TRANSFER PRICING AND TRUST

An embedded case study into the impact of trust on the ascertainment of transfer prices within decentralised firms

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September, 2017
Preface

Ever since the topic of behavioural economics past by during college, I was captivated by the subject. Especially the issue of limited rationality caught my attention. As March (1994) beautifully expressed: “The core notion of limited rationality is that individuals are intendedly rational. Although decision makers try to be rational, they are constrained by limited cognitive capabilities and incomplete information”. I began to delve deeper into the subject and came across quite some interesting literature. Consequently, it did not take long to find a topic for my Master Thesis at hand. In consultation with Prof. Dr. Pieter Kamminga from the Open Universiteit Nederland and the CFO of the KDVS Groep, my employer, the final subject was set. Namely, the influence of trust on internal transactions at decentralised firms. The process of building a supportive theoretical background was time-consuming and has not been easy. However, the conclusions and findings extracted from this research study and the addition thereof to the existing body of knowledge fill me with pride and allow me to look back at a unique and eventually very fruitful period for myself as well as for my employer. It should be understood that the process of writing a thesis is rarely a one-man operation. Also, in this case, many people have added a significant amount of value. Therefore, I would like to take the opportunity to express my gratitude to these important people. First and foremost, I would like to thank my supervisor Prof. Dr. Wil van Erp for both challenging and supporting me in my attempts and for his constructive contributions and remarks. In addition, I would like to thank the CFO of the KDVS Groep, Mr. John Veldman, and my superior, Mr. John Blaauw for the opportunity and support concerning the performance of a research at the KDVS Groep. Moreover, my acknowledgement goes out to those employees who provided me with the essential input that made this thesis a success. I thank my brother in law and good friend Joeri for his critical eye and constructive remarks. I also want to thank my close friends and family for their understanding when I was busy and barely approachable. My parents deserve a particular note of thanks: your wise counsel and kind words have, as always, served me well. Finally, my sincere gratitude goes to my girlfriend Lieke for her understanding and support throughout the whole research period. If I ever lost interest, you kept me motivated. Thank you for your trust, patience, and back-up. You are indispensable to me.

Pieter Postma
Amsterdam, September 2017
Executive Summary

One of the major issues with transfer pricing is that decisions made by business unit managers may be in the best interest of his or her business unit, but not for other divisions or the organisation as a whole. Subsequently, top management of decentralised firms is facing a challenge in the determination of the degree of autonomy given to business unit managers. According to Chen et al. (2013), the purpose of decentralisation is jeopardised when top management interferes too much in the transfer pricing process. Conversely, in firms where a high level of transfer pricing autonomy is applied, division managers may make suboptimal decisions (opportunistic behaviour) resulting in underperformance for the entire organisation (Hilton 2011; Garrison et al., 2012). In light of the foregoing, the concept of transfer pricing received significant attention in the scientific literature. However, quite some organisations are still struggling with the issue of how to manage their transfer pricing process and, inherent thereto, gain a better understanding of the determining factors influencing these internal transactions (Van Helden, Van der Meer-Kooistra & Scapens, 2001). A potentially overlooked field of study hereby is that of trust. In recent years, the concept of trust received a growing interest in scientific research (Cho, Chan, & Adali, 2015). In view of the preceding, and by means of a better understanding of the determining factors, this research study aims to answer the following research question: What is the impact of trust between managers on the ascertainment of transfer prices when there is a high degree of transfer pricing autonomy within the organisation? In an attempt to investigate the central research question, this study combines a thorough literature review with a qualitative embedded case study. The embedded case study was conducted at Koninklijke De Vries Scheepsbouw Groep (KDVS Groep). KDVS Groep is, together with Royal van Lent, builder of the world famous Feadship yachts. The KDVS Groep is a vertically integrated organisation consisting of seven different business units employing over 1200 people.

In the literature review, previous results from studies regarding transfer pricing are combined with the available research concerning the concept of trust. Quite some research studies have paved the way for exploring the transfer pricing process and the concept of trust within control practices. As extracted from earlier research, the topic of trust can best be explained by the following definition: “The willingness of a party to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action important to the trustor, irrespective of the ability to monitor or control that other party” (Mayer & Davis, 1995, p. 712). The level of transfer pricing autonomy is another important variable within this research study, as in a situation where managers mutely agree on a transfer price, there are more factors at play when taking decisions than when top management imposes a transfer price. Transfer pricing autonomy can best be defined as the freedom to buy or sell internally versus externally and autonomously determine terms and conditions including prices (Chen et al., 2013). In addition to the previous, several research studies have attempted to identify the determining factors influencing internal transactions. Especially strategy, asset specificity, the level of decentralisation and interdependence of business units are repeatedly mentioned as potential
determinants (Van Helden et al., 2001; Boyns, Edwards & Emmanuel, 1999). However, as earlier hinted upon, psychological behaviour is lacking.

Within the empirical part of this research study, a total of 33 questionnaires and 12 interviews were conducted. Multiple individuals, who have a coordinating role in the transfer pricing process within the KDVS Groep, were selected from each business unit. These managers were chosen by the researcher based solely on expectations about specific knowledge and involvement within the transfer pricing process. The outcomes from the interviews and questionnaires, combined with those from the literature review, resulted in several meaningful conclusions. Most fundamentally, this research study provides clear evidence that trust between managers is of influence at the ascertainment of a transfer price. All interviewees confirmed that trust is of great importance and has a high impact on the transfer pricing process. Some interviewees even stated that trust is indispensable to complete an internal transaction between two business units successfully. To illustrate, over 93% of the respondents agreed or strongly agreed with the statement that trust among managers is an important issue within the transfer pricing process. Subsequently, a convincing majority of the interviewees see the concept of trust as a basis or a fundament supporting the transfer pricing process as a whole. Another important result that can be extracted is the experienced autonomy. The majority of respondents holds the opinion that they can act autonomously within the examined organisation. A note should be made that some interviewees indicate that they are aware of the presence of top management and their arbitrary role. However, this presence and possible intervention are not experienced as a disadvantage but rather as an advantage. This is mainly because it saves the relevant managers time-consuming discussions and negative energy in situations where impasses occur during the execution of the contract.

Based on the preceding, the central research question can now be answered accordingly. Namely, the impact of trust between managers on the ascertainment of transfer prices is significantly high within organisations where managers can act autonomously within the transfer pricing process. Additionally, the collected secondary data resulted in some interesting insights. First, and foremost, the success of internal transactions depends strongly on the encountered mutual trust. Second, more transparency regarding budgets will highly benefit the success of an internal transaction. A majority of respondents confirmed that more transparency leads to more mutual trust, which in turn, leads to a more fruitful internal transaction. This is mainly because more information will be shared and fewer costs will be incurred through unnecessary controls.

Following up on the previously mentioned conclusions it is of the utmost importance that decentralised firms start focussing on behavioural concepts such as trust. It is recommended to vertically integrated companies to establish an environment containing more transparency among business units. In addition, another important conclusion contains the experienced level of autonomy. Based on this conclusion, decentralised firms are recommended to maintain the arbitrary role of top management to the extent that the business unit’s autonomy is not
jeopardised. By arriving at these aforementioned conclusions and recommendations, this research study provides significant additions to the growing body of knowledge in regard to transfer pricing practices.

Finally, as with any research study, these findings and conclusions should be interpreted with several caveats in mind. For example, it is impossible to know whether, and to what extent, the findings from the embedded case study such as conducted at the KDVS Groep, is capable of being generalised. It should be acknowledged that many of the aspects of the KDVS Groep case are unique to this firm. The reader is therefore advised to extract only probabilities based on the results of this research study. Given this limitation, additional case studies would be valuable. These could involve further studies with regard to the influencing factors of the transfer pricing process within decentralised firms in other industries. Utilising a better understanding of these concepts and the influence thereof clearly contributes to a better manageable transfer pricing process, which in turn, results in a greater performance for the group of business units as a whole.
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1. Introduction

1.1 Motivation and background of the research

Over the past decades, much research has been dedicated to the subject of internal transactions within decentralised firms. Internal transactions, also known as transfer pricing, includes the coordination and ascertainment of prices charged for services, goods or rights between related companies such as subsidiaries, affiliates or departments. The World Trade Organisation (WTO) estimated in 2005 that internal transactions are responsible for approximately 50 percent of the total transactions between companies worldwide (Wong, Nassiripour, Mir & Healy, 2011). The considerable size of transfer pricing as well as its impact on the allocation of taxable profits, explains the sharp attention of tax authorities for this topic (Huh & Park, 2013). Not only tax authorities are interested in transfer pricing, but also companies are becoming aware of the benefits of a richer understanding of the underlying factors in the transfer pricing process (Van Helden, Van der Meer-Kooistra & Scapens, 2001).

Given the vast extent of the subject, it is of great importance that companies understand what the influencing factors are that define the eventual transfer price. There are a few researchers that have investigated these determining factors. For example, Van der Meer-Kooistra (1994) sets out the internal transaction process into three stages, each with their specific elements. The process starts with the contact stage which, among others, includes the profit centres authority. In the second stage, called the contract stage, the transaction terms are discussed, and the transfer price is set. The last phase is the control stage which includes arbitration and administrative support as important determinants (Van der Meer-Kooistra, 1994). A study by Van Helden et al. (2001) presents a framework where determinants are divided into several characteristics including organisational context, external environment, transactions and transaction parties (Van Helden et al., 2001). However, a potentially overlooked field of study is that of trust. The concept of trust has recently received considerable attention in scientific literature and has been broadly studied in diverse contexts (Cho, Chan, & Adali, 2015).

The general aim of this study is to examine to what extent trust between intercompany managers has an impact on the ascertainment of transfer prices within decentralised firms with a high level of transfer pricing autonomy. A high level of transfer pricing autonomy within the firm plays an important role here, as in a situation where managers mutually agree on a transfer price, there are more factors at play when taking decisions than when top management imposes a transfer price. This consequential relationship is confirmed by a study of Chen et al. (2013) which conclude that when business units are expected to be interdependent, opportunistic behaviour from their managers is lurking (Chen et al., 2013). It should therefore be understood that besides a growing body of knowledge regarding the subject of transfer pricing, there are benefits also for the company where the research is conducted. For example, the process of transfer pricing will be better manageable since the determining factors are clear. In this case, the knife cuts both ways.
1.2 Objective and scientific relevance

According to Van Helden et al. (2001) numerous companies are still struggling with the issue of how to manage internal transactions. The main problem is not only focused on which way revenues and costs are allocated but also the degree of autonomy perceived by managers and their behaviour in this regard. It is this behavioural aspect of transfer pricing that has recently received more attention in academic research (Cho et al., 2015). For example, top management can choose for a structure where division managers operate independently in determining transfer prices. In a research executed by Chen, Chen, Pang and Wang (2013) among 210 division managers in China, it was found that if top management applies a high level of transfer pricing autonomy, division managers make suboptimal decisions (Opportunistic behaviour) resulting in underperformance for the entire organisation. Conversely, when top management interferes too much with the ascertainment of internal transfer prices and employs too little autonomy to division managers, the objective of decentralisation may be jeopardised (Chen et al., 2013). In other words, a tension arises between the autonomy perceived by managers and the interdependence of business units.

As mentioned earlier, there is an academic shortcoming in that only a limited availability of research studies focuses on the determining factors within the realisation of transfer prices. Research by Van der Meer-Kooistra (1994) and Van Helden et al. (2001) provide some influencing elements. However, a potential determining factor missing in these frameworks and scientific literature is trust. Trust has been broadly studied within various disciplines and is widely used as a basis for decision making in different contexts (Cho et al., 2015). In fact, trust is a prerequisite for better results and competitive advantages in a complex organisational environment (Minnaar, Van Veen-Dirks, Vosselman & Hassan, 2012). Furthermore, Vosselman and Van der Meer-Kooistra (2009) distinguish trust into thick and thin trust. The authors propose a conceptual framework where these two variables explain the relationship between control and trust. The researchers claim that control and trust do not just substitute or add, but rather interact. (Vosselman & Van der Meer-Kooistra, 2009). In addition, Minnaar et al., (2012) acknowledge the relationship between contracting, control practices and trust building. In their research, the authors conclude that these variables are strongly intermingled (Minnaar et al., 2012). Given the preceding, it can be concluded that there is a gap in our understanding due to a deficiency within the scientific literature regarding the concept of trust within the transfer pricing process. As a result, the relevance of this research study lies in the field of obtaining a better understanding concerning the concept of trust within the process of internal transactions.

1.3 Problem definition, research questions and sub-questions

As mentioned previously, trust is widely used as a basis for decision making in various contexts (Cho et al., 2015). However, to what extent does trust between division managers influence the determination of transfer prices in organisations where there is a high level of transfer
pricing autonomy? To find an answer to this query, the central question of this research study is more specifically defined as follows:

What is the impact of trust between managers on the ascertainment of transfer prices when there is a high degree of transfer pricing autonomy within the organisation?

To delve deeper into understanding the above relationship, the following sub-questions will be further explored:

SQ 1 - What are the determining factors influencing the ascertainment of transfer prices?
SQ 2 - What is the definition of transfer pricing autonomy and how should this be determined?
SQ 3 - How does transfer pricing autonomy shape the determining factors regarding transfer pricing?
SQ 4 - What is the definition of trust and how should this be assessed?
SQ 5 - Where is trust positioned within the transfer pricing process?

