen because it enables

objective analysis through the processing of numerical data from the financial statements of manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the period 2021–2023. The data used in this study is secondary data obtained from the annual financial statements of companies. The selection of secondary data is based on the nature of the study, which aims to statistically analyze the relationships among variables. Secondary data offers the advantage of being relevant and valid, particularly because it is sourced from audited reports. The sample criteria are determined using a purposive sampling method, wherein the selected companies must meet specific requirements, such as engaging in related-party transactions and providing complete financial statements during the study period. This ensures that the data used aligns with the analysis objectives. Transfer pricing is measured using the ratio of total related-party receivables to total receivables. This approach is relevant for identifying the extent to which a company engages in transfer pricing arrangements between its divisions.

$$TP = \frac{Total\ Receivables\ from\ Related\ Parties}{Total\ Receivables}$$

Firm size is measured using the natural logarithm of total assets. This variable was chosen because total assets reflect the operational scale of a company, which can influence its financial performance.

$$Firm\ size = Log(Total\ Asset)$$

Financial performance is measured using Return on Assets (ROA), which is the ratio of net income to total assets. ROA was chosen because it provides an overview of the company's effectiveness in utilizing its assets to generate profits.

$$ROA = \frac{Net\ Profit}{Total\ Asset} X\ 100\%$$

Liquidity is measured using the current ratio (current assets divided by current liabilities), which indicates the company's ability to meet its short-term obligations.

$$Current\ Rasio = \frac{Current\ Asset}{Current\ Liabilities}$$

This study begins with classical assumption testing to ensure that the regression model used is valid and meets statistical analysis requirements. The first step is the normality test, which examines whether the data is normally distributed. This test utilizes the Normal P-P Plot and histogram as visualizations of the data distribution. Additionally, a multicollinearity test is conducted to ensure that there is no high linear correlation among the independent variables. This test is performed by examining the Variance Inflation Factor (VIF) and tolerance values, with thresholds set at VIF < 10 and tolerance > 0.1 (Ghozali, 2016). Subsequently, a heteroscedasticity test is performed using a scatterplot of residuals to ensure there are no specific patterns indicating non-constant variance errors. Furthermore, an autocorrelation test is conducted using the Durbin-Watson Test to ensure that the residuals among observations are not correlated. These steps are crucial to ensure that the regression analysis results are unbiased and not affected by violations of fundamental statistical assumptions (Sugiyono, 2017). After the classical assumptions are met, a t-test is conducted to examine the partial effects of each independent variable on the dependent variable. In this test, the independent variables are analyzed individually to determine whether each has a significant effect on the dependent variable. A significance value (p-value) of < 0.05 is used as the criterion to establish the significance of

these effects (Ghozali, 2016).

Following the partial tests, the study proceeds with the application of Moderated Regression Analysis (MRA). MRA is used to evaluate the interaction between the independent variables (transfer pricing and firm size) and the moderating variable (liquidity) on the dependent variable (financial performance). This analysis incorporates an interaction variable into the regression model to identify the extent to which liquidity influences the relationship between the independent variables and financial performance (Ghozali, 2016). The methodology employed in this study is systematically designed to address the research objectives and contribute to the literature on transfer pricing, firm size, and financial performance. With a robust statistical approach, this research is expected to serve as a reference for future studies in the same field.

Result and Discussion

Results
Descriptive Statistics

Descriptive testing is a crucial first step in data analysis, as it ensures that the data is of good quality and well-understood before pro-ceeding to more in-depth analysis (Sugiyono, 2017).

Table 1. Descriptive Test Resault

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Transfer Pricing	45	0.01	0.97	0.3011	0.32676
Firm Size	45	12.81	19.04	16.86	1.49334
Liquidity	45	0.55	6.82	2.3562	1.4287
Financial Perfomance	45	-2.3	3.37	1.6333	1.06513
Valid N (listwise)	45				

Source: (IBM SPSS Statistics, 2023)

Based on the results of the descriptive test above, the distribution of data obtained in this study is as follows:
1. Transfer Pricing (X1): The minimum value is 0.01, while the maximum value is 0.97. The average value is 0.3011, and the standard deviation of the data is 0.32676.
2. Firm Size (X2): The minimum value is 12.81, while the maximum value is 19.04. The average value is 16.8600, and the standard deviation of the data is 1.49334.
3. Liquidity (Z): The minimum value is 0.55, while the maximum value is 6.82. The average value is 2.3562, and the standard deviation of the data is 1.42870.
4. Financial Performance (Y): The mini-mum value is -2.30, while the maximum value is 3.37. The average value is 1.6333, and the standard deviation of the data is 1.06513.