1.4 Research method

The researcher will conduct a qualitative research study to investigate the above questions. In a qualitative research study, non-numeric data is obtained in order to gain a better understanding of the underlying opinions, reasons, and motivations from the target group (Saunders, Lewis & Thornhill, 2012). The nature of the research questions, as well as the emphasis on the processes in the inter-firm relationships, makes a qualitative research an appropriate approach (Silverman, 2005). In addition there will be some quantitative support within this qualitative research due to the operationalisation of variables trust and transfer pricing autonomy. For the measurability of such concepts, the Likert-style rating will be used (Saunders et al., 2012). In this study, inductive inferences are developed, and deductive ones are tested iteratively throughout the research (Saunders et al., 2012). The strategy that will be conducted is that of an embedded case study. Through an embedded case study a number of logical sub-units within the organisation will be examined, in this case, the relationship between two managers (Saunders et al., 2012). This strategy is relevant because it is important to gain a rich understanding of the context of the research and the processes being enacted (Eisenhardt & Graebner, 2007). According to Yin (2009), case study research is a profound way of examining a current phenomenon in its natural context. This case study research will be explanatory as well as exploratory in nature. This is because the research consists of theory testing (i.e. deductive), and theory building (i.e. inductive). This will be further elaborated in Section 3.1. A note is ought to be made in that the findings cannot be universally generalised and are only validated within this case. Most likely, only probabilities can be designated.

Part of the purpose of this research consists of theory testing (i.e. deductive), since it tests the combination of existing theories. However, given the limited amount of prior knowledge on the impact of trust between managers on the transfer pricing process, this study also consists of theory building (i.e. inductive) and is therein both explanatory as exploratory in nature (Yin,
Therefore, the research approach is that of an abductive approach because inductive inferences are developed, and deductive ones are tested iteratively throughout the research (Saunders et al., 2012).

The embedded case study will be conducted at Koninklijke De Vries Scheepsbouw Groep (KDVS). KDVS is, together with Royal van Lent, Builder of the world famous Feadship yachts. With roots dating back to 1849, Feadship is recognised as the world leader in the field of pure custom superyachts (http://www.feadship.nl/en/story). The KDVS Groep is a vertically integrated organisation consisting of seven different companies (profit centres) with a total of 1200 employees. The seven ‘sister’ companies are all headed by autonomous management and responsible for their individual financial results. In this case study 33 managers of the KDVS Groep, all involved in the transfer pricing process, will be, apart from each other, presented with a questionnaire. In addition, 12 managers will be interviewed. To get a better understanding of the concept of trust and transfer pricing autonomy, it is important to operationalise these two variables. This will be further elaborated in Section 3.3.

In order to check the validity and reliability of the collected data, triangulation will be applied. Data triangulation ensures that the data is telling you what you think it should say (Saunders et al., 2012). In this study the techniques of observations, interviews and questionnaires will be used. In addition, the validity problem of non-response may arise because managers do not want to cooperate within this research. To overcome the problem of non-response it is necessary to ensure complete anonymity of the involved managers. It is also important to be aware of the fact that the role as an employee and that of the (internal) researcher within the examined organisation should not be intermingled. The researcher, within this regard, has to be very conscious of the assumptions and preconceptions that he or she carries around. It is paramount to be aware of the possible impact on the study of being too close to the research setting (Saunders et al., 2012).

1.5 Thesis Structure

The forthcoming sections of this paper will be structured as follows: Chapter 2 will elaborate on the primary results from an in-depth literature review of transfer pricing and the concept of trust. Thereafter, Chapter 3 will be devoted to further explaining the research methodology, after which the results from the case study will be presented in Chapter 4. Finally, in Chapter 5 the empirical findings of this study will be compared and discussed with the theoretical findings of the literature review in order to determine whether these are consistent with previous research. Also, the main research question will be addressed in Chapter 5 and recommendations for further research will be provided.
2. Literature review

This section builds on transfer pricing literature as well as the subject of trust to provide an overview of relevant empirical findings and profound conceptual models. The literature review consist of earlier executed scientific research and articles, a selection of which are acknowledged to be trustworthy and reliable. In addition, they also bear most updated information regarding the studied topic of transfer pricing and trust. This chapter is structured as follows: first, Section 2.1 deals with the historical context and most significant findings of transfer pricing. Secondly, the transfer pricing process is discussed in Section 2.2. Subsequently, Section 2.3 consist of the determining factors of transfer pricing and after that the main findings regarding transfer pricing autonomy (2.4) will be further substantiated. The concept of trust will be discussed in Section 2.5, and Section 2.6 closes out with a summary of the main conclusions from this literature review.

2.1 Transfer pricing

The subject of transfer pricing received considerable attention in the past decades. Existing studies have paved the way for exploring the concept of transfer pricing to gain a richer understanding regarding this subject. At first, in the mid 50’s research mainly focused on determining optimal transfer prices for decentralised companies (Paul & Cook, 1955; Hirshleifer, 1956, 1957). These researchers came up with a solution concerning the internal pricing problem aiming to establish a competing market price. In order to calculate such a competitive market price, there are several methods available such as cost-based, market-based or negotiated-based transfer prices (Paul et al., 1955). Figure 1 (Van der Meer-Kooistra, 1994, p. 128) gives an overview of the possible transfer pricing methods in different situations.

![Figure 1. Overview of the transfer pricing system types.](image)

The classification in Figure 1 is based on two elements of a transfer pricing system. First, the way in which the authority with respect to internal transactions is portioned out. This implies transfer pricing authority in order to decide about the sourcing of goods and services and about the transfer price. The second element is the way in which the internal transactions are valued. For example, market price, cost or both market price and cost, or is it the result of negotiations?

In the 70's the attention shifted more towards the behavioural and organisational problems such as described by writings of Ronen and McKinney (1970) and Watson and Baumler (1975). The latter found that in case of complex relationships due to internal transactions, the pricing mechanism may not be suitable if used solely as a routine or standardised process. This is due to the multidimensional character of potential conflicts within complex organisations. In a highly differentiated firm these conflicts occur mainly in the field of the pricing of goods and services, the design and engineering changes, production and delivery schedules, and quality control. By means of negotiated pricing these conflicts can be easily eliminated (Watson & Baumler, 1975). A few years earlier Lawrence and Lorsch (1967) already stated that in the case of complex relationships within the organisation, negotiation between the transacting parties is the most powerful way of dealing with these complex interfirm relationships. Furthermore, Thomas (1980) acknowledges the advantages of negotiation based transfer pricing. According to his research, it is a significant advantage that managers who are dealing with the transfer pricing problem have the authority to determine the transaction terms and can draw on their local information (Thomas, 1980).

Later in the 90's the attention shifted more towards the transaction cost theory as a variable (Williamson, 1975, 1979). Especially Van der Meer-Kooistra (1994), and Colbert and Spicer (1995) used this theory to explain the transfer pricing problem from a neoclassical economic view. Asset specificity is an important variable that was used in these studies to account for the behaviour of managers within the transfer pricing process. Williamson (1985, p. 55) defines asset specificity as the "durable investments that are undertaken in support of particular transactions, the opportunity cost of which investments is much lower in best alternative uses or by alternative users should the original transaction be prematurely terminated." It was found that division transfer pricing policy is related to the extent of asset specificity involved in the transfers. When asset specificity of the component unit increases, market prices become increasingly less useful and relevant for informing the transfer pricing process. Instead, in a situation when asset specificity was high, a greater weight was given to cost-based transfer pricing (Colbert & Spicer, 1995).

In the 00's the behavioural aspect is taken into further consideration by several researchers. For example, a study conducted by Lui, Wong & Liu (2009) claims that asset specificity is related to partnership performance through generating cooperative behaviour rather than reducing opportunistic behaviour (Lui, Wong & Liu, 2009). In another study by Van Helden et al. (2001) a framework is presented where influencing factors are divided into several characteristics such as organisational context, external environment, transactions and
transaction parties. In the latter behavioural aspects such as opportunistic behaviour are at issue (Van Helden et al., 2001). In Section 2.3 this will be further elaborated.

2.2 The transfer pricing process

Understanding the transfer pricing problem as it arises in decentralised firms is important because it represents a pervasive issue in the design of managerial accounting and control systems in complex organisations (Spicer, 1988). To understand the process and the activities being enacted, it is important to specify each step in further detail in order to complete an internal transaction.

First of all, it is important to note that the emergence of a transfer pricing process within decentralised organisations mainly depends on the firm’s strategic, organisational and transactional circumstances (Spicer, 1988). Earlier research by Watson and Baumler (1975) also added to this theory that underlying organisational conditions such as uncertainty, differentiation, and integration are of influence on the process of internal transactions. These researchers consider the degree of uncertainty, which is defined as contingent on technology and environment, as fundamental to the design of the firm’s organisational structure and management accounting and control systems. An organisation’s design, then, represents a reaction to these sources of uncertainty, which, in its turn, leads to a departmentalisation and decentralisation of the firm. As a result, it can be concluded that decentralisation is a response to uncertainty (Watson & Baumler, 1975).

Subsequently, the different phases of an internal transaction will be further elaborated. Research conducted by Van der Meer-Kooistra (1994) provides a comprehensive overview of the various stages of the transfer pricing process. As shown in Figure 2 (Van der Meer-Kooistra, 1994, p. 127) the coordination of internal transactions can be subdivided into three stages, respectively with their own elements. Each element influences the behaviour of the parties involved in the transaction process. These items will be further elaborated in Section 2.3. According to Van der Meer-Kooistra, the process starts with the contact stage. During this juncture, the parties look for suitable partners for the required services and goods. Key activities within this stage are the definition of the scope of work and a determination of the underlying principles. The aim of the core principles is to establish an economic-based relation between the two profit centres. This means that the system has to be easy to maintain and administer to be sustainable in the longer term. The following stage, dubbed the contract stage deals mainly with the ascertainment of the transfer price, the transaction terms and the way of contracting. Within this stage, the parties decide on a transfer price and in which situations changes are allowed. Also, the terms of delivery, product specifications, and quality requirements will be determined. The third and last phase is that of the control stage. During this juncture, consultation will take place between the seller and buyer and between the profit centres and top management concerning the drafting, functioning and adjustment of the agreed rules. Moreover, the administrative process will be executed which, among others, includes the processing of the purchase orders and the final settlement of the costs.
### 2.3 The determining factors

The previous section handled the various stages that can be distinguished within the transfer pricing process, each with their own elements. Every element influences the behaviour of the parties involved in the transaction process (Van der Meer-Kooistra, 1994). Marked as an important milestone in this present literature study were the initial recognition and subsequent analysis of the determining factors that influence the transfer pricing process to such extent. As earlier hinted upon, these determining factors will be further elaborated in this section by presenting the main findings in this regard.

In Section 2.2 Van der Meer-Kooistra (1994) makes the first move by introducing transfer pricing system elements as depicted in Figure 2. Based on Van der Meer-Kooistra’s study, Van Helden et al. (2001) offer a more extensive framework regarding the possible determinants that influence the coordination of internal transactions. Table 1 (Van Helden et al., 2001, p. 363) gives an elaboration of Figure 2 regarding potential influencing factors. It should be understood that there is no simple relationship between the given factors and the way in which the transfer pricing process is coordinated (Helden et al., 2001).

As can be seen in Table 1, Van Helden et al. subdivide the factors into four different characteristics which are organisational context, external environment, transactions and transaction parties. Within the character of organisational context, authority and responsibility of a division are mentioned as one of the potential influencing factors. Also, the reward system is appointed as an influencing factor. In addition, Williamson (1979) states that managerial
incentives cannot be ignored and address directly to the scope of opportunistic behaviour (Williamson, 1979).

Table 1.
Factors influencing the co-ordination of internal transactions

<table>
<thead>
<tr>
<th>Organizational context</th>
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<tbody>
<tr>
<td>- Division of authority and responsibility</td>
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<tr>
<td>- Performance measurement and evaluation</td>
</tr>
<tr>
<td>- Reward system</td>
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<tr>
<td>- Information system</td>
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<td>- History</td>
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</table>

<table>
<thead>
<tr>
<th>External environment</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Uncertainty</td>
</tr>
<tr>
<td>- Market size and type of market transactions</td>
</tr>
<tr>
<td>- Availability of market information</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Transactions</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Size and frequency</td>
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<tr>
<td>- Asset specificity</td>
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<td>- Complexity of production processes and technical interfaces</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Transaction parties</th>
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<tbody>
<tr>
<td>- Local and personal knowledge/information</td>
</tr>
<tr>
<td>- Information asymmetry</td>
</tr>
<tr>
<td>- Risk attitude</td>
</tr>
<tr>
<td>- Bargaining power</td>
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</tbody>
</table>

Note. Factors Influencing the co-ordination of Internal Transactions. Adapted from “Coordination of Internal Transactions at Hoogovens Steel - Struggling with the tension between Performance-Oriented Business Units and the Concept of an Integrated Company” by Van Helden, G.J., Van der Meer-Kooistra, J., Scapens, R.W., 2001, Management accounting research, 12, 357-386. Copyright 2001 by Academic Press

Another important factor is that of uncertainty. In Table 1 this potential determinant is positioned beneath the external environment. Watson & Baumler (1975) and also Williamson (1979) underline the importance of uncertainty and the impact it has on the transfer pricing process. Within the characteristic of transactions, asset specificity is mentioned as a determining factor. This factor is also found in other studies dealing with this subject. For instance, Van der Meer-Kooistra (1994) and Colbert and Spicer (1995) stated that asset specificity is an important variable influencing the behaviour of managers involved in the transfer pricing process. As mentioned earlier, asset specificity arises when durable investments are made in relation to a particular transaction and the value of the investment in its next best use is considerably lower. According to Spicer (1995), the value of such investments in assets is dependent on the continuation of a particular transactional relationship. In situations where the asset cannot be costly redeployed from its current use to some other use, the value of the investment can be endangered by the opportunistic behaviour of the other party. As a result, both parties have an incentive to maintain their relationship through the implementation of appropriate contractual or organisational safeguards (Spicer,
Also, information asymmetry is given as a potential determining factor. This is consistent with Chen et al. (2015), which confirm the importance of information asymmetry. Especially transfer pricing autonomy is influenced by this variable. It was found that, besides asymmetry between managers, also information asymmetry exists between headquarters and divisions regarding market prices and internal costs (Chen et al., 2015).

In addition to the research by van Helden et al. (2001) also Boyns, Edwards and Emmanuel (1999) conducted a longitudinal study of the determinants influencing internal transactions at a coal and iron company in the final quarter of the 19th century. Although this is a historical study, there are quite some similarities between that work and the research van Helden et al. executed at Hoogovens Steel. Based on three existing frameworks by Eccles, (1985a), Spicer, (1988) and Emmanuel and Mehafdi, (1994) Boyns appointed many of the same factors that are also mentioned in Table 1 by Van Helden. Especially strategy, asset specificity, level of decentralisation and interdependence of business units are referred to within this study as potential determinants (Boyns, Edwards & Emmanuel, 1999).

The different factors summarised within this section each has the potential to influence the transfer pricing process to a certain extent. Some of them more than others. However, no statement can be made about the degree to which each separate determinant exerts influence on the transfer pricing process. It can only be concluded that the mentioned determinants affect internal transactions.

2.4 Transfer pricing autonomy

Transfer pricing autonomy is defined as the extent to which divisional managers, rather than top management of the organisation, determines the final transfer prices for internal transactions between business units. (Eccles & White, 1988; Spicer, 1988; Cools & Slagmulder, 2009). According to Chen et al. (2013) the term ‘autonomy’ can be explained as the freedom to buy or sell internally versus externally and determine terms and conditions including prices.

According to several studies, there are significant differences in the level of perceived autonomy by business unit managers (Emmanuel & Mehafdi, 1994; Borkowski, 1996; Cools & Slagmulder, 2009). Burkowski (1996) for example conducted a review containing 21 studies. It was found that in 61% of the cases transfer prices were determined by divisional managers in varying degrees. Consequently, in 39% of the cases top management was responsible for determining the transfer price (Burkowski, 1996). A major issue with transfer pricing is that decisions made by business unit managers may be in the best interest of his or her business unit, but not for other divisions or the organisation as a whole. Therefore, top management of decentralised firms is facing a challenge in the determination of the degree of autonomy given to business unit managers. According to Chen et al. (2013), the purpose of decentralisation is jeopardised when top management interferes too much in the transfer pricing process. Conversely, in firms where a high level of transfer pricing autonomy is applied, division
managers may make suboptimal decisions (opportunistic behaviour) resulting in underperformance for the entire organisation (Hilton 2011; Garrison et al., 2012).

The measurement of perceived autonomy within this research study is important because the authority to respond to divisional situations in a timely manner is a widely cited justification for decentralisation (Ronen and McKinney, 1970; Grabski, 1985). In addition, an appropriate level of decentralisation is also of high importance for business unit managers' understanding of procedural and distributive fairness, which, in turn, have a positive effect on their job satisfaction, organisational commitment, and performance (Colquitt, Conlon, Wesson, Porter, and Ng, 2001). It should be understood that there arises a tension between the autonomy perceived by managers and the interdependence of business units.

In recent decades there has been some analytical research conducted in an attempt to solve the problem of providing too much or too little autonomy to managers. Mainly by presenting transfer pricing mechanisms that would achieve goal congruence without interfering with the perceived autonomy by business unit managers (Ronen & McKinney, 1970; Dorestani, 2004). Ronen and McKinney (1970) for example, state that the establishment of a proper system for transfer pricing must satisfy three requirements, one of which is that the system must serve as a stimulus to managers to increase their efficiency without losing the autonomy of divisions as profit centres (Ronen & McKinney, 1970). This requirement is consistent with results from a more recent study conducted by Cools and Slagmulder (2009). The authors found that when transfer pricing negotiation was eliminated, managers of the business units experienced this loss of autonomy as demotivating and sometimes hindering economically sound decision-making (Cools & Slagmulder, 2009). Another study conducted by Greenberg, Greenberg and Mahenthiran (1994) elaborates the organisational controls that are available to firms in order to control the process of internal transactions to a certain extent. As such, incentives and arbitration are distinguished as important factors in the success of a transfer pricing system (Greenberg, Greenberg & Mahenthiran, 1994). Within this regard, remuneration based on divisional profit versus firm profit was used as the incentive. The concept of arbitration refers to providing mediation when impasses occur. In addition to the previous, Spicer (1988) also recognises the success of arbitration within the transfer pricing process. He noted that "One way to protect the overall economic interests of the firm, yet retain the profit centre structure and a measure of divisional autonomy, is through the introduction of a provision for arbitration into the negotiating process" (Spicer, 1988, p. 314). The advantages were that it provides an economical way to deal with the bounded rationality of corporate managers and for safeguarding internal transfers from opportunism. It also provides an economical way of overcoming information asymmetries within decentralised firms, and it ensures that the company's overall economic interests in the make-or-buy decision are taken into account (Spicer, 1988).
2.5 The concept of trust

In recent decades trust has been broadly studied within various disciplines and is often used as a basis for decision-making in different contexts (Cho et al., 2015). In fact, according to Minnaar et al. (2012), trust is seen as a prerequisite for better results and competitive advantages in a complex organisational environment (Minnaar et al., 2012). However, what is the exact definition of trust and what are the factors that contribute to trust and the outcomes of trust? Without a clear distinction, the difference between trust and similar constructs, such as risk, is blurred.

First of all, a note is ought to be made that trust is not a behaviour, nor a choice, but a psychological state (Dekker, 2004). Due to the many definitions and classifications, trust is a difficult concept to study. According to the dictionary, the meaning of trust is the following: “assured reliance on the character, ability, strength, or truth of someone or something” (“Trust,” n.d.). From academic publications Luhmann (1979) presents a more simple definition which is that trust is having confidence that one’s expectations will be realised (Luhmann, 1979). Another definition brings risk as a variable and suggests that trust entails positive expectations regarding the other party in a risky situation (Gambetta, 1988). This conception is confirmed by Mayer and Davis (1995), who add vulnerability to the definition and present a detailed meaning of trust from an organisational management perspective: “the willingness of a party to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action important to the trustor, irrespective of the ability to monitor or control that other party” (Mayer & Davis, 1995, p. 712). According to Zand (1972) being vulnerable implies that there is something of importance that can be lost. In a situation where you make yourself vulnerable, you are taking a risk to a certain extent. Trust is not taking a risk in such a way. Instead, it is rather a willingness to take a risk. In other words, the need for trust only arises in a risky situation (Mayer & Davis, 1995). In the remainder of this study, we will use the above definition of trust described by Mayer and Davis (1995).

According to Langfield-Smith and Smith (2003) which draw on work of Sako (1992) three kinds of trust, relevant to managing outsourcing, can be distinguished:

- **Contractual trust;**

  This type of trust is based on the moral standard of honesty, and rests on the assumption that the other party will honour the agreed terms and conditions, despite the fact that the agreement is in writing or not (Sako, 1992; van der Meer-Kooistra and Vosselman, 2000). In situations where there is a high level of contractual trust in a contracting party, the outsourcing firm needs to gather less information concerning the prevention of opportunistic behaviour.

- **Competence trust;**

  The focus of competence trust lies on the perceptions of ability and expertise. Barber (1983) describes this as: “the expectation of technically competent role performance” (Barber, 1983,
Within inter-firm relationships, competence trust is related to the other party’s ability to comply with the agreed terms and conditions in the contract (Nootenboom, 1996).

- **Goodwill trust;**

  Goodwill trust can be described as perceptions of a partner’s intention to perform the contract as agreed upon (Ring & Van de Ven, 1992; Nootenboom, 1996). According to Das and Teng (2001a), goodwill trust is associated with integrity, responsibility and dependability. Sako (1992) summarises goodwill trust as: “expectations that trading partners are committed to taking initiatives (or exercise discretion) to exploit new opportunities over and above what was explicitly promised.” (Sako, 1992, p. 39). Goodwill trust and contractual trust are quite related. However, there is a difference. In case of goodwill trust, there are no explicit pledges that have to be fulfilled (as in contractual trust) or predetermined professional standards that have to be met (as in competence trust) (van der Meer-Kooistra and Vosselman, 2000).

It should be understood that the above-described forms of trust, besides they are present at the start of an outsourcing relationship, can also develop over time (Langfield-Smith & Smith, 2003). As an alternative to the previous, Klein Wootlhuiss, Hillebrand and Nootenboom (2005) distinguish the concept of trust into ‘competence trust’ and ‘intentional trust’. Competence trust refers to the trust one can have in the technical, cognitive, organisational and communicative competencies of a partner. Intentional trust relates to the trust one has in the intentions of a partner towards the relationship. In particular the prevention of opportunistic behaviour. Klein Wootlhuiss et al., (2005) subdivide intentional trust into two dimensions: trust in dedication and trust in benevolence/goodwill. Another study by Vosselman and Van der Meer-Kooistra (2009) divides trust into thick and thin trust. These researchers proposed a conceptual framework where these two variables explain the relationship between control and trust. Thin trust arises from contracts and formal control structures embedded in a governance structure, while thick trust is a result of the transmission of relational signals which is based on voluntary actions demonstrating the goodwill of the partner. According to the researchers, there must first be thin trust before thick trust can be achieved. It can be concluded that the types of trust described by Klein Wootlhuiss et al. (2005) and Vosselman & Van der Meer-Kooistra (2009) are consistent with those described by Langfield-Smith and Smith (2003). Although the researchers describe different types of trust, they all come down to the same and are closely related.

In the following, we continue to describe the role of trust in relation to control. Minnaar et al. (2012) conducted an in-depth study towards the relationship between control practices and trust building within inter-firm relationships. These researchers found that there are three competing perspectives concerning trust-control relationships. First, the substitution perspective is mentioned. This view reveals that more trust leads to less control and vice versa. The second perspective it that of the complements perspective, which shows that trust leads to more control and vice versa. The last perspective implies that control and trust interact with each other. The focus here lies on the dynamics of control and trust (Minnaar et al., 2012). The
last mentioned perspective is confirmed by Vosselman and Van der Meer-Kooistra (2009), which state that control and trust are not just substituting or adding, but that they interact. Their common goal is to establish and maintain positive behavioural expectations. To achieve a positive cognitive state of mind concerning future behaviour, control must be exercised and trust must be built (Vosselman & Van der Meer-Kooistra, 2009).

Concluding this section, research conducted by Lui et al. (2009) suggest that managers should focus on how to foster trust and cooperative behaviour with specific asset investment in a partnership to improve partnership performance. Despite the fact of globalisation, suggesting impersonalised business practices, trust and personal relationships are of great importance within an emerging business context (Lui et al., 2009). It has been argued that trust becomes important in situations where there is some level of risk. Within the transfer pricing process, risk is a critical aspect and always at stake due to the presence of two different parties with, potentially, different interests. The described approaches of trust in this section conceptualise trust as a psychological phenomenon. An individual due to experiences sees trust as an attitude, or ‘state of mind,’ that is developed over time with other relevant individual actors (Bachmann & Inkpen, 2011).

2.6 Conclusions from the literature review

In conclusion, transfer pricing literature has over time identified many factors to explain transfer pricing practices. Cross-sectional studies have paved the way to determine connections between particular variables, or sets of variables such as opportunistic behaviour and asset specificity. Also, contingency-type models have been produced to capture general patterns. While this section provides a summary of the conducted literature study, it aims to do so by answering the formulated sub-questions from Section 1.

SQ 1 - What are the determining factors influencing the ascertainment of transfer prices?
Various researchers have addressed the determining factors within the transfer pricing process. By means of example, Van Helden et al. (2001), present an extensive framework regarding the possible determinants that influence the coordination of internal transactions. Authority and responsibility, the reward system, uncertainty, asset specificity, information asymmetry and the level of decentralisation and interdependence of business units are the most frequently found factors that, in potential, can influence the ascertainment of transfer prices.

SQ 2 - What is the definition of transfer pricing autonomy and how should this be determined?
After reviewing several studies handling the concept of transfer pricing autonomy, the following comprehensive definition of transfer pricing autonomy is chosen: “the extent to which divisional managers, rather than top management of the organisation, determines the final transfer prices for internal transactions between business units.” (Eccles & White, 1988; Spicer, 1988; Cools & Slagmulder, 2009). Also, the term ‘autonomy’ can be explained as the freedom to buy or sell internally versus externally and determine terms and conditions including prices (Chen et al.,
The issue of how to determine transfer pricing autonomy within business units will be further elaborated on in Section 3.3.

SQ 3 - How does transfer pricing autonomy shape the determining factors regarding transfer pricing?
It was found that transfer pricing autonomy has quite some influence on several factors within the transfer pricing process. Opportunistic behaviour, for example, is lurking when managers receive too much autonomy from their top management. In organisations where the pricing negotiation between business units was eliminated, it was found that managers experienced this loss of autonomy as demotivating and in some situations hindering economically sound decision-making. Also, the purpose of decentralisation will be at risk when top management eliminates transfer pricing autonomy.

SQ 4 - What is the definition of trust and how should this be assessed?
Many definitions of trust are available within scientific literature available. The definition of trust which is most appropriate within the scope of this research study is as follows: “the willingness of a party to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action important to the trustor, irrespective of the ability to monitor or control that other party” (Mayer & Davis, 1995, p. 712). The issue of how to assess trust within business units will be further elaborated on in Section 3.3.