Normality Test

The normality test was conducted to deter-mine whether the data in the regression model produced has a normal distribution. In this study, the normality test was performed using the Nor-mal P-P Plot of Regression Standardized Residu-al, histogram, and the results of the test displayed in the following figures 2 and 3:
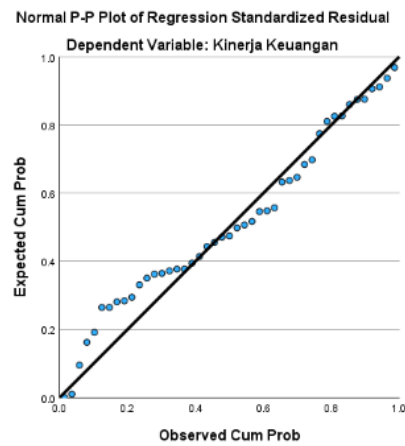
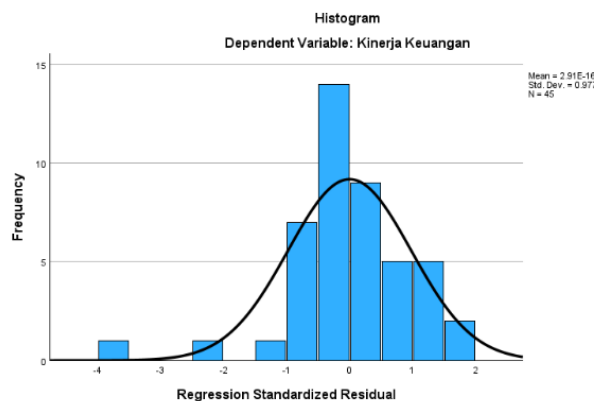Normal P-P Plot of Regression Standardized Residual
Dependent Variable: Kinerja Keuangan

Figure 2. Normal P-P

Histogram
Dependent Variable: Kinerja Keuangan

Mean = 2.91E-16
Std. Dev. = 0.977
N = 45

Figure 3: Histogram

Source: (IBM SPSS Statistics, 2023)

Based on the test results, the points are spread around the diagonal line, and their distri-bution follows the direction of the diagonal line. Additionally, the histogram of the data forms a symmetric bell-shaped curve, with most of the data concentrated around the mean and tails that taper off evenly on both sides. This indicates that the regression model is appropriate for use as it meets the assumption of normality (Ghozali, 2013).

Multicollinearity Test

The multicollinearity test can be conducted by examining the tolerance values and the Vari-ance Inflation Factor (VIF). If the VIF value is less than or equal to 10 and the tolerance value is greater than or equal to 0.1, the model is consid-ered free from multicollinearity issues (Ghozali, 2016). The results of the multicollinearity test are presented in the following table:

Table 2. Multicollinearity test resault

Coefficients		
Model	**Collinearity Statistics**	
	Tolerance	**VIF**
Transfer Pricing	0.959	1.042
Firm Size	0.959	1.042
a. Dependent Variable: Financial Performance		

a. Dependent Variable: Financial Perfor-mance

Source: IBM SPSS Statistics, 2023

Based on the test results, the tolerance val-ues are greater than 0.1, and the VIF values are less than 10. Therefore, it can be concluded that the variables transfer pricing and firm

size in the regression model do not exhibit multicollinearity symptoms. Consequently, the data used in this study is considered reliable (Sugiyono, 2017).

Heteroscedasticity Test

The heteroscedasticity test aims to evaluate whether the regression model meets the assump-tion of being free from heteroscedasticity. If the data points in the scatterplot are randomly scat-tered without forming any specific pattern, it in-dicates that the regression model does not expe-rience heteroscedasticity issues, and the assump-tion of homoscedasticity is fulfilled (Ghozali, 2013).
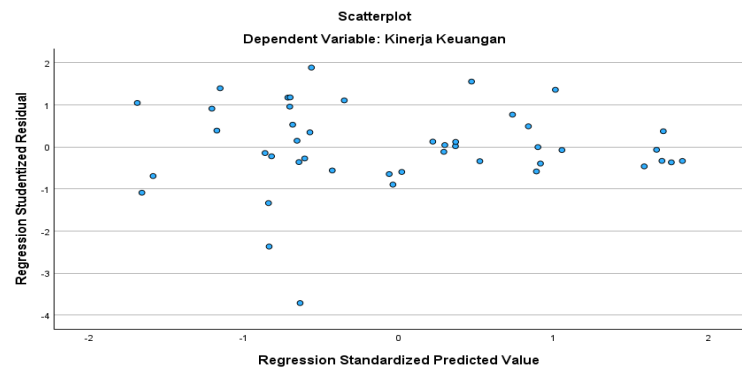

Figure 4. Scatterplot Diagram for Heteroscedasticity Test Results
Source: IBM SPSS Statistics, 2023

Based on the test results, the residual data points in the scatterplot are randomly scattered without forming a specific pattern. Thus, it can be concluded that there is no heteroscedasticity problem in the data used.