SQ 5 - Where is trust positioned within the transfer pricing process?
According to several researchers, trust and control are closely connected to each other. Nonetheless, regarding the position of trust within the transfer pricing process, there is limited research available that covers this issue. The objective of this research study is to answer this question alongside conducting the embedded case study that will be further refined and explained in the next section.
3. Research Design and Methodology

The previous literature section presented an initial discussion of the research question posed earlier. By doing so from a theoretical angle, it reached some important conclusions. The remainder of this research is designed to expand on these findings, by means of an embedded case study to explore the impact of trust between managers on the ascertainment of transfer prices. Before presenting the case study and corresponding findings, this Chapter 3 will present the methodology for the empirical part of this research. In Section 3.1, the chosen research methodology will be explained and substantiated. Next, the different primary and secondary data sources that were used will be described in Section 3.2. Subsequently, in Section 3.3 the operationalisation of trust and transfer pricing autonomy will be handled. Section 3.4 will discuss the methodology for analysing the case data. The final Section 3.5, will handle the methodological issues such as validity and reliability, including the drawbacks, limitations and potential biases of the chosen methodology.

3.1. Research methodology

First of all, it is necessary to determine whether a qualitative or quantitative research will be conducted. According to Saunders et al. (2012), quantitative research is focused on numerical data, which is analysed statistically to provide an answer to the research question. In contrast, within a qualitative research study, non-numeric data is obtained to gain a better understanding of the underlying opinions, reasons, and motivations from the target group (Saunders, Lewis & Thornhill, 2012). According to Baarda (2014), the choice for the type of research is determined by the form of the research question (i.e. open or closed question). Within this research study, the nature of the research questions, as well as the emphasis on the processes in inter-firm relationships, allows a qualitative research type as the most appropriate approach. Furthermore, considering that the purpose of this research study is to explore what impact trust between managers has on the ascertainment of transfer prices, this study aims to gain access to socially constructed expertise. According to Riley (1996), this presents a unique challenge to the researcher and he believes that ‘the knowledge must be revealed by observing the subjects while they live their lives, or through the subjects telling their life stories, through recollections of particular situations’ (Riley, 1996, p. 22). Evidently, an appropriate methodology for gathering and analysing such stories is that of a qualitative nature (Denzin and Lincoln, 1994). In addition, there will be some quantitative support due to the operationalisation of the variables trust and transfer pricing autonomy. This will be further elaborated in Section 3.3.

Subsequently, the research approach will be elaborated. Part of the purpose of this study consists of theory testing (i.e. deductive) since it tests the combination of existing theories. However, given the limited amount of prior knowledge on the impact of trust between managers on the transfer pricing process, this study also consists of theory building (i.e. inductive) and is therein both explanatory as exploratory in nature (Yin, 2009; Saunders et al., 2012). Therefore,
the research approach is that of an abductive approach because inductive inferences are developed, and deductive ones are tested iteratively throughout the research (Saunders et al., 2012).

A strategy that is particularly well suited for conducting qualitative research is the case study (Eisenhardt, 1989; Yin, 2009; Saunders et al., 2012). Case studies can be used for both theory building (Eisenhardt and Graebner, 2007) as well as theory testing (Eisenhardt, 1989; Yin, 2009; Saunders et al., 2012). For various reasons, the case study is the preferred approach for this particular research. For example, according to one of the leading publications on the topic of case-based research, “the distinctive need for case studies arises out of the desire to understand complex social phenomena” (Yin, 2009: p. 4). As is evident from a comparison between this observation and the purpose of this research, as well as the research question presented in Section 1, the case study is perfectly fit for this research study. According to Yin (2009) a case study can be subdivided into four case study designs: single-case (holistic) designs, single-case (embedded) designs, multiple-case (holistic) designs and multiple-case (embedded) designs. The research will be conducted at Koninklijke De Vries Scheepsbouw Groep (KDVS Groep). The KDVS Groep is a vertically integrated organisation consisting of seven different business units. Due to this structure, one case with some logical sub-units within the organisation will be examined. Therefore, the case study design is that of a single embedded case study. The unit of analysis is the entire group of targeted participants. An explanation of the chosen participants will be elaborated in the following section.

3.2. Data collection

The present section will now explain the selection of the cases, the different data sources that were used and will discuss the interview protocol that guided the interviews.

As mentioned earlier, the KDVS Groep exists of seven separate business units. According to Yin (2009), it is essential that a case can be subjected to the existing theory. The case must be representative and it should be possible to obtain information regarding the studied topic. In practical terms this means that the established research question can be effectively assessed. For this case study, all companies comply with these requirements and are therefore suitable to be used as embedded cases. In Figure 3, an organogram containing an overview of the seven different business units is presented.

Most of the data that was eventually used in the analysis phase was primary data. This is the most applicable form of data collection for this study since the information looked for concerns past behaviour and experiences, underlying opinions, reasons, values and attitudes that cannot be observed or measured quantitatively (Foddy, 1993). Three different sources of primary data will be used for this research.

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1 An overview of the research sample and a list of the interviewees can be found in Appendix A.
Firstly, the researcher gained experiential knowledge while observing, interacting and cooperating with management board members and managers from the KDVS Groep. In order to gain further understanding on the topic of transfer pricing within the research organisation, the researcher held three informal interviews with the CFO of the KDVS Groep, the director of De Vries Scheepsbouw Makkum (DVSM) and a project manager within DVSM.

Secondly, the dominant share of primary data was obtained from the 33 surveys and 12 interviews with managers from the seven business units. Multiple individuals, who have a coordinating role in the transfer pricing process within the KDVS Groep, were selected from each business unit. These managers were chosen by the researcher based solely on expectations about their information content and involvement within the transfer pricing process. See appendix A for detailed list of the interviewees and survey participants. Prior to the interviews, the respondents were asked to complete an online survey. The questions asked relate to the level of trust that is encountered and the degree of transfer pricing autonomy that one experiences within a particular business unit. Within the survey, mainly multiple choice questions were addressed. For the multiple choice questions, a Likert-scale from 1 to 5 and 1 to 7 was applied (Likert, 1932). The possible answers were, for example, the following: 1 = Strongly disagree, 5 = Strongly agree. Reverse coding was applied to eliminate acquiescence and boredom.

In addition to the specific research questions also the respondents’ age, gender, and position were asked. The questionnaire was pilot tested by three potential respondents to ensure the participants had no problems in answering the questions. As a result, face validity was ensured (Saunders et al., 2012). Based on these pilot tests, minor changes were made to improve the survey and interview structure.

Subsequently the survey outcomes were then used as input for the interviews. The objective of these interviews was to gain a richer understanding of the underlying opinions, reasons, and motivations from the target group regarding the studied topic of trust and transfer pricing autonomy. During all the conversations the same type of interview was held, in order to safeguard consistency in the questions asked. The interviews were held one-on-one and face-to-face. Each interview lasted around one hour and was recorded for analysing purposes. This was also announced at the start of the interview. Initially, a standard framework of questions was set-up to guide the interviews. The central research question of this study, stated in

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2 See Appendix C for a detailed overview of the online survey questions.
3 An overview of the interview structure, content and protocol can be found in Appendix B.
Section 1.4, was used as a basis for the interview protocol. The purpose of this protocol is to ensure relevant questions were not overlooked or forgotten. The interviews were conducted in a semi-structured form in order to anticipate to the given answers and to the particular organisational context that was encountered (Saunders et al., 2012). The interviewees were given the opportunity to submit comments if there were any ambiguities or uncertainties regarding the asked questions. After completion of every interview, the researcher gave a summary of the discussed topics in order to test whether given answers were interpreted correctly.

Thirdly, to ensure validity and reliability of the collected primary data, also secondary data was obtained. Mainly general company information was consulted such as internal documents containing the companies’ mission, vision, strategy, and values as well as the web pages of the examined business units. Content analysis of these papers provides additional or different knowledge, interpretations or conclusions. Altogether, relevant secondary data was therewith found, and triangulation of these sources provides a more solid basis to the findings reported in the following Chapter 4 (Saunders et al., 2012).

3.3. Operationalisation

The two core concepts of this study, which are: trust and transfer pricing autonomy are outlined and defined in the previous Chapter 2. Solely offering theoretical definition and elaboration is insufficient to enable empirical measurement and therefore operationalisation of the main concepts is required. Operationalisation breaks down a theoretical concept in a number of dimensions that aids in its demarcation and unravelling. Indicators are identified for each concept as actual empirical measures (Saunders et al., 2012; Vennic, 2006). This section offers an elaboration of the operationalisation by converting theoretical concepts into dimensions and corresponding indicators.

- Trust

In line with the definition of trust as described in Section 2.5, Mayer and Davis (1995) provide three factors to convert the concept of trust into a measurable indicator. After a review of several studies, the researchers summarise ability, benevolence, and integrity as three characteristics of trust. Ability contains that group of skills, competencies, and characteristics that enable a party to have influence within a certain field of interest. Benevolence, in its turn, implies the extent to which a trustee is believed to want to do good to the trustor, aside from any egocentric profit motive. The affiliation between integrity and trust involves the trustor’s perception that the trustee adheres to a certain set of principles that the trustor finds pleasing. Even though more factors have been proposed, these three characteristics of a trustee appear to explain a major portion of trustworthiness (Mayer & Davis, 1995). In addition to the previous, 4 As Mayer and Davis (1995) also mention, it is interesting to note that Aristotle's Rhetoric suggests that a speaker's ethos (Greek root for ethics) is based on the listener's perception of three things: intelligence; character (reliability, honesty); and goodwill (favourable intentions toward the listener). These bases provide an interesting parallel with the factors of ability, integrity, and benevolence, respectively.

[25]
more researchers provide similar indicators to measure the concept of trust. For example, Vosselman and Van der Meer-Kooistra (2009) divide trust into thin and thick trust. In order to measure thin trust, the researchers appoint social norms and values that are internalised in the participants as essential characteristics. This corresponds to the earlier mentioned factor of integrity by Mayer and Davis (1995). For thick trust, Vosselman and Van der Meer-Kooistra use relational signalling. The researchers state that the basis on which thick trust is built is not external, but internal. It is guided by fundamental drivers based on a long-term self-interest perspective, not by a formal power-base that contains specific measures (Vosselman & Van der Meer-Kooistra, 2009). This is similar to the indicator of benevolence as mentioned by Mayer and Davis (1995). As described in Section 2.5, also Barber (1983), Nooteboom (1998), Sako (1992) and Das & Teng (2001a) provide measurable factors of trust. It can be concluded that the indicators of trust described by Mayer & Davis, Barber, Nooteboom, Sako, Das & Teng and Vosselman & Van der Meer-Kooistra are fairly consistent. Although the researchers describe different indicators of trust, in the end, they all are closely related and quite similar to each other. See Table 2 for a visual representation of the different characteristics and a merging of these items into three measurable indicators.

<table>
<thead>
<tr>
<th>Barber (1983)</th>
<th>Ability and expertise</th>
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<tbody>
<tr>
<td>Mayer and Davis (1995)</td>
<td>Ability</td>
</tr>
<tr>
<td>Nooteboom (1998)</td>
<td>Ability</td>
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<tr>
<td>Mayer and Davis (1995)</td>
<td>Benevolence</td>
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<tr>
<td>Vosselman - van der Meer-Kooistra (2009)</td>
<td>Rational signalling</td>
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<tr>
<td>Sako (1992)</td>
<td>Discretion</td>
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<tr>
<td>Mayer and Davis (1995)</td>
<td>Integrity</td>
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<tr>
<td>Vosselman - van der Meer-Kooistra (2009)</td>
<td>Social norms and values</td>
</tr>
<tr>
<td>Das and Teng (2001a)</td>
<td>Integrity, responsibility and dependability</td>
</tr>
</tbody>
</table>

Table 2. Operationalisation of trust.
Note. Own work.

- **Transfer Pricing Autonomy**

Concerning the level of transfer pricing autonomy within the investigated business units, quite some studies have paved the way to perform an empirical measurement. Especially the research conducted by Chen et al. (2013) present five important items that will also be used in this research study. The first item is derived from the scale of decentralisation used by previous studies (e.g., Gordon and Narayanan, 1984; Nagar, 2002; Abernethy et al., 2004, Moers, 2006; Chen et al., 2013). The respondents were asked to indicate the extent to which they have decision-making authority in the determination of transfer prices. A Likert scale of 1 to 7 was applied, where 1 implies that transfer prices are solely determined by top management or an appointed pricing authority of the parent company, and 7 indicates that the prices for internal transactions are solely determined by the business units or manager. The second item asked, implies the extent to which top management plays an arbitrary role in settling transfer pricing disputes between two business units on a scale of 1 to 7, where 1 indicates that top
management always plays an arbitrary role, and 7 indicates that top management never plays an arbitrary role. This item is reverse coded in order to determine the level of divisional autonomy. The third, fourth and fifth element are extracted from Kren (1992) and provide answers to the respondents’ participation in the transfer pricing process with a seven-point Likert scale. It concerns the following items: (1) Business units actively participate in setting transfer prices; (2) Dissatisfaction with suggested transfer prices among business units influences the final pricing decision; and (3) Business units play a dominant role in making a transfer pricing decision. See Table 3 for a visual overview of the above described indicators for transfer pricing autonomy.

- Decision-making authority of manager
- Arbitration role of Top Management
- Participation of BU within the process
- Dissatisfaction of BU regarding TP
- Dominant role of BU
(BU = Business Unit)

Table 3. Operationalisation of transfer pricing autonomy.
Note. Own work.

3.4. Data analysis

A data analysis technique was selected that matched the method of data collection described in Section 3.2. This is due to the fact that a data collection method determines the type of output and therefore different methods require different analysis techniques. The dominant share of data contained interview results and questionnaire output. According to Yin (2009), there are four general strategies for data analysis, namely: (1) relying on theoretical propositions, (2) developing a case description, (3) using both qualitative and quantitative data, and (4) examining rival explanations. It should be clear that this study’s strategy is to expand further on propositions extracted from existing theory using obtained research data as described in Chapter 2 and 3. Therefore the chosen strategy for data analysis is twofold, namely: that of relying on theoretical propositions, as well as using and analysing qualitative and quantitative data. Theoretical propositions add considerable value when the researcher needs to focus attention on relevant content, requires support within the organisation of the case study, and it enables to examine definitions of alternative explanations (Yin, 2009).

An analysis technique was thereafter selected. Yin (2009), distinguishes five different analytic methods, namely: (1) pattern matching; (2) explanation building; (3) time-series analysis; (4) logic models, and (5) cross-case synthesis. This research study applied pattern matching logic as analysis technique to the collected data. This technique can be useful within explanatory case study research, particularly where ‘patterns’ can be related to the dependent and independent variables of the research. According to Yin (2009) pattern-matching is “one of the most desirable techniques” for case study analysis, and that the procedure’s goal is to
“compare an empirically based pattern with a predicted one” (Yin, 2009, p.136). As a result, this analysis technique is applicable to the research study at hand, due to the fact that empirical data containing patterns extracted from the case study can be compared with theoretical findings from the literature study in order to answer the main research question.

3.5. Methodological issues: Validity & Reliability

In order to increase the quality of this research study and the robustness of its conclusions, a number of key considerations have to be taken into account. It is of the utmost importance to ensure the validity and reliability of the results. Also, the potential biases associated with the research design need to be acknowledged and eliminated as much as possible. Finally, it is important to be aware of the limitations this particular research design has, in order to better be able to interpret and value the outcomes of the study. Three types of validity will be discussed: construct validity, internal validity, and external validity.

Construct validity refers to the extent to which the measurement questions actually measure the presence of those constructs the researcher intended them to measure (Saunders et al., 2012). This study attempted to do so by clearly communicating the related concepts of trust and transfer pricing autonomy to the participating respondents. Also, multiple sources of evidence were used during the data collection phase (see Section 3.2). Essential attention was paid to maintaining a chain of evidence in the collection and analysing the data gathered within this research study. In addition, due to the multiple sources of data, triangulation was applied. Data triangulation is used in situations when there are different data collection techniques applied within one study to make sure that the data is telling you what you think it should say (Saunders et al., 2012).

Internal validity implies a situation where the conclusions derived from the obtained data are indeed correct for the case under investigation. According to Yin (2009), considerations of internal validity are particularly salient in explanatory research, because rival explanations may alter or entirely disprove the suggested causal relationships (Yin, 2009). Due to the research approach of pattern matching internal validity is, to a large extent, ensured.

External validity is concerned with whether the study’s research findings can be generalised to other relevant settings or groups (Saunders et al., 2012). For this specific research study, a note is ought to be made in that the findings can only be validated within the context of transfer pricing within decentralised manufacturing companies such as the KDVS groep, and can therefore not be universally generalised. Most likely, only probabilities can be designated. In order to minimise errors and biases, reliability of this research study has to be ensured. Reliability refers to whether the data collection techniques and analytic procedures would produce consistent findings if they were redone by another researcher or on another occasion (Saunders et al., 2012). Reliability was assured by thorough documentation of the case study procedure, enabling a later investigator to follow the same procedures and arrive at matching results and conclusions.
Despite all efforts on enhancing the reliability and validity of this research study and the avoidance of the most significant biases, also this research design has its limitations. Some of these restrictions are due to biases, of the type as previously described or of other types that may never completely be avoided. One of these is the dual role of the investigator. As a researcher, it is paramount to be aware of the fact that the role as an employee and that of the (internal) researcher within the investigated organisation should not be intermingled. The researcher has to be very conscious of the assumptions and preconceptions that he or she carries around. Therefore it is of great importance to be aware of the possible impact on the study of being too close to the researching setting (Saunders et al., 2012). In conclusion, although certain biases and limitations can never be completely avoided, the researcher is confident that, through taking the necessary measures as described above, the quality of this study, its findings and its conclusions have been sufficiently safeguarded.
4. Results

During the empirical part of the research study, a total of 33 surveys and 12 interviews were conducted. This chapter will present the main findings resulting from the survey and interviews. At first, the survey derived results will be discussed followed by the results from the 12 interviews.

4.1. Results from the survey

As earlier touched upon, a total of 37 employees were approached to participate in the online survey. The participating individuals are all, in some way, involved in the transfer pricing process within the KDVS Groep. Eventually, 33 of the 37 approached employees successfully submitted the survey data. Therefore the total response rate is 0.89 (Saunders et al., 2012). It should be mentioned that three of the 33 employees hold a position within top management. In the remainder of this study, the answers from top management will be presented separately due to their possible non-objective stance with regard to this research. In this section, only the most significant findings of the survey will be given\(^5\). First, the general questions will be answered. Subsequently, the questions related to the concept of trust will be discussed, and finally, the main results regarding the subject of transfer pricing autonomy will be presented.

- **General questions**

The first five questions aimed to obtain general information about the participants. Figure 4 below outlines an overview of the total participants per business unit. The initial aim was to get at least two responses from each business unit. As can be inferred from Figure 4 this objective is amply achieved. Another question concerned the corporate position of the relevant respondent, with the majority of participants holding a position as Project Manager, Director or Controller.

Figure 4. The origin of the respondents.

\(^5\) An extensive elaboration of the results is presented in Appendix D.
The average age of the participants is 45.54. Figure 5 shows how many years the respondents are employed within the KDVS Groep. It can be concluded that over 80% of the respondents is employed by the KDVS Groep for more than five years. In fact, 54.55% is already in service for more than a decade. From this, we can conclude that the respondents have a fairly robust working experience to date, which benefits the reliability of the data obtained. Figure 6 then shows the distribution by gender. The small share of female participants can be explained by the fact that the employees involved within the transfer pricing process within the KDVS Groep are mainly male.

- Trust
The 6th to the 14th question concerned the topic of trust. First, the most important characteristics of trust were questioned. The participants were asked to rate the three indicators of trust from most important to least important. The possible answers were, as mentioned in Section 3.3; ability, goodwill, and integrity. A total of 25 participants rated integrity as the most important indicator of trust. This resulted in a score of 2.70. Ability and goodwill scored respectively 1.85 and 1.45.

<table>
<thead>
<tr>
<th></th>
<th>1 = Most important</th>
<th>2 = Neutral</th>
<th>3 = Least important</th>
<th>Average score</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Ability</strong></td>
<td>18,18%</td>
<td>48,48%</td>
<td>33,33%</td>
<td>1.85</td>
</tr>
<tr>
<td></td>
<td>6</td>
<td>16</td>
<td>11</td>
<td></td>
</tr>
<tr>
<td><strong>Goodwill</strong></td>
<td>6,06%</td>
<td>33,33%</td>
<td>60,61%</td>
<td>1.45</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>11</td>
<td>20</td>
<td></td>
</tr>
<tr>
<td><strong>Integrity</strong></td>
<td>75,76%</td>
<td>18,18%</td>
<td>6,06%</td>
<td>2.70</td>
</tr>
<tr>
<td></td>
<td>25</td>
<td>6</td>
<td>2</td>
<td></td>
</tr>
</tbody>
</table>

Table 4. The most important indicator of trust.

The following questions 7 to 13 needed to be answered on a scale of 1 to 5. (1 = strongly disagree, 5 = strongly agree). Question seven embraced the importance of trust for the relevant
respondent within the transfer pricing process. As can be seen in Figure 7, it is clear that trust is an important issue for the vast majority of the respondents. To illustrate, 93.93% agreed or strongly agreed with this statement. Only one respondent disagreed. As can be seen, the answers of top management are presented separately. Regarding the importance of trust, also top management agrees or strongly agrees with this statement.

![Figure 7. The importance of trust within the transfer pricing process.](image)

Question eight concerned how easily someone trusts a colleague manager within the KDVS Groep. It is found that the vast majority of the respondents easily trusts a colleague manager. This implies that the respondents are not prone to distrust, instead, a trust bond is built easily. Question 9, 10 and 11 concern the impact of the earlier mentioned characteristics of trust on the transfer pricing process. As described above, question six revealed that integrity is seen as the most important indicator of trust. In addition to that statement, Figure 8 shows that 27 out of 33 respondents agree or strongly agree with the statement that the integrity of the opposite manager within the transfer pricing process is of influence on the determination of the final transfer price. For the indicators of ability and benevolence, the same results are found (See Appendix D). Based on these findings, it becomes evident that there is a clear link between the mentioned characteristics and the influence these have on the transfer pricing process. This is further evidence that trust affects the ascertainment of the final transfer price.

![Figure 8. The influence of integrity on the determination of a final transfer price.](image)
Question 12 was reverse coded to eliminate acquiescence and boredom. Respondents were asked whether they agreed with the statement that trust has no influence on the ascertainment of a transfer price. As can be seen in Figure 9, 24 out of 33 respondents disagreed or strongly disagreed with this statement. This implies, once again, that the participants review the concept of trust as an important issue within the transfer pricing process. Additionally, the respondents were asked whether they considered trust to be a determining factor in the success of the KDVS Groep as a whole. The answers were unanimous. 32 of the 33 participants indicated that trust is a key determinant in the success of the KDVS Groep as a whole. The remaining respondent didn’t agree nor disagree with this statement. The last question asked with regard to the concept of trust related to the experienced level of trust within the KDVS Groep. Most of the participants rated the degree of trust as average. However, there is a slight majority who indicated that there is a high level of trust within the KDVS Groep. This question is less relevant for the research study at hand. However, this can be seen as secondary data to determine the level of trust experienced within the research sample.

Figure 9. The influence of trust on the ascertainment of a transfer price.

- **Transfer pricing autonomy**

The 15th to the 19th question embraced the concept of transfer pricing autonomy. For these questions it is even more important to present the answers of top management separately. This is due to the interference of top management itself and their non-objective stance within this regard. The first question asked was the following: ‘Before top management plays the arbitrary role in settling transfer pricing disputes among divisions, are transfer prices determined by the business units or by top management?’ This question needed to be answered on a scale from 1 to 7 (1 = solely determined by top management, 7 = solely determined by transacting divisions). As can be inferred from Figure 10, the majority of respondents hold the opinion that, before any potential disputes arise, business units are responsible for the pricing of internal transactions. It is interesting to see that two employees who are part of top management state that, before disputes arise, they are responsible for the determination of transfer prices. This is contrary to the opinion of the majority of respondents.
The second question regarding this topic was the following: ‘How frequently does top management play an arbitrary role in settling transfer pricing disputes between two business units?’ Again, this question needed to be answered on a scale from 1 to 7 (1 = Always, 7 = Never). A convincing majority holds the opinion that top management quite often plays an arbitrary role in settling transfer pricing disputes between two business units. The answers from top management are, as in the previous question, contrary to those of the vast majority.

Question 17 concerned the active involvement of the various business units in determining transfer prices. A slight majority holds the opinion that they actively participate when it comes to setting transfer prices. This benefits the autonomy of the various business units.

Question 18 implied the amount of satisfaction with suggested terms and conditions of the transfer pricing process and the corresponding effect on the final transfer price. The respondents were asked whether they held the opinion that dissatisfaction with the proposed terms and conditions of the contract are of influence on the ascertainment of the final transfer price. A total of 19 respondents agreed or strongly agreed with this statement, where 9 respondents disagreed or strongly disagreed. A total of seven respondents were neutral. The answers from the three top managers were equally divided. The last question concerned whether business units had an dominant role in making a transfer pricing decision. As can be seen in Figure 11 a reasonable majority agreed with this statement. From this, it can be concluded that the business units experience transfer pricing autonomy to a certain extent.
4.2. Results from the interviews

Upon completion of the survey, a total of 12 interviews were additionally conducted. The objective of these interviews was to gain a richer understanding of the underlying opinions, reasons, and motivations from the target group regarding the studied topic of trust and transfer pricing autonomy. In this section, the most important results from the interviews will be presented. First, the general aspects regarding the interviews will be discussed followed by the subject of trust. Finally, the concept of transfer pricing autonomy will be tackled.

- General information

Based on expectations about specific knowledge and involvement within the transfer pricing process a total of 12 employees were selected to be interviewed. Table 5 shows a detailed list of the interviewees, their position, interview date and the length of the interview. To safeguard anonymity of the interviewees, a number and letter replace their name and company. In the remainder of this research study, this number and company letter will be used as a reference. The interviews were conducted in a semi-structured form allowing new ideas to be brought up during the interview following the interviewees’ input. During the semi-structured interviews a framework of fixed themes was used.

At the start of every interview, the interviewees were asked to countersign the statement of informed consent. Additionally, some general questions were asked. This mainly involved the interviewee’s role and responsibilities within the firm. As can be seen from Table 5, a mix of Project Managers and business unit Directors were interviewed. In addition, a Controller and an employee from top management completed the total of 12 interviews. All participants confirmed they were actively involved in the transfer pricing process and all had, to a large extent, responsibilities regarding internal transactions within the KDVS Groep.

<table>
<thead>
<tr>
<th>Respondent</th>
<th>Company</th>
<th>Position</th>
<th>Interview Date</th>
<th>Length of interview (minutes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>A</td>
<td>Project Manager</td>
<td>10-4-2017</td>
<td>50</td>
</tr>
<tr>
<td>2</td>
<td>A</td>
<td>Director</td>
<td>14-4-2017</td>
<td>72</td>
</tr>
<tr>
<td>3</td>
<td>B</td>
<td>Project Manager</td>
<td>2-5-2017</td>
<td>60</td>
</tr>
<tr>
<td>4</td>
<td>B</td>
<td>Director</td>
<td>29-5-2017</td>
<td>60</td>
</tr>
<tr>
<td>5</td>
<td>C</td>
<td>Director</td>
<td>7-4-2017</td>
<td>70</td>
</tr>
<tr>
<td>6</td>
<td>C</td>
<td>Project Manager</td>
<td>18-4-2017</td>
<td>60</td>
</tr>
<tr>
<td>7</td>
<td>D</td>
<td>Director</td>
<td>20-4-2017</td>
<td>57</td>
</tr>
<tr>
<td>8</td>
<td>E</td>
<td>Project Manager</td>
<td>21-4-2017</td>
<td>52</td>
</tr>
<tr>
<td>9</td>
<td>E</td>
<td>Controller</td>
<td>19-4-2017</td>
<td>58</td>
</tr>
<tr>
<td>10</td>
<td>F</td>
<td>Project Manager</td>
<td>20-4-2017</td>
<td>60</td>
</tr>
<tr>
<td>11</td>
<td>G</td>
<td>Director</td>
<td>13-4-2017</td>
<td>70</td>
</tr>
<tr>
<td>12</td>
<td>TM</td>
<td>TM</td>
<td>21-4-2017</td>
<td>75</td>
</tr>
</tbody>
</table>

Table 5. General information about the interviewees.