Autocorrelation Test

The autocorrelation test aims to detect the presence of relationships between residuals (er-rors) in the regression model. Autocorrelation occurs when the error in one period is related to the error in another period (Ghozali, 2016). The autocorrelation test ensures that the regression analysis results are unbiased and reliable, espe-cially if the data used is time-series or panel data. In this study, the Durbin-Watson Test was used, with the following parameters:

Sample size (N) = 45

Number of independent variables (K) = 2

Durbin-Watson critical values:

DL=1.4298

DU=1.6148

$4-DU=2.3852$

The condition for no autocorrelation is DU < DW < 4 - DU, with the values seen in the Dur-bin-Watson Table (DW), a = 5%.

Table 3. Autocorrelation Test Results

Model Summary[b]					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.223[a]	0.05	0.003	0.90655	2.047

a. Predictors: (Constant), LAG_X2, LAG_X1

b. Dependent Variable: LAG_Y

Source: IBM SPSS Statistics

From the results of the autocorrelation test, it is obtained that the equation 1.6148 < 2.047 < 2.3852 meets the condition for no autocorrela-tion. Therefore, it can be concluded that the data used in this study shows no indication of auto-correlation.

t-Test

The t-test is conducted to examine the effect of each independent variable on the dependent variable partially. If the sig. value is < 0.05, the independent variable can be considered to have a significant effect on the dependent variable (Sugiyono, 2017).

Table 4. t-Test Result

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-0.251	1.752		-0.143	0.887
Transfer Pricing	0.998	0.479	0.306	2.081	0.044
Firm Size	0.094	0.105	0.132	0.895	0.376

a. Dependent Variable: Financial Performance

Source: IBM SPSS Statistics, 2023

Based on the results of the conducted tests, the regression equation is as follows:

$$Y = (-0.251) + 0.998X1 + 0.094X2$$

The constant value is -0.251, with a signifi-cance value (Sig.) of 0.887. Since the signifi-cance value is greater than 0.05, this constant is not statistically significant. An insignificant con-stant means that the predicted value of financial performance when the variables Transfer Pricing and Firm Size are zero cannot be substantively interpreted within this model.

The coefficient for the Transfer Pricing vari-able is 0.998, with a significance value of 0.044 (less than 0.05). This indicates that Transfer Pric-ing has a positive and significant effect on finan-cial performance. In other words, every 1-unit increase in Transfer Pricing will increase finan-cial performance by 0.998, assuming other varia-bles remain constant. The standardized Beta val-ue for Transfer Pricing is 0.306, meaning that Transfer Pricing exerts a positive influence with moderate strength on financial performance.

The coefficient for the Firm Size variable is 0.094, with a significance value of 0.376 (greater than 0.05). This means that Firm Size does not have a significant effect on financial performance in this model. In other words, changes in firm size do not significantly affect financial perfor-mance in the context of your data. The standard-ized Beta value for Firm Size is 0.132, indicating that its effect on financial performance is rela-tively small compared to Transfer Pricing.

MRA Test (Multiple Regression Analysis)

Multiple Regression Analysis (MRA) is a statistical method used to analyze the relation-ship between one dependent variable and two or more independent variables. This study uses li-quidity as a moderating variable (Sugiyono, 2017).

The results of the MRA test in this study in-dicate that if the coefficient of the interaction term (the interaction between the independent variable (X) and the moderating variable (M)) is statistically significant (e.g., p-value < 0.05), it implies that the moderating variable influences the strength or direction of the relationship be-tween the independent variable and the depend-ent variable (Y).

Table 5. MRA Test Resault

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.238	3.643		0.889	0.379
	Transfer Pricing	1.698	1.084	0.521	1.566	0.125
	Firm Size	-0.117	0.224	-0.164	-0.522	0.604
	Liquidit	-1.663	1.721	-2.232	-0.966	0.34
	X1Z	-0.276	0.411	-0.247	-0.671	0.506
	X2Z	0.101	0.106	2.168	0.949	0.348
a. Dependent Variable: Financial Performance						

Source: (IBM SPSS Statistics, 2023)