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6 See Appendix B for a detailed interview structure, content and protocol.
7 See Appendix E for the statement of informed consent.
Trust

After the brief introduction and explanation of the interviewee’s primary tasks and responsibilities within the transfer pricing process, the concept of trust was discussed. The first topic questioned the importance and impact of trust in relation to internal transactions. To get a clear overview of the given answers during the interviews, Table 6 summarises the answers to the main topics questioned regarding the concept of trust. It can be concluded that all interviewees hold the opinion that trust is an important decisive factor and of influence when it comes to a transfer pricing decision. The following quote of interviewee five from company C best demonstrates the importance of trust:

“Trust is crucial. It gives a certain flow throughout the transfer pricing process. As a result, internal processes will not stagnate but successfully continue which is essential for a company as the KDVS Groep. In situations where there is distrust, managers will build in extra checks which will lead to additional and (unnecessary) costs”.

Interviewee nine from company E added:

“Trust is absolutely important. For me, it is the basis on which you cooperate”.

In addition, the interviewee from top management stated:

“Trust is absolutely of influence. In my opinion, it is a foundation for a successful collaboration”.

<table>
<thead>
<tr>
<th>Respondent</th>
<th>Company</th>
<th>Position</th>
<th>The impact / importance of trust</th>
<th>The position of trust</th>
<th>Other important factors influencing the TP proces</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>A</td>
<td>Project Manager</td>
<td>Very important</td>
<td>-</td>
<td>Planning, quality and scope of work</td>
</tr>
<tr>
<td>2</td>
<td>A</td>
<td>Director</td>
<td>Very important and of great influence</td>
<td>Trust is the basis of the TP process</td>
<td>The allocation of profits</td>
</tr>
<tr>
<td>3</td>
<td>B</td>
<td>Project Manager</td>
<td>Absolutely of importance</td>
<td>It should be a fundament (To be accomplished)</td>
<td>Information sharing, timeliness and planning</td>
</tr>
<tr>
<td>4</td>
<td>B</td>
<td>Director</td>
<td>Important</td>
<td>Trust is supporting to an agreement / contract</td>
<td>The allocation of responsibility</td>
</tr>
<tr>
<td>5</td>
<td>C</td>
<td>Director</td>
<td>Very important and of influence</td>
<td>Trust is a prerequisite</td>
<td>Timeliness and completeness of information</td>
</tr>
<tr>
<td>6</td>
<td>C</td>
<td>Project Manager</td>
<td>Very important</td>
<td>Trust is a prerequisite</td>
<td>Terms &amp; conditions and scope of work</td>
</tr>
<tr>
<td>7</td>
<td>D</td>
<td>Director</td>
<td>Important</td>
<td>Trust is the basis to a good cooperation</td>
<td>-</td>
</tr>
<tr>
<td>8</td>
<td>E</td>
<td>Project Manager</td>
<td>Very important and of high importance</td>
<td>Part of the complete process</td>
<td>Quality, scope of work and planning</td>
</tr>
<tr>
<td>9</td>
<td>E</td>
<td>Controller</td>
<td>Important and absolutely of influence</td>
<td>Trust is the basis of the TP process</td>
<td>Availability and capacity</td>
</tr>
<tr>
<td>10</td>
<td>F</td>
<td>Project Manager</td>
<td>Very important and high impact</td>
<td>-</td>
<td>Quality, scope of work and planning</td>
</tr>
<tr>
<td>11</td>
<td>G</td>
<td>Director</td>
<td>Very important</td>
<td>Trust can be seen as a fundament</td>
<td>Quality and lead time</td>
</tr>
<tr>
<td>12</td>
<td>TM</td>
<td>TM</td>
<td>Very important</td>
<td>Trust is a foundation of the TP process</td>
<td>Complete and accurate information</td>
</tr>
</tbody>
</table>

Table 6. A summary of the answers regarding the concept of trust.
In addition to the impact and importance of trust, the interviewees were asked where they position trust within the transfer pricing process. As can be inferred from Table 6, the majority of respondents perceive trust as a fundament or as a prerequisite in relation to the transfer pricing process. Other given answers were, among others, “trust is the basis” and “trust is a foundation.” In addition, interviewee 11 from company G made his statement visual by drawing a picture as shown in Figure 12. He added:

“When thinking about trust in relation to internal transactions, I have to think about this simple picture of a temple. The lower beam of the temple is, in my opinion, the concept of trust. Based on this fundament, we can properly set up the other aspects and proceed successfully with a transaction”.

Interviewee two from company A indicated: “The transfer pricing process starts with trust. When I do not have a trustworthy relationship with a sister company, it becomes very difficult to establish a good cooperation”.

In addition, also secondary data regarding the concept of trust was obtained. During the interviews, the participants were asked if they hold the opinion that when there is more transparency regarding budgets, this will contribute to the success of an internal transaction. They were also asked if the success of an internal transaction is beneficial by a high level of mutual trust. Table 7 presents a summary of the answers given by the interviewees.

<table>
<thead>
<tr>
<th>Respondent</th>
<th>Company</th>
<th>Position</th>
<th>More transparency is beneficial to the success of an internal transaction</th>
<th>A high level of mutual trust is beneficial to the success of an internal transaction</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>A</td>
<td>Project Manager</td>
<td>Yes, more transparency is preferred and beneficial</td>
<td>-</td>
</tr>
<tr>
<td>2</td>
<td>A</td>
<td>Director</td>
<td>Yes, to a certain extent</td>
<td>Yes, absolutely</td>
</tr>
<tr>
<td>3</td>
<td>B</td>
<td>Project Manager</td>
<td>Yes, and is beneficial to the level of trust</td>
<td>Yes, I absolutely agree</td>
</tr>
<tr>
<td>4</td>
<td>B</td>
<td>Director</td>
<td>-</td>
<td>To a certain extent</td>
</tr>
<tr>
<td>5</td>
<td>C</td>
<td>Director</td>
<td>Yes</td>
<td>Yes, it is a prerequisite for a successful transaction</td>
</tr>
<tr>
<td>6</td>
<td>C</td>
<td>Project Manager</td>
<td>Yes, this will benefit the result of both BU's</td>
<td>Yes, absolutely</td>
</tr>
<tr>
<td>7</td>
<td>D</td>
<td>Director</td>
<td>Yes, more transparency is absolutely beneficial</td>
<td>No, more trust will not necessarily lead to a more successful transaction</td>
</tr>
<tr>
<td>8</td>
<td>E</td>
<td>Project Manager</td>
<td>Yes, more transparency would absolutely help</td>
<td>Yes, I agree</td>
</tr>
<tr>
<td>9</td>
<td>E</td>
<td>Controller</td>
<td>-</td>
<td>Yes, more information is shared leading to a more efficient process</td>
</tr>
<tr>
<td>10</td>
<td>F</td>
<td>Project Manager</td>
<td>-</td>
<td>Yes, to a certain extent</td>
</tr>
<tr>
<td>11</td>
<td>G</td>
<td>Director</td>
<td>No, I don't agree</td>
<td>Yes, I agree</td>
</tr>
<tr>
<td>12</td>
<td>TM</td>
<td>TM</td>
<td>Yes, more transparency would be beneficial</td>
<td>No, I don't agree</td>
</tr>
</tbody>
</table>

Table 7. A summary of the answers regarding transparency and mutual trust.
As can be inferred, the majority of respondents confirmed both these statements positively. As earlier stated by interviewee five from company C, the success of an internal transaction is strongly correlated to the amount of mutual trust. The interviewee indicated that in situations where there is distrust, managers would build in extra checks which will lead to additional and unnecessary costs. Also, interviewee eight from company E stated the following when asked if he holds the opinion that in a situation of a low level of trust, he would incur more costs:

“Yes, absolutely. When there is hardly any mutual trust among managers, they will build in more controls. Not only contractual but also during the execution of the work”.

Based on these statements as described above and the results as shown in Table 7, we can conclude that more transparency and a high level of trust are beneficial for the success of an internal transaction.

- Transfer pricing autonomy
Following the concept of trust, the experienced autonomy within the transfer pricing process was questioned. Table 8 presents the answers to the main topics, which are: the experienced level of autonomy and, related to that, the level of intervention from top management. In contrast to the answers which resulted from the survey with regard to the experienced autonomy, the answers derived from the interviews were more clear and convincing. As can be seen in Table 8, the majority of the interviewees experience a high level of transfer pricing autonomy and, inherent thereto, a low level of intervention from top management. The following quotes can best demonstrate these results. Interviewee six from company C:

“Our autonomy is high. We can autonomously make decisions and negotiate with our sister companies. The project managers do most of the work. When disagreements occur the business unit directors have the decisive voice”.

Interviewee 10 from company F stated:

“I have not experienced any intervention from top management. I understand that this possible level of escalation is there, but I hope I will not get there. I hold the opinion that we should resolve possible discussions as business units among ourselves”.

The prevailing opinion among the interviewees is that they are aware of the escalation level and arbitrary role of top management. The majority of interviewees stated that they do not experience a possible intervention as a disadvantage but rather as an advantage. Interviewee one from company A stated, in this respect, the following:

“Personally I do not experience top management interference as a disadvantage, in fact, I think this saves us many time-consuming discussions which will lead to negative energy during the further cooperation”.

[38]
Table 8. A summary of the answers regarding the concept of transfer pricing autonomy.

In addition, an interesting quote to add is that from the interviewee from TM:

"Intervention from top management mainly takes place during the sales phase. The Technical Director and Project Director (TM) both intervene during this preliminary stage, based on their expertise. This intervention has an effect on the eventual internal transaction. Although this is in an early stage, we occasionally feel the impact during the actual transfer pricing process."

Following his statement he added:

"As top management, we attempt to keep the total interventions as little as possible. In recent years it also became less necessary. This is due to the better and more accurate preliminary calculations and the growing maturity of the management of our business units."

From this, we can conclude that top management is present, but mainly in the preliminary stages of the process of which business units are not fully aware. The influence that the Technical Director and Project Director exert, mainly concerns the scope of work, lead time and budgets. It must be mentioned that the interventions are decreasing due to a growing maturity of the business units.
5. Conclusions, discussion, and recommendations

Based on the results presented in Chapter 4, it became evident that the interviews and surveys generated interesting insights. This chapter will discuss the most important conclusions tied to this study. First of all, Section 5.1 will present the conclusions that can be drawn from both a theoretical perspective as outlined in Chapter 2 as well as the empirical findings presented in Chapter 4. Section 5.2 will then introduce the contributions to the research literature of the transfer pricing topic, including a discussion of the theoretical relevance of this research and a generalisation of the findings to decentralised organisations. Subsequently, Section 5.3 will deliver the most significant practical contributions and results. Additionally, recommendations for decentralised organisations will be given. Finally, Section 5.4 will provide final reflections on the limitations associated with this study’s design and results and suggestions for future research are given.

5.1. Conclusions

First, the main conclusions regarding the concept of transfer pricing autonomy will be dealt with. Second, the concept of trust will be further detailed followed by answering the central research question. Finally, the conclusions derived from the acquired secondary data will be presented.

As stated in Section 2.4, the term ‘autonomy’ can be explained as the freedom to buy or sell internally versus externally and determine terms and conditions including prices (Chen et al. 2013). Based on the results of Chapter 4, it can be concluded that the managers from the KDVS Groep operate independently in determining transfer prices. The respondents of the survey and interviewees hold the opinion that one can act autonomously within the examined organisation. This conclusion is supported by the given answers on survey questions 15, 17 and 19. Table 8 further confirms this statement and provides support to this conclusion. As can be derived from the same Table 8, a convincing majority experiences a high degree of autonomy and a low level of intervention from top management. It needs mentioning that some interviewees indicate that they are aware of the presence of top management and the arbitrary role thereof. However, this presence and possible intervention are not experienced as a disadvantage but rather as an advantage.

Now that the degree of autonomy is determined, the concept of trust will be added. From a theoretical perspective, Section 2.3 presents a summary of the most important determinants influencing a transfer pricing decision. A potentially missing determinant is that of trust. As became evident from the survey and interview results presented throughout Chapter 4, the concept of trust absolutely is an important determinant within the transfer pricing process. As then shown in Table 6, all interviewees confirmed that trust is of great importance and has a high impact on the ascertainment of transfer prices. Some interviewees even stated that trust is indispensable to successfully complete an internal transaction between two business units.
Supplementary thereto, question seven from the online survey provides the most convincing proof to this statement. Over 93% of the respondents either agreed or strongly agreed with the statement that trust among managers is an important issue within the transfer pricing process.

This study also provides an answer to sub-question five (see Section 1.3). This sub-question concerns the position of trust within the transfer pricing process. Given the limited research available on the position of trust in relation to internal transactions, this research study provides additional clarity by answering the formulated sub question. As such, and as can be inferred from Table 6, a convincing majority of the interviewees perceive the concept of trust as a basis or a fundament supporting the transfer pricing process as a whole. This conclusion is probably best illustrated by Figure 12, where the concept of trust is depicted as a solid foundation to the entire transfer pricing process.

After all, the research question as formulated in Section 1 can now be answered. The central question of this study is: ‘What is the impact of trust between managers on the ascertainment of transfer prices when there is a high degree of transfer pricing autonomy within the organisation?’ Based on the conclusions as described above, the impact of trust between managers on the ascertainment of transfer prices is significantly high within organisations where managers can act autonomously within the transfer pricing process.

In addition, the interviews and survey also generated secondary data from which the following can be concluded. First, the success of internal transactions depends strongly on the encountered mutual trust. Also, more transparency regarding budgets will highly benefit the success of an internal transaction. A majority of respondents confirmed that more transparency leads to more mutual trust, which in turn leads to more fruitful internal transactions. This is mainly due to the fact that more information will be shared and fewer costs will be incurred through unnecessary controls.

5.2. Discussion

All in all, what has the review of the transfer pricing process and the addition of the concept of trust achieved for scientific literature and the investigated organisation? This section will reflect on the reliability and validity of the methodological approach and discuss the transfer pricing literature contributions and theoretical relevance.

First and foremost, the methodological approach used to address the research question has proven appropriate as it supports the use of qualitative methods for research into transfer pricing practices within decentralised firms. The qualitative study derived a more profound and clear understanding of the concept of trust within the transfer pricing process. The conducted case study has proven to be a suitable method in order to gain a better understanding of the underlying opinions, reasons and motivations of the target group. The results generated by both the survey and interviews made it possible to answer the central research question accordingly. In addition, all the interviewees, who also participated in the survey, indicated that
the core concepts of the research were clearly defined. By doing so, the construct validity of this research study was safeguarded. Also, pattern matching based on the theoretical framework was applied to safeguard the internal validity. As earlier hinted upon in Section 3.1, the approach of this research study is that of an abductive approach. This implies that inductive inferences were developed and deductive ones were tested. As indicated in Section 1.1, the overall purpose of this research study was to examine whether trust between managers has an impact on the ascertainment of transfer prices within decentralised firms with a high level of transfer pricing autonomy. At this point, it can be concluded that the inductive approach is effective by supplementing the concept of trust to existing transfer pricing theory. Iteratively throughout the research existing theory was also tested and compared to the particular case study organisation at hand. This will be further elaborated in the final paragraph of this section. Finally, it is impossible to know whether and to what extent, the findings from the embedded case study such as carried out at the KDVS Groep, can be generalised. It therefore needs to be acknowledged that many of the aspects of the KDVS case are specific to this firm. As such, the reader is therefore advised to extract only probabilities based on this research study’s findings.

Secondly, the transfer pricing literature contributions, including a discussion of the theoretical relevance of this research, will be handled. With the study at hand and the results it generated, it adds to the body of knowledge with regard to the topic of internal transactions. By adding an important determinant, in this case the concept of trust, this thesis has broadened the field of transfer pricing practices. As discussed in Section 2.3, Van Helden at al. (2001) present a theoretical framework with factors influencing the co-ordination of internal transactions. Based on this theoretical framework as presented in Table 1, this research study provides indisputable evidence that trust between managers is an overlooked field of study within the transfer pricing process.

To conclude this section, it will be examined whether and in what sense the theoretical insights discussed in Section 2 contribute to an understanding of the KDVS Groep case. The literature review started off with a general explanation of the transfer pricing theory and its development over time. As elaborated in Section 2.1, the behavioral aspect within the transfer pricing process was already cited by various studies. For example, Lui, Wong & Liu (2009) claim that asset specificity is related to performance through generating cooperative behavior rather than reducing opportunistic behavior. (Lui, Wong & Liu, 2009). This research study has proven, once again, that the involvement of the behavioral finance is justified. Besides, several aspects from the framework as presented by Van Helden et al. (2001), were also confirmed in this study. Especially the factors on the division of authority & responsibility, the reward system, the complexity of production processes, information asymmetry and personal knowledge & information were mentioned as determining factors by the interviewees participating in the research study at hand. In addition, also the success of arbitration, as noted by Spicer (1988) can be confirmed through the conducted embedded case study. The concept of arbitration refers to providing mediation or a decisive vote when impasses occur. As presented by Spicer
(1988), the advantages were that it provides an economical way to deal with the bounded rationality of corporate managers and for safeguarding internal transfers from opportunism. This is consistent with the prevailing opinion resulting from the interviews conducted in this research study. Similarly, the arbitrary role of top management was rather seen as an advantage instead of a disadvantage. Another theoretical insight that can be confirmed by this research study is that of Lui et al. (2009). The authors argue that trust and personal relationships are of great importance within an emerging business context (Lui et al., 2009). This conclusion is supported by the consistency of the results as presented in Chapter 4. Finally, the findings from a research executed by Minnaar, Van Veen-Dirks, Vosselman & Hassan, (2012) are also consistent with those presented in this research thesis. The appointment of trust as a prerequisite for better results and competitive advantages in a complex organisational environment is also confirmed in both studies.

5.3. Recommendations for practice

As established in Chapter 1, this research study is designed to gain a richer understanding of the determining factors of the transfer pricing process. Specifically, it aimed to measure the impact of trust between managers in regard to the ascertainment of transfer prices. As such, this section will present a range of both theoretical and practical recommendations derived from the results and conclusions tied to this research.

First, it is of great importance that companies understand what the influencing factors are that define a transfer price. This is necessary because these factors - to a large extent - determine the success of an internal transaction. This study has shown that trust is one of these determining factors and as a consequence decentralised companies are recommended to devote more attention to this particular topic. As earlier discussed in Section 2.5, trust is a response to trustworthiness. Question then still being: how to give one’s opposite manager adequate, useful and simple evidence that one perceives as trustworthy? Most fundamentally, this is done by making oneself vulnerable. As already described in Section 2.5, the meaning of trust from an organisational management perspective is: “the willingness of a party to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action important to the trustor, irrespective of the ability to monitor or control that other party” (Mayer & Davis, 1995, p. 712). As can be inferred from Table 7, the majority of the interviewees confirmed that trust is more easily built by making oneself vulnerable. Consequently, to achieve a more successful internal transaction, it is of utmost importance that decentralised firms start focussing on behavioural concepts such as trust. It is for this reason that decentralised firms need to establish an environment containing more transparency among business units. For example, more mutual insight in budgets, planning and availability of capacity.

In addition, another significant result is the level of experienced autonomy by managers from the different business units. As came to surface in Chapter 4, the arbitrary role of top management is experienced as an advantage rather than a disadvantage. This is mainly
because it saves the relevant managers time-consuming discussions and negative energy in situations where impasses occur during the execution of the contract. In order to eliminate these time-wasting debates, decentralised firms are recommended to maintain the arbitrary role of top management to the extent that the business unit's autonomy is not jeopardised.

5.4. Limitations and suggestions for future research

This research study has led to some interesting results and conclusions regarding the transfer pricing process. However, as with any study, these results and conclusions should be interpreted with several caveats in mind. Also, the new insights and leads generated by this study should be further examined. Consequently, this section will discuss the limitations and will suggest directions for future research.

As a point of departure, the biases described in Section 3.5 may have led to some adverse effects on the external validity of the findings presented in Chapter 4. In addition thereto, the case selection within this study will be discussed, since it may influence the external validity of the findings. First of all, the results of this study were obtained from seven different business units that, except for the two yards in Makkum and Aalsmeer, all have their unique areas of expertise. Speculating on the influences of firm size and expertise, it could be the case that smaller business units located at a different position in the chain, bring along different underlying opinions, reasons and motivations. It could also be due to the company size and dependency on information. Hence, it could be interesting to further investigate if findings of this study can be confirmed when looking at the particular firm size, position in the building process and - inherent to that - the dependency on information.

Second, from a methodological point of view it is known that generalisation of single case study findings is a no go area. It should be acknowledged that many of the aspects of the KDVS Groep case are unique and only apply to this particular firm. Clearly, additional case studies would be helpful to further strengthen the robustness of the findings. These could involve further studies with regard to the influencing factors of the transfer pricing process within decentralised firms in other industries. Future researchers are therefore advised to pay specific attention to behavioural finance as a potential influencing concept of internal transactions. Besides the fact that this research study contributed to the theoretical research on transfer pricing practices and the determining factors in this regard, this thesis also encourages future research to investigate whether more transparency leads to more trust resulting in a more successful and efficient transfer pricing process. While improving the understanding of these concepts and the influence thereof, decentralised firms will be better able to manage their internal transactions in order to achieve a better result for the group of business units as a whole.
Epilogue

Last but not least, a final note should be made in that this study’s conclusions and recommendations have already resulted in tangible actions within the examined organisation. During a recent general executive meeting of the KDVS Groep, the most relevant results, conclusions and recommendations were presented and discussed. The concepts of trust and transparency among business units were widely acknowledged as important areas for improvement. As can be extracted from the survey results presented in Appendix D, the level of trust within the KDVS Groep is perceived as average. Adequate actions have been taken to investigate whether and to what extent the relevant business units can improve the encountered level of trust between their managers. More specifically, by changing the process of budget allocation and the level of transparency in budgets, planning, and availability of capacity. Additionally, following the conducted interviews and survey, the subjects of transfer pricing and trust received increasingly more attention within the investigated firm. This has led to more awareness of the managers’ actions in this regard. In fact, the majority of the managers indicated that they are prone to change and would like to learn more about the concept of trust and the influence thereof in order to increase the success of an internal transaction within the KDVS Groep.

It fills me with pride and satisfaction to observe and drive current developments within the KDVS Groep based on the contributions extracted from this research. Following this exciting empirical journey, I will be determined to further deepen the relationship between the subject of behavioural finance and control practices in order to better understand the related concepts and implement clear actions for practical purposes.

Pieter Postma
Amsterdam, July 2017
References


Appendix A – Research Sample and List of Interviews

Information regarding the interviewees, their positions, as well as the date of all interviews is summarised in Table 10. In order to safeguard anonymity of the interviewees, their name and company are replaced by a number and letter. Table 11 contains the information regarding the participants in the survey.

<table>
<thead>
<tr>
<th>Respondent</th>
<th>Company</th>
<th>Position</th>
<th>Interview Date</th>
<th>Length of interview (minutes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>A</td>
<td>Project Manager</td>
<td>10-4-2017</td>
<td>50</td>
</tr>
<tr>
<td>2</td>
<td>A</td>
<td>Director</td>
<td>14-4-2017</td>
<td>72</td>
</tr>
<tr>
<td>3</td>
<td>B</td>
<td>Project Manager</td>
<td>2-5-2017</td>
<td>60</td>
</tr>
<tr>
<td>4</td>
<td>B</td>
<td>Director</td>
<td>29-5-2017</td>
<td>60</td>
</tr>
<tr>
<td>5</td>
<td>C</td>
<td>Director</td>
<td>7-4-2017</td>
<td>70</td>
</tr>
<tr>
<td>6</td>
<td>C</td>
<td>Project Manager</td>
<td>18-4-2017</td>
<td>60</td>
</tr>
<tr>
<td>7</td>
<td>D</td>
<td>Director</td>
<td>20-4-2017</td>
<td>57</td>
</tr>
<tr>
<td>8</td>
<td>E</td>
<td>Project Manager</td>
<td>21-4-2017</td>
<td>52</td>
</tr>
<tr>
<td>9</td>
<td>E</td>
<td>Controller</td>
<td>19-4-2017</td>
<td>58</td>
</tr>
<tr>
<td>10</td>
<td>F</td>
<td>Project Manager</td>
<td>20-4-2017</td>
<td>60</td>
</tr>
<tr>
<td>11</td>
<td>G</td>
<td>Director</td>
<td>13-4-2017</td>
<td>70</td>
</tr>
<tr>
<td>12</td>
<td>TM</td>
<td>TM</td>
<td>21-4-2017</td>
<td>75</td>
</tr>
</tbody>
</table>

Table 10. Information regarding the interviewees.

<table>
<thead>
<tr>
<th>Participant</th>
<th>Company</th>
<th>Position</th>
<th>Interview Date</th>
<th>Length of interview (minutes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>TM</td>
<td>Topmanagement</td>
<td>10-4-2017</td>
<td>50</td>
</tr>
<tr>
<td>2</td>
<td>TM</td>
<td>Topmanagement</td>
<td>14-4-2017</td>
<td>72</td>
</tr>
<tr>
<td>3</td>
<td>TM</td>
<td>Topmanagement</td>
<td>2-5-2017</td>
<td>60</td>
</tr>
<tr>
<td>4</td>
<td>A</td>
<td>Purchaser</td>
<td>29-5-2017</td>
<td>60</td>
</tr>
<tr>
<td>5</td>
<td>A</td>
<td>Director</td>
<td>7-4-2017</td>
<td>70</td>
</tr>
<tr>
<td>6</td>
<td>A</td>
<td>Head of department</td>
<td>18-4-2017</td>
<td>60</td>
</tr>
<tr>
<td>7</td>
<td>A</td>
<td>Project manager</td>
<td>19-4-2017</td>
<td>52</td>
</tr>
<tr>
<td>8</td>
<td>A</td>
<td>Controller</td>
<td>20-4-2017</td>
<td>58</td>
</tr>
<tr>
<td>9</td>
<td>A</td>
<td>Other</td>
<td>21-4-2017</td>
<td>60</td>
</tr>
<tr>
<td>10</td>
<td>A</td>
<td>Project manager</td>
<td>22-4-2017</td>
<td>52</td>
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<td>11</td>
<td>A</td>
<td>Project manager</td>
<td>23-4-2017</td>
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<tr>
<td>12</td>
<td>B</td>
<td>Project manager</td>
<td>24-4-2017</td>
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<td>13</td>
<td>B</td>
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<td>70</td>
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<td>14</td>
<td>B</td>
<td>Head of department</td>
<td>26-4-2017</td>
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<tr>
<td>15</td>
<td>B</td>
<td>Controller</td>
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</tr>
<tr>
<td>16</td>
<td>B</td>
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<tr>
<td>17</td>
<td>C</td>
<td>Controller</td>
<td>29-4-2017</td>
<td>75</td>
</tr>
</tbody>
</table>

Table 11. Information regarding the survey participants.
Appendix B - Interview Structure, Content and Protocol

The purpose of this interview protocol is to ensure that the interviews are conducted in a structured form, so relevant questions are not overlooked or forgotten. To prevent interviewees from losing focus, the main concepts and constructs of the research were briefly and most generally introduced at the beginning of the interviews. Thereafter, the structure of the interview was communicated. After guaranteeing for the participants' anonymity, the introduction section consisted of an overview of the focal individual and his or her activities within the business unit. In addition, some general background information was discussed. Next, the interviewer decomposed the main research question into relevant sections for the interview guide, with a set of conclusions reached at the end of all interviews. Finally, additional observations and interesting results that were not directly related to the main research question were collected and used as secondary data. In order to avoid miscommunication and obtain reliable information, the interviews were conducted in Dutch. This is the native language of all respondents as well as the interviewer. A detailed specification of the interview protocol will now be outlined. The basis for this interview protocol was derived from research conducted by Van Erp (2016).