Based on the results of the MRA test, the regres-sion equation is as follows:

$$Y = 3.238 + 1.698X1 - 0.117X2 - 1.663 - 0.276Z + 0.081X1Z + 0.070X2Z$$

The intercept is 3.238, with a significance value of 0.379. This indicates that the initial val-ue of the dependent variable (Financial Perfor-mance) is 3.238 when all independent variables are zero. However, since the significance value (Sig.) is greater than 0.05, the constant is not sta-tistically significant. The coefficient for Transfer Pricing (X1) is 1.698, with a significance value of 0.125. This suggests that for every one-unit increase in Transfer Pricing, Financial Performance increas-es by 1.698, assuming other variables remain constant. However, since the significance value exceeds 0.05, this relationship is not statistically significant. The coefficient for Firm Size (X2) is -0.117, with a significance value of 0.604. This indicates that a one-unit increase in Firm Size tends to de-crease Financial Performance by 0.117, assuming other variables remain constant. However, this relationship is also not statistically significant (Sig. > 0.05). The coefficient for the interaction term X1Z (interaction between Transfer Pricing and Liquid-ity) is -0.276, with a significance value of 0.506. This means that the interaction between Transfer Pricing and Liquidity has a negative effect on Financial Performance. However, this relation-ship is not statistically significant ($p > 0.05$), in-dicating that Liquidity does not significantly moderate the relationship between Transfer Pric-ing and Financial Performance. The coefficient for the interaction term X2Z (interaction between Firm Size and Liquidity) is 0.101, with a significance value of 0.348. This suggests that the interaction between Firm Size and Liquidity tends to increase Financial Perfor-mance. However, this relationship is also not statistically significant ($p > 0.05$), indicating that Liquidity does not significantly moderate the re-lationship between Firm Size and Financial Per-formance.

Discussion

The findings of this study indicate that trans-fer pricing has a positive and significant effect on financial performance in manufacturing compa-nies listed on the Indonesia Stock Exchange (IDX). This result aligns with the study conduct-ed by Ouelhadj (2023), which also demonstrated that transfer pricing positively and significantly impacts financial performance. These findings reinforce the perspective that transfer pricing can be an effective tool for managing tax burdens and improving cost efficiency, ultimately contributing to enhanced financial performance (Ouelhadj, 2023). From the perspective of agency theory, there is potential for conflict between company owners, who aim for long-term profit optimization, and managers, who might prefer to achieve short-term profits or pursue personal objectives (Jensen & Meckling, 1976). When applied correctly, trans-fer pricing allows managers to demonstrate their ability to achieve the owners' goals of maximiz-ing firm value. This alignment of interests be-tween owners and managers reduces agency con-flicts and positively impacts financial performance. The results of this study are consistent with the findings of Wardati et al., (2021), which showed that firm size does not have a significant effect on financial performance. Additionally, Amalia, (2017) also found

that firm size has a negative but insignificant effect on financial per-formance. This may be attributed to differences in structure and resources among companies, which do not always correlate with firm scale. External factors, such as economic conditions and global market fluctuations, may also influence this rela-tionship (Amalia, 2017). Liquidity as a moderating variable in this study did not significantly strengthen the relation-ship between transfer pricing or firm size and financial performance. This suggests that alt-hough liquidity is an essential factor in maintain-ing financial stability, high liquidity does not necessarily enhance the effect of these variables on the financial performance of manufacturing companies in Indonesia. Companies may priori-tize other operational strategies to maintain finan-cial performance, especially amid intense compe-tition and global economic challenges (Bilinski et al., 2012)

This research is expected to benefit manu-facturing companies in managing transfer pricing policies to improve financial performance. Given the positive impact of transfer pricing on perfor-mance, management may consider this strategy as a means to optimize cost efficiency and re-source allocation across divisions. Although firm size is not significant in this study, maintaining adequate liquidity remains a critical component for ensuring financial flexibility, particularly in addressing short-term obligations. Therefore, maintaining a sufficient balance of liquidity could be a strategic step for companies to sustain per-formance and stability amidst economic chal-lenges.

However, this study has several limitations. These include the limited sample scope, which focuses only on manufacturing companies listed on the IDX during a specific period, potentially restricting the generalizability of the results. Ad-ditionally, liquidity as a moderating variable did not show a significant influence, possibly due to limitations in the measurement approach. This study also relies on secondary data from financial reports, excluding external factors such as mac-roeconomic conditions and tax policies. Future research is encouraged to broaden data coverage, incorporate external factors, and provide more comprehensive insights.

Conclusions and Suggestions

This study concludes that transfer pricing has a positive and significant effect on the finan-cial performance of manufacturing companies listed on the IDX, while firm size does not show a significant effect. These findings highlight the role of transfer pricing in corporate financial management, particularly as a tool for optimizing tax efficiency and cost allocation. Additionally, the moderating variable, liquidity, does not sig-nificantly strengthen the relationship between transfer pricing or firm size and financial perfor-mance. The implications of this research emphasize the importance for manufacturing company man-agers to consider transfer pricing policies in their financial strategies, particularly as a means to manage tax efficiency and operational costs. On the other hand, firm size and liquidity need to be reexamined within the context of broader eco-nomic conditions, given that the relationships among these variables may be influenced by oth-er external factors.

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