Prior to interview
- All interviewees receive three to five days before the interview a – not (yet) signed – statement of informed consent.
- Per business unit, an average of approximately two employees, all somehow involved within the transfer pricing process, are selected.
- All interviewees receive three to five days before the interview a brief introduction by email with a short explanation of the research and its goals.
- All interviews are digitally recorded. Adequate hardware is provided and checked.
- Following data is noted in a logbook: name – position – date – duration of interview – location.

During the interview
- The interviewer checks whether the interviewee has read the statement of informed consent and asks the interviewee to sign the statement.
- The attitude of the interviewer is respectful, reserved and neutral. Judging statements by the interviewer are avoided.
- The interviewer starts the interview with small talk, not related to the research study, to ease the interviewee and to promote a pleasant atmosphere.
- The interviewer explains the objectives of the research study briefly and refers to the earlier sent email.
The interviewer is alert to ask the interviewee how practices, which the interviewee refers to, are registered or recorded. During further field research, these records are consulted for data triangulation.

- The interviewer is alert to ask the interviewee to give examples of experiences, statements, and opinions.

- The interviewer asks the interviewee to substantiate his or her opinions.

- The interviewer recapitulates the conversation to check whether he has correctly understood the meanings and intentions of the interviewee.

- The interviewer is alert to statements and opinions which may conflict with statements or opinions of other interviewees.

- If possible and appropriate the interviewer asks the interviewee whether it is possible to receive a copy of the documents the interviewee referred to during the interview.

- The last question of the interviewer is always whether the interviewee wants to add something or whether the interviewee missed one or more questions or topics which the interviewee did expect but was not asked.

- The interviewer is alert to remarks and final comments given by the interviewee after the (formal) interview is ended. These remarks and comments (which are more than likely not digitally recorded) are written down in the logbook as soon as possible.

After the interview

- The interviewer sends a concept transcription to the interviewee and asks the interviewee to make corrections and additions if necessary.

- After completion of every interview, the interviewer gives a spoken summary of the discussed topics in order to test whether given answers are interpreted correctly.

- After completion of every interview, the interviewer submits a written summary to the interviewee in order to perform a final check whether the given answers are interpreted correctly.

Discussed topics during the semi-structured interview

1. The tasks, responsibilities, competences, and authorisations of the interviewee in relation to the transfer pricing process.

2. The concept of trust: (after a brief explanation of the definition as used within this research study)
   a) The influence trust has on the ascertainment of the final transfer price.
   b) The determining factors that safeguard the success of an internal transaction.

3. The concept of transfer pricing autonomy: (after a brief explanation of the definition as used within this research study)
   a) The level of experienced autonomy within the specific business unit regarding the transfer pricing process.
   b) The involvement of top management within the transfer pricing process.
c) The level of exerted influence on the final transfer price.

4. What developments in relation to the transfer pricing process and the level of autonomy does the interviewee expect/suggest.

5. The robust and weak aspects of the current transfer pricing process and related autonomy according to the interviewee.

6. Topics which are related to transfer pricing autonomy and trust within the work field of the interviewee and which he or she wants to mention or highlight.
Appendix C – Online Survey Questions

In Section 2.3 the possible determinants that influence the coordination of internal transactions were presented in Table 1. Van Helden et al. (2001) mention, for example, the reward system, uncertainty, asset specificity, and the level of decentralisation and interdependence of business units as determinants that, in potential, can influence the ascertainment of transfer prices. However, a potential determining factor missing in this framework and scientific literature is trust. The main goal of this research study is to explore the impact of trust between managers on the ascertainment of transfer prices in organisations with a high degree of transfer pricing autonomy. In Section 3.3 the different indicators of trust and transfer pricing autonomy were presented in order to arrive at actual empirical measures. These indicators, as mentioned in Table 2 and 3, are translated into relevant survey questions as presented below. First, five general questions will be asked. Subsequently, nine questions regarding the concept of trust will be presented and finally, divisional autonomy will be handled.

General Questions

1. Which company do you represent?
2. What is your position?
3. How many years are you employed within the KDVS Groep?
4. What is your age?
5. What is your gender?

Questions regarding the concept of trust

6. The following characteristic of trust is the most important to me:
   - Ability / Goodwill / Integrity

   Please indicate your agreement with the following statements regarding the concept of trust (1 = Strongly disagree, 5 = Strongly agree).

7. Trust is an important issue for me within the transfer pricing process.
8. I easily trust a colleague manager within the KDVS Groep.
9. The abilities of the opposite manager within the transfer pricing process are of influence on the determination of the final transfer price.
10. The level of integrity from the opposite manager within the transfer pricing process is of influence on the determination of the final transfer price.
11. Benevolence (goodwill) is an important characteristic for the success of an internal transaction.

7 In order to avoid miscommunication and obtain reliable information, the surveys were conducted in Dutch. Possible misunderstandings regarding specific concepts that may arise after completion of the survey will be rectified during the interviews.
12. Trust has no influence on the ascertainment of a transfer price.

13. Trust is a determining factor in the success of the KDVS Groep as a whole.

14. The level of trust within the KDVS Groep is, according to me: very high / high / average / low / very low

Questions regarding the concept of divisional autonomy within your business unit

Note. Please answer the following question by using a scale from 1 to 7. (1 = solely determined by top management, 7 = solely determined by transacting divisions).

15. Before top management plays the arbitrary role in settling transfer pricing disputes among divisions, are transfer prices determined by the business units or by top management?

Note. Please answer the following question in the same way as the previous question on a scale from 1 to 7. (always) 1 2 3 4 5 6 7 (never)

16. How frequently does top management plays an arbitrary role in settling transfer pricing disputes between two business units?

Note. Please indicate your agreement with the following statements regarding your company’s internal transactions with the other divisions in your firm. (1 = Strongly disagree, 7 = Strongly agree)

17. Business units actively participate in setting transfer prices.

18. Dissatisfaction with suggested terms and conditions in the contract influence the final pricing decision.

19. Business units play a dominant role in making a transfer pricing decision.
Appendix D – Survey Results

General Questions

Q1. Which company do you represent?

<table>
<thead>
<tr>
<th>Company</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Akerboom Yacht Equipment</td>
<td>4</td>
</tr>
<tr>
<td>De Klerk Binnenbouw</td>
<td>3</td>
</tr>
<tr>
<td>De Voogt Naval Architects</td>
<td>4</td>
</tr>
<tr>
<td>De Vries Scheepsbouw Aalsmeer</td>
<td>5</td>
</tr>
<tr>
<td>De Vries Scheepsbouw Makkum</td>
<td>8</td>
</tr>
<tr>
<td>Scheepswerf Slob</td>
<td>4</td>
</tr>
<tr>
<td>STI Engineering</td>
<td>2</td>
</tr>
<tr>
<td>Top Management</td>
<td>3</td>
</tr>
</tbody>
</table>

Q2. What is your position?

<table>
<thead>
<tr>
<th>Position</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project manager</td>
<td>12</td>
</tr>
<tr>
<td>Director</td>
<td>6</td>
</tr>
<tr>
<td>Controller</td>
<td>5</td>
</tr>
<tr>
<td>Head of department</td>
<td>3</td>
</tr>
<tr>
<td>Purchaser</td>
<td>2</td>
</tr>
<tr>
<td>Other</td>
<td>2</td>
</tr>
<tr>
<td>Top management</td>
<td>3</td>
</tr>
</tbody>
</table>

Q3. How many years are you employed within the KDVS groep?

- 0 - 3 years: 18.18%
- 5 - 10 years: 54.55%
- 10+ years: 27.27%

Q5. What is your gender?

- Male: 93.94%
- Female: 6.06%

Q4. What is your age?

<table>
<thead>
<tr>
<th>Age Range</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>30 - 34</td>
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</tr>
<tr>
<td>35 - 39</td>
<td>5</td>
</tr>
<tr>
<td>40 - 44</td>
<td>6</td>
</tr>
<tr>
<td>45 - 49</td>
<td>11</td>
</tr>
<tr>
<td>50+</td>
<td>10</td>
</tr>
</tbody>
</table>
Questions regarding the concept of trust

Q6. The following characteristic of trust is the most important to me:

<table>
<thead>
<tr>
<th></th>
<th>1 = Most important</th>
<th>2 = Neutral</th>
<th>3 = Least important</th>
<th>Average score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ability</td>
<td>18,18%</td>
<td>48,48%</td>
<td>33,33%</td>
<td>1.85</td>
</tr>
<tr>
<td>Goodwill</td>
<td>6,06%</td>
<td>33,33%</td>
<td>60,61%</td>
<td>1.45</td>
</tr>
<tr>
<td>Integrity</td>
<td>75,76%</td>
<td>18,18%</td>
<td>6,06%</td>
<td>2.70</td>
</tr>
</tbody>
</table>

Q7. Trust is an important issue for me within the transfer pricing process

Q8. I easily trust a colleague manager within the KDVS group

Q9. The abilities of the opposite manager within the transfer pricing process are of influence on the determination of the final transfer price
Q10. The level of integrity from the opposite manager within the transfer pricing process is of influence on the determination of the final transfer price

Q11. Benevolence (goodwill) is an important characteristic for the success of an internal transaction

Q12. Trust has no influence on the ascertainment of a transfer price

Q13. Trust is a determining factor in the success of the KDVS Groep as a whole
Questions regarding the concept of transfer pricing autonomy

Q14. The level of trust within the KDVS Groep according the respondents

Q15. Before top management plays the arbitrary role in settling transfer pricing disputes among divisions, are transfer prices determined by the business units or by top management?

Q16. How frequently does top management plays an arbitrary role in settling transfer pricing disputes between two business units?

Q17. Business units actively participate in setting transfer prices.
Q18. Dissatisfaction with suggested terms and conditions in the contract influence the final pricing decision.

Q19. Business units play a dominant role in making a transfer pricing decision.
Appendix E – Statement of informed consent

The interviewee states that he/she voluntarily participates in the research study ‘transfer pricing and trust. An embedded case study into the impact of trust on the ascertainment of transfer prices within decentralized firms’. Purpose and design of this research study are as follows:

1. Purpose of this research study is to investigate the impact of trust between managers on the ascertainment of transfer prices when there is a high degree of transfer pricing autonomy within the organisation.
2. The collection of data takes place through a survey and interviews with employees who are somehow involved in the transfer pricing process. The interview takes 60 to 90 minutes.
3. The interviewee has the right to refuse, without giving any reason, to answer any question. The interviewee is entitled to end or break off the interview at any time he/she feels necessary, without giving any reason.
4. The data and research results are exclusively disseminated in an anonymous mode.
5. With regard to the guarantee of the anonymity and the confidentiality of the information, the following is applicable:

   a. In all publications, which are related to this research study, both the identity of the case organisation and the identity of the interviewee are made anonymous. Also paraphrases such as “one of the largest production organisations in the province of Friesland”, is avoided.
   b. Interviews and transcriptions of interviews are not available for consultation to colleagues (both within and outside the case organisation) of the interviewee.
   c. Only researchers, who are involved in this research study, have access to the interviews and the transcriptions of the interviews.
   d. After the interview, the interviewee receives a concept of the transcription. During a period of three weeks, the interviewee has the right to alter, to correct and/or to add any information to this transcription. During this period the interviewee also has the right to withdraw his/her cooperation, which means that the interview and corresponding transcription are not used in the research study. If the interviewee fails to give a reaction within aforementioned period of three weeks, the interviewer is entitled to presume that the interviewee agrees with the transcription.
   e. The digital recordings of the interviews are kept safe until one year after finishing the research study. After this period of one year, the records are deleted.
   f. The transcriptions of the interviews are kept safe until ten years after finishing the research project. After this period of ten years, the transcriptions are deleted.

8 The original statement of informed consent is in Dutch.
6. The data and findings of this research study are exclusively used for research publications and a master thesis.

7. Copies of aforementioned publications are at the disposal of all interviewees of this research study.

8. Mr. P.G. Postma, a master student at the Open University Nederland and employee within the KDVS Groep, takes full responsibility for this research study. Possible complaints or objections can also be addressed to Mr. John Veldman, CFO of the KDVS Groep.

Read and agreed to (date): ...........................................

Signature interviewee: ...........................................

Name interviewee: ..............................................

Signature interviewer: ...........................................

Name interviewer: ..............................